# Report and Recommendations

# NGO Accreditation and Certification: The Way Forward?
# An Evaluation of the Development Community's Experience

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### I.      Executive Summary

The International Center for Not-for-Profit Law (ICNL) is pleased to present to USAID
this report summarizing the major findings of its research into accreditation and
certification programs.

The project considered:

- existing efforts to develop organizational accreditation/certification
  programs throughout the development, business and non-profit
  communities, and the evidence to date regarding their usefulness in
  enhancing the credibility, transparency and accountability of the rated
  organizations;

- the benefits, whether tangible or intangible, financial or non-financial, that
  have accrued to rated organizations, and attendant costs, as a result  of
  their participation in a certification program;

- the feasibility and utility of donor support for a common
  accreditation/certification process for not-for-profit organizations in the
  international development field, and the role donors should play in the
  development, promotion and institutionalization of such a system.

*Overview of Existing Programs.*  The accountability of not-for-profit organizations (and
for that matter, businesses and government) has been the subject of substantial debate and
analysis.  The increased interest in not-for-profit accountability has been attributed to a
number of factors, including rapid growth of the sector and its emergence as a major
economic actor, the concomitant increase in funding to the sector, increased influence of
NGOs in shaping public policy, and the "crisis of legitimacy" stemming from highly
publicized scandals.[1]   Indeed, as recently as this past summer, the United States Senate's

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[1] See Julian Lee, "*NGO Accountability:  Rights and Responsibilities,*" Center for Applied Studies in
International Negotiations, p. 4 (Geneva, Switzerland, October 19, 2004), and sources cited therein

Committee on Finance held hearings on charity oversight and reform, considering a wide range of reforms to improve the accountability of the sector (including, e.g., funding to the Internal Revenue Service to support accreditation of charities.)[2]

The rising interest in accountability has been accompanied by increased interest by the sector in addressing accountability issues through self-regulation. Both in the United States and in other countries, a variety of self-regulatory programs have been created. These efforts have involved the promulgation of standards for ethical behavior by which member or rated organizations are expected to govern themselves.

Several organizations have piloted certification mechanisms as a means to increase the rigor with which self-regulatory standards are applied. Certification involves an independent external review of an organizations compliance with a given standard. The research highlighted several programs from other countries in which government authorities recognize the determinations or recommendations of a not-for-profit organization in decisions to convey certain benefits. These include Australia AID (not-for-profit makes recommendations regarding accreditation, qualifying organizations for funding), the Philippine Council on NGO Certification and the Pakistan Centre for Philanthropy (which have government grants of authority to certify those organizations entitled to receive certain tax benefits).

This research included a more detailed study of seven organizations that have developed and implemented certification programs. They are:

   o   ***InterAction.*** This membership organization of 160 private voluntary organizations requires its members to self-certify their adherence to "ethical guidelines covering governance, financial reporting, fundraising, public relations, management practice, human resources and program services."
   o   ***ForeignAid.com*** rates local grassroots organizations in the developing world that work to benefit the poor against standards that it developed. Its goal is to assist these organizations in demonstrating accountability and credibility, thus making them more attractive to foreign donors.
   o   ***Transparency International*** is a global anti-corruption movement that accredits its 90 National Chapters, who are required to comply with TI's Statement of Vision, Values, and Guiding Principles.
   o   ***Maryland Association for Nonprofit Organizations.*** This statewide membership organization of more than 800 nonprofits developed the *Standards for Excellence*, with its peer certification process, to promote ethical practices and accountability in the nonprofit sector and thereby raise public confidence and support for the nonprofit sector in Maryland.

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[www.casin.ch]. The author also includes as factors threats to NGOs' political space, backlash resulting from NGO attempts to hold business, government, and multilateral organizations accountable, democratization, and publicized reports citing lack of accountability among large NGOs.

[2] United States Senate, Committee on Finance, "*Tax Exempt Governance Proposals: Staff Discussion Draft,* " [http://finance.senate.gov/hearings/testimony/2004test/062204stfdis.pdf]

- o ***BBB Wise Giving Alliance*** distributes reports evaluating charities as to whether they comply with the Alliance's 23 *Standards for Charity Accountability.* It offers a National Charity Seal that organizations meeting its standards may display pursuant to a license agreement.
- o ***Baldrige National Quality Program.*** The Baldrige National Quality Award is presented yearly by the President of the United States to business, health and education organizations that are outstanding in their "leadership, strategic planning, customer and market focus, information and analysis, human resources focus, process management, and business results."
- o ***ISO 9000.*** The International Standards Organization, which sets technical standards for a wide range of industries, developed the ISO 9000 standards relating to management systems to address objectives of satisfaction of customer's quality requirements, regulatory compliance, and meeting environmental goals.

*Analysis of Program Approaches.* These programs have made important strides in setting standards and in developing more rigorous mechanisms to assure compliance with them. An analysis of the seven programs demonstrates that the most significant factor influencing the standards set by a rating organization, as well as the mechanism for evaluation chosen, is the audience that the organization serves. Programs studied focus on several different audiences: institutional donors (ForeignAid.com); members of the donating public (BBB Wise Giving Alliance); and the rated organizations themselves (Maryland Nonprofits, TI, Baldrige), and this affects their choice of standards. Nonetheless, there are many common standards promoted by the studied programs. As can be seen in Appendix B (*Comparison of Program Standards*, a number of programs have similar standards in the areas of financial management, public openness, and external reporting, and requires that certain minimum standards be met with respect an organization's governance.

The study also identified five models for certification-type mechanisms, which have the following strengths and weaknesses:
- *Self-certification* is low cost, easy to administer for both the rated and the rating organization, and is accessible to a wide range of rated organizations. But the effectiveness of this mechanism depends in large part on the seriousness with which individual organizations apply the program.
- *Peer Review* is one of the more rigorous evaluation methods examined in this study. The methodology is characterized by independence of the raters, technical assistance in identifying and correcting organizational weaknesses, and substantial responsibility on the part of rated organizations to produce evidence of compliance with each standard. Because of its rigor, this mechanism is likely to be meaningful to donors, the public, and others relying on the certification, but its high cost and high standards may place it out of reach for many small or new organizations.
- With *ratings organization evaluation*, a program functions much like a traditional "charity watchdog" organization – it solicits information from the

organization and rates it according to the standards, and publishes its conclusion as to whether an organization has met the standards, as well as a report detailing its findings, for public consumption. These programs depend heavily on the credibility of the rating agency.

- *Accreditation by an accreditation agency* provides perhaps the most significant assurance that an organization meets certain standards of quality in its delivery of services. It is without question one of the most expensive types of mechanisms to implement, both for the rating and the rated organization.
- *Award.* The substantial prestige accompanying the Malcolm Baldrige Award demonstrates a key strength of awards programs – their high public visibility draws substantial attention to the program and to the standards it sets. This mechanism, however, is, like accreditation, one of the most costly to implement.

***Benefits and Costs to Rated Organizations.*** Generally speaking, rating organizations themselves, and participants in their programs, support the proposition that accreditation and certification provide some benefit to participants, although there has been limited evaluation of the impact of these programs. The benefits most frequently mentioned are:

- ***Public Trust/Perception of Greater Accountability:*** Certification programs are seen as important steps towards bolstering the public's trust in the sector.
- ***Improved governance, management, and operation:*** Programs, particularly those focusing on improvement of the organizations themselves, also cited benefits in promoting good organizational practices by participating organizations.
- ***Donor Access/Donor Trust:*** While increased funding opportunities were not cited as a principle reason for participating in ratings programs, several organizations acknowledged such opportunities as a potential secondary benefit.

Interviewees focused on the financial costs involved in participating in ratings programs, as well as the time and effort expended in preparing applications and related documentation, and in bringing operations into compliance with the programs' standards. Costs to participants in the studied programs vary widely (see Appendix A, Program Comparison).

***Considerations With Respect to a Common Certification Mechanism.*** Assessing the utility of a common certification program or programs for organizations in the international development arena involves a number of considerations, including:

- The goal involved in the certification program, and the audience it is intended to serve
- Whether participation in a program should be mandatory – i.e., a requirement for certain types of funding -- or voluntary?
- The degree to which existing programs can be replicated and scaled up to meet increased demand for certification.

- The capacity of grantees and their ability to access the program.
- Whether certification issued by one or more programs will be honored?
- Who should serve as the convener of any discussion regarding a common certification mechanism?

***Conclusion.*** Recent initiatives to promote accreditation and certification mechanisms have produced valuable lessons about how to further accountability, particularly in the not-for-profit sector. We hope that the summary provided here is useful in continuing the discussion regarding these mechanisms, and stand ready to provide follow up if need be.

We appreciate the support of the United States Agency for International Development to this project.

## II.     Research Findings

### a.   Introduction to Accreditation and Certification Programs

Accreditation and certification are terms that are used to describe processes by which an independent third party verifies compliance against an established set of norms.[3]  In the not-for-profit field both accreditation and certification have been undertaken by self-regulatory organizations, which have promulgated standards and developed certification or accreditation mechanisms to evaluate compliance by other organizations with the standards.  The standards are frequently developed through a participatory process in which many stakeholders are consulted.

These mechanisms can be distinguished from other forms of self-regulation, which include:

- *Voluntary Codes of Conduct:*  This form of self-regulation involves a group of organizations coming together in agreement over standards governing their conduct, with each promising to abide by the established norms. [4] Compliance is secured only through the efforts of the member organization.
- *Watchdog or Ratings Agencies:*   These organizations establish their own standards and rating systems and measure the performance of other organizations against the standards; the rated organizations do not necessarily participate or have input into the ratings (although in some instances they may submit information, or get a chance to respond to a proposed rating before it is published.)  These are usually aimed at consumers (or in the case of the not-for-profit sector, donors), and information about the ratings is publicly disseminated. In the U.S. not-for-profit sector, watchdog agencies include the BBB Wise Giving Alliance, studied in Section II.c., as well as Charity Navigator and the American Institute of Philanthropy's ratings guide.[5]
- *Information Agencies:*  These organizations provide information to users without any rating or interpretation – consumers use the information as they see fit.  Such agencies, in the US, include the Guidestar website,[6] which provides

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[3] In a number of industries, these terms have very specific meanings and are not to be used interchangeably. *See*, for example, International Standards Organization, "Certification, Registration, and Accreditation," www.iso.org, (defining, for ISO purposes, certification as the process for issuance of a written assurance that a independent body has audited an organization's management system and verified that it conforms to a standard, and accreditation as the process by which a body become competent to conduct a certification). Compare with Council on Accreditation for Children and Family Services, Inc, *Fact Sheet* (the purpose of accreditation is to provide "an external, objective marker for its consumers and other stakeholders that the organization meets national standards of organizational strength and quality of service." [http://www.fsasatx.org/coa.htm]

[4] Countries in which NGO groups have agreed to a voluntary code of conduct on either a sectoral or subsectoral level, in addition to those discussed in this paper, include Bulgaria, the Czech Republic, Estonia, Kosovo, and Poland, a regional effort among several middle eastern countries; Ethiopia and South Africa, Colombia, and the United States.

[5] Charity Navigator can be found at www.charitynavigator.org.  The American Institute for Philanthropy's program can be found at www.charitywatch.org.

[6] *See* www.guidestar.org.

information about charitable organizations, including copies of their IRS filings on Form 990.

This paper will examine accreditation, certification, and self-certification programs, with particular emphasis on those aimed at the not-for-profit sector. The study will also include several similar programs (e.g., awards) having similar characteristics to the other programs examined.

Accreditation and certification mechanisms, at least in the United States, have for some time been enjoyed widespread use in ensuring compliance with minimum standards of care and to ensure quality service delivery in the health care, social service, and education fields. While NGOs in these fields are among those subject to evaluation, the standards apply to all types of organizations providing a particular service, including those in business and government. Examples of the major organizations provide accreditation services for various types of service delivery include:

- *JHACO:* The Joint Commission on Accreditation of Healthcare Organizations (JHACO) has accredited and certified more than 15,000 health care organizations in the United States and throughout the world. These organizations agree "to be measured against national standards set by health care professionals." According to JHACO, health care organizations seek Joint Commission accreditation because it: "enhances community confidence, provides a report card for the public, offers an objective evaluation of the organization's performance, stimulates the organization's quality improvement efforts, aids in professional staff recruitment, provides a staff education tool, may be used to meet certain Medicare certification requirements, expedites third-party payment, often fulfills state licensure requirements, may favorably influence liability insurance premiums, favorably influences managed care contract decisions . . . "
- *Council on Accreditation:* The Council on Accreditation (COA), founded in 1977, is an international, independent, not-for-profit, child- and family-service and behavioral healthcare accrediting organization. It seeks to "improve service delivery outcomes by developing, applying, and promoting accreditation standards," and in the past year has accredited more than 1,500 private and public organizations. It provides accreditation in "38 different service areas, including substance abuse treatment, adult day care, services for the homeless, foster care, and intercountry adoption. In addition to standards for private social service and behavioral health care organizations, COA has developed separate business lines for public agencies, opioid treatment programs, employee assistance programs, and financial management/debt counseling services."

Over the past 10-15 years, interest in certification mechanisms (and other forms of self-regulation) has emerged as a means to promote accountability in the not-for-profit sector. A number of programs have been initiated in the US[7] as well as around the world. This interest has been attributed, in varying degrees, and depending on the country, to: (1) the

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[7] *See* The Independent Sector, "Accountability: Who's Doing What – Compendium of Standards, Codes, and Principles of Nonprofit and Philanthropic Organizations," at www.independentsector.org.

increase in the size, sophistication, role in public policy, and funding of the not-for-profit sector and the consequent need for its improved capacity in the areas of governance, management, financial accountability, and communications with the public; (2) a desire to counter the negative effects on sector, both in terms of additional regulatory scrutiny and poor public image, caused by well-publicized scandals involving prominent organizations;[8] and (3) desire on the part of the sector to avoid further regulation or adverse regulation.

### b. Comparative Overview of Recent NGO Accreditation and Certification Efforts

Certification and accreditation mechanisms do not enjoy particularly widespread use in the NGO self-regulatory efforts of other countries. However, in at least the following countries, NGO self-regulatory groups, sometimes in partnership with the government, have initiated standard setting programs in which certification or self-certification is used to secure compliance. While the following summary is not exhaustive, it provides an overview of the various types of programs that other countries have in place. We consider in the first section (1) certification programs which have been initiated or recognized by governments for the purpose of distributing certain benefits; (2) self-certification programs, and (3) programs that focus on certification of organizations that solicit funds from the public.

### 1. Certification Programs with Government Recognition

*Australia: AusAid Accreditation Scheme.* One prominent example of the application of an accreditation system to the international development field is the Australian Agency for International Development's accreditation process. Only NGOs that have been accredited by AusAid are eligible to receive funding through "AusAid NGO Schemes" which are programs aimed exclusively at Australian NGOs, as well as certain programs funded substantially through Australian NGOs.

The accreditation process is designed "to provide AusAID, and the Australian public, with confidence that the Australian Government is funding professional, well-managed, community based organizations that are capable of delivering quality development outcomes." AusAid considers it accreditation program to be a "front end risk management process."

There are two types of accreditation: base and full. NGO funding eligibility depends on the level of accreditation (those with full accreditation are eligible for funding with fewer restrictions; while, for example, an NGO with base accreditation may be eligible under the AusAid NGO Cooperation Program for a maximum award of about $100,000 as set by an annual planning figure).

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[8] The last ten years have seen multiple scandals erupt in the not-for-profit sector, including those involving the United Way, the Bishops Estate, charities shutdown for alleged terrorist financing activities, the Albanian foundation pyramid schemes, and others.

The process for obtaining accreditation is essentially a peer review process, in which the Committee for Development Cooperation, ("CDC") a joint AusAID/NGO advisory and consultative body, works both with the NGO community and individual NGOs undergoing review. The accreditation process has two parts: (1) organizational review; and (2) "financial systems analysis." The Organization Review Process assesses the NGO's "management capacity, systems, operations, and linkages with the Australian community." For base accreditation, this part of the review process involves a desk review and a review of the organization's operations in Australia. Those seeking full accreditation are in addition subject to a review of their overseas operations. The review is undertaken by a joint NGO/AusAID team made up of one NGO member from the CDC, a consultant hired by AusAid, and a financial assessor. The burden of establishing that the accreditation criteria are met is on the NGO.

An NGO begins the accreditation process by submitting an "Agency Profile" in which it presents all of the documentation supporting its compliance with the accreditation criteria. The Profile is subject to an initial screen for completeness. The process then proceeds to the Desk Assessment, which results in a preliminary judgment as to whether the NGO meets the accreditation criteria, and identification of any areas the NGO needs to address, all set forth in a report. NGOs receive an opportunity to respond to the team's recommendations. If the NGO determines to proceed further (which it may do even in the face of a negative recommendation), it has an organization review, first in Australia, and, for full accreditation, if the NGO demonstrates that it meets all base accreditation criteria, at an overseas site. Following the organization reviews, the review team prepares another report, which is submitted to the NGO for comments. The CDC receives the review reports. It considers them, along with any written response to them submitted by the NGO. If necessary, it may determine to direct further investigation. The CDC makes a recommendation to the AusAid Delegate, who makes the final decision on whether an NGO will be accredited. Once an NGO is accredited, it enters into an Umbrella contract with AusAid. An NGO must be reaccredited every five years in order to retain its funding eligibility. An NGO that is denied accreditation must wait two years before reapplying. An NGO with base accreditation may apply for full accreditation two years from the date of the Delegate's decision.

As part of the Organizational Review in Australia, NGOs undergo a "Financial Systems Assessment," which is intended to make sure that "an NGO has 'necessary and sufficient' financial and management systems to be accountable for Commonwealth funds."

The criteria for accreditation established by AusAid include many criteria similar to those used by USAID to register private voluntary organizations. For example, they include requirements that organizations be voluntary, organized as not-for-profit entities, comply with other laws, have a board of directors that meets certain criteria, etc. However, the AusAid accreditation criteria go further, requiring, among other things, that NGOs formally adopt and comply with a Code of Conduct for Nongovernment Development

Organizations,[9] have a "demonstrated record of undertaking effective aid projects/programs consistent with the objectives of the Australian Aid Program of poverty  alleviation and sustainable development," and have capacity to deliver on its project objectives in a manner that meets its contractual obligations through appropriate risk management and decision-making processes.[10]

***Pakistan:***  *The Pakistan Centre for Philanthropy NPO Certification Programme.*  This certification program for not-for-profit organizations drew heavily on the experience of the Philippine Council for NGO Certification (see below)[11] and involved extensive consultation with all potential stakeholders.  PCP is officially authorized as a certification agency by the government of Pakistan.  Under 2002 amendments to the Income Tax Act, certification can be used as the basis to obtain exemption from tax, providing a powerful incentive to comply with the code.[12]  The certification process involves a professional evaluation of the organization against specific criteria in the areas of good governance, transparency and program effectiveness.  It consists of a desk review as well as a field evaluation, following which an extensive report detailing the strengths and weaknesses of the organization is prepared.  The report is submitted to the Certification Panel, an independent body with membership from civil society, business, and two sitting representatives of the government.  The Certification Panel determines whether to certify the organization, and if the decision is favorable, the organization receives a "certificate of good housekeeping."[13]  The Panel met for the first time in April 2004 and certified five organizations.[14]

***Philippines:***  *The Philippine Council for NGO Certification (PCNC).*   The Philippine Council for NGO Certification (PCNC),[15] a not-for-profit organization, established a certification mechanism under which NGOs are evaluated for compliance with  minimum criteria for program and financial management, governance and accountability.  The Government of the Philippines has delegated to the PCNC authority to certify NGOs for tax benefit purposes.

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[9] The code was developed and is administered by the Australian Council for International Development. Certain accredited organizations are also required to adhere to the codes promulgated by the SPHERE project and the International Committees of the Red Cross.

[10] Note that USAID obviously considers a number of these factors in making grant decisions – the difference is that AusAid screens for them up front.

[11] Ahsan Rana, *Improving Accountability: The NPO Certification Experience in Pakistan,* 2 Accountability Forum 82 (2004). See also information on the program available at www.pcp.org.pk.

[12] The Income Tax Act contemplates that certification by any one of a number of authorized certifying organizations is sufficient to qualify an organization for exemption from tax; currently, however, the PCP is the only authorized certifying agency.

[13] Indonesia also is reportedly in the process of developing a certification program modeled on the Philippine system.  *See* Mark Sidel, "*Trends in Nonprofit Self-Regulation in the Asia Pacific Region: Initial Data on Initiatives, Experiments and Models in Seventeen Countries,"* (2003); Rustam Ibrahim, Abdi Suryaningati, and Tom Malik, "*Indonesia,"* Governance, and Organizational Effectiveness of the Nonprofit Sector, Report of Asian Pacific Philanthropy Consortium Conference (pp. 149-50) (September 2003) [http://www.asianphilanthropy.org/staging/about/INDONESIA1.pdf.]

[14] *See* "*Pakistan's New Certification Panel Holds First Meeting*,"  APPC Post p. 1 (April-May 2004)[http://www.asianphilanthropy.org/appc/APPCPost14.pdf].

[15] *See* http://www.pcnc.com.ph/certification.html

The PCNC initiated its mechanism in response to a threat by the government to take away the tax-benefit status of NGOs, "alleging that it was impossible to distinguish legitimate NGOs from unproductive tax shelters."[16] In response, NGOs developed the PCNC mechanism. PCNC evaluation criteria include standards in the following categories: Vision, Mission, Goals; Governance; Administration; Programme Operations (including monitoring and evaluation systems); Financial Management; Networking. The certification process involves submission of a written application, followed by a site visit by an evaluation team. The team makes a recommendation to the PCNC Board of Directors, which makes the final decision as to whether an organization will be certified.

PCNC has evaluated 445 NGOs since the inception of the certification program in 1998 through the beginning of 2004. One significant criticism that has been raised concerns is the pace of certification. There are approximately 70,000 NGOs in the Philippines, and only those certified are eligible for certain tax benefits (although it is unlikely that every NGO would be entitled to or would apply for certification.) Thus, to the extent that PCNC is not able to increase the scale of its activities, many NGOs could be denied these tax benefits.

## 2. Self-certification Programs

***Canada:*** *Code of Ethics of the Canadian Council for International Co-operation.[17]* This code governs the activities of members of the CCIC, an umbrella organization devoted to enhancing the effectiveness of its members engaged in international cooperation efforts. The code is accompanied by a very helpful guidance document that explains the rationale behind each provision of the code. The code's principles set standards in the areas of governance, organizational integrity, finances, communications to the public, and management practices and human resources.

Compliance with the Code is secured through a self-certification mechanism. Adherence to the Code of Ethics is a requirement for membership in CCIC, and each new member's compliance with the code is verified. Member organizations are required to deliver annually to the council within 90 days of their annual meetings copies of their latest annual reports, audited financial statements, any changes it their by-laws, and statements to the effect that they are still in compliance with the Code (i.e., a self-certification.) The CCIC considers the program to have been "developed based on a philosophy of peer accountability," taking into account that the organization lacked the resources and mandate to assess independently member compliance with the code. Members may refer in their promotional materials to their compliance with the Code.

***Lesotho:*** *Code of Conduct of the Lesotho Council of Non-governmental Organizations.* The Lesotho Council of Non-governmental Organizations has established a code of conduct that establishes principles in the areas of governance, organizational integrity, finances, communications with the public, and management practice and human

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[16] Caroline Hartnell, "*The Philippines: Self-regulation on Trial,*" ICNL News Release (January 9, 2004) [http://www.icnl.org/press/Articles/2004/20040109.htm]

[17] The code can be found at http://www.ccic.ca/volsect/code_of_ethics/ce1-code_of_ethics.htm.

resources. "Self-certification that an agency meets the high ethical standards is required for membership" in the council. An organization that meets the standards may refer to that fact in its promotional materials, and the counsel makes available a list of all qualifying organizations. Each member must submit to the council on an annual basis its latest annual report, audited financial statement, a checklist of by-law changes, and a statement by the board chair or chief executive officer of the organization that it meets the standards of the council. The Council has a Monitoring and Disciplinary Committee that has the authority to receive and act upon allegations of non-compliance by a member with the standards.[18]

*Macedonia: The Code of the Association of Children's Organizations in the Republic of Macedonia ( ACORM ).* This code established by a subsectoral umbrella organization for children's rights groups is intended to establish norms for "joint and co-ordinated action for the implementation of the Children's Rights Convention in the Republic of Macedonia." The Code establishes standards in the areas of, among others, use of volunteers, employee conduct, NGO role in the democratic community, organizational vision, mission, financial responsibility, confidential information, and conflicts of interest. Adherence to the Code is required for membership in ACORM. Members must submit an annual written report demonstrating that they act in compliance with the standards. ACORM makes publicly available a list of its members and disclaims members that are in breach.

*Spain: Fundacion Lealtad's Guia de al Transparencia.* The Fundacion Lealtad compiles and publishes information submitted by NGOs in the fields of social action and development cooperation as to whether they comply with its "Principles of Transparency and Good Practice." The principles fall into nine categories, including good governance, clarity regarding its social mission, planning and implementation of activities, financial transparency, financial control, presentation of annual accounts, and promotion of volunteerism. [19]

### *3.* **Certification of Organizations Soliciting Funds from the Public**

*France: La Charte de deontologie.* This code of professional conduct for foundations and associations in France establishes a committee of organizations that oversees compliance with the "*Charte,*" a code of ethics primarily aimed at organizations that engage in fundraising. The committee monitors violations of the charter, and permits or disallows use of a "label" that organizations in compliance may imprint upon their fundraising literature. The *Charte* includes standards in the areas of financial transparency, the "quality of the actions and messages" (essentially regarding integrity of fundraising solicitations), and conflicts of interest, among others. An organization that

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[18] See Tatsuro Kunugi and Martha Schweitz, eds., *Codes of Conduct for Partnership in Governance: Text and Commentaries* (Tokyo: The United Nations University, 1999) (provisional version).
[19] The guide is available at www.fundacionlealtad.org. Principles were published as well in the International Journal of Not-for-Profit Law, http://www.icnl.org/journal/vol4iss1/cr_wespain.htm.

signs on the *Charte* is considered to have entered a contractual obligation with respect to its provisions.

*Germany:*  *The DZI Donation Seal.*  The Deutsches Zentralinstitute für soziale Fragen e.V. (German Central Institute for Social Questions) ("DZI"), an organization that since 1896 has published a directory of organizations engaged in social work, issues the "Donation Seal" to organizations that meet its standards.  It maintains an archive on 2100 organizations, and has awarded the Seal to 187.  A charitable organization recognized as tax-exempt may apply for the Donation Seal.  The DZI examines documents submitted with an application for evidence of past compliance with donation seal policies, and does its own research into the organization, checking for clarity, veracity, and completeness.  Organizations awarded the Seal must pledge to comply with Seal policies.  The Seal must be renewed annually.  Standards for award of the Donation Seal include:  truthful advertising in both word and image, verifiable, economical expenditure of funds in accordance with relevant fiscal laws, proper accounting, audit of annual accounts submitted to DZI, internal evaluation of the governing body by an independent agency, and the absence of premiums, provisions, awards, or bonuses for donations.  The names of organizations awarded the seal are published in a twice-yearly bulletin.

*India:*  *Give India.*  Give India maintains a web-based donation service through which donors may contribute online to certain not-for-profit organizations of their choice.  In order to receive on-line donations through the "Give Online" site, an organization must meet selection criteria established by Give India.  Specifically, an organization must be a registered nonprofit that implements social development projects in India, and without political affiliations; at least 50% of its beneficiaries must be economically underprivileged; it must meet standards established by the "Credibility Alliance,"  and it must be "willing to provide prompt feedback for the donations" that are made.  The process for selection involves submission of an application requiring substantial disclosure; submission of financial and annual reports as well as certain legal documents; an appraisal of the organization against the Credibility Alliance norms, and a site visit to the organization, in some cases including references checks.[20]

The Credibility Alliance is a consortium of voluntary organizations and networks.   Its norms are divided into "minimum norms" and "desirable norms," both of which must be met by organizations listed on the website.  There are 25 minimum norms, which focus on, among other things, board governance, consistency of activities with the organization's mission, the existence of appropriate systems for planning, monitoring, and review, internal control, and consultative decision-making, clearly defined rules for personnel, including volunteers, and appropriate financial and annual reporting.  Desirable Norms require that 2/3 of Board members be unrelated by blood or marriage, a board rotation policy is in effect, salary and benefits of the head of the organization and certain staff members are disclosed, and the distribution of staff by salary levels is disclosed in the organization's annual report.

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[20] *See* www.giveindia.org/give/menus/LeftTopMenu.do?key=Select_NGO.

### 4. International Initiatives

It is worth noting one additional development in the field of self-regulation – global initiatives to set standards for NGOs engaged in humanitarian work. While these initiatives have not involved a certification process to date, they illustrate the potential for international NGOs and donors to collaborate on standard setting for the benefit of their constituents. Two examples that should be considered are:

- The Sphere Project was launched in 1997 by a group of humanitarian NGOs and the Red Cross and Red Crescent movement. Sphere is "based on two core beliefs: first, that all possible steps should be taken to alleviate human suffering arising out of calamity and conflict, and second, that those affected by disaster have a right to life with dignity and therefore a right to assistance." The project provides a handbook that includes Minimum Standards and indicators that are intended to "inform different aspects of humanitarian action, from initial assessment through to coordination and advocacy." The handbook also includes standards and indicators in four technical areas relevant to humanitarian work. One of the notable attributes of the Sphere project was the collaborative and participatory nature in which the handbook and other Sphere programs were developed – according to Sphere representatives of over 300 organizations from 60 participated in some aspect of the project.

- The mission of the Humanitarian Accountability Partnership International (HAP-I), launched in 2003, is to "make humanitarian action accountable to its intended beneficiaries: those people whose lives are at risk due to armed conflict or other calamitous events." HAP-I developed seven "Principles of Accountability" – and is seeking to develop through which member compliance with the principles will be accredited. It has 9 full members (primarily large international humanitarian organizations), as well as several associate members, including government aid agencies. The formation of the organization was preceded by a pilot phase involving widespread consultation with stakeholders: "A fundamental conclusion to emerge . . . is that accountability will best be strengthened and implemented through the creation of a strong international self-regulatory body that will insist on monitoring and compliance, while providing strategic and technical support to member agencies."

### c. Programs Selected for Study

Seven certification, accreditation, or award programs were selected for more detailed examination in this study. These programs represent a variety of approaches to promoting accountability, and address the conduct of organizations in a number of sectors (although the majority focuses on not-for-profit organizations.) The key attributes of each program are summarized in Appendix A. The standards promulgated by each organization are compared in Appendix B.

### i. PVOs

### 1. InterAction

***Program Description.***  InterAction is a "membership association of US private voluntary organizations (PVOs)" which works to provide support in order to "enhance the effectiveness and professional capacities of its members engaged in international humanitarian efforts."[21] It was formed in 1984 by a merger of the American Council of Voluntary Service and private agencies in international development.  Current members are both faith-based and secular organizations which are headquartered in over twenty seven US states.  Seeking to "foster partnership, collaboration and leadership among its members as they strive to achieve a world of self-reliance, justice and peace," InterAction "convenes and coordinates its members, so in unison, they can influence policy and debate on issues" of common concern.

According to Interaction, its member organizations represent the "largest alliance of US based international development and humanitarian NGOs."  The member organizations "work in virtually every developing country and serve tens of millions worldwide each year."  In order to be eligible for membership, an organization must:

- be a US based organization
- be established at least two years
- be registered as a 501 (a) organization
- comply with the PVO standards (see below)
- have international programs

Interaction has 160 members.

***Certification Process.***  All InterAction members are required to meet and adhere to the "PVO Standards."  The Standards are a "set of ethical guidelines covering governance, financial reporting, fundraising, public relations, management practice, human resources and program services."  First initiated at an InterAction Executive Committee Meeting in 1989, the PVO Standards were approved in 1992.  They are intended to "increase credibility with individual donors, private foundations, government agencies," and the public trust through a unique self-certification system with which organizations must comply in order to become and remain InterAction members.

In an effort to ensure quality control, a "board-level committee oversees the PVO Standards, as well as member compliance with the PVO Standards."  The InterAction PVO Standards are "also used to assess eligibility of prospective members."  The compliance certification lasts one year, after which, "by agreement among members, the CEO and/or board chairperson," must re-certify compliance.  InterAction member organizations "that do not comply with this policy, face suspension from membership."

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[21] Information on Interaction's PVO Standards is based on material available on www.interaction.org and interview with Ken Giunta, Vice President, Interaction.

As demands for accountability have increased from donors and the public alike, InterAction has launched two additional initiatives: the Child Sponsorship Accreditation Pilot Project and Self-certification Plus. Both aim to increase public awareness of InterAction member organization programs, thereby promoting transparency and accountability.

Self-certification Plus was launched in 2004, with the goal "to assist with and make more rigorous and uniform the way in which InterAction members annually self-assess their compliance with the PVO Standards." For purposes of this pilot project, InterAction members were asked to volunteer and offer their assessments of the new self-certification process. Twenty-three InterAction member agencies received self-certification guidelines instructing them on the process. They were required to gather evidence supporting their compliance with the PVO Standards. The agencies mark their "pass" or "fail" on a checklist provided, and in the event of failure, are asked to develop an action plan. If an action plan is not developed and implemented the agency can face suspension. Feedback provided by the participating member agencies indicated that they found the process engaging, reflective, and transforming. Though most of the agencies that volunteered feared that Self-certification Plus Program would be overly time consuming, many acknowledged that it enabled them to create greater mechanisms for efficiency in programs and office administration.

InterAction also initiated a new two-phased accreditation program, working with Social Accountability International and five leading child sponsorship organizations (CSOs); Plan International/Childreach, World Vision, Christian Children's Fund, Children International, and Save the Children. Seen as a 'cutting-edge' endeavor by accrediting bodies, the program required an external audit of CSOs with respect to their compliance with an internally developed set of standards. The CSOs initially developed a certification manual where "evidence of compliance was defined for each standard to make it objective as well as auditable for an external certifying body." This external certifying body then audits compliance of the headquarters office of the CSO as well as a random sampling of field offices. This third-party certification began in summer 2004 and should be complete by year's end.

*Criteria.* The PVO Standards are "intended to serve as guides and incentives that help member agencies evolve continually into better-run organizations." By offering "financial, operational, and ethical codes of conduct," the PVO Standards "help member agencies to be more effective in management and programmatic performance." The InterAction PVO Standards are divided into 9 categories. These are:

- Governance
- Organizational Integrity
- Finances
- Communications to the US Public
- Management Practice and Human Resources
- Program

- Public Policy
- Implementation
- Guidelines

Over the years, the PVO Standards have been "continually reviewed, added to, and strengthened" to ensure that they remain a "living document." The following are examples of recent amendments:

- 1998: Gender and diversity amendments
- 1998: Standards adopted guiding the child sponsorship programs
- 2000: Diversity amendments broadened to include people with disabilities
- 2003: Standards adopted offering guidance in the protection of beneficiaries from sexual exploitation and abuse
- 2003: Standards adopted guiding NGOs in the appropriate use and movement of pharmaceutical and medical resources.

The executive committees of InterAction continue to update the PVO Standards so as to diminish redundancy, eliminate undo administrative burdens of member agencies, and simplify compliance processes.

***Target Audience/Goals.*** InterAction initiated its Standards program in response to a perceived lack of accountability within the charity and non-profit organizations sector. In light of scandals that had occurred with public funds donated to charities, InterAction believed it vital "that the coalition and its individual members respect, protect, and preserve the public trust." In recognizing the rapid growth of the charitable sector, InterAction member agencies themselves "believed that being held accountable to a set of standards would serve to help earn and protect the public trust." Member organizations thus took it upon themselves to compile standards that would enhance the programmatic and management excellence of the member agencies, as well as "raise the bar" within the sector for greater accountability.

***Benefits and Costs.*** Though no formal assessment of the costs and benefits of compliance with the PVO standards has been undertaken, according to InterAction, "both media and donors recognize that being part of a standards-based network enhances InterAction members' credibility." This could be understood as a benefit to InterAction membership, for then an organization receives more favorable press, and is more likely to ascertain funding from donors. The network also affords members the benefit of greater strength in voice. By convening and coordinating members, greater strength is afforded on issues of common concern.

Costs of participation include, with respect to the PVO Standards program, Self-certification-Plus, and the CSO Accreditation pilot, the cost of Interaction membership, which is .15% of a member's internationally related expenses. Self-certification under the PVO Standards and Self-certification Plus involve in addition the staff time and effort required to review and certify an organization's compliance with the Standards. The CSOs involved in the CSO accreditation process pay the fees associated

with the external audit of their organizations, which can be quite substantial (estimated at $650,000 for the first five organizations) in addition to the time and effort of their own staff.

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*Case Study:  PACT and "Self-Certification Plus"*

**PACT is a member of Interaction, and volunteered to participate in the pilot of Interaction's "Self-Certification Plus" initiative.**

**PACT chose to participate based on its strong predisposition towards self-assessment. The organization has conducted its own self-assessments and is committed to the process, believing that it pays off in terms of the cross-organizational dialogue that it furthers.  In addition, PACT is a dedicated Interaction member.**

**To complete the Self-Certification Plus process, PACT engaged in preparation the included review of the PVO standards, due diligence with respect to its compliance, and distribution of key documents and data to those engaged in the process.  It then held a meeting, lasting approximately four hours, in which it discussed each standard.  PACT included in the meeting persons from across the organization, including representatives from the field, and representatives from its Board.**

**In an article published in Monday Developments, Sarah Newhall, President and CEO of PACT described some of the findings that emerged from the process:  "*While in past standards reviews Pact has identified areas for action . . . This year's process took us into an even deeper self-examination.***

***Our findings showed that we lacked a whistle blower policy and needed more training on Pact's existing code of ethics, particularly at the field level. Having a policy is a starting point, but the Sarbanes-Oxley era in which we live has brought home the need to be aggressive about transparency. The real effort ahead is to increase our entire staff's understanding globally on anti-corruption and the need for ethical conduct.***

***Pact identified the monitoring and evaluation system as an area in need of strengthening. We felt the need to develop improved systems for collecting and disseminating proof of the impact of our capacity building work. . ."****

**According to Evan Bloom, the Self-certification Plus process yielded additional benefits – it facilitated an institutional dialogue among persons who do not normally work together on these issues, and provided a "rapid holistic review."**

**Costs involved included the staff time and effort for the preparations and the  meeting. To PACT, the process was a good investment, and well worth the cost.**

**Mr. Bloom indicated that one additional improvement to the process might be the provision of a forum for all participants in the pilot, which would allow for peer learning as well as internal self-assessment.**

*\* Sarah Newhall, "PVO Standards: "Self-Certification Plus" Equals Good Stewardship," Monday Developments (June 21, 2004).*

### ii. NGOs[22]

#### 1. ForeignAid.com

***Program Description.*** ForeignAid.com aims "to build the capacity of high impact international development nonprofits by providing information to connect nonprofits with donors and resources worldwide." The organization, a limited liability company, was founded in January 2003. It provides profiles, analysis, certifications and ratings regarding nonprofits worldwide to bridge the "information gap" between high impact organizations and nonprofits.[23]

ForeignAid has three areas of program activities:

- *Certification:* ForeignAid seeks to "identify high-impact" grass roots NGOs" using a "versatile, intelligent, and consistent social value certification model." ForeignAid.com's certification process rates the social impact of NGOs in the developing world against its "NGO Star™ Evaluation System."
- *Publications:* ForeignAid.com publishes the website ForeignAid.com and an annual Global Catalog for Philanthropy. The aim of these publications to "to connect high impact grassroots NGOs to donors worldwide." Both publications include information about the organizations certified thus far.
- *Joint Resource Development:* ForeignAid seeks to mobilize resources in support of grassroots NGOs by facilitating development of collaborative projects that make NGOs more competitive in the fundraising arena. It does so by acting as a clearinghouse on funding opportunities, serving as a conduit for donations; and facilitating information exchange and exploration of revenue generating activities.

ForeignAid.com has certified 77 organizations to date. Altogether, the certified organizations represent 20 countries, and organizations from various African nations, India and Pakistan have predominated. To date, organizations have sought out ForeignAid.com -- the organization has not targeted any particular countries or regions for expansion, and has conducted only a few email campaigns in an attempt to market itself.

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[22] Note that there are additional certification programs governing NGOs; for example, the Evangelical Council on Financial Accountability (ECFA) provides accreditation of compliance with seven "Standards of Responsible Stewardship." These standards are in the areas of "board governance, financial transparency, integrity in fund-raising, and proper use of charity resources." ECFA assists Christian ministries to earn the public trust, and its constituency includes over 1,100 charitable, religious, missionary, social, and educational tax-exempt, nonprofit 501(c)(3) organizations.

[23] Information on ForeignAid.com is derived from its website; an interview with Sarah Grapentine, Program Manager; and evaluation reports and other documents provided by ForeignAid.com.

***Process/Eligibility.***  In order to be eligible to participate in the ForeignAid.com certification program, an organization must:

- be legally registered as a not-for-profit organization
- be registered and in operation for at least one year
- have a proven track record of success and accountability
- not conduct activities for personal gain
- conduct programs that directly benefit the poor and destitute
- be willing to complete a detailed application process
- have good management systems in place
- pass an "affidavit of equivalency" requirement
- not use program funds directly for religious purposes

The ForeignAid.com ratings process involves four steps:

- Input from ForeignAid.com's global network donors, international organizations, professors, and community leaders
- Submission of an application
- Reference check and comments
- An in-house analysis of the organization's Transparency, Financial Efficiency, Social Impact, Institutional Development, and Non-violence/non-terrorism

After a ratings process that consists of desk research and an on-site evaluation, ForeignAid.com issues a rating of C to AAA; those organizations that achieve ratings of BB or higher are considered "ForeignAid certified."

Evaluations are conducted by trained evaluators who are part of ForeignAid.com's global network of partners, who report on their findings.  Evaluators include affiliates of Development International as well as respected leaders in the international development field.  Currently, all evaluations are overseen, and ratings finalized, by ForeignAid.com's president or program manager.  ForeignAid.com is developing a protocol for quality control among evaluations in anticipation of the program's expansion.

***Target Audience/Goals.***  ForeignAid.com's primary audience is institutional donors. It intends to provide useful information that can be employed by donors to make grants in other countries.  In initiating the program it engaged in consultations with members of the donor community regarding the program, as well as donors' unmet needs in the areas of transparency and accountability and incorporated these into its NGO Star™ Evaluation System.

ForeignAid.com initiated its certification program in response to an expressed need on the part of NGOs in developing countries to improve their credibility.  Local grassroots NGOs repeatedly expressed concerns focusing on their lack of visibility and access to

international donors, and their lack of credibility with those donors, due to poor reputations among NGOs in many countries. It determined to focus on certification of NGOs in the poverty reduction field as it felt that this was a means to have an effect on other important issues – in other words, by giving people a means to support themselves, poverty reduction efforts provide the groundwork for them to make progress in fields such as health care, civil rights, etc. Poverty reduction is defined somewhat broadly for purposes of determining eligibility; for example, ForeignAid has evaluated a primary school serving a slum. In general, however, the beneficiaries of a rated organization's work should be the poor.

*Criteria.* The NGO Star Evaluation System focuses on five "points:" transparency, social impact, financial growth and efficiency, institutional development and antiterrorism. ForeignAid.com has developed a number of subcriteria within each of these categories that are used to evaluate the organization and determine the rating that it should receive. These are summarized in Appendix B.

The model, according to ForeignAid.com, reflects among other things, non-terrorism, gender considerations, innovation, and the use of technology – matters about which institutional donors are frequently interested, but for which they may not have a good "screen" in their own grant evaluation criteria. Two features of the evaluation system should be noted. One is the program's emphasis on social impact. In this area, ForeignAid.com evaluates not only such traditional measures of impact as output and outcome, and program sustainability, but also the degree to which local culture has been respected in the organization's programs, the degree to which considerations of gender equality are observed, the degree to which the organization has institutional mechanisms for soliciting community input, and the degree to which the organization uses volunteers. Another distinguishing characteristic of the NGO Star system is its inclusion of "Nonterrorism/nonviolence" as an area of evaluation. In light of the new requirements imposed on US non-profit organizations by the Patriot Act and Executive Order 13224 (prohibiting transactions with certain persons), and suggested by recent Treasury Guidelines,[24] and the substantial confusion among US funders regarding what constitutes acceptable due diligence regarding grantees and their use of funds, the addition of this criteria is likely to be of substantial interest.

Organizations that become ForeignAid.com certified are featured in the "Global Catalog of Philanthropy," giving them a means to become known to the Catalog's audience.

*Benefits and Costs.* ForeignAid.com believes that participants in its program benefit in that they have the opportunity to increase their effectiveness. Ideally, this will also result in a financial benefit, as the rating an organization receives may also make it more attractive to donors.

From the donor perspective, ForeignAid.com believes its program is appealing because it gives a picture of local grassroots NGOs "in 3D." Moreover, its evaluations can be tailored to meet individual donor needs, and is thus flexible.

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[24] Anti-Terrorist Financing Guidelines: Voluntary Best Practices for U.S.-Based Charities.

ForeignAid.com's current funding model relies on large institutional donors to fund certification of its grantees. So, for example, ForeignAid works with a donor to develop a proposal for certifying particular grantees, as well as a budget that reflects the costs of conducting an evaluation of the organization. The budget varies according to the need for and cost of travel, available evaluators, etc. Early evaluations were performed free or at low cost for the rated organizations.[25]   Now, given the existence of the donor funding model, the rated organizations pay nothing. In addition, ForeignAid.com funds its programs by sales of the Global Catalog of Philanthropy, for which it charges $300. It is considering a tiered fee structure for the Catalog to accommodate smaller subscribers.


## 2.  BBB Wise Giving Alliance

***Program Description.***  The BBB Wise Giving Alliance is a section 501(c)(3) exempt organization affiliated with the Council of Better Business Bureaus. It was formed in 2001 following the merger of the BBB's Philanthropic Advisory Service and the National Charities Information Bureau. The Wise Giving Alliance "collects and distributes information on hundreds of nonprofit organizations that solicit nationally or have national or international program services. It routinely asks such organizations for information about their programs, governance, fund raising practices, and finances when the charities have been the subject of inquiries."

The Wise Giving Alliance offers several types of resources for donors:

- Reports evaluating charities as to whether they comply with the Alliance's 23 "Standards for Charity Accountability." These reports are available without charge on the Alliance's website.
- The "National Charity Seal." This program, established in 2003, permits organizations that meet the Standards for Charity Accountability to display the Wise Giving Alliance Seal in their solicitations upon payment of a fee and entry into a licensing agreement.
- Published information to aid donors, including a quarterly magazine, various "Tips" on subjects related to giving, and news alerts.

***Process/Eligibility.***  The Wise Giving Alliance focuses its scrutiny on the relatively small group of charities (approximately 3000) that routinely come before the public to conduct

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[25] One question raised by this funding model is whether it is consistent with ForeignAid.com's expressed goal of expanding the access of local grassroots organizations to foreign donors, since the model to some degree relies on the donors to know about and nominate grantees for evaluation.

fundraising appeals.[26]  According to H. Art Taylor, President and CEO, the Alliance's program design is influenced by two factors:  scale and resources.   With resources difficult to come by, the Alliance determined to focus its standards on those issues that matter most to a donor, rather than on things that lack an accountability interest to the donor.  One consequence was the Alliance's decision to use technology to shift some of the cost and the burden of preparing reports to the rated organizations.  Recently the Alliance inaugurated a system whereby rated organizations provide certain data for the reports on-line.  Answers are scored by a computer program, providing a preliminary determination on whether the standards are met.

Both the computer scored ratings, and those done by staff, are to a large degree dependent on the accuracy of information provided by the organization.  The Wise Giving Alliance can and does ask for additional information, however.  It is considering moving in the direction of audits.

The Wise Giving Alliance began the "National Charity Seal" program to provide to rated organizations a visible means of alerting donors that they have met the Standards for Charity Accountability.  Under the Seal program, an organization that meets the Standards may obtain the rights to use the Wise Giving Alliance seal subject to a license agreement.  The Alliance charges a fee for this right, which ranges from $1000 for organizations with less than $1 million in charity contribution income to $15,000 for organization of more than $100,000,000.

The introduction of the Charity Seal program should be seen as a component of the Alliance's overall mission of assisting donors in making effective giving decisions.  Thus far, in a little over one year, 43 organizations have received the Seal.  The Alliance does not necessarily expect to expand significantly the number of organizations that receive the Seal, as it does not expect that all of its rated organizations will have a need for it.  However, it hopes that awareness of the Seal, and the display of the Seal by organizations that have obtained it, will draw donors to its website and other materials, where they can become more informed about a wide range of organizations.  In addition, the Alliance believes that the funds raised through the Seal program will help to support its overall program objectives, particularly in an environment where funders do not tend to fund projects that support the sector's infrastructure.

***Target Audience/Goals.***  The Wise Giving Alliance's focus is on the individual donor.  It therefore seeks to provide information that will be of greatest significance to such donors.  While organizations may well improve their management or performance using the organization's standards, this is secondary to the primary aim of assisting individual donors in making intelligent choices in giving.

***Criteria.***  The Standards for Charity Accountability by and large concern matters that the Alliance believes are of primary concern to its public donor constituents.  Thus, the

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[26] Thus, the Alliance does not focus on e.g., extremely large not-for-profit organizations that typically do not raise funds through public appeals (e.g., hospitals), nor very small organizations that are likely to raise funds primarily from members of their own community, who know them well.

standards are built around "the overarching principle [of] full disclosure to donors and potential donors at the time of solicitation and thereafter." Standards are in the areas of Governance and Oversight, Measuring Effectiveness, Finances, Fundraising and Informational Materials. See Appendix B. A number of the standards are accompanied by suggested indicators of effectiveness in that area. The Standards include guidance for implementation. Noteworthy standards include those dealing with finances, which establish formulas requiring that 65% of an organization's expenses be spent on program and not more than 35% of related contributions be spent on fundraising, discourage the accumulation of funds that can be used on program, and provide extensive guidance on fundraising appeals.

*__Benefits and Costs.__* From the Alliance's perspective, the benefits of the Standards of Charity Accountability and National Charity Seal Programs are as follows. Among Seal holders, those in the early round of issuance are already enlightened about the benefits of accountability. The brand names tend to transcend anything that the seal provides. However the ability to use the BBB's logo can not hurt, and might indeed differentiate, for example, the American Heart Association from another organization with similar goals. The Alliance does not market the seal as a means for rated organizations to increase their funding; it markets the seal as a means for organizations to show that they have been reviewed by an independent third party. The Alliance wants the public to know that it has a place to go to find information about charities and view the Seal as a means of promoting awareness of its resources among the public. If the Seal becomes a "must have" to an organization, that is fine, but secondary to the Alliance's principle goals.

The Wise Giving Alliance operates on a total program budget of approximately $1.3 million annually. Of that amount, approximately $300,000 has been generated in the past year from the Charity Seal Program. Another $600,000 is generated via a direct mail program. The Alliance has received support from the Council of Better Business Bureaus and from some foundations as well.

*Case Study: The American Heart Association and the National Charity Seal*

**The American Heart Association (AHA) provided information for use in the BBB Wise Giving Alliance's reports (and those of its predecessors) for many years. According to M. Cass Wheeler, President of the AHA, the Alliance's standards are the "gold standard" among charity watchdogs – they were developed with the input of the nonprofit community and other stakeholders, and they were comprehensive, going beyond "simple math" derived from an organization's financial statements. In addition, reports are prepared using information submitted by and in collaboration with the rated organization, which can provide clarification if needed before a report is issued.**

**The AHA received the Wise Giving Alliance's National Charity Seal, and displays the Seal on its website and letterhead. Mr. Wheeler determined that the organization should seek the National Charity Seal after concluding that there were a number of well-intentioned charity watchdogs operating that were doing more harm than good. These organizations can be easily started, and begin issuing ratings, without establishing any credibility. Moreover, in the time period following 9/11, trust in nonprofits was declining. Mr. Wheeler asked himself "How can we reinforce the BBB standards as the most comprehensive, and the gold standard, among programs?" He in addition wanted to "raise the bar" in the sector, causing more donors to ask whether other organizations meet similar accountability standards.**

**Mr. Wheeler cited the benefit of participating in the Charity Seal program the greater public trust and accountability associated with participation – participation was simply the "right thing to do." He believes (although the AHA has not attempted to get data), that the display of the Seal possibly may provide a fundraising edge, although this was a very insignificant part of its reasons for participating in the program.**

### 3. *Maryland Association of Nonprofit Organizations Standards of Excellence*

***Program Description.*** The Maryland Association of Nonprofit Organizations released its "Standards of Excellence: An Ethics and Accountability Code for the Nonprofit Sector" in 1998. Maryland Nonprofits is a state-wide membership organization of more than 800 nonprofits, devoted to strengthening and improving "individual nonprofit organizations and the nonprofit sector as a whole, while also working to bolster public confidence in and support for nonprofit organizations." Maryland Nonprofits developed the Standards to promote ethical practices and accountability in the nonprofit sector and thereby raise public confidence and support for the nonprofit sector in Maryland.

Maryland Nonprofits began its ethics initiative in the wake of several national scandals involving improprieties by charities in the United States. After receiving a major funding commitment from the Charles Stewart Mott Foundation, and funding from other philanthropies and corporations, the organization formed a 50 member work group consisting of NGO representatives as well as academics, lawyers, and others, with subcommittees devoted to self-regulation, sector education, and public education. Over the following year, the work group conducted research and analysis of other codes, self-regulatory programs, educational initiatives, and public service campaigns; drafted the Standards and designed the self-regulatory program; and developed education and public relations plans.

*Criteria.* The *Standards*, consisting of eight guiding principles and 55 individual performance standards, describes a "consensus model of how a well-managed, responsibly governed" organization should operate. The values it identifies principally center on issues of organizational accountability and good governance. Standards are specific directives, generally measurable. All members of the Maryland Association must promise to commit to the eight Guiding Principles, and the Association provides technical assistance to help member organizations comply with the 55 specific standards.

*Process.* In addition, the Association has initiated a voluntary certification procedure whereby member organizations are evaluated regarding their compliance with the standards. In order to gain certification, an organization submits an application for certification together with extensive supporting materials. A volunteer peer review group examines the organization's compliance, then makes a recommendation on certification to a standards review committee. Nonprofits that illustrate their compliance with the Standards earn the right to display the "Nonprofit Seal of Excellence." The Seal is valid for three years, at which point it must be renewed. It is anticipated that organizations undertaking certification may not necessarily meet all standards at the time of their initial involvement with the program, and Maryland Nonprofits offers a wide array of products, services and training programs dedicated to helping nonprofit organizations implement the Standards for Excellence: An Ethics and Accountability Code for the Nonprofit Sector.

Recently, Maryland Nonprofits formed the "Standards for Excellence Institute," as a means to promote and replicate the Standards program. Under a pilot program, state nonprofit umbrella organizations in five states -- Pennsylvania, Ohio, North Carolina, Georgia, and Louisiana -- can offer the *Standards* certification program. They license the use of the Standards and other materials developed by Maryland Nonprofits, and can make certain design changes to these with approval. Maryland Nonprofits started the Institute as a means of facilitating the replication effort. The Institute offers the following options for those wishing to initiate their own standards programs:

- *Replication Partners.* These intermediary organizations enter into license agreement permitting them to use all *Standards* materials in a given area or with a given group. They may either offer customized, privately labeled version of the program, or offer a national version of the program,

with or without private labeling. Fees for licensing and consulting range from $12,000-$30,000 in the first year, $8,250-$25,000 in the second year, and $5,000 -$15,000 thereafter.

- *Capacity Building Partners*. Nonprofit and for-profit companies that provide training, consulting or other professional services to nonprofit organization can obtain authorization to use the *Standards for Excellence* program materials by purchasing and reselling copies of the Standards or using the *Standards* educational resources packet in the course of providing technical assistance. Capacity building partners pay a membership fee of $200 to $3000 depending on the number of professional employees, which grants them permission to copy or reprint 20-300 copies. Permission to make additional copies may be granted for additional fees.
- *Training Program Hosts.* Nonprofits, intermediary organizations, and grantmakers can host *Standards* training workshops and clinic under either a fixed fee or fee sharing arrangement.
- *Standards for Excellence Authorized Trainers*. Authorized trainers are licensed to use *Standards* training curricula for use in training nonprofits. Trainers must become Capacity Building partners, complete an application and screening process, attend a training of trainers session and commit to attend an advanced topics program, and comply with rules governing the conduct of authorized trainings. Fees include $1500 for the trainers workshop, purchase price of 100 copies of the Standards booklets, and a royalty fee of $200 per full-day or part day workshops.

***Target Audience/Goals.*** The focus of Maryland Nonprofits' *Standards* program is twofold: (1) to strengthen nonprofits; and (2) to improve public trust. Participating nonprofits themselves are therefore the principal beneficiaries of the program, and secondarily, the donor public. The organization perceived a need for the program because it did not see any type of voluntary [ethical] program in Maryland. A significant part of the nonprofit community had no access to an outside monitoring program, and was not members of any national organization with such a program. They wanted to demonstrate some type of seal of approval but had no where to go for one.

***Benefits and Costs.*** The benefits of the program, from the perspective of Maryland Nonprofits, are both "internal" and "external." From the internal perspective, the rated organization has the opportunity to review its infrastructure and the way it does business. From the external perspective, the seal provides a symbol of trust that can be used in staff recruiting and with donors.

Maryland has conducted an impact analysis of its program. It conducted a survey[27] to determine whether implementation of the Standards "results in more ethical behavior and greater accountability in nonprofit organizations as manifested in specific governance, management, and organizational practices." The analysis concluded that following implementation of the Standards, a number of improvements in the nonprofit sector in

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[27] 1452 surveys were sent; 351 responded.

Maryland had taken place, and that performance was strengthened more among organizations that were members of Maryland Nonprofits (and thus subject to the eight guiding principles), in the following areas: use of mission statements, board operations, actions taken to become more transparent, use of conflicts of interest procedures, and executive expectations with respect to organizational performance.[28]

In addition, participants in the *Standards* certification program provided information to Maryland Nonprofits showing that a number of organizations believe that they have benefited from participation in the certification program. Specifically, organizations attributed to their participation in the *Standards* program the following improvements in governance and management:

- improved board meetings (greater involvement of board; clearer board relationships; strengthened meeting process; greater board confidence in organization)
- establishment of, or strengthened, written policies and procedures
- increased awareness of disclosure practices, and
- increased awareness of legal requirements of fundraising, technicalities of law.[29]

Organizations also recognized the contribution of the standards toward creating a stronger organization overall, improving an organization's ability to carry out its mission, and helping an organization remain competitive.

Maryland Nonprofit employs the following cost structure for the *Standards* program. Member organizations pay a $400 fee to apply for certification, and annually pay a $150 participation fee. These fees do not fully cover the cost of the *Standards* program, however, which has cost Maryland Nonprofits over $1 million to develop. Program costs that are not covered by fees are underwritten by members' dues and foundation grants to the program. Maryland Nonprofits has tried to make the fee structure comfortable for the members to date. Its goal is to make the program self sustaining.

In addition to the fees discussed above, members bear the costs associated with staff time and other resources need to prepare the application, and to make necessary changes in their operations to comply with the standards. These costs tend to vary by applicant. On average, data collected by Maryland Nonprofits suggests that these costs are approximately $1900.

As discussed above, there are additional fees associated with becoming a Replication Partner, Capacity Building Partner, or trainer. According to an Example Budget distributed by the Institute, total expenses associated with participation in the Replication Program as a "customized" partner can be in the neighborhood of $150,000 annually,

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[28] Maryland Association of Nonprofit Organizations, *Is the Standards for Excellence Making a Difference: An Impact Analysis* (Rev. ed. 2003).

[29] Information provided by Amy Coates Madsen of Maryland Nonprofits.

including staff salaries, licensing fees, and other direct and indirect costs. Some of this expenditure can be offset by revenues from sale of Standards materials, certification fees, training fees, and grants and donations.

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*Case Study: Lutheran World Relief*

**Lutheran World Relief (LWR) "works to combat the causes of poverty and the dignity it robs from people's lives" in over 50 countries, through programs that include humanitarian relief, promotion of fair trade, and advocacy challenging both the causes and consequences of poverty. It is a large organization, taking in more than $29 million in receipts in 2003 from public fundraising, government grants, and the support of major Lutheran church organizations.**

**LWR has received the "Seal of Excellence" from the Maryland Association for Nonprofit Organizations. It chose to participate in the *Standards for Excellence* program for two reasons: (1) "quality" – if LWR was going to participate in a ratings program, it wanted to "do it right," and liked the rigor of the *Standards* approach; and (2) its overseas partners – LWR asks its partners to comply with a number of standards (albeit not as rigorous as the *Standards for Excellence)*, and felt that if it was asking others to meet standards, it ought to demonstrate similar level of adherence itself. Funders, or the potential appeal of LWR's participation to funders, did not factor into the decision.**

**According to Mike Malewicki Vice President for Finance and Administration, LWR considers its participation in the *Standards* program to have been of substantial value to the organization. While LWR has not tried to measure the impact of its participation in any way, participation in the *Standards* program appears to have contributed to the overall health of the organization. As a large organization, LWR already met a number of the *Standards* regarding, e.g., good governance. It did, however, make changes to its fundraising materials, as well as on some more technical issues. More generally, however, when nonprofits demonstrate adherence to rigorous standards, it provides them with "another arrow in the quiver" when occasional scandals in the sector bring negative public attention to the sector.**

**Overall, LWR did not consider the cost of participation in the program onerous, although it did devote substantial staff time over the course of a full year to completing its application. It believes that participation was worth the cost.**

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### 4. Transparency International

***Program Description.*** Transparency International (TI) is a global anti-corruption coalition consisting of approximately 90 independent and locally governed national chapters as well as some personal active members. National chapters must be accredited

by TI, and accredited chapters account for more than half of the voting power at TI Membership Meetings.

TI has established a "National Chapter Accreditation and Personal Active Member Appointment Policy" with the objectives of protecting the "integrity, cohesion and reputation of TI" and of strengthening and supporting the national chapters. Among other things the Accreditation Policy helps to ensure that National Chapters adhere to the standards and policies comprising the "Statement of Vision, Values and Guiding Principles of Transparency International," also known as the Umbrella Statement.

The Umbrella Statement establishes values of "transparency, accountability, integrity, solidarity, courage, justice and democracy" for TI members. Guiding Principles set forth in the document include "coalition building, political nonpartisanship, non-exposure of individual cases of corruption, independence from funders, respect for fundamental rights and freedoms, and balanced and diverse representation on governing bodies. TI's accreditation process for National Chapters helps to ensure that chapters comply with the Umbrella Statement and policies of TI.

*Process/Eligibility.* Criteria for becoming member of the TI movement include:

- "determination, diligence and competence to combat corruption;"
- adoption and acceptance of the Umbrella Statement;
- taking "all necessary steps" to protect TI's name and logo;
- development and compliance with a code of conduct; and
- sharing financial and activity reports with the TI Secretariat.

Groups wishing to become national chapters move through three phases: national contact, provisional accreditation, and accreditation. Full accreditation involves (1) submission of a self-evaluation (2) submission of the organization's latest "audit or independently examined accounts" and (3) information about how TI's name and logo have been registered.

A group wishing to become a national chapter submits an application to the TI Secretariat, which reviews the submission and prepares a report and commentary on it. Its report is submitted to the BAC, which can either refer the group to the Board for full accreditation, or recommend that the group take certain additional steps before accreditation is granted. National Chapter accreditation is reviewed every three years. At review, chapters complete and submit another self-evaluation to the TI Secretariat, which forwards the evaluation to the BAC with report and commentary. The BAC either recommends to the Board to confirm accreditation, take corrective action, suspend accreditation, or disaccredit.

*Criteria.* TI's self-evaluation procedure asks a chapter to consider its performance in the areas of:

- Policy issues (Code of conduct, compliance with the umbrella statement and core values of TI, organizational processes and systems, etc.)
- Accountability (legal compliance, membership structure, governance, reporting, financial statements, and communications with the TI Secretariat, etc.)
- Governance Performance and Activities (workplan, budget, projects and activities, contributions to anticorruption measures, public outreach through lobbying, publications, conferences, etc., diversity, and funding).

*__Target Audience/Goals__*.  The audience for TI's accreditation program is the organizations seeking to join the TI movement, and the movement itself.  The standards are designed to ensure that members of the movement, who have substantial voting power in TI, adhere to and promote the organization's core values.  To the extent that preserving the integrity of the movement serves TI's mission of fighting corruption, the public in the countries served can be considered beneficiaries as well.

*__Benefits and Costs__*.  Participating in TI's accreditation process allows a group to become a national chapter of a well-known world-wide anti-corruption movement, thereby allowing a group access to TI's name, logo, and resources.  Organizations also sustain the costs of building of a national chapter that can be accredited – a cost for which an organization raises its own funding.  Other expenses include time and resources needed to complete the self-evaluation process – which can vary.

### *f.  Private Sector and NGOs*

### *5.  Baldrige National Quality Award Program*

*__Program Description.__*  The Malcolm Baldrige National Quality Award was created by an act of Congress in 1987.  The award program is managed by the National Institute of Standards and Technology, a part of the U.S. Department of Commerce.  Its purpose is to honor former Secretary of Commerce Malcolm Baldrige, for his managerial excellence, which contributed to "long-term improvement in the efficiency and effectiveness of government."  Secretary Baldrige is credited with recognizing the need to enhance the performance of US businesses to preserve the nation's economic growth.  The Award program named in his honor thus exists to "recognize US organizations for their achievements in quality and performance" and aims to "stimulate American companies to improve quality and productivity for the pride of recognition" by the Award Program.

The Baldrige National Quality Award is presented yearly by the President of the United States to "businesses – manufacturing and service, small and large – and to education and health care organizations."  In addition, beginning in 2006, non-profit and government organizations will also be eligible for the National Quality Award.[30]  To receive the

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[30] The establishment of the new award category was announced on October 5, 2004.  Congress has not appropriated funds to support the new category for fiscal 2005, however, and thus no applications will be

Award, organizations must be "outstanding in seven areas: leadership, strategic planning, customer and market focus, information and analysis, human resources focus, process management, and business results." To date, over 60 organizations have been awarded the Malcolm Baldrige National Quality Award.

***Process/Eligibility.*** To be selected for the Award, an organizations must be headquartered in the US and demonstrate achievements and improvements in all seven categories mentioned above.

The application process for the Malcolm Baldrige National Quality Award involves two steps:

- Eligibility Certification – Organization must certify that it meets eligibility requirements.
- Application Package – Organization must complete and application form and report summarizing the organization's practices and results in response to the requirements set out in the *Items* of the *Criteria for Performance Excellence.*[31]

Selection of the Malcolm Baldrige National Quality Award recipients involves:

- Independent Review – The application package is reviewed independently by members of the Board of Examiners. Once reviewed, the Panel of Judges determines those organizations advancing to step 2.
- Consensus Review – The application package is reviewed jointly by a team of Examiners, led by a Senior Examiner. At the conclusion of this review, the Panel of Judges recommends applicants for site visits.
- Site Visit Review – A team of six to eight members of the Board of Examiners, as led by a Senior Examiner, conducts on-site verification and clarification of the Application Package. Site visits consist primarily of a review of pertinent records and data and interviews with senior leaders and employees.
- Judges Review – The Panel of Judges conducts final reviews and recommends Award recipients to the Director of NIST, who conveys the recommendations to the Secretary of Commerce. The Secretary then makes the final determination of Award recipients.[32]

The application review process is conducted by a volunteer Board of Examiners. This Board consists of approximately 400 representatives from US industry, professional and trade organizations, government agencies, not-for-profit groups, and retired experts in relevant fields. Those serving on the Board of Examiners, participate in a comprehensive preparation course which covers the Criteria for Performance Excellence, the evaluation process and the scoring system of applicants. In the selection process for those serving

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accepted in this category this coming April, the start of the new award cycle. It is hoped that the new category will be funded next year for consideration of awards in 2006.

[31] *See* http://www.quality.nist.gov/PDF_files/2004_Award_Application_Forms.pdf.

[32] http://www.quality.nist.gov/PDF_files/2004_Award_Application_Forms.pdf.

on the Board, "efforts are made to ensure broad representation and minimize disproportionate involvement of one industry, sector, or single organization."

*Criteria.*  The Board of Examiners, composed primarily of private-sector experts in quality and business, evaluate organizations based on particular elements of performance excellence.  These include:

- **Leadership** – Examines ways in which senior executives guide the organization and how the organization addresses its responsibilities to the public and practices good citizenship.
- **Strategic Planning** – Examines ways the organization sets strategic directions and how it determines key action plans.
- **Customer and market focus** – Examines how the organization determines requirements and expectations of customers and markets; builds relationships with customers; and acquires, satisfies and retains customers.
- **Measurement, analysis, and knowledge management** – Examines the management, effective use, analysis, and improvement of data and information to support key organization processes and the organizations' performance management system.
- **Human resource focus** – Examines how the organization enables its workforce to develop its full potential and how the workforce is aligned with the organization's objectives.
- **Process management** – Examines aspects of how key production/delivery and support processes are designed, managed, and improved.
- **Business results** – Examines the organizations' performance and improvement in its key business areas: customer satisfaction, financial and marketplace performance, human resources, supplier and partner performance, operational performance, and governance and social responsibility.  The category also examines how the organization performs relative to competitors.[33]

Detailed criteria within these categories are subject to revision based on input during an "annual improvement day."  The revised draft criteria are then distributed to interested members of the public for comment before they are finalized.

*Target Audience/Goals.*  The primary beneficiaries of the program are the participants – as described by an NIST official, the standards are relevant to "any organization that wants to ensure that it is able to remain sustainable."  Participants describe the process as valuable in improving their organizations and cite as important the feedback received from the examiners.  See discussion below.

*Benefits and Costs.*  In terms of benefits for applicants and awardees, these can be classified into two categories; feedback received from examiners throughout the review process, and post award press.  In a study by Booz Allen Hamilton conducted for the NIST, recipients of the award "placed very high value on the feedback they received

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[33] http://www.nist.gov/public_affairs/factsheet/baldfaqs.htm

from examiners." In fact, "they saw a comparable or even greater benefit from the feedback received through the application and review process," as from the actual award. Also cited in the study was the "overwhelming" benefit from the "marketing, publicity and networking that accompany the Award."[34]

The Booz Allen Hamilton study also recognized the substantial costs associated with the Malcolm Baldrige National Quality Award. The costs described by both applicants, awardees, and potential Baldrige Award candidates deal primarily with the particulars of the Criteria for Performance Excellence and the expectations placed on winners. The complexity of the criteria, the resources required to apply them, and the investment necessary to learn and use the Criteria for Performance Excellence were noted as the primary reason why organizations are turned off from Baldrige. In fact, "respondents said the greatest problems they encountered when attempting to implement the Criteria were the learning curve associated with the Criteria themselves, the necessary culture change required to implement the Criteria, and acceptance of the Criteria among employees and staff."[35]

Recipient organizations of the Baldrige National Quality Award are asked to engage in an annual conference and regional conferences, "to provide basic materials to those who request it on their organization's performance strategies and methods, and to answer media inquiries." In the Booz Allen Hamilton Study, respondents "also noted the cost and resource-intensiveness of winning, including the travel and staff presence required." Awardees described how the "recognition of winning the Award resulted in valuable personnel being recruited away by other firms." Particularly for smaller organizations, the immediate deluge of requests for information and meetings were both unanticipated and overwhelming." Disadvantages to winning the National Quality Award, also included; the heightening of internal and external performance expectations, the high cost experienced by Human Resources, the potential to distract from business at hand, and the waiting for the next feedback report.[36]

### G. Private Sector

### i. ISO 9000

***Program Description.*** Established in 1947, the ISO or International Organization for Standardization (ISO) is a "worldwide federation of national standards bodies from more than 148 countries." The mission of ISO is to "promote the development of standardization and related activities in the world with a view to facilitating the international exchange of goods and services, and to developing cooperation in the spheres of intellectual, scientific, technological and economic activity." ISO is a non-governmental organization based in Geneva, Switzerland, and it is governed by a general assembly of its members. It undertakes the development of technical standards as its principal activity. By working through a network of international standardizing bodies,

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[34] Booz Allen Hamilton, "*Assessment of Leadership Attitudes About the Baldrige National Quality Program*" pg. 5 ( 2003.)
[35] *Ibid* at 9.
[36] *Ibid* at 11.

one from each member country, the work of ISO produces international agreements that are published as International Standards and other types of ISO documents.

*Process.*  National standard bodies that wish to become members of ISO must be "national standards institutes or similar organizations", which are "most representative of standardization in their country."  In ISO terms, this works out as one member from each country for a total of 148. Members can be full voting members, correspondent members (from countries that do not yet have fully developed national standards activity), or subscriber members (from countries with small economies that wish to maintain contact on issues of international standardization.)[37]

It is representatives from these member bodies which collectively act to create standards. The standards are "developed by technical committees comprising experts on loan from the industrial, technical, and business sectors."  These individuals are often joined by substantive experts of the particular field which is requiring of a new or amended standard set, to produce a well-rounded agreement.  In this way, ISO "occupies a special position between the pubic and private sectors,"[38] thus acting "as a bridging organization in which a consensus can be reached on solutions that meet both the requirements of business and the broader needs of society, such as the needs of stakeholder groups like consumers and users."

ISO itself does not carry out certification of organizations complying with any set of ISO standards.  Instead, certifications are "carried out independently of ISO by more than 750 certification bodies active around the world."  These organizations are accredited by the member bodies of ISO in each country in which they operate.  In the United States, the American National Standards Institute ("ANSI")[39] is the sole U.S. representative and dues-paying member of ISO, and as a founding member of the ISO, ANSI plays an active role in its governance. ANSI is one of five permanent members to the governing ISO Council, and one of four permanent members of ISO's Technical Management Board. Through ANSI, the USA has immediate access to the ISO standards development processes. ANSI participates in 78% of all ISO technical committees and subcommittees, and ANSI holds the leadership roles for approximately 20% of all ISO technical committees and subcommittees.

*Criteria.*  At the outset, ISO standards were geared to the needs of technical industry. However, demand for "international consensus on good management practice" led the ISO to develop standards concerning management systems.  These generic management principles in 1987 were adapted into a set of standards known as ISO 9000, which address:

- Satisfaction of customer's quality requirements;
- Regulatory compliance; and

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[37] http://www.iso.org/iso/en/aboutiso/introduction/index.html#fifteen
[38] http://www.iso.org/iso/en/aboutiso/introduction/index.html#two
[39] www.ansi.org

- Meeting environmental objectives.[40]

The ISO 9000 standards are actually a group of "standards and guidelines relating to management systems" which are "derived from the collective wisdom and knowledge of the international experts who participate in the ISO Technical Committee *ISO/TC 176, Quality Management and Quality Assurance*." These ISO 9000 quality standards are based on the following eight principles:

- Customer Focus
- Leadership
- Involvement of People
- Process Approach
- System Approach to Management
- Continual Improvement
- Factual Approach to Decision Making
- Mutually Beneficial Supplier Relationships.[41]

***Benefits and Costs.***  For data on the numbers of certifications being granted, ISO performs an annual survey requesting "certification data from a variety of sources, including national standards institutes, accreditation and certification bodies and regional databases."[42]  The worldwide total of certificates for 2003 was 500,125.[43]

ISO 9000 has been in existence since 1947, and has been the subject of several studies of its effectiveness.  There has been some debate as to whether ISO 9000 certification can be said to improve organizational performance.  To some organizations that have become certified, the process has clear value in improving their accountability to the public.  For example, in 2001, the Business Education Council of Niagara became the first industry education council in Canada to be awarded ISO 9000 certification[44].  BEC is a "charitable, non-profit corporation that facilitates alliances between education, industry, labour and community organizations in order to enhance education and employment opportunities, and promote personal and professional growth."  BEC required over two years to comply with the ISO 9000 standards, but considered it well worth the effort.  According to Ted Palmer, Executive Director of BEC Canada, what this certification "means is that we have achieved a new, measurable level of accountability to the public, our clients, and to our various funders, donors and sponsors."  Part of the motivation to achieve ISO 9000 certification was, according to Palmer, what it says about the organizations.  "I believe it's an excellent process for any non-profit organization because

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[40] http://www.iso.org/iso/en/iso9000-14000/basics/general/basics_3.html

[41] http://www.iso.org/iso/en/iso9000-14000/basics/basics9000/basics9000_1.html

[42] http://www.iso.org/iso/en/iso9000-14000/pdf/survey2003.pdf

[43] The most recent figures are available for the year 2003, though compilation proved challenging.  This is due to the fact that ISO undertook a reworking of the ISO group of standards in order to streamline practice.  Organizations which held the older certificates were given until December 15, 2003 to transition from the 1994 version to the new and improved ISO 9001:2000 version.  "A percentage of 1994 version certificate holders did not meet the transition deadline," which identifies some discrepancies in the 2003 data.

[44] http://www.iso.org/iso/en/iso9000-14000/articles/pdf/casestudy_1-02.pdf

it sends a clear signal to stakeholders and the public that you are constantly evaluating the services you provide to clients, and the management of those services.  And customer satisfaction and project outcomes are measured on an ongoing basis as well."

Similarly, according to David Muil, who serves as Senior Manager for KPMG and an ISO 9000 certifier, "achieving certification to an ISO 9000 quality management standard is a growing trend," and in fact, ISO certifications can now be found throughout the business, manufacturing and service sectors.[45]  While there is limited experience in adapting ISO 9000 standards to the humanitarian aid sector, at least one humanitarian organization that achieved certification has expressed its satisfaction with the process.  According to David Verboom, Operations Director and Quality Manager at Medair, ISO 9000 "addresses 'process' rather than 'product'" and thus "could be of added value to the humanitarian aid sector."[46]  For his analysis, Verboom writes, "it is imperative that any organization mandated to assist people in need should recognize them as its customers."  For Verboom, the ISO 9000 standards "provide a benchmark, or a best practice model, against which an organization's processes and management systems can be evaluated."  When Medair decided to undertake the challenge of ISO 9000 certification, staff was initially hesitant for they feared an increased administrative burden.  Once the process was well underway, criticisms subsided as evidence of benefit to the organization began to emerge.  Overall, staff and management agreed that "there is no doubt that ISO 9000 has proved itself as a useful additional tool to reinforce [our] accountability to stakeholders, increase our efficiency and effectiveness, and most importantly, increase the positive impact of our operations for the people we serve."

However, according its detractors, compliance with ISO 9000 can in fact undermine an organization's performance.  John Seddon, an occupation psychologist, concluded following ten years of research into ISO 9000 certified bodies that, "ISO 9000 predictably causes people to do things which, at best, suboptimize their organization's performance and, at worst, make it considerably worse."[47]  Examples of suboptimal outcomes include a contractual attitude toward customers and the development of an ethos of inspection within organizations.  Worse yet, Seddon argues that what ISO 9000 standards really just "fit hand-in-glove with mass production or 'command and control thinking'."  His argument asserts that "control of work through specifying and inspecting procedures is a variation on the theme of designing work in functional specialisms, separating decision-making from doing the work and giving managers the job of making decisions on the basis of output or budgetary information."  Seddon argues that quality standards, if applied at all, need to look at an organization as a moving target and intricate system rather than a static model.

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[45] Ibid.

[46] http://www.iso.org/iso/en/iso9000-14000/articles/pdf/casestudy_5-02.pdf

[47] http://www.iso.org/iso/en/iso9000-14000/articles/pdf/viewpoint_4-98.pdf

### IV.   Analysis

#### A.   Commonalities and Differences among Existing Accreditation and Certification Programs

As reflected in the prior discussion, and summarized in Appendix A, the commonalities and differences among the programs studied in this research can be categorized as follows:

- **Target Audience.**  Probably the most significant factor influencing the standards set by a rating organization, as well as the mechanism for evaluation chosen, is the audience that the organization serves.  Programs studied focus on several different audiences:  institutional donors (ForeignAid.com); members of the donating public (BBB Wise Giving Alliance); and the rated organizations themselves (Maryland Nonprofits, TI, Baldrige), and this affects their choice of standards.  So, for example, ForeignAid.com. has developed standards on issues of vital concern to foundations and other institutional donors making grants oversees; it includes standards in areas such as social impact, community involvement, and a screen for funding for terrorism that are of interest to such donors.  The BBB Wise Giving Alliance, by contrast, has focused on those standards with greatest relevance to members of the public, such as fundraising literature and the percent of funds spent on fundraising expenses, and has emphasized simplicity in its approach.  TI focuses on those standards that will help to sustain the values and integrity of member chapters of the TI anti-corruption movement.  Other programs that focus on improving the performance of the rated organizations themselves have tended to include standards focusing on program management and impact, designed to ensure that rated organizations are effective and well-managed.

- **Common Criteria.**  Nonetheless, there are many common standards promoted by the certification or accreditation programs.  Appendix B summarizes the evaluation criteria used by the seven organizations.  As can be seen from the table, many of the programs require adherence to some  similar standards in the areas of financial management, and requires that certain minimum standards be met with respect to an organization's governance (e.g., the organization must have a mission statement, must oversee and evaluate the chief executive, etc.)

- **Certification Mechanism.**  The studied programs include at least five types of certification mechanisms:  (1) self-certification (Interaction); (2) peer review (Maryland Nonprofits); (3) review solely by the rating organization (ForeignAid.com; BBB Wise Giving Alliance) (4) accreditation (Interaction's Child Sponsorship program); and (5) award (Baldrige).

- **Strengths and Weaknesses of Mechanisms.**  Each mechanism has benefits, and poses different challenges to administer.

- *Self-certification* is low cost, easy to administer for both the rated and the ratings organization, and is accessible to a wide range of rated organizations. On the other hand, because adherence to self-certification is almost solely under the control of the rated organization, the effectiveness of this mechanism depends in large part on the seriousness with which the organizations apply the program. Some organizations will be rigorous in evaluating themselves, while others will simply sign and submit their self-certification without significant evaluation.

- *Peer Review* as practiced by Maryland Nonprofits is one of the more rigorous evaluation methods examined in this study. The methodology is characterized by independence of the raters, technical assistance in identifying and correcting organizational weaknesses, and substantial responsibility on the part of rated organizations to produce evidence of compliance with each standard. Because of its cost and the high standard for compliance, it is a model that will be out of reach for many organizations – e.g., those that are new, small, undergoing transition, or otherwise unable to meet the costs and burdens of participating in the program. On the other hand, because of the rigorous standard and difficulty in compliance, the certification, once obtained, is likely to be meaningful to donors, the public, and others relying on the certification.

- With *ratings organization evaluation*, a program functions much like a traditional "charity watchdog" organization. Indeed, the BBB Wise Giving Alliance, the primary example of this methodology included in this study, is the product of a merger between two traditional watchdog organizations, and continues to operate its "Standards for Charity Accountability Program" in the manner of a watchdog agency – it solicits information from the organization and rates it according to the standards, and publishes its conclusion as to whether an organization has met the standards, as well as a report detailing its findings, for public consumption. The National Charity Seal program builds on this system, allowing organizations who meet the standards to display its logo subject to a license agreement.

  ForeignAid.com, the other example of this type of mechanism, conducts its own evaluation, but employs different methods of collecting its information. Whereas the Wise Giving Alliance relies primarily on information supplied by the rated organization in producing its reports (including information supplied by the rated organization to third parties, e.g., form 990 supplied to the IRS), ForeignAid.com relies on evaluations provided by evaluators that it has trained to supplement information provided by the organization itself; these evaluations include information obtained from, e.g., beneficiaries of the organization's services.

- *Accreditation by an accreditation agency, i*n which an audit is performed by an authorized accreditation agency, (such as Interaction's Child Sponsorship Accreditation program) provides perhaps the most significant assurance that an organization meets certain standards of quality in its delivery of services. It is without question one of the most expensive types of mechanisms to implement, both for the rating and the rated organization. Its use is as a result probably best confined to those circumstances in which the protection of clientele is paramount.

- *Award.* The substantial prestige accompanying the Malcolm Baldrige Award demonstrates a key strength of awards programs – their high public visibility draws substantial attention to the program and to the standards it sets. Thus, while the number of organizations that have won the Baldrige award is small, thousands request and attempt to apply its principles, and a number of states and even foreign countries replicate the program. This mechanism, however, is, like accreditation, one of the most costly to implement, and out of reach for many organizations.

- ***Available Resources.*** While the costs attending the various programs are discussed in greater detail below, it should be noted in this discussion that resources dictate a number of decisions about how the programs are designed and implemented. The Baldrige Award, essentially a government program, is funded by Congress with an appropriation of approximately $5 million annually, with supplemental resources for some activities provided by an affiliated foundation, which has unrestricted net assets of over $16 million, according to its last available annual report. Moreover, the substantial fees associated with participation in the program (up to $7150 in fees, plus a $35,000 site visit fee and team travel expenses for business organizations) help fund the program's operations. But most of the programs studied operate under far more limited resource horizons. The BBB Wise Giving Alliance operates on a budget of roughly $1.3 million, and the need to leverage available resources in an environment where funding for nonprofit sector infrastructure support is declining was a significant consideration in the Alliance's determination to utilize technology to create a preliminary screening process in developing its ratings. Maryland Nonprofits required approximately $1 million to develop its program, and while its goal is to move the program towards self-sustainability, it has not yet achieved that status.

- ***Credibility of the Rating Organization***. Several interviewees highlighted the need for a ratings organization to have credibility with the intended audience. Such credibility is often times difficult to acquire for new ratings organizations and may depend on a number of factors, including length of time in existence, affiliation with a well-known, credible institution, clarity of ratings system, and track record in implementing the ratings system.

- ***Dissemination of Ratings Information.*** All of the programs studied for this paper have an internet presence, and make available on their websites information regarding their evaluation criteria and the rated organizations. Because certification systems generally involve the display of a seal, logo, or other designation to inform the public that an organization has been rated, widespread dissemination of information about the rated organizations is fundamental to all programs.

  The amount of information disseminated regarding rated organizations varies, however. The BBB Wise Giving Alliance disseminates not only its standards and the names of rated organizations, but also issues reports on each rated organization that discuss, among other things, whether or not the organization cooperated in providing information, and which of the Alliance's standard have and have not been met. Other organizations provide to the public only information about the identity of the rated organizations and the fact of certification or the rating. (e.g., ForeignAid.com, Maryland Nonprofits).

## B. *Benefits of Accreditation or Certification to Rated Organizations, and attendant costs*

Generally speaking, ratings organizations themselves, and participants in their programs, support the proposition that accreditation and certification benefit participants. Indeed, in an environment where accountability of not-for-profit organizations (and for that matter, businesses) is under increasing scrutiny both in the US and abroad, it is difficult to fault any of the recent efforts of the sector to set standards and to develop more rigorous mechanisms to assure compliance with them, at least insofar as the programs are fairly and capably implemented.

Both the rated and the ratings organizations participating in this study described the benefits of participation in an accreditation or certification program as follows:

- ***Public Trust/Perception of Greater Accountability:*** Interviewees credit accreditation and certification programs as important steps towards bolstering the public's trust in the sector.
- ***Improved governance, management, and operation:*** Interviewees, particularly those involved with programs focusing on improvement of the organizations themselves, also cited benefits in promoting good organizational practices by participating organizations.
- ***Donor Access/Donor Trust:*** While increased funding opportunities were not frequently cited as a principle reason for participating in ratings programs, several organizations acknowledged such opportunities as a potential secondary benefit.

One point that should be kept in mind in considering the benefits of accreditation or certification programs is that there has been limited evaluation of the impact of these programs. While participants in the programs, and the program implementers, all have described benefits that derive from participation, their accounts of the benefits are for the most part anecdotal. ISO 9000, the Malcolm Baldrige award, and the Maryland Nonprofits *Standards for Excellence*, are exceptions. While ISO 9000 has been studied extensively, its benefits have been the subject of substantial debate, with a book devoted to criticizing its utility, and supporters championing its benefits. The Baldrige award recipients have been the subject of a more recent study, which cited benefits to awardees in the feedback they receive as well in marketing and publicity. Maryland Nonprofits has tracked improvements in specific organizational behaviors linked to greater accountability, and demonstrated that on some counts members who are subject to the *Standards* have shown greater improvement than other Maryland organizations.[48]

Moreover, a number of the programs studied here, particularly those dealing with the not-for-profit sector, are small and relatively young, and it is therefore difficult to generalize regarding the benefits of the program based on the experiences of such a limited sample of organizations. With the exception of the ISO 9000 program, which has issued over a half million certificates, the programs have certified or sought self-certification of 5-160 organizations.

Moreover, the small size of many of these programs may limit the degree to which members of the public are aware of the programs and the resources they make available.

Interviewees focused on the financial costs involved in participating in ratings programs, as well as the time and effort expended in preparing applications and related documentation, and in bringing operations into compliance with the programs' standards. Costs to participants in such programs vary, but may include:[49]

- *Application/participation fees*
- *Membership fees*
- *Staff time and other resources to prepare application*
- *Staff time and other resources need to bring organization into compliance with standards*
- *Monitoring and evaluation costs*
- *Site visit costs*
- *Audit costs*
- *Costs associated with promoting program*

C. *Feasibility of donor support for a common accreditation or certification process, and the role that donors should play in the development of such systems: considerations and recommendations.*

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[48] Note that this study did not address the certification aspect of the program – the survey focused on differences between Maryland Nonprofits members subject to the eight guiding principles of the *Standards* and nonmember organizations.

[49] These are summarized in Appendix B.

- *Preliminary Considerations*

One lesson that emerges from the experiences, cited in Section II.b.4, of the Sphere Project and HAP International is that it is possible to unite donors and international organizations around common accountability objectives. On the other hand, another factor to consider in evaluating common donor interest, at least in the United States, is overall donor support for the infrastructure of the nonprofit sector. Several persons interviewed for this report noted the decline in infrastructure funding, and its effects on support for programs meant to improve accountability, such as watchdog and certification programs. This decline was attributed by interviewees to shrinking foundation endowments, and the closing of several key foundation infrastructure programs. Such a funding environment, despite current public interest in accountability issues, poses a challenge for the backing of a common accreditation or certification program.

Moreover, institutional donors have their own standards for evaluating both the eligibility of grantees for funding and their performance in carrying out projects. These standards generally address project management, financial management, as well as other criteria relevant to the funder. Any common accreditation or certification mechanism would need to be fashioned in such a manner as to complement or at least not conflict with other donor standards.

It is further important to consider which donors might be involved. If the donors are for the most part large US institutional donors, they might, for example, be willing to support common standards that would assist, for example, in addressing appropriate due diligence for complying with terrorist financing guidelines (much as ForeignAid.com has done.) Moreover, they may be willing to support common standards developed by one or more existing US programs. On the other hand, if the donors are government international aid agencies and multilateral donors, the common interests and objectives to be pursued could be quite a bit different.

A final consideration is who should convene the discussion. There is no question that many government, multilateral, and institutional donors will have significant convening power because of their expansive networks among a wide range of partners. On the other hand, the experience of the programs discussed in this report reflects successful standard development and institution of compliance mechanism through self-regulation. Many of the programs discussed here initiated thoughtful and wide-ranging discussions among a wide range of stakeholders in developing their programs. The participatory and consultative nature of the process was reportedly in and of itself valuable in building consensus around common goals. Indeed, a number of persons interviewed for this report, while acknowledging the potential benefits of a common certification mechanism, stressed the importance of ensuring that any certification mechanism affecting not-for-profit organizations remain self-regulatory. For this reason, it may be worthwhile to consider working with self-regulatory groups as conveners of the discussion, and drawing

in donor support through their networks, in convening a discussion on common certification mechanism. [50]

The research conducted for this study suggests that the following are key factors that should be considered with respect to a common certification mechanism:

- *Objective/Audience Served*

As discussed, probably the most significant consideration influencing the standards set by a rating organization, as well as the mechanism for evaluation chosen, is the audience that the organization serves and its objective in setting standards.   A program aimed at certifying US PVOs might have substantially different standards, and be implemented differently, than one aimed at building the capacity of foreign local partner institutions.

- *Mandatory vs. Voluntary Participation*

A related question is whether, if a common certification or accreditation mechanism is adopted by a coalition of donors, should participation be mandatory or voluntary for organizations seeking grants or other funding?  One of the difficulties with mandatory certification is highlighted by the experience of PCNC in the Philippines.  Access to important tax benefits for NGOs depends on an NGO's achieving certification from PCNC.  But questions have been raised regarding the ability of PCNC to scale up its program quickly enough.  This illustrates the importance of identifying a ratings organization that can accommodate the increase in demand for certification if that becomes a requirement for receipt of funding.

Similarly, any mandatory certification requirement may have to be phased in gradually to accommodate the fact that many organizations, particularly small ones, may not immediately have the capacity to comply with new standards.  Education and technical assistance may be needed to help organizations bring themselves into compliance.

Finally, if a certification requirement is to be mandatory, it is essential that the criteria for certification be objective and clear.  This is important in any certification program, but is particularly critical where benefits can be granted or denied based on the certification.

Alternatively, certification or accreditation could be seen as a "plus" factor – while not required in order to obtain funding, it could be treated as enhancing a grant application, perhaps by affording additional "points" for organizations that have obtained a certification or accreditation.

- *Replicability of Existing Models/Scale*

Another point made by persons interviewed for this study was that a number of the models already in existence could be replicated or adopted in whole or in part if a

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[50] In this regard it may be worthwhile to consider the experience of PACT and the Impact Alliance, which are currently working to engage partners in a Quality Assurance Self-Accreditation Program.

common donor certification system were to be put in place. In general, interviewees expressed satisfaction with one or more of the programs in existence, and felt that there was little need to "reinvent the wheel."

Moreover, several of the organizations studied are replicating or expanding their certification programs, providing models for replication efforts:

- Maryland Nonprofits has launched an effort to replicate its highly publicized certification program in additional states, and has developed a model and materials to advance the replication effort.
- Interaction has piloted a "self-certification plus" model in which members continue to self-certify, but must compile and have available the evidence, as well as an accreditation model for child sponsorship agencies.
- The Baldrige Award program has been replicated by the state awards programs and in foreign countries as well. The program has not formally attempted to develop a framework for replication, but its materials are in the public domain, such that others can access them for replication efforts.

A related question is that of scale. Most of the programs studied are, as discussed above, quite small. Sudden demand for one or more of them to certify a large number of organizations on account of funder interest could stress their existing capacities. Any replication effort would therefore need to include a plan, time frame, and resources for scaling up.

With respect to replication of individual standards, as discussed above, the accreditation and certification programs studied rely on many common standards, which could as a result be easily replicated or adopted. There is little disagreement, for example, that a well-governed organization should have a board, that the board should conduct regular meetings according to established procedures that should be documented, and that the board should have certain responsibilities, including the selection and evaluation of the chief executive officer. All agree that organizations should maintain a conflict of interest policy. And all standards studied contain minimum procedures regarding financial management of organizations. For further detail, see Appendix B.

- ***Program Selection***

There are two ways in which to fashion agreement among donors to support one or more groups of standards:

- Donors support any certification (or a select group) of the participants' choice
- Donors come together to support a particular model, either

- an existing model, or
- a new model

Of the two, the first is obviously simpler and does not require that donors reach consensus as to a particular model. In addition, this choice is not as likely to stress the capacities of any particular certification program.

The second path would require either selection, or development of a particular model. The model selected will necessarily depend on the purpose for which certification is to be used, and some of the programs studied here might be more appropriate as models than others, depending on the purpose. For example, if USAID is considering agreement with institutional donors on standards that improve the capacity of grantees, programs that have standards in the area of governance, program management and operations, might be the most appropriate models.

### • *Capacity/Access of Grantees*

One issue that should be considered carefully is who are the rated organizations, and will they have the capacity to take advantage of the certification mechanism, and equitable access to it? As one interviewee noted, even small community organizations in the United States sometimes have difficulty complying with the more rigorous of the programs studied here. If participation in a program was considered a requirement for funding for local NGOs in countries receiving development aid, the ability of those organizations to meet the standards necessary for certification would have to be considered. It is highly unlikely in many countries that a significant number of NGOs would meet standards such as those of Maryland Nonprofits, Interaction, the Wise Giving Alliance, or the Baldrige awards, prior to significant investment in their organizational development. As a result, these types of programs are probably not appropriate to pre-qualify small foreign organizations to participate in a grant program. They may, however, serve as appropriate measures of the development of an organization's capacity as a result of having received assistance.

While this problem is likely not as acute for US PVOs, it will still be important to consider whether standards are appropriately tailored to ensure that organizations applying for funding have equitable access to the funding mechanism. If standards devised are too difficult to meet, or the expense of application for certification and organizational compliance is high, then smaller or newer organizations could be disqualified from funding, despite their potential or use of innovative development programs. It is worthwhile to note in this context that many of the ratings programs studied acknowledged that their programs were not necessarily meant for all organizations.

This discussion highlights the need, for any certification program chosen, to ensure that appropriate technical assistance and educational materials are put in place to help organizations meet any standards that they are asked to meet. Several of the programs

studied here provide examples of how such assistance efforts might be constructed (see, e.g. discussion of Maryland Nonprofits).