



Helping hands Earthquake relief lends focus to corporate responsibility

By Pete Sweeney

It sounds horrible to say, but in some ways the week after the earthquake was the easiest for the uninjured survivors to deal with. Everything was simple: medicine, food, shelter. The foreign community rallied alongside the Chinese to give money, pack supply kits, join rescue teams. Did we have to sleep outside? Was the office closed for days? Fine, we were among friends and we had work to do. The work was not easy but the problem to be solved was clear, as was the way to solve it.

As the days pass, however, the euphoria of volunteerism and sacrifice slowly ebbed and has been replaced by... what? The other day the Chengdu government sent me a text message warning of charlatans seeking to take advantage of earthquake sympathy to fraudulently solicit funds. The logistical infrastructure is overwhelmed with short-term supplies. One Chinese volunteer who came up from Kunming last week discovered that the main Chengdu government aid agencies were uninterested in the donations she had brought: they were too small-scale and besides, her medicine receipts were not in order. "I don't understand," the volunteer said. "I hear all these people in Sichuan appealing for help. I come up here and nobody wants it. If you don't want this stuff, why do you ask for it? I just think it's really weird." Then she burst into tears.

The local business community is similarly afflicted. Confused and exhausted by the unending appeals for aid from a multitude of just-sprung-to-life aid organizations, how are they to respond? Who is legitimate and who is not? Who is competent to help and who simply means well? For businesses, aid agencies, and government organs, managing and directing the outpouring of generosity has become akin to drinking from a fire hose.

The risk, of course, is wasted effort, duplicated effort, and finally, burnout. Once the short term needs are met, how much attention will

be paid to the more complicated longer term problems that the earthquake highlighted, such as poorly constructed housing and schools, insufficient logistical infrastructure, and economic development. Pan Yue, Vice Minister of Environmental Protection, argued that reconstruction in the disaster-hit areas should not simply mean "restoring what the quake razed." It is one thing to write a cheque for medicine, but quite another to manage longer-term projects that demonstrably upgrade the living standards of an entire community, alleviating the effects of this earthquake and mitigating the effects of the next one.

As the recent protests against Carrefour illustrate, corporate image has business implications, and that goes for charity too. Recently there has been a spate of complaints on several Chinese language internet sites complaining of the "miserly" response of foreign companies to the disaster, accompanied, in some cases, by boycotts. While the central government recently took steps to highlight the contributions of foreign firms and NGOs in the media, clearly it is in the moral and business interest of foreign firms located here to commit to sustainable corporate responsibility, but this is far easier said than done. How can foreign businesses located in southwest China best help the Sichuan community address its development challenges? How can we make sure our efforts and donations are used effectively? How can we negotiate the particularities of the Chinese aid infrastructure, composed of different government agencies and different local levels of controls? Finally, what is the appropriate way to make sure these efforts are understood and appreciated by the local community?

Working with the local NGOs

If there is an epicentre to the foreign community's

earthquake aid efforts, it is unquestionably at the Bookworm café, and sitting at the epicentre of the Bookworm is its owner, Peter Goff, an even-mannered Irishman surrounded by laptops, cell phones, donated materials, and babbling volunteers. In the midst of a storm of loosely-coordinated generosity, Mr. Goff radiates calm. We begin by talking about the current state of foreign aid to earthquake victims. On the one hand, he agrees, to a certain extent, with the Chinese critics. "From here the level of foreign aid does seem miserly," he says, "but if there was an earthquake in Botswana or Chile would the international community react any differently? I think the Chinese are just particularly sensitive." At the same time, he is quick to point out that responses from local firms have been quick and generous. "The organizations we've been in contact with have been supportive almost immediately." He also praises the efforts of Chinese firms, noting that a construction company from Wuhan was already operating food lines in Sichuan within 18 hours of the first shock. "Firms are reorienting their production schedules to produce needed items," he says. "The Chinese are going in big-time."

British firms have also stepped forward. Donations made by 14 firms confirmed by the British Chamber of Commerce already number in the millions, and include the provision of needed supplies such as water filtration systems, pharmaceuticals, and excavators. Other foreign firms such as IKEA, Carrefour, and DHL have also been strong contributors both in cash and (in DHL's case) logistical services. IBM is currently developing an information service to help connect survivors with aid.

At present Mr. Goff is developing a longer-term project; to serve as a coordinating service and information clearing-house for those who want to continue to help Sichuan resolve both its short term relief needs and longer term structural needs.

The newly created Sichuan Quake Relief (SQR) organization (www.sichuan-quake-relief.org) is, like so many foreign NGOs, unofficial, but it already has posted a list of local NGOs engaged in earthquake relief in order to help donors connect with locally-based relief efforts. Originally, says Mr. Goff, most foreign companies donated directly to large NGOs such as the Red Cross. "Now they are considering donating money more directly," he says, "trying to identify particular projects." This approach is not without its advantages. For one thing, while the established western NGO behemoths are adept at raising money, many of them have a negligible presence in Sichuan. They also have higher overhead, and are occasionally distracted by other projects.

"I think the best way to help is to work at a very local level," argues Mr. Goff. "Find a small geographical area you can support. At the small scale, you get 100% transparency and results, and zero administrative costs." At the same time, he cautions against "knee jerk" reactions, however well-intended. "A report came out saying there are 4000 orphans, a construction company jumps up and says they're going to adopt them all." One imagines them toddling around the office in hard hats.

However, SQR does not, at present, screen or otherwise qualify NGOs. "These are people who say they are active and are going to do things," notes Mr. Goff, "but we can't verify all this information." He points out that some of these NGOs are not, in fact, located in Chengdu at present. Therefore the onus remains on the donor to decide which NGOs are reliable enough to effectively use donated funds.

And herein lies the rub. Anyone familiar with the 2004 tsunami relief efforts has heard of the massive waste and counterproductive efforts of many of the NGOs who arrived to help. Thanks to what could only be termed a cash-drunk relief invasion, some stricken regions actually experienced real estate property bubbles that prevented survivors from moving back into their homes, which could be leased more profitably to well-heeled relief organizations. Granted China is different; the government exerts tight control over foreign NGO operations and has, to date, restricted access to the stricken areas in Sichuan and controlled price inflation through fiat.

However, the other issue is the famous NGO incentive problem. On paper, the goal of all charitable organizations is to drive themselves out of business; to end problems such as poverty, injustice, lack of education, and then to go home. In reality, of course, charities are run by humans who do not want to put themselves out of work. In addition, unlike a for-profit business, an NGO does not go out of business if its clients do not appreciate its services; it goes out of business if its donors stop giving it money. Therefore an NGO's real "customers" are its donors. They must decide for themselves whether a given relief organization is able to use donated funds to actually improve the lives of those they

propose to help. For example, a double-blind study of USAID programs conducted by MIT showed that USAID recipients in developing countries were, on average, either no better off, or worse off, than those who had received no help at all. This puts a great amount of responsibility on donors to require transparency, accountability, and results; more, in fact, than many are willing to accept.

This does not mean that businesses should refuse to donate to charitable agencies. As a rule such agencies have the experience and the contacts to get things done, where many private firms have no practical ability to execute relief projects of any kind. For example, Eton House, a private education company based in Singapore which recently launched a new school in Chengdu is delivering supplies and educational services to children in the affected regions. "Our biggest challenge," says Sarah Moore, Head Teacher of Eton House International School in Chengdu, "is that for me personally, I have no connections up there, so we are using NGOs to get us up there."

Cash Assistance from British Companies

- BP - 1.5 Million USD
- HSBC - 10 Million RMB
- Standard Chartered Bank - 21 Million RMB
- Anglo American - 10 Million RMB
- B&Q - 1 Million RMB
- Diageo - 12 Million RMB

Supply Donations by British Companies

- B&Q - building materials, towels and quilts
- JCB - 6 excavators
- Jaguar LandRover - Lent 24 Land Rover vehicles to rescue teams

BCCSWC Member Efforts

- Bookworm started NGO, Sichuan Quake Relief
- CBRE is working with Operation Blessing, in the Anxian and Mianyang counties.
- Chengdu Sigma Precision Components staff have been assisting with supply runs, and English education.
- All Tech Medical Systems staff have participated in supply runs.

Some facts and figures from UKTI Beijing.

Obviously we'll help in terms of taking teachers or any resources we can. We're happy to help as long as people let us know how to help."

However, legal issues must be considered; it is not legal for unregistered foreign NGOs to solicit funds in China. Intel, for example, wanted to donate to Sichuan Quake Relief but was forced to back out when they discovered the organization is not officially authorized to collect donations in China. One ingenious solution is the Virtual Foundation project (www.virtualfoundation.org) run by Ecologia, a local charity working on micro-finance and sustainable development in Sichuan. Donors can make smaller-scale donations through the company's US website (and take a tax deduction there, if applicable). The funds then "trickle down" into the organization's Chinese operations. At present the organization is developing two projects. One delivers school supplies and entertainment to children in the affected areas, who have been without school or school supplies for nearly a month now. The other is developing a lending strategy to rebuild (or retrofit) housing in the stricken areas using more energy-efficient technology and safer designs.

Do-it-yourself

On the other hand, there are companies that have both the time and the competence to deliver aid directly without the assistance of local charities. Richard Jones of the Evolution Group has been in China for ten years. He is heading up efforts to direct the firm's donations towards tangible long-term improvements, which he strongly believes in. "We can all put our hands in our pockets and get some instant gratification," he says, "But we're going to be in China for a long time, for the next ten years at least." The Evolution Group has decided, like other companies, that school reconstruction is just such a project. "We can all build hospitals but obviously education is more important," Mr. Jones says. "If we can build this right, hopefully this sort of thing won't happen again."

Mr. Jones' approach is two-pronged. The Evolution Group does plan to donate to local charities like Roots & Shoots (Chengdu's only officially registered foreign non-profit) and Project Hope. At the same time, he plans to use a connection with an existing design company, M Moser, to design, deliver, and build a school in Sichuan. However, he faces the same obstacle that prevented these small towns from building quality schools in the first place. "I have to go with people I trust," he says. "If we're going to give 50,000 pounds, we've got to make sure this is worthwhile. I'd rather spend the money on something worthwhile, something that's not going to kill 700 kids."

It is news to no one that blame for many of the school and hospital collapses could reasonably be assigned to shoddy construction, and by extension to the local governments that oversaw same. In one township we visited, irate residents complained that the municipal government had rejected assistance from the

Chinese government. "We can help ourselves," municipal representatives told Wen Jiabao when he visited. In fact, the city sustained a high level of damage to its schools, hospitals, and other buildings. The hospital was so damaged it had to be dynamited. The portions of the schools housing students collapsed, taking hundreds of children with them, while the administrative portions remained upright. According to three irate schoolgirls who took us on a tour of the school buildings, the local government had misappropriated construction funds allocated by the central government for their own purposes and built substandard structures with what remained. Their apparently brave self-reliance was, in fact, an attempt to avoid an audit, according to the residents.

While it is impossible to confirm the veracity of such claims, higher levels of the Chinese government are cognizant of these concerns, and have made efforts not to let a few bad apples spoil the relief pie. The China Daily published an editorial on the subject, and there have already been a few high-profile prosecutions. Nevertheless, firms and individuals are rationally concerned that corruption and/or cultural barriers will limit or misdirect their charitable efforts once media attention moves on. "Letting corrupt officials build your schools is a bad idea," says Mr. Jones. Nevertheless, he plans to press ahead. "We have to go through the local government," he admits, "but they're in such dire straits, we hope they won't insist they have to control everything. I'm hoping that we can go there, that we can get the permissions, that the government just says yes, you can do it. They seem to be open to accepting aid, money-wise. Are they going to be open to accepting technical assistance? I don't know."

Charity with Chinese characteristics

To be fair, the Chinese themselves have little experience with this sort of relief effort and with the political economy of NGOs, particularly foreign ones. Nevertheless, they face a problem doing it themselves. China needs to rebuild Western Sichuan quickly to ameliorate the

ongoing economic haemorrhage in the region, to obviate the risk of plague, and to get people into permanent shelter before next winter. While there is rhetorical support, at least, for building better this time around, how that will be implemented is another question, because it will unquestionably be more expensive. According to one estimate, China needs USD 100 billion to rebuild Sichuan, but it is unclear whether this estimate accounts for the higher costs of, for example, more sustainable materials and more energy-efficient designs.

Therefore the Chengdu Ministry of Commerce is eager to cooperate with foreign donors. "Accusations of miserliness or stinginess have no connection with the facts," says Chen De Ming, who heads the Ministry of Commerce at the national level. He points out that foreigners have already donated 1.7 billion RMB in cash plus 200 million RMB in goods, and have promised even more in the future. "This is not a small sum."

He also took pains to note the efforts of foreign firms and individuals to engage in longer-term projects. "Foreign firms and multinationals are going a step further in concerning themselves with disaster relief, but how to connect with the relevant structures and mechanisms to help contribute to rebuilding efforts?" He notes that donations to registered charities are tax deductible and the corporate and individual levels; charitable contributions to NGOs or government organizations (at the county level or higher) can be deducted up to 12% of taxable profit, and individuals can deduct up to 30% of income, all pre-tax. In addition, those who wish to rebuild schools can take advantage of a fund matching mechanism from the local education bureaus which was in place before the earthquake.

However, it remains to be seen how technical assistance and projects in which companies wish to retain a higher level of control will be handled. One Ministry of Commerce employee noted that firms are free to approach school districts and

municipalities directly with project proposals; whether such projects will yield tax deductions will depend on how they are structured. While local lawyers also lack experience with this sort of thing, it would be wise to seek legal advice when engaging with local governments. Chen Lu, of the Sichuan Yuanmuo Law Firm in Chengdu, has done research on the government aid structure. "In principle," she says, "donors can oversee entire reconstruction processes," but would need to contract with the local government

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to that effect.

Matt Vegh has, perhaps, the best process template. He and his partner Lin Tao have created a group called Project Sunrise, which serves as a connection service between corporate donors and stricken schools in Deyang County. "All I am is a way to contact the right people, it's not a big heroic thing or anything like that," he says. Mr. Vegh has been teaching in Deyang county for the last eight years; even better, he has a construction background and knows local engineers (Vegh can be contacted at mattvegh@hotmail.com). He also knows how to get around most of the problems mentioned above through his experience with the Hope Project, a Chinese NGO that has built schools in Sichuan in the past. He believes the hands-on approach is best. "The Hope schools that survived the earthquake were funded by a company in Chengdu," Mr. Vegh says. "The vice president of the donor company went to the site every day, personally oversaw the construction and argued with the contractors. 'Put in more rebar!' - that sort of thing. You gotta have a contractor or an engineer, somebody trustworthy who can go out there personally." Nevertheless, Mr. Vegh does believe corruption will be less of a problem this time. "The Deyang education bureau says they know they have to have a lot of transparency, and I believe them. I think this time they know they can't take that chance. A few heads have already rolled, and there's going to be more, from what I understand."

In summary, firms who want to help should prepare themselves psychologically for the long haul. Giving cash may seem easiest, but deciding who to give it to, and making sure it's put to good use once given, requires more due diligence than many might expect. Doing it yourself, or working in a multifaceted partnership with NGOs and localities is probably the best model. Either way, British firms face an opportunity here to improve the lives of the people of Sichuan, to deepen their connections with local governments, and at the same time to improve their own corporate image and their business prospects. It would be foolish to waste it.



Eton House International School's Head Teacher Sarah Moore, right, organized a Children's Day outing with SQR. The school's investors donated thousands of RMB in order to provide 1,400 children in Lou Shui with toys.