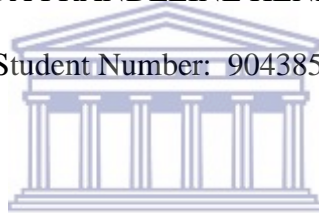# GOVERNANCE AND FINANCIAL SUSTAINABILITY OF NGOS IN SOUTH AFRICA

By

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THESIS SUBMITTED IN FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE DOCTOR OF PHILOSOPHY IN THE FACULTY OF ECONOMIC AND MANAGEMENT SCIENCES, SCHOOL OF GOVERNMENT, UNIVERSITY OF THE WESTERN CAPE

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ABSTRACT

This study focused on governance and financial sustainability of NGOs in South Africa. The primary objective of the study was to evaluate existing governance and financial arrangements of NGOs, CBOs and CSOs with the view to developing alternative approaches to governance and financial arrangements with specific reference to lessons of experiences for South African NGOs.

The secondary objectives of the study were to firstly develop a historical perspective on trends and tendencies of NGO funding in South Africa. A second objective was to provide a theoretical overview of the financial management and governance arrangements of NGOs. The study thirdly examined options for funding arrangements for NGOs in South Africa. Research findings forwarded were used to develop a set of conclusions and recommendations for the improved funding and governance of NGOs in South Africa in general. The research objectives were directly linked to the composition of the chapters.

The study largely employed qualitative evaluation as this research tool allows for interpretative research. A comparative case assessment of selected NGOs was provided. Case studies included the Centre for the Study of Higher Education (University of the Western Cape), Oxfam International Great Britain and the Sustainability Institute on the outskirts of Stellenbosch. Following the findings of the case assessments, a practical appraisal framework for the sustainability of South African NGOs was forwarded.

One of the study's research findings suggests that the long-term sustainability of the non-profit sector is linked to the legislative framework of the country in which the NGO operates. In South Africa, the Non-Profit Organisations Act (Act 71 of 1997), lays out in great detail a framework for the creation and operation of civil society organisations. Literature reveals that local and international funding organisations increasingly demand that funding recipients be registered as non-profit organisations as evidence of compliance with the basic criteria of authenticity as bona fide organisations.

The study recommends for example that NGO self-financing strategists/specialists, within the confines of South Africa's legal and tax legislation, train NGOs, CBOs, CSOs and NPOs in the area of self-financing initiatives to enable and assist these organisations with the generation of a sustained income. A further recommendation is that the proposed appraisal framework for the sustainability of NGOs in conjunction with the recommendations mentioned be considered as a framework for use by relevant authorities and interested parties. This may include the South African Revenue Service (SARS), Master of the High Court, the Minister of Social Development, the Registrar of Companies in terms of Section 21 companies, the NGO/CBO/CSO sector, government, donors, private social responsibility funders, the National Development Agency (NDA) and development banks. The framework should be regarded as imperative for improved governance and financial sustainability of NGOs in South Africa. Areas for future research such as the role of the National Development Agency in post-apartheid South Africa were also highlighted.

The study was undertaken in support of research in the area of governance and financial sustainability of NGOs in South Africa and, if effect is given to the recommendations it forwards, and the appraisal framework it devised, then the structuring, functioning and overall management and governance of NGOs will improve in the interest of the country in general and communities specifically.

DECLARATION

I declare that this thesis is my own work. It is being submitted for the degree of Doctor of Philosophy, Faculty of Economic and Management Sciences, School of Government, University of the Western Cape.

I further testify that it has not been submitted for any other degree or at any other university or institution of higher learning.

Signed: …………………………………………….

September 2008

ACKNOWLEDGEMENTS

DEDICATION

To my late husband Alfred Martin Hendrickse. I am extremely sad that you are not around to share this wonderful achievement with me. Your constant love and support have made my wildest dream, this doctorate a reality. I will always love you. You are my guardian angel. Wherever you are, I know you are proud of me.

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ACRONYMS AND ABBREVIATIONS

ANC	African National Congress
ACCORD	African Centre for Constructive Resolution of Disputes
AIDS	Acquired Immune Deficiency Syndrome
BODA	British Overseas Development Agency
BOE	Bank of England
CBO	Community-based Organisation
CEO	Chief Executive Officer
CHE	Council on Higher Education
CHET	Committee for Higher Education and Training
CIDA	Canadian International Development Agency
CIVICUS	World alliance for citizen participation
CMT	Corporate Management Team
CORE	Cooperative for Research and Education
CSHE	Centre for the Study of Higher Education
CSI	Corporate Social Investment
CSO	Civil Society Organisation
DANIDA	Danish International Development Fund
DFID	Department for International Development
EC	European Commission
ECOSOC	United Nations Economic and Social Council
EPU	Education Policy Unit
EU	European Union
FAO	Food and Agriculture Organisation of the United Nations
GB	Great Britain
GDP	Gross Domestic Product
GEAR	Growth Employment and Redistribution
GETT	Gender Equity Task Team
GTZ	German Technical Cooperation
HIV	Human Immunodeficiency Virus
HQ	Headquarters
HR	Human Resources

IDASA	Institute for Democracy in South Africa
IDC	Industrial Development Corporation
IDT	Independent Development Trust
IFC	International Finance Corporation
IMF	International Monetary Fund
Investec	International specialist banking group
IS	Information Systems
IT	Information Technology
JET	Joint Education Trust
JSE	Johannesburg Stock Exchange
NCFE	National Committee on Further Education
NCHE	National Commission on Higher Education
NDA	National Development Agency
NECC	National Education Co-ordinating Committee
NEPI	National Education Policy Investigation
NESsT	Nonprofit Enterprise and Self-Sustainability Team
NGO	Non-governmental Organisation
NLDTF	National Lottery Distribution Trust Fund
Norad	Norwegian Aid Agency
NPO	Non-profit Organisation
ODA	Overseas Development Aid
OECD	Organisation for Economic Co-operation and Development
Oxfam	Oxford Committee for Famine Relief
PBO	Public based organisation
RDP	Reconstruction and Development Programme
RESA	Research in Education in South Africa
RETPESA	Research and Training Project on Education in South Africa
SANGOCO	South African National Non-governmental Coalition
SARS	South African Revenue Services
SAUVCA	South African Universities Vice-Chancellors Association
SCAT	Social Change Assistance Trust
SETA	Sector Education Training Authority
SIDA	Swedish International Development Agency

TAC	Treatment Action Campaign
TNDT	Transitional National Development Trust
TRAC	Rural Action Committee
UK	United Kingdom
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
UWC	University of the Western Cape
VAT	Value added tax
WHO	World Health Organisation

CHAPTER ONE

INTRODUCTION AND BACKGROUND TO THE STUDY

1.1   INTRODUCTION AND BACKGROUND

A Government of National Unity elected by South Africans under the leadership of the African National Congress came into power in 1994 (Dangor, 1995). As a consequence, the 1990s saw new priorities being placed on the state's development agenda, especially those driven by the needs of the Reconstruction and Development Programme (RDP). The government was now required to take up the space that non-governmental organisations (NGOs) occupied in communities previously denied resources by an oppressive government (Harding, 1994). The role and identity of NGOs became a critical issue beyond 1994 where NGOs were required to position themselves at the cutting edge of developmental thinking and practice in their field if they were to stay active (Hollowes, 1999). Former comrades-in-arms, having moved from positions in the NGO sector into government, were questioning the role of NGOs and were requesting them to redefine themselves (Financial Mail, 1994). In addition to this state of uncertainty, foreign governments and international donors were increasingly channelling funding through the state, further weakening the position of South African NGOs (Hollowes, 1999; Pereira, 1999).

This study traced governance and the financial sustainability of South African non-governmental organisations (NGOs) for the period 1990 to 2002 with the intention of developing improved options for the future regarding the sustainability of the NGO sector in South Africa, especially with regard to financial management and governance. This chapter will provide a conceptual clarification of key terms, and thereafter, the problem statement will be discussed, followed by the research objectives and literature review.

1.2 CONCEPTUAL CLARIFICATION

The terms non-governmental organisations (NGOs), community-based organisations (CBOs) and civil society organisations (CSOs) will be used throughout this study. When reference is made to "NGO", "CBO" or "CSO" the following definitions are implied:

NGOs are understood to be formal, legally constituted, professional development organisations, which are linked into the international aid system. In the South African context, the focus is on what, pre-1994, might have been called "anti-apartheid" or "anti-governmental" organisations, which provided research, policy, advocacy and various developmental or welfare services intended to support the struggle against apartheid and assist the victims thereof (Smith, 2001b). During the last ten years, many of these NGOs played a role in development efforts. Examples include some of the more traditional names in international NGO development such as: Oxfam, Save the Children, World Vision, Christian Aid, HelpAge International and Habitat for Humanity as well as local institutions such as The Built Environment and Support Group, the Centre for the Study of Higher Education (formerly the Education Policy Unit) and People Opposing Women Abuse (Smith & Bornstein, 2001; Smith, 2001a; Vetten & Khan, 2002).

Community-based organisations (CBOs) are non-profit, grassroots organisations that have their base in particular communities and which are often formed to carry out specific developmental projects or fulfil particular needs (Amner & Vergnani, 1995). They are formalised representative structures which champion the interest of their members (Smith, 2001b). Staffed largely by volunteers, they are accountable to a particular community or constituency (Amner & Vergnani, 1995). Unlike CBOs, contends Smith (2001b), NGOs are not membership-based, but instead perform functions intended to benefit a wider group of people in society. Examples of these more formal community-based organisations, which have a distinct leadership and membership, are: the Treatment Action Campaign, the Soweto Electricity Crisis Committee, the Concerned Citizens Group, the Salvation Army, the South African Red Cross Society and the St John Ambulance Foundation (Habib, 2003; Kihato & Rapoo, 1999).

Civil society organisations (CSOs) are varied and perform a myriad of roles in society. The traditional definition of civil society, according to Govender (n.d.), is that it comprises all organisations and institutions upwards of the family, up to the state (national, provincial and local government). Where CSOs have a virtually unlimited range of associational purposes, NGOs may be thought of as CSOs created to change society in ways which reduce poverty and injustice and improve quality of living (Andersson, 1995). Civil society organisations will range from the South African National Civics Organisation (SANCO) to a football club or a stokvel (Govender, n.d.; Smith 2001a).

1.3   STATEMENT OF THE PROBLEM

During the time when apartheid ideology prevailed in South Africa, it was imperative to have a strong and vibrant civil society as a counter to the white government. As the state at the time abdicated its service delivery responsibility towards a large sector of the population, civil society organisations created alternative structures of powers such as street committees, people's courts and, above all, service delivery mechanisms (Motala & Husy, 2001). A peculiar type of civil society thus existed (Reitzes & Friedman, 2001). Most NGOs, particularly anti-apartheid organisations, had definite direction and purpose, and access to funds for carrying out their objectives were easily accessible (Kihato, 2001). Aid within South Africa, flowed freely to NGOs and CBOs, specifically those conducting grassroots development projects. Sweden, for example, contributed approximately US$400 million between 1970 and 1993 towards the anti-apartheid cause. Countries such as the United Kingdom, the United States, Canada, Germany, Denmark, Norway and the European Commission actively promoted civil society as a popular alternative to the state, and responded with creative aid programmes that featured flexibility and consultation rather than red tape. As recipients of funds could not fully document where funds had been spent, 'struggle' (struggle in this context refers to the struggle against apartheid where limited control measures for accounting and spending were required) accounting systems were permissible (Bratton & Landsberg, 1999). 'Local actors' were allowed to identify recipients of international donor aid, thus employing a bottom-up approach to funding (Rammutle, 2003).

Beyond 1994, there were dramatic changes to foreign aid policies (Rammutle, 2003). International governmental donors, hold Reitzes and Friedman (2001), accorded priority to the South African government and expected civil society organisations to work in tandem with the state. The government was regarded as the conduit for the disbursement of donor funds (Rammutle, 2003; Smith, 2001a).

In 1995, reports on a survey by the Independent Development Trust appeared in the media, signaling that many CSOs were in serious financial difficulty, and that a number had collapsed (Kihato & Rapoo, 1999; Amner & Vergnani, 1995). As a consequence, in 1996, the South African government established the Transitional National Development Agency. Its mandate was to receive applications from and disburse government and donor funding to CSOs throughout the country (Kihato & Rapoo, 1999). This institution proved to be ineffective and major backlogs in the disbursements of funds to NGOs was observed (Rammutle, 2003). The National Development Agency (NDA) and the Lottery Commission were subsequently established with a mandate to fund legitimate non-profit activity (Habib, 2005). Gardner and Macanda (2003) contend that the NDA did not learn any lessons from its predecessor, the Transitional National Development Agency, as it too was struggling to conceptualise its functions. The authors maintain that the NDA's location in relation to government and civil society was not clearly defined, as its operational endeavours threatened the financial sustainability of many civil society organisations (CSOs).

Kraak (2001) maintains that whilst the NGO sector has a vital role to play in representing and servicing the poor and marginalised, in shaping public policy and as watchdog for democracy, negative trends in the sector persist years after the first democratic elections. He attributes the problems to:

- the paucity of research on the NGO sector, which negatively impacts on effective policy formulation for the sector;
- the problem of the longer term sustainability of the sector (including the perennial issue of reduced donor funding and the absence of effective strategies to counter this trend);

- the difficult legislative and fiscal context in which the sector operates;
- an apparent deteriorating relationship with the government. The Treatment Action Campaign (TAC), a community-based organisation for example, constantly engages the state and other social actors around the implementation of neo-liberal social policies (Habib, 2005).
- problems within SANGCOCO in providing national leadership and direction for the sector and its alleged neglect of the provinces; and
- poor leadership and the lack of organisational capacity in many organisations.

Poor leadership, which presented a challenge, as alluded to by Kraak (2001) in the above text, can be ascribed to the advent of a democratic and legitimate state which freed those who were unwilling to be associated with the apartheid state, to now work for the new state. NGO, CBO and trade union human resource capacity became depleted. A new generation of leadership struggled to build its expertise (Andersson, 1995).

Since 1997, the Cooperative for Research and Education (CORE) annually conducted a survey of NGO governance in South Africa to probe issues such as an NGO's constitution, codes of conduct, employment practices, management and leadership. Results of a composite survey (survey period: 1997 to 2001) published in 2002 revealed that democratic governance of NGOs was not widespread. The survey concluded that NGO board members in many instances lacked management, legal, fundraising and technical skills commensurate with the work of the organisation (Camay and Gordon, 2004). These skills, the aforementioned authors maintain, could be acquired through training. In this way, the NGO governing boards will be capacitated to deal effectively and efficiently with organisational change, ensuring sustainable organisations.

The central problem addressed in this research investigation is the lack of adequate governance arrangements and financial funding to ensure the sustainability of NGOs in general and South African NGOs specifically. In particular the lack of government arrangements in the South African context included: inadequate policies, a lack of

delivery by the NDA, and insufficient governance arrangements and financial planning by NGOs themselves as well as poorly structured relationships between government and donors.

1.4 RESEARCH OBJECTIVES

Given the above problem statement, this research investigation focused in particular on options for funding and governance of NGOs in South Africa. This section addresses the primary and secondary objectives of the study.

1.4.1 Primary objective:

The primary objective of the research study was to evaluate existing governance and financial arrangements of NGOs, CBOs and CSOs with the view to developing alternative approaches to governance and financial arrangements with specific reference to lessons of experience for South African NGOs.

1.4.2 Secondary objectives:

The secondary objectives of this research study were to:

- develop a historical perspective on trends and tendencies of NGO funding in South Africa;
- provide a theoretical overview of the financial management and governance arrangements of NGOs;
- examine options for funding arrangements for NGOs in South Africa;
- provide a comparative case assessment of selected NGOs in South Africa;
- develop research findings and to apply the preferred financial and governance arrangements to the case studies;
- motivate and develop an appraisal framework for NGOs and to test this instrument on the selected cases, and to
- develop a set of conclusions and recommendations for the improved funding of NGOs in South Africa

It should be noted that all secondary objectives have been formulated in support of the primary objective and that these have been directly linked to the composition of the chapters in the study. *(See Section 1.8 of this chapter).*

1.5   LITERATURE REVIEW

This literature review focuses on international aid and global funding trends, South African NGOs pre and beyond 1994 and NGO governance.

1.5.1   International Aid and global trends

At the beginning of the twenty-first century, much of the global South continues to face significant economic, social and political challenges. Policies and programmes designed to address these, undertaken by government, inter-governmental organisations, and non-governmental organisations (NGOs) over the past few decades, have resulted in some notable achievements (Warkentin, 2001). The reason for NGOs appearing to be the favoured vehicle in the delivery of economic, social and political objectives can be attributed to their ability to attract funding for various causes like the proverbial "*magic bullet*" (Edwards & Hulme, 1996). But who are these donor agencies and what are they prepared to fund?

International and regional donor agencies, holds Fehnel (1997: 369 – 370), come in many forms. The author maintains that the World Bank, the International Monetary Fund (IMF), the European Union (EU), and the United Nations Development Programme (UNDP), represent many nations. Other donor agencies, such as the United States Agency for International Development (USAID), the Swedish International Development Agency (SIDA), and the British Overseas Development Agency (BODA), embody a single nation. The Ford and Rockefeller Foundations, in contrast symbolise private organisations. They vary in the forms and levels of assistance provided. These funding agencies are to be found in most 'developing' countries. Their assistance may take the following forms:

-        Funding is provided by them through grants or loans;
-        They provide technical assistance in the form of development experts;

-        They provide ideas on how to solve development problems;

-        They provide important access to international information and experience, and

-        They provide commodities needed to get the development jobs done.

Whilst the generosity and need for financial assistance put forward by numerous foreign donors are recognised, Epprecht (*n.d.*) maintains that such assistance is generally predicated upon the assumption that the West and North, having developed themselves, can now help other nations and people to make a similar transition. These funding agencies, contends the author, may believe, rightly or wrongly, that it has development wisdom and experience to offer South Africa. Despite the perceived 'generosity' of the Northern and Western funders, recently, much attention has been focused on the roles and agendas of these international agencies, which support NGO development programmes in South Africa. Questions such as who sets the agenda for policies and programmes - donors, the government, or the NGOs - were raised in the media by former President Nelson Mandela (Smith, 1998). A further concern expressed by Fani (1997: 1) was around the sustainability of NGOs should Northern donors suddenly change their funding priorities. He holds that:

> *Western donors do not ask: "What do you know? What do you need?" They focus on what contracted developers determine is good for communities. CBO funding proposals are expected to be formulated in terms of what donors are known to be prepared to fund rather than in terms of what communities themselves have determined to be their priorities. CBOs have been forced to capitulate to a set of rules which favour Western donors. Much of the broader non-profit sector has in turn framed its outlook and principles in this way. What was a coherent driving force, the CBOs, have become fragmented and disempowered. Western donors favour organisations which conform to their requirements. CBOs, coerced into changing and linking themselves to efficient but ineffective foreign trends, have lost their original purpose and identity.*

Thompson (2001) contends that foreign aid is not necessarily bad or superfluous. She maintains that those involved in the provision of aid on the part of Northern states should be more attentive to the ways in which the perceived problems faced by

developing nations, or the missions that they set for themselves, are constructed. In Afghanistan, for example, instead of NGOs being capacitated to implement the agendas of donors, a wider dialogue is called for based on shared values and ethics. Where Afghan NGOs had to conform to donors in the past, mechanisms are required to empower organisations within civil society to help set the development agenda (Goodhand & Chamberlain, 2000).

In the above context, Collier (2000), after examining an NGO project in Zambia, similarly propagates the incorporation of indigenous skills in NGO projects thereby ensuring sustainability; NGOs enhancing instead of reducing local government's responsibility in respect of service delivery, and the abandonment by NGOs of short-term projects which seek the fulfilment of physical output by the donors.

1.5.2   South African NGOs' financial arrangements prior to 1994

Due to the hostile environment in which NGOs had to operate pre-1994, many donors, sympathetic to the struggle, did not strictly control the administration and expenditure of funds. Kihato (2001) in a paper entitled: *"Shifting sands: The relationship between foreign donors and South African civil society during and after apartheid"* found that few recipient NGOs were required to keep books, or undergo independent audits or even report back to donors on how money had been spent. The relationship between donors and civil society during apartheid was extremely flexible with donors assuming a highly accommodating attitude to local demands. South African NGOs were fortunate and received funding amounting to R2 billion from the European Commission for the period 1980 to 1991. Funded activities and organisations varied greatly, from poverty relief to education grants for black South Africans to direct contributions to liberation movements (Kihato, 2001). This situation did not continue unabated. Kihato (2001: 10) reports that:

> *For all its merits, including its contribution to the demise of apartheid, the magnitude of donor funding during the 1980s as well as the lack of donor controls created an enormous dependence on aid within civil society. This helped escalate the widespread collapse of CSOs in the 1990s, when they failed to cope with funding cut-backs and increasingly stringent donor conditionalities and*

controls. The 1980s created complacency within the civil society about its sustainability and future survival; as a result, it was inadequately prepared for the shifts in donor strategies that occurred in the mid-1990s.

The dependence on funding from various quarters by the South African NGO sector prior to 1994 impeded its ability to formulate long-term strategies to ensure its survival with any degree of confidence.

1.5.3   NGOs in post-apartheid South Africa

Beyond 1994, South Africa's transition to democracy left NGOs in a state of disarray as one NGO after the other went under due to lack of financing. More and more donors started regarding the new government and the Reconstruction and Development Programme (RDP) as recipients of funds (Financial Mail, 1994). Donors thus selected to form bilateral aid agreements with government, hoping that some of the funds would be channelled back to NGOs (Smith, 2001a; Govender, n.d.). Challenges facing NGOs proved complex and Dangor (1994: 17) in a journal article argued that:

> *[N]GOs come from a value base and have engaged with communities mainly because they wanted to address the issues of poverty and empowerment. Now voluntary activists are pitched against consultants and their survival is threatened as development gets privatised. Organisations that took on predominantly state functions, at a time when the Apartheid state failed to carry out its responsibilities, may have to revisit their role and contribution. However, the state, NGOs and donors must bear in mind the limited capacity of the state and the time lag before the state can adequately harness its capacity and expertise in taking up some of the functions which it regards as its own. …[t]he tasks and responsibilities of government increase with the closure of each organisation whose work has had measurable impact on communities.*

Smith (2001a) maintains that a number of South African NGOs have employed measures such as the provision of training, project management services, consulting, contracting to other NGOs, the government and private sector companies, and the selling of products such as educational materials to generate income. The author further found in a survey he embarked upon in November 2000, as part of his research towards a Masters degree

entitled: *South African NGOs in Transition and the challenge of participatory development*, that a number of NGOs had to wait 2 to 6 months after completing assignments before receiving any kind of compensation from government, putting NGOs in a compromising position financially.

As a consequence of NGOs having to remain relevant and to survive financially in the dynamic post-apartheid South Africa, the African Centre for Constructive Resolution of Disputes (ACCORD), according to Reddy (2004), commercialised its activities. The NGOs claim that they are able to sustain themselves by engaging in income-generating activities. They also argue that they are more productive than non-commercialised NGOs because they utilise business practices in their operation. Commercialisation, however, has changed the mindset of this NGO from being guided by a social mission and set of values to becoming a for-profit entity. As such, they have become contractors to the international system and agenda and consultants by another name. Their status as an NGO is severely compromised (Reddy, 2004). This elicits the question of whether NGOs should sell their services to the public and private sector in order to survive, compromising the reasons why they were initially established - for example, working closely with communities on development-related activities, or whether it would be best if alternative funding were sourced.

A further example of an NGO having to conform to the requirements of foreign donors to ensure its existence is the one put forward by Dr Bev Thaver, Deputy-Director of the Education Policy Unit at the University of the Western Cape (Thaver, 2002). She asserts that their research in higher education policy has in many instances, been adjusted to meet the expectations of the donors (Thaver, 2002).

Despite financial dilemmas faced by NGOs pre- and beyond 1994, additional challenges facing NGOs were not confined to South African NGOs only. Countries such as Ethiopia, Guinea-Bissau, India, Zimbabwe, Pakistan and Cote D'Ivoire reported to the Canadian Council for International Co-operation at meetings conducted during January

and February 1996 that Northern NGOs continued to set the development agenda for Southern NGOs without sufficient consultation where:

- projects are based on Northern perceptions of what the South need;

- there is often a top-down approach by Northern NGOs and donors;

- Southerners do not have the moral courage to challenge the perception of the North, resulting in failure of projects, which discourages further investment;

- the North will not understand the South without taking up residence in the South and experiencing the South first hand (and vice versa);

- Northern NGOs must stop competing against one another about who is having the greatest impact. They should work to complement the work of other NGOs as coordination of activities will lead to greater impact;

- Northern donors suddenly change their funding priorities, seriously impacting on the work of Southern NGOs (Conversations with Southern Partners: The search for Meaningful Partnerships, *n.d.*).

In the above context, research conducted by Smith and Bernstein (2001) concurs that Northern NGOs such as the Charles Stewart Mott Foundation and the Charities Aid Foundation set the development agenda for South African initiatives. Northern NGOs tend to focus on capacity-building and technical support instead of direct funding to local NGOs, apparently in response to the pressures local NGOs face in terms of funding and more arduous donor requirements.

The search for answers to questions around the financial sustainability of NGOs pre- and post 1994 is what this study will pursue. Such evaluative research will lead the researcher to determine why some South African NGOs flourished, and why others met an early demise within the 1990 to 2002 timeframe.

1.5.4   Governance and NGOs

Good governance, in referring to both the strategic management as well as operational feasibility of NGOs, is of critical importance to NGOs. Good governance is essential for order and equality, efficient delivery of goods and services, accountability in the use of

power, protection of human rights and freedom, and the maintenance of an organisational framework within which each person can contribute fully towards finding innovative solutions to common problems (Implementing ICPD in Sub-Saharan Africa, 2001).

Good governance seeks to promote efficient, effective and sustainable organisations that can contribute towards development endeavours. It is about fair, efficient and transparent administration of organisations to meet well-defined objectives. Systems and structures of operation and control need to be in place so that the organisational mission and objectives are achieved while complying with legal and regulatory requirements. There should be an efficient process where the roles of the board and management are clearly defined with appropriate structures in place. The board should make strategic decisions and be transparent, responsible and accountable. There should be adequate disclosure of information and the organisation should remain relevant, legitimate, competitive, viable and sustainable (Abromov, 2002; IMF, 2003; Reforming Public Institutions and Strengthening Governance, n.d.; Modernizing Accountability Practices in the Public Sector, n.d.; Implementing ICPD in Sub-Saharan Africa, 2001).

In South Africa, changes in the political context or shifts in donor policies towards more stringent lending practices, in conjunction with difficulties within CSOs, CBOs and NGOs - for example, corruption, lack of financial management, inadequate planning: failure to prioritise, duplication of services and programmes, inadequate leadership capacity; lack of professional fundraising endeavours, and poor governance - are but some factors quoted by commentators, which contributed to the demise of many civil society organisations (Kihato & Rapoo, 1999; Kraak, 2001; Rammutle, 2003).

In the context of good governance, the overarching challenge confronted by all civil society organisations in South Africa, according to Camay and Gordon (2002), is the need for governing boards to effectively and efficiently adapt to, and manage, organisational change.   A number of boards were unable to steer NGOs through the democratic transition where the review of the vision and mission of an organisation, which would guide it into a new paradigm, were neglected. The transformation of

organisations, to keep pace with changes in the external environment and the improvement of cost-efficiency and effectiveness of the organisation are but two further challenges faced by boards in their attempts to govern CBOs, NGOs and CSOs (Camay and Gordon, 2002).

The arrival of democracy in South Africa, saw the depletion of NGO, CBO and trade union human resource capacity as activists took up positions in the legitimate state. A new generation of leadership floundered in the new organisational context and struggled to build its expertise. Unseasoned managers, for example, focused on the need to harness meagre resources and tried to cope with the new emphasis on cost-recovery for services, instead of fulfilling their development endeavours (Andersson, 1995). Because of these conditions, the tenets of good governance were constantly compromised.

Leadership vacuums, financial insecurity, confused strategic focus, the change in target groups and the tensions between the role of NGOs and the role of the state in service delivery led to the demise of numerous NGOs. Calls for realising good governance on the part of NGOs and a financial framework which will ensure the sustainability of existing and future NGOs have been put forward as viable solutions by a number of commentators (Camay and Gordon, 2002; Kraak, 2001).

In concluding the literature review, the researcher surmises that whilst the need for aid to South African NGOs remains, in order to achieve maximum effectiveness, donor intentions should ideally be aligned to African community needs as the imposition of western mindsets will produce new failures (Landsberg et al, 1997). Against the background of ongoing socio-political difficulties, room exists for interventions by Northern NGOs and donors while the need for a new aid order is making itself felt. The problem of long-term sustainability of the NGO sector attributed to inadequate governance strategies, legislative and fiscal dilemmas, to name but a few negative trends, calls for effective governance and financial sustainability arrangements, which this research will formulate.

1.6   RESEARCH METHODOLOGY

This study will largely employ qualitative evaluation as this research tool encompasses a broad variety of approaches to interpretive research. The study will also use comparative case assessment and the application of a funding framework flowing from a theoretical assessment. Qualitative research can be historical, sociological, political, educational, and much more, providing an apt tool for a study of this nature (Leedy, 1997). A qualitative approach will provide a theoretical assessment of governance and financial arrangements of NGOs.   A further reason for choosing "evaluation" as a research method is that it allows for *"…[t]he systematic acquisition and assessment of information to provide useful feedback about some object be it a programme, policy, technology, person, need or activity.*   (Introduction   to   Evaluation,   n.d.   found   at: http://trochim.human.cornell.edu/kb/intreval.htm).   Another reason for this method of research is that the researcher will be allowed to use her judgment and experience to ultimately select a preferred governance and financial framework for NGOs.

This research study makes use of multiple-case studies. A case study is characterised by:
-      'how' and 'why' questions;
-      more than one case study is investigated, but the total number is limited;
-      a contemporary phenomenon over which the researcher does not have direct control is studied within its real-life context;
-      it is aimed at collecting qualitative data and in-depth knowledge about a phenomenon, not at collecting quantitative data to generalize on one aspect of the phenomenon; and
-      multiple sources of evidence are used.

(Arts, 1998: 37).

Swanborn in Arts (1998: 38) contends that the study of two cases instead of one, would yield knowledge through comparison. However, whilst this research seeks to trace and compare governance and the financial sustainability of South African NGOs for the period from 1990 to 2002, three organisations were selected, namely, the Centre for the Study of Higher Education at the University of the Western Cape, formerly known as the

Education Policy Unit, Oxfam International, Great Britain and the Sustainability Institute in Lynedoch on the outskirts of Stellenbosch. Though they differ fundamentally in terms of service sectors, two of the NGOs existed prior to the 1994 democratic elections and all are, and have been, recipients of international and domestic aid. A brief description of each NGO follows.

The Centre for the Study of Higher Education, formerly known as the Education Policy Unit, began operations in January 1992. Its immediate function was to provide support to the democratic movement and to the African National Congress government-in-waiting in formulating a post-secondary education policy framework for the new South Africa. During 2001, it was decided to change the name of the Education Policy Unit to the Centre for the Study of Higher Education in order to reflect its focus on higher education and its function as a centre for scholarly research, analysis and teaching in this field (Centre for the Study of Higher Education, 2005).

Oxfam International (Great Britain) has characterized itself as "a development and relief agency working to put an end to poverty worldwide," a grand project based on the belief that poverty is not inevitable; it can be tackled and must be ended. Using its trademark approach to development of working with poor people to help them help themselves, Oxfam's strategy of responsively helping people empower themselves has important implications for the development and maintenance of a global civil society. In its efforts to relieve poverty, distress and suffering in any part of the world, Oxfam supports a variety of social development, health, agricultural, and humanitarian projects, and emergency programs. It also aims to educate the public concerning the nature, causes, and effects of poverty, and engages in advocacy, education and campaigning work on issues that are central to the achievement of Oxfam's charitable objectives (Kalema, 2001).

The Sustainability Institute in Lynedoch is an international living and learning centre, situated on the outskirts of Stellenbosch. Founded in 1999, the Sustainability Institute, according to its website, provides a space for people to explore an approach to creating a

more equitable society that lives in a way that sustains rather than destroys the eco-system within which all society is embedded. It provides residential accommodation for visiting writers, artists, activists, volunteers and scholars, and a learning space for participants in the Institute's various educational programmes (www.sustainabilityinstitute.net).

To be able to meet the research objectives on the basis of a multiple-case study, specific information and knowledge should be collected, for example, on the historical trends and tendencies of NGO funding in South Africa for the period 1990 to 2002, and the financial management of NGOs in particular. Therefore relevant and multiple sources of information and knowledge will be selected and perused. Some of the main primary and secondary sources of information for this study are people and documents specifically NGO and governmental role-players, international donors, policy documents, Internet searches, annual reports, legislation and numerous other relevant literature.

An in-depth structured questionnaire was completed by the managers of the selected NGOs.
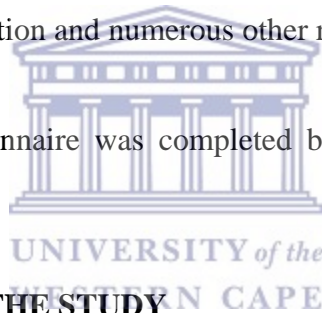
1.7   SIGNIFICANCE OF THE STUDY

This study has a significant contribution to make as a systematic assessment of historic trends and future options on a case study basis has not been attempted in this context before. The study includes a survey of the literature on governance and the financial sustainability of South African NGOs prior to and beyond 1994. A paucity of information has been revealed in this area. This research augments the current literature available on this subject, as the current gaps in the knowledge of the NGO sector negatively impact on effective policy formulation. A historical analysis of financial frameworks employed by NGOs will contribute to the formulation of an improved funding framework for NGOs in South Africa. In this context, the development of an appraisal instrument, assessing the sustainability of NGOs, makes a distinct contribution to knowledge of and insight into the subject. The appraisal instrument devised will be disseminated as widely as possible as it has the potential of becoming a useful tool that

would assist a variety of stakeholders related to the world of NGOs. This study has developed a set of conclusions and recommendations for improved governance options.

1.8   COMPOSITION, STRUCTURE AND ORGANISATION OF THE STUDY

This study consists of two parts. The first part is a theoretical exposition on governance and the financial sustainability of NGOs in general. In this context, information was drawn from published books, official publications, magazine articles, reports, official documentation and statutory legislation. This contextual framework provided the basis for the second part of the study which includes the case studies, explanation of the research results and the presentation of the findings.

Chapter 1: Introduction and background to the study

This chapter focuses on an introduction to the study, the problem statement, research objectives, a literature review and the significance of the study.   Attention is also given to the research methodology employed and the composition, structure and organisation of the study.
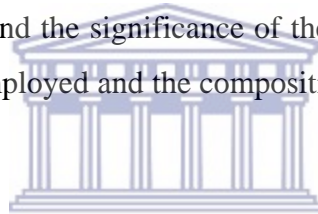
Chapter 2: Historical perspectives of NGO governance and funding in South Africa

In this chapter an overview is provided of the historical trends and tendencies of governance and financial arrangements of NGOs over the last ten years.   In particular, attention is given to sustainable aspects of financial arrangements and assistance received by NGOs from international and other donors. Historical trends such as the decline in international funding to South African NGOs is analysed in detail.   A study was made of the survival strategies NGOs employed to ensure their sustainability.   This historical theoretical exposition provided valuable lessons of NGO experiences.

Chapter 3: Theoretical overview of governance and sustainability arrangements of NGOs

This chapter provides a theoretical overview of governance arrangements and sustainability arrangements. An overview of theories, frameworks and paradigms, in

particular those regulating the governance of international institutions and NGOs, is given and deliberated upon.

Chapter 4: Theoretical focus on sustainability and financial management of NGOs

Given the overview of the conceptual framework of governance and financial sustainability in the previous chapter, this chapter investigates specific frameworks in the area of financial management and sustainability practices within NGOs in general. Various concepts of funding arrangements from international donors, and independent scholars were addressed. Academic literature on the principles of financial arrangements for NGOs was examined. The chapter investigates issues pertaining to income and expenditure of NGOs with the view to establishing whether global funding mobilisation practices could be replicated in South Africa. Conclusions were drawn based on these frameworks.

Chapter 5: Case studies: An assessment of selected NGO case studies in South Africa

The decision was made to record three selected case studies, namely Oxfam, the Sustainability Institute and the Centre for the Study of Higher Education, from which lessons regarding governance and financial sustainability could be drawn. One of the cases represents the large international NGO sector, a second focuses on higher education policy and a third has a developmental orientation. As these NGOs receive funding from international, national and private sources, a comparative analysis was done, which facilitated an understanding of the nature of sustainable financial and governance arrangements.

Chapter 6: Research results and findings: An application of the preferred framework

This chapter provides an analysis and the conclusions of the qualitative research undertaken in order to meet the research objectives. An application of the preferred framework in terms of governance and financial sustainability will be provided.

Chapter 7:   Towards an appraisal framework for the sustainability of NGOs

This particular chapter aims to develop an appraisal framework for the sustainability of NGOs. An appraisal form will be forwarded to policy makers, NGOs, CBOs, CSOs, government, donors, private sector social responsibility funders and the National Development Agency. Users of the appraisal instrument will be advised on how it should be applied.

Chapter 8: Conclusions and recommendations.

This chapter provides a summary, recommendations and the conclusion of the study.

CHAPTER TWO

HISTORICAL AND CONTEMPORARY PERSPECTIVES OF NGO GOVERNANCE AND FUNDING IN SOUTH AFRICA

2.1   INTRODUCTION

South Africa's history is rooted in an apartheid ideology where racial prejudice and discrimination prevailed. Camay and Gordon (2000: 107) postulate that:

> *The concept of racial discrimination and segregation has figured throughout South African history and its impact has been seen since the 17th century, in society as a whole and in the evolution of civil society organisations. It has divided communities and affected their relative economic, political and social power and influence, as well as their respective ability to address community development issues. It has led to extreme disadvantage and suffering for South African people of colour, a consequence, which will take generations to be remedied. Not only was racial discrimination applied by successive governments as a means of maintaining political control and economic exploitation, but it also led to huge disparities in the availability of financial and human resources which could be put to use by communities through their civil society organisations. It has therefore accentuated their differential access to services such as education, health, and other aspects of human welfare.*

Before 1994, many South African institutions were constructed in an effort to counter the country's racially motivated discriminatory policies. The apartheid government assigned resources for various services along racial lines. Accordingly, in the health care sector, for example, where the government provided inadequate services, non-governmental organisations stepped in. The Black Peoples Convention is one such organisation which provided mobile clinics where trailers were equipped with medical instruments and volunteer medical doctors to help poor service-deprived black communities.   The development and operation of NGOs in South Africa, including international NGOs, is thus closely linked to the country's political history (Mazibuko, 2000).

Developmental non-governmental organisations are mostly a funded sector, depending on funds from the community, businesses, government or from foreign governments,

foundations and businesses (Mazibuko, 2000; Kihato, 2001; Fehnel, 1997). Despite their dependence on donations, NGOs appear to have a reputation for offering specific advantages over more bureaucratic government structures in the delivery of a range of social, economic and political objectives. It would appear that NGOs are better able to reach the poor, that they are flexible and responsive and that they can offer tailored and innovative service delivery interventions (Martin, n.d.; Edwards & Hulme, 1996; Bourne & Seager, 2000). On the other hand, potential weaknesses of NGOs as espoused by Liebenberg (quoted in Bourne and Seager, 2000) range from:

-        inadequate planning, organisation and management;

-        inadequate staff training;

-        inability to replicate projects and ensure sustainability;

-        inability to collaborate with other role-players effectively;

-        a lack of coordination in the efforts of NGOs.

These weaknesses, however, may not necessarily be true of all NGOs (Bourne & Seager, 2000).
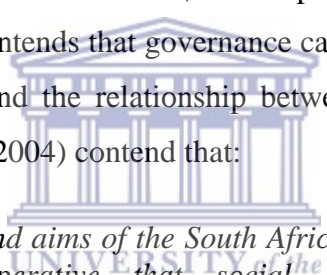
The relationship between donors and civil society during apartheid was highly flexible and characterised by high levels of trust, where local actors in many instances decided which endeavours were to be funded. Foreign funding before 1994 was anti-state and couched in anti-apartheid rubric (Kihato, 2001; Rammutle, 2003). Civil society organisations that countered separate development policies or who mobilised against apartheid were favoured by international donor organisations. Countries such as Denmark and Sweden supported liberation movements while the United States and Britain preferred to provide education grants (Kihato, 2001).

The purpose of this chapter is to provide an overview of the historical trends and tendencies of governance and financial arrangements of South African NGOs over the last ten years. In particular, attention will be given to sustainable aspects of financial arrangements and assistance received by NGOs from international and other donors. Historical trends such as the decline in international funding to South African NGOs will be analysed in detail. A study will be made of the survival strategies NGOs employed to

ensure their sustainability. This historical theoretical exposition will provide valuable lessons of NGO experiences over the last four years.

2.2   BACKGROUND PERSPECTIVE ON NGOs IN A 'NEW' DISPENSATION (BEYOND 1994)

South Africa's transition to democracy brought with it fundamental changes to the form and function of the state which entailed the restructuring of intergovernmental relations and a redefinition of the responsibilities of the different spheres of government (Levy and Tapscott, 2001). The Constitution of the Republic of South Africa in particular calls for the establishment of structures and institutions to promote and facilitate intergovernmental relations which in turn will facilitate effective and efficient service delivery (South Africa, 1996). Intergovernmental relations, defined as co-operative governance by the South African Constitution, thus impact on civil society. Swilling, as quoted in De Coning (2004), contends that governance can be described as the role of the state, the nature of the state and the relationship between the state and civil society. Chidester, Dexter and Wilmot (2004) contend that:

> *If the values, principles and aims of the South African Constitution are to be realised it is imperative that social dialogue strengthens intergovernmental relations. Social dialogue is the national process of discussion, consultation and negotiation that goes on in a society in an organised and systematic manner to ensure that, in governing, those in positions of power incorporate the views and wishes of other more or less powerful social forces and interests into the policy and administrative processes.… [t]he view taken here is that social dialogue in the broad sense is both a necessary and desirable feature of modern governance.*

The World Bank as quoted in Fowler (1992) intimates that NGOs in Africa:

> *[as] intermediaries have an important role to play; they can create links both upward and downward in society and voice local concerns...In doing this they can bring a broader spectrum of ideas and values to bear on policy making.*

In the above context Hlophe, Mothoho and Reitzes (2001) contend that the historical exclusion of black people from mainstream social, political and economic activities in

South Africa led to the construction of organisations which formally orchestrated assaults on the apartheid regime. During South Africa's apartheid rule era, assert Motala and Husy (2001), it was essential to have a strong and vibrant civil society as a counter to the state.   The African National Congress and progressive civil society organisations built a cohesive popular movement against oppression. Local grievances were linked to highly politicised campaigns where the struggles of people in the factories, villages, urban townships and schools were combined in an effort to destabilise the apartheid regime (Mohamed, 2001).

The 1980s and early 1990s saw international donors enter the country to fund local development initiatives causing a dramatic increase in the number of local NGOs (Pieterse, 1997; Habib and Taylor as quoted in Smith, 2001).   The services offered by the NGOs to the constituencies that an apartheid state refused to render ranged from organisational support to civic or trade union formations, undertaking research to assist their client organisations to better understand the obstacles they faced in negotiating with an 'illegitimate' state (Govender, n.d.). Other civil society structures, for example, took the form of street committees and people's courts (Motala and Husy, 2001). Numerous NGOs provided legal, welfare and developmental services to oppressed communities (Kotze as quoted in Smith, 2001). South Africa saw a proliferation of organisations dealing with adult basic education, life skills, vocational and small business skills, career guidance and others related to job creation (Camay and Gordon, 2000).

The struggle against apartheid compelled religious communities, whether Christian, Muslim, Hindu or Jewish, to establish organisations which promoted their own communities' interests and provided protection against various forms of repression and control (Camay and Gordon, 2000).

Prior to 1994, NGOs were able to attract high calibre human capital wishing not to be associated with the apartheid state (Govender, n.d.). NGO leaders were committed, altruistic and selfless at the time (Dollar, 1998). Numerous leaders of civil society organisations emanated from religious communities (Camay and Gordon, 2000). Others,

particularly in the early 1980s, came in the form of university students and graduates politicised by the activities of the 1970s, and political prisoners, many of whom were released in the early 1980s. These individuals came together in many ways to organise political activities and the community (Habib, 2003).

The advent of democracy saw politically conscious individuals move from NGOs, CBOs and CSOs to assist with transformation in the new state (Govender, n.d.). Strategic NGO leadership repositioned itself in national and provincial government, the parastatals and the corporate sector (Harding, 1994). Another group of CSO leadership moved into local government following the 1995/6 local government elections (Camay and Gordon, 2000). This brain drain left a huge gap in civil society leadership, particularly in organisations which had been part of the mass movement against apartheid (Camay and Gordon, 2000). NGO, CBO and CSO capacity weakened. A cynical line doing the rounds at the time suggested that the acronym NGO stood for 'next government official' (Harding, 1994).

The human resource skills capacity problem within NGOs, reports Cooper (as quoted in Camay and Gordon, 2000), pertains specifically to negotiation and fundraising skills. The skills deficit in these areas can be attributed to the legacy of apartheid where, even today, a large portion of the black population continues to face difficulties upgrading various types of skills essential in NGO management (Cooper as quoted in Camay and Gordon, 2000).

Dollar (1998), in research conducted around NGO organisational culture, reports that South African NGO leaders were required to set organisational direction, lead strategic planning, foster staff development, engage with cultural diversity and affirmative action, introduce participative management structures and deal with other administrative functions. While NGO leaders sought to reclaim the political space lost after 1994, it proved difficult to provide direction to the sector particularly around sustainability, building new capacity and leadership (Kraak, 2001). A huge challenge for the NGO

sector therefore is to rebuild leadership and its skills capacity to ensure its continued existence (Camay and Gordon, 2000; Kihato & Rapoo, 1999).

When developing new NGO leaders, leadership styles would prove crucial. McLaughlin as quoted in Dollar (1998) argues that an NGO leadership style should be situational. This proposed NGO leadership style, contends the author, should be guided by the organisation, the staff and the environment. Harding and Meintjies as quoted in Dollar (1998) supports charismatic leadership the ultimate form of NGO leadership. They perceive charismatic leaders as individuals able to initiate change and set organisational direction. Bass (1990) contends that a charismatic leader exhibits confidence, dominance, a sense of purpose, and the ability to articulate goals. The author further suggests that a charismatic leader is an exceptional person and highly esteemed. Raelin (2003) concurs with Harding and Meintjies where he says that by definition, charismatics sway people and shape the future by their sheer presence and personality.

2.3   SURVIVAL STRATEGIES: NGO APPROACHES IN THE 1990s

According to Allwood (1992) the character, objectives and modus operandi of NGOs in South Africa have largely been influenced by the political conditions which prevailed in the country in that decade (1992) and the one before. Some commentators suggest that it was the vitality of CSOs which enabled a peaceful transition following the mass organisation epoch of the eighties (Andersson, 1995). From this statement one can derive that South Africa has a strong civil society, estimated at around 54 000 NGOs according to Harding (1994). Camay and Gordon (2000) however quote SANGOCO's estimate at around 17 000 and attribute this number to the different definitions assigned to organisations. Despite these debatable figures, many different kinds of CSOs with a variety of roles exist (Camay and Gordon, 2000). These organisations can be local, national or international. They may have different roles and functions as the list below put forward by the aforementioned authors postulates:

- Relief CSOs provide humanitarian assistance to victims of famine and other natural disasters as well as wars and other conflicts;

- Welfare CSOs provide basic services (health, education, housing and so on) to individuals and/or communities in need;

- Service CSOs provide training and technical assistance to other NGOs or community organisations;

- Technical innovation CSOs operate their own projects to pioneer new or improved approaches to problems, such as appropriate technologies for fuelwood conservation;

- Traditional community-based CSOs run as burial societies, savings groups and so on;

- Cooperative or other non-profit but income-producing CSOs formed at the local level collect resources from group members to invest jointly in a specific economic activity. Members derive income from the organisation, but profits are reinvested in the organisation and/or activity;

- Religious service CSOs created by religious organisations, sometimes at local level, sometimes national or international, often with an emphasis on providing welfare services, sometimes combined with religious preaching, sometimes provide services only to members of their specific religious organisation and others focus on the community at large;

- Economic interest associations group people with similar economic interests such as ratepayers associations or professional associations such as unions, doctors, lawyers, farmers, traders;

- Human rights CSOs are formed to monitor abuses of human rights, to lobby against such abuses, and to protect and assist the victims of abuse;

- Civic education CSOs concentrate on public education with regard to civic rights and responsibilities, especially in countries which are newly democratised, and democratic participation

- Community development, rural and urban based, self-help CSOs formed at the community level, sometimes with links to a wider association of such CSOs, are aimed at promoting the development of their community through service provision, income-generating projects, savings clubs and so on, and at the same time, with strengthening overall communication and collaboration within the community;

- Advocacy CSOs often have no field projects, but form alliances with other CSOs to educate and lobby on specific policy issues.
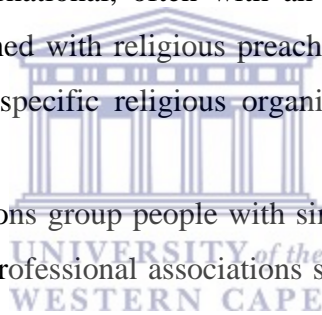
- CSO networks provide information and education services to other CSOs, including newsletters, training workshops, seminars on specific interest issues and so on (Camay and Gordon as quoted in Camay and Gordon, 2000: 101-102)

The historical period in which a CSO was established, contend Kihato and Rapoo (1999) in a survey on civil society organisations in South Africa, had an impact on its nature, type, business or role as espoused by Camay and Gordon above. South Africa's political history signifies that 'older-generation' CSOs, for example, were established during the apartheid era (1948 – 1979). These organisations pursued welfare activities and they represented churches and other ecclesiastical bodies, child and family welfare organisations, organisations dealing with disabilities, literacy associations, homes and support associations for the aged, women and children (Kihato and Rapoo, 1999). The authors surmise that 'new generation' CSOs emerged during the era of intensive political protests/campaigns against the apartheid state during the mid-1980s, political transition/constitutional negotiations/pre-election era (1990 to 1994) and the immediate post-election era (1995 to 1997). These CSOs enjoyed the status of Section 21 companies or trusts obtaining funds from foreign and domestic sources in the form of consultation fees, service charges, tenders for contracts and private donations.

Significant changes in the South African NGO sector occurred since 1994 (Smith, 2001b) and, according to Andersson (1995), much has been said about the potential roles of the NGO sector. Professor Merlyn Mehl, chief executive officer of the Independent Development Trust in 1995, in a journal article in *Leading Edge*, put forward a few arguments (Mehl, 1995). Mehl questioned: "Is there a future for South African non-governmental organisations?" He contends that the answer to this question at the time was not a resounding "yes", despite the fact that many parliamentarians and 'new' bureaucrats at that time spent a large proportion of their working lives in the NGO sector when it was the only way to oppose apartheid. Many felt that the democratically-elected government should provide "all" that was necessary (Mehl, 1995: 39). Andersson (1995) suggests otherwise. The author maintains that, in economic terms, it is impossible for the state to act alone to provide for the social well-being of the entire population.

Large parts of South African society have systematically been impoverished over generations and financial resources well beyond the fiscus of the country were required to remedy the situation. NGOs which could provide social services suspended and diluted their normal activities in the months immediately following the 1994 elections (Andersson, 1995). One of the factors quoted by Andersson (1995) causing NGOs to become preoccupied with internal problems, and therefore the suspension of their work, can be attributed to their lack of expertise to construct new roles and comprehensive strategic plans for their institutions. A need arose to nurture and strengthen the competence of the non-profit sector, as most NGOs required new roles and legitimacy (Andersson, 1995; Smith, 2001b).

Camay and Gordon (2000) hold a different view around the suspension of NGO activities prior to 1994. These authors contend that, at the time of the political transition beginning in 1990, CSO leadership began to reassess their organisations' mission and activities in the light of expected changes in the political environment. The overtly political role of NGOs, contends Smith (2001b), became less relevant in the post-apartheid area. A move from resistance to reconstruction was required (Marais as quoted in Smith, 2001b). Accordingly, local advice centres, for example, which provided crucial assistance to disadvantaged communities in dealing with oppressive laws and policies of the apartheid regime began to think about what kinds of assistance they might offer once those laws were repealed (Camay and Gordon, 2000). Other anti-apartheid NGOs repositioned themselves with a complementary role to the state, in the form of undertaking policy formulation or service delivery functions on a contract basis to government departments (Habib and Taylor as quoted in Smith, 2001b). The NGO sector aspired to professionalism and commercialisation and adopted a new language where concepts such as efficiency, strategic planning, cost-effectiveness and results-based management prevailed, at times to the detriment of the poor to whom services were provided traditionally (Du Toit, 1994; Smith, 2001b; Kihato & Rapoo, 1999).

The following section will look at examples of commercialised activities undertaken by NGOs. Commercialised activities undertaken by NGOs took the form of consultations,

contracts, the selling of services and products and the introduction of user charges for services delivered to the poor (Smith, 2001b). The African Centre for Constructive Resolution of Disputes (ACCORD), as mentioned in Chapter 1 of this thesis, affirms the notion of commercialisation of NGO activities where services offered by them were sold to the public and private sectors to ensure the organisation's sustained existence (Reddy, 2004).

The Cape Town-based Social Change Assistance Trust (SCAT) involved in a range of grassroots development projects, funded by the Norwegian Agency for Development Cooperation, expects rural communities to contribute financially towards the construction of capital works such as schools, clinics and roads. These communities have to draw on traditional saving clubs and burial societies to raise their financial contribution (Kraak, 2001).

The Institute for Democracy in South Africa (IDASA) presents an organisation which has been able to continually reinvent itself, as well as its relationship with government, in response to changes in the political opportunity structure and the strategies of foreign donors. It was founded in 1986 by Alex Boraine and Frederick Van Zyl Slabbert, members of Parliament who believed that extra-parliamentary action was needed to end apartheid. It played a significant role in fostering negotiation between the white establishment and the ANC. By 1991 its focus had shifted to economic justice, education, human rights, media and grassroots involvement. In 1993, it concentrated its activities on the 1994 election, training domestic observers, party election agents and voter educators. In 1994 it began reinventing itself under the new leadership of Wilmot James to address the challenge of making democracy work, and responding to the threat of financial withdrawal (Reitzes & Friedman, 2001: 16).

The NGO sector changed substantially after 1994. Donors channelled funds to the ANC government's reconstruction and development programme (RDP) and a number of commentators suggested that the government should forge new partnerships with NGOs

and CBOs to facilitate and assist with the implementation of this programme (Dangor, 1994; Manley, 1994; Harding, 1994).

Kraak (2001) contends that the longer-term sustainability of the non-profit sector is often linked to that of improving the institutional environment in which the sector operates. Barry Smith in an article in the Finance Week (1994) reckoned that NGOs stuck in an anti-apartheid struggle mode, relying more on political skills than technical ability to deliver services, might not survive in the new political dispensation (Smith, 1994).

2.4 TRENDS AND TENDENCIES IN THE GOVERNANCE ARRANGEMENTS OF NGOs OVER THE LAST TEN YEARS

Kihato (2001) contends that the rapid growth of civil society organisations occurred in a highly constrained policy and legal environment, which sought to control activities and funding in the sector. Fundraising during the apartheid era, postulates Kihato (2001: 6), occurred within the parameters of the following pieces of legislation:

- The Prohibition of Political Interference Act (Act 51 of 1968) which, in 1985, was amended to become the Prohibition of Foreign Financing of Political Parties Act, aimed at preventing any organisation which the Minister deemed 'unfit' for receiving foreign funding;

- The Affected Organisations Act (Act 31 of 1974), which prevented any organisation involved in anti-apartheid activities from receiving funds from outside South Africa;

- The Disclosure of Foreign Funding Act (Act 26 of 1989), which required that organisations report all funds received by the government, and

- The Fundraising Act (Act 107 of 1978), which prevented organisations from receiving funds from the public, both within and outside South Africa, unless they had a fundraising number obtained from the government.

These laws, contends Kihato (2001) were specifically constructed to contain the operations of the anti-apartheid organisations. Most established South African CSOs were also expected to register under one of the following laws:

- Section 21 of the Companies Act (Act 61 of 1973), provided for the incorporation of an association not for gain as a "company limited by guarantee".

- Section 13 of the National Welfare Act (Act 100 of 1978) on welfare organisations provides for the registration by regional welfare boards of fundraising organisations which were "contemplating the rendering of social welfare services in the region, which the said board had been established".

- The Trust Property Control Act (Act 57 of 1988) provided for registration as trusts, defined as "the arrangement through which the ownership in property of one person is by virtue of a trust instrument made over or bequeathed to another person or to the beneficiaries designated in the trust instrument". Trustees must use "care, diligence and skill" to manage the affairs of the trust in accordance with the stipulated objectives and beneficiaries.

- The Fundraising Act (Act 107 of 1978), as described above.

(Camay & Gordon, 2000: 88)

Despite the aforementioned stringent legislation within which NGOs had to function, funds for carrying out CSO objectives were easily accessible as donors regarded CSOs as legitimate vehicles for channelling funds to apartheid victims (Kihato, 2001). Prior to 1994, the nature of the anti-apartheid struggle meant that many donors adopted a less-than-stringent attitude towards the way in which their beneficiaries accounted for and spent the monies they received (Habib & Taylor as quoted in Smith, 2001b). The absence of sound accountability structures proved problematic as was proven when the Danchurch Aid, a donor organisation, took legal action against an NGO and its leadership, led by Allan Boesak, for the misuse and misappropriation of funds (Camay and Gordon, 2000).

The "struggle-accounting" practices, contends Marais (as quoted in Smith, 2001a) were replaced by a much tighter stance on the part of donors towards financial accounting and programme reporting requirements for NGOs. In this context, Smith (2001a: 27) reports that:

- Donors expect more specific and qualitative feedback and planning of projects;

- New reporting formats as a requirement for managing efficiently has been put into place;

- Donors demand tighter control over financial accounts;

- Lengthy tendering processes are attached to many internationally funded projects and

- Donors request the use of particular management tools.

The author found in research undertaken that a number of local NGOs surveyed lacked the necessary capacity to comply with the requirements stated above.

Camay and Gordon (2000: 3- 4) argues that good governance is the key to ensuring effective adjustments to changing circumstances within CSOs and the environments in which they operate. They assert that:

> *Sound governance is a key determinant of effective management and performance. Regular self-assessment of the organisation led by the board with participation from all stakeholders is an important mechanism to monitor both governance and performance against measurable indicators. Where such assessment does not occur, management and governance tends to coast along, eventually resulting in crises, which could have been avoided. Assessment against rules and standards imposed from the outside, for example, by government or by an appropriate umbrella organisation, is another way to measure sound governance.*

Governance has become an issue of worldwide importance. The efficiency and accountability of organisations is a matter of public and private interest. With a significant increase in the number of NGOs, funding and other collaborators have identified governance as a key issue in organisational effectiveness and efficiency (Centre for African Family Studies, 2001). Accordingly, the next section will explore the role of the board of directors in NGOs governance.
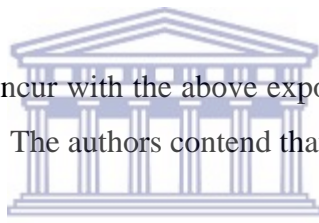
2.4.1 Transformation of NGOs post-election

NGOs should take responsibility for effective, accountable and democratic internal governance, which will enhance its credibility, legitimacy and impact on its constituents

(Camay and Gordon, 2000). Governing bodies in the form of a board of directors play a crucial role in organisational governance as evidenced by a number of authors (Petra, 2005; Sussland, 2005; Spanos, 2005).

NGOs generally require a governing body to provide strategic direction. Governing bodies are either called boards, trustees, executive committees or councils. Governing bodies may have executive or advisory powers. In some instances, boards are accountable to a wider constituency while, in others, accountability of the board is not defined. NGOs which have a membership will conduct annual general meetings where representatives to the governing boards are selected. Criteria for appointment to a board may range from integrity, skills, commitment, availability, personal qualities and so on. Legislation in some African nations governs the operation of boards (Centre for African Family Studies, 2001).

Camay and Gordon (2002:2) concur with the above exposition of a governing board and put forward a formal definition. The authors contend that a governing board is:

> *A group of people representing the diverse interest of an organisation who are elected or appointed to guide and make policy for the organisation. The nature of the board membership, its powers and terms of reference are outlined in the organisation's constitution.*

Furthermore:

> *The governing board is the body ultimately responsible for ensuring sound governance within a CSO. It is the final decision-maker and the legal link between the organisation and society. The individual members of a board also have a fiduciary responsibility to ensure that legal and financial norms are maintained and supported.*

In an international context, the board of directors traditionally acted as referees in private sector organisations. Sussland (2005) contends that this situation has changed. The author argues that today's business requires the board of directors to assume the role of proactive coach where governance emphasises, firstly, procedures, telling it what to do or not to do. Secondly, emphasis is placed on a comprehensive process of governance that

ensures the effectiveness of its activities and, thirdly, the application of psychology to understand the attitudes of the top-managers, are called for.

Many boards of directors use committees to carry out their duties. In larger NGOs committees would deal with finances, programmes and recruitment of board members and specific staff positions (Centre for Family Studies, 2001). In firms, boards utilise audit, compensation and nominating committees to assist it in its functions (Petra, 2005). The board of directors in a number of instances fulfils an auditing, supervisory, coaching and steering role (Strebel quoted in Sussland, 2005).

In Greece for example, family firms dominate the Greek capital market where a board of directors mostly act as a passive organ in the company where its follows the decisions of the management to the detriment of non-family stakeholders (Spanos, 2005). Where board members are friends and family, particularly in NGOs, they cannot always act independently (Centre for African Family Studies, 2001).

The responsibilities of a board contends Petra (2005), may include: understanding and approving the corporation's long-term strategies: understanding the issues, forces and risks that define and drive the company's business, and overseeing the performance of management.

Turning to the South African NGO sector, with specific reference to the role of the board of directors in its activities, the Co-operative for Research and Education (CORE) in a countrywide survey of NGOs conducted between 1997 to 2001, probing NGO governance in South Africa, found that democratic internal governance within NGOs was not widespread (Camay and Gordon, 2004). The survey found that whilst governing boards were comprised of highly skilled people with relevant technical skills and knowledge as well as NGO experience, many boards appeared not to have the capacity necessary to govern institutions which they had to serve. Some board members had a legal background or fundraising skills and others had technical skills. However, in some

cases, these skills were irrelevant in the context of the business of the specific NGO (Camay and Gordon, 2004).

Whilst board meetings are infrequent, relatively short, and feature a compact agenda (Sussland, 2005), many South African NGOs complained about uneven attendance of board meetings and a lack of sustained board member involvement in the organisation (Camay and Gordon, 2004).

The board is responsible for oversight of ethical and appropriate behaviour in and by the corporation (Petra, 2005). Camay and Gordon (2004) concur with this characterisation of boards and contend that South African NGOs surveyed considered their boards to display independence, integrity, loyalty, maturity, a team spirit, self-reliance, principled behaviour based on moral and ethical values, and skills to drive the organisations to the achievement of its mission.

A number of weaknesses exhibited by CSO governing boards in South Africa were recorded by Camay and Gordon (2002: 49-50). Weaknesses are, for example:

- Lack of commitment or interest: Many respondents despaired of the lack of commitment of some individual board members, who were felt to be over-committed to a variety of activities, uninvolved in the organisation, or to have other priorities.
- Attempts to micro-manage the organisation: This occurs particularly in the case of founder-members who displayed a misplaced sense of ownership.
- Poor time management: Board members proved unable to devote time to their board duties. They regularly failed to attend meetings or were ill-prepared for meetings.
- Inadequate funds and fundraising: There was a lack of fundraising experience amongst the board members, staff and director.
- Lack of capacity: Boards displayed an insufficient understanding of CSO governance, had little networking capacity and its age and size at times negatively affected its ability to function properly.

-   Insufficient or inappropriate representation: A diverse group of board members found it difficult to concur on a strategic direction.   The target population is not always well presented.

-   Absence of common vision: There seem to be an inability of the board to agree on a common direction for the organisation due to diverse agendas, interpersonal rivalries, and people who are pro tradition versus new trends.

-   Inadequate attention to governance: There is extensive reliance on the chief executive officer to take decisions, the boards "rubber-stamps" those decisions.

Upon seeking information pertaining to alternative governance structures for NGOs, CBOs or CSOs, alternatives to board of directors that is, Phiroshaw Camay in an email dated 24 August 2006 responded:

> *No. There are no such alternatives in the literature or practice. Boards per se need to be independent of staff and donors and a fiduciary have firming responsibility to protect public interest. Where self-governance takes place, corruption inevitably follows. Where donor or corporate interests manage the NGO/CBO/CSO's their own interests remain paramount and funding is withdrawn if the organisation falls in disfavour. This is the main disadvantage of a single donor approach and therefore multiple donors are preferred. Donors should never be allowed to serve on a Board in my opinion (Camay, 2006).*

In concluding this section, Camay and Gordon (2002) contend that the challenges faced by the South African non-governmental sector prove complicated and propose that suitable solutions based on South African values, goals and contexts be devised.

2.5   AN OVERVIEW OF THE FINANCIAL ARRANGEMENTS OF NGOs (1994 – 2004)

Swilling and Russell (2002) report that the non-profit sector derives funds from a complex range of bodies which include private donor funding from for example foundations such as Ford, Mott, the Open Society, Kellogg, Mellon, Rockerfeller and Carnegie; private sector funding in the form of for-profit organisations engaged in

education, arts, music, drama, environmental activities and so on; government agencies such as Kagiso Trust in the early 1990s and from government and international donors. Since 1994, a number of trends have impacted on the South African NGO sector. The most significant of these can be regarded as the shift in international funding away from the NGO sector to the ANC government's Reconstruction and Development Programme (RDP) which had as its main tenet the eradication of the inequalities of apartheid (Smith, 2001a; Bratton and Landsberg, 1999; Reitzes and Friedman, 2001). According to Bourne and Seager (2000) the government acknowledged the need to develop, change, improve and synchronise policies, frameworks and institutions, while simultaneously accelerating and broadening service delivery. The RDP became the framework not only for government policy but for the allocation of aid (Bratton and Landsberg, 1999).

The switch by international donor agencies to government-to-government relations did not auger well for a number of NGOs. The South African media, during 1994, ran numerous stories on the perceived funding crisis experienced by NGOs, CBOs, CSOs, and the latter's "undefined" relationship and "fit" with the ANC government's Reconstruction and Development Programme (Arcand and Somson, 1994; Smith, 1994; Steyn, 1994; Strachan, 1994; Louw, 1994; Sole, 1994; Manley, 1994; Dangor, 1994; Harding, 1994; Diphofa, 1994, Collinge, 1994; Cohen, 1994; Zille, 1994; Davie, 1994).

In context of the above, the Canadian International Development Agency (CIDA) for example, supported bilateral funding arrangements and contended that the "new" South African government should take responsibility for service delivery (Bratton and Landsberg, 1999). USAID, on the other hand, contended that a plural civil society, including policy advocacy NGOs, was vital to democracy and continued along with other international donors to supply funds to numerous NGOs (Bratton and Landsberg, 1999). A common complaint doing the rounds within the NGO sector beyond 1994 was that the shift in donor support caused the collapse of many NGOs (Smith, 2001b).

Amner and Vergnani in 1995 wrote a special report in the *Leading Edge* on the findings of a survey conducted by the Independent Development Trust (IDT) on the financial

situation of 128 non-governmental organisations (NGOs) and community-based organisations (CBOs). The now outdated survey suggests that the 128 NGOs and CBOs reflected that, by June of 1995, they had a shortfall of R209, 5 million which constituted two-thirds of their combined 1995/6 operating budgets of R343,3 million (Amner and Vergnani, 1995). It can be concluded that the NGO sector suffered a significant decline in donor funding since 1994 (Smith, 2001a). Smith (2001a) set out to prove this notion and conducted a survey where a 105 questionnaires were sent to NGOs involved in development work. These NGOs were randomly selected by means of the Prodder Development Directory dated 2000. One of the objectives of the survey was to assess whether a decline in international funding since 1994 was indeed experienced by the NGO, CBO and CSO sector (Smith, 2001a). The author found that 56% of the NGOs surveyed have experienced some kind of decrease in donor funding over the period between 1994 to 2000. The table below, adopted from Smith (2001a: 21 – 22), provides an illustration.

Table 1.1: Changes in the level of international donor funding 1994 - 2000

Trend	No. of NGOs	Percentage
Decreased steadily	9	39%
Remained constant initially but declined in the last two years	3	13%
Remained roughly constant over the whole period	3	13%
Declined initially but increased in the last two years	1	4%
Increased steadily	1	4%
Only recently received donor funding for the first time	2	9%
Never received donor funding/not answered	4	17%
TOTAL	**23**	**99%***

*Smith (2001a: 22) contends that the above totals may not add up due to rounding off.

The aforementioned table, according to Smith (2001a), reflects that the majority of NGOs have experienced a steady decline in donor funding since 1994. Some have experienced a decline over a two-year period and others experienced an initial decline followed by an increase in funding.

Swilling and Russell (2002) interrogated information around Overseas Development Aid (ODA) during the period 1994 – 1999, as reported by the International Organisation Development. The authors contend that:

- The average level of ODA from all public sector donors for the period was R3 million per annum, or roughly 1 per cent of the annual national government budget;

- Contrary to popular perception, despite a dip in 1997/98, there has not been a decline in ODA since 1994, and there is no conclusive evidence to suggest that a substantial decline is imminent;

- Although funding for NPOs declined after 1994 to a low point in 1995 as ODA switched focus from civil society to government, by 1999, the levels of ODA for NPOs had returned to their 1994 levels;

- Roughly 15 percent of all ODA is directed at non-profit organisations, with the vast bulk of this being grants as opposed to loans (Swilling and Russell, 2002: 59).

Kraak (2000) concurs with the report of the International Organisation Development around the lack of a decline in donor aid (as quoted in Swilling and Russell, 2002) and labelled the "so-called" funding crisis reported by South African NGOs "a myth" rather than a reality. He argues that funding levels in the sector remained stable and some NGOs have reported an increase in funding.

Govender (n.d.) reports on the funding scenario for the civil society sector and intimates that, for the period 1994 – 1999, it was estimated that about R18 billion in international donations was utilised in the form of grants, concessionary loans and technical assistance. The author suggests that 50% of the funding went directly to government,

25% to parastatals, 15% to the civil society sector and 10% to others, and concludes that there has been a decline in funding to civil society and an increase in bilateral funding to the government. Some of the aid, however, directed at government reaches civil society through organs such as the National Development Agency (Govender, n.d.).

In the period 1992 – 94, about 1000 largely welfare organisations, mostly catering for the needs of white communities, were on the brink of collapse as funding normally received from the Department of Welfare dried up. After 1994, ODA assistance shifted to disadvantaged communities (Kihato, 2001).

Kihato (2001) argues that:

> *Problems such as mismanagement of funds, poor or non-existent financial record-keeping, lack of strategic planning and clear and cohesive goals, and the migration of skilled leaders from civil society to government all contributed to the collapse of many CSOs. Foreign funding in the 1980s had therefore served to prop up organisations which would not have survived under normal circumstances.*

The aforementioned author notes that a more stable funding environment would create a more effective CSO sector (Kihato, 2001).

2.6 TOWARDS A NEW ROLE FOR NGOs

Habib (2003) in his writings on the State-Civil Society Relations in Post-Apartheid South Africa and Swilling and Russell (2002) in their deliberations on the size and scope of the non-profit sector in South Africa put forward a quote by Zola Skweyiya, Cabinet Minister responsible for the Department of Social Development, where the latter contends that:

> *The basic twin expectations of government are that NGOs will, firstly, continue to act as monitors of the public good and safeguard the interests of the disadvantaged sections of society. The performance of this social watch role requires both transparency and accountability on the part of the NGOs. The government's second expectation is that NGOs will assist in expanding access to social and economic services that create jobs and eradicate poverty among*

the poorest of the poor. This requires cost effective and sustainable service delivery.

Habib (2003) articulates the notion that three distinct blocs of civil society evolved in post-apartheid South Africa. The first bloc, the author maintains, comprises political restructuring where the formal NGOs sector saw the repeal of repressive legislation ensuring a more enabling environment in which organisations could operate. The second bloc saw transformation in the legal environment where avenues for negotiation were opened up between the South African government and civil society. Fiscal reform, as a third bloc, saw the establishment of an enabling environment where the financial sustainability of NGOs could possibly be insured through the creation of institutions such as the National Development Agency and the Lottery Commission. He further argued that civil society was reconstituted in two ways. Firstly informal, survivalist community-based organisations, networks and associations evolved to enable the poor and marginalised communities to survive the implementation of neo-liberal economic policies. These organisations receive no resources from government and have no formal relationship with it. Secondly, Habib (2003) claimed that civil society reconstituted itself in the form of formal community-based organisations with distinct leadership, membership and a middle class support base. These organisations mobilised the poor and marginalised against the state's neo-liberal social policies. They have an adversarial relationship with government where lobbying for change in government policies through court action and resistance can be witnessed constantly. It can be concluded that civil society enjoys two distinct relationships with the state, one which is collaborative and the other adversarial.

Swilling and Russell (2002) argues that survivalist NPOs may well increase in the face of inadequate service delivery on the part of government and that development NPOs will expand as new resource flows kick in. Factors that may stimulate growth in the NPO sector include:

- increased access to funding if NPOs develop the capacity to take advantage of these opportunities;

- the institutional importance of NPOs as partners for an increasingly constrained public sector;
- the ideological importance of NPOs for a private sector keen to fund the prevention of a neo-Keynesian solution by building and supporting depolitised NPOs, and
- the increasing reliance of poorer communities on community-based NPOs for the bare essentials.

(Swilling and Russell, 2002: 95).

2.6.1 New role for government

As has already been stated, the nature of donor-CSO relations during the apartheid era was largely defined by the apartheid state. At the time, the exclusionary and inhumane politics of the apartheid regime drew CSOs closer to donors sympathetic to the fight against apartheid. The advent of democracy saw a shift in the donor-CSO relationship, with funders forming bi-lateral agreements with the apartheid government. A change in the nature of funding to CSOs was also introduced. (Kihato, 2001; Bratton and Landsberg, 1999). Bi-lateral rather than multilateral ties was the preferred kind of relationship the South African government sought with international donors to defer dependence on external resources (Bratton and Landsberg, 1999).

The chief constraint to development in South Africa is a dependence on government and the lack of local institutions to take forward the development endeavours of communities (Andersson, 1995). Despite this notion, soon after coming into power, the ANC government made it clear that the NGO sector was unnecessarily large, and that only those NGOs who were able to compete with government and the private sector would survive (Stober quoted in Smith, 2001b). The roles of NGOs in the new government was thus questioned (Mehl, 1994). When the funding crisis, however, gripped CSOs in the 1990s, an alarm was raised at both governmental level and in the NGO sector which prompted a debate on whether government should intervene to extend a lifeline to CSOs heading for an early demise (Kihato, 2001). Government sought to reconstitute a relationship with civil society which was largely adversarial during apartheid.

Government in essence realised that civil society could play the role of a developmental partner that could enhance its capacity. It therefore saw the CSO sector as performing a technical and apolitical role (Kihato, 2001). "Social watch" and "service delivery" contend Swiling and Russell (2002: 5) are the neatly captured twin roles for South African NPOs in current government policy for the sector. To make these roles possible, government and leading NPOs have co-created an elaborate legal and policy framework that has defined a new public space for managing relations between the state and civil society and for funding NPOs (Swilling and Russell, 2002). The longer term sustainability of the non-profit sector is intrinsically linked to the improved legislative framework in which the sector operates (Kraak, 2001), a notion that will be explored next.

2.6.2   Role of the National Development Agency and new legislation

Legislative change and restructuring in South Africa is apparent through the establishment of a fiscal, legal and political environment that has facilitated the development of a collaborative relationship between the state and NGOs. Institutions like the National Development Agency (NDA) and the Lottery Commission were established with a mandate to fund legitimate non-profit activity (Habib, 2003). Tax regulations were promulgated in 2000/2001 to grant registered CSOs tax-exemption status and to encourage a philanthropic culture in the country (Habib, 2003; Kihato, 2001). Legislation such as the Non-profit Organisations Act (Act 71 of 1997), for example, lays out in considerable detail a framework for the creation and operation of civil society organisations (Camay and Gordon, 2000; Camay and Gordon, 2004).

The National Development Agency

The Reconstruction and Development Programme (RDP) identified the need for a framework guiding the relationship between government and CSO to facilitate the involvement of CSOs in development activities. The Office of the RDP was assigned to identify ways in which this relationship could be consolidated and two steps were highlighted:

- The establishing of an agency to respond to the immediate needs of NGOs involved in development, and

- Looking at setting up a longer-term institution to co-ordinate the funding of CSOs and promote a sustainable partnership between government and these organisations.

This led to the establishment of the Transitional National Development Trust (TNDT) in October 1995. The TNDT was formally registered in April 1996. Its original mandate was to alleviate the financial crisis facing many CSOs during the transitional period and support those organisations whose activities contributed to the objectives of RDP Policy (Gardner and Macanda, 2003). In 1998, the government contributed funds to the TNDT to distribute to CSOs. R54 million were transferred to the TNDT for disbursement to the National Development Agency, once the latter became a permanent mechanism for government support to CSOs (Camay and Gordon, 2000). The two-year lifespan of the TNDT would end in October 1998.

The establishment of the National Development Agency (NDA) can be linked to a report entitled *Structural Relations Between Government and Civil Society Organisations*, which was presented to the Office of the Deputy President in February 1997. The advisory committee recommended that:

- a statutory body dedicated to grant-making, called the National Development Agency (NDA), be established;

- the Independent Development Trust be reconstituted to work in a facilitation role with government;

- a significant lead-time be given to the establishment of the NDA to facilitate its enactment and its institutional and infrastructural development;

- all systems should be in place for the NDA before it opened its doors to the public;

- the Board and Executive Officer should be appointed by the end of January 1998, and

- the institution should be in place by the end of July 1998.

The NDA Bill's broad objectives were to contribute to the eradication of poverty and its causes by granting funds, promoting debate and dialogue and undertaking research that would provide the basis for development policy. The National Assembly finally passed the NDA Bill on 9 November 1998. The process of transition from the TNDT effectively started in September 1999 and was completed in April 2000. The Ministry of Social Development took responsibility for the NDAs administration and power function (Gardner and Macanda, 2003; National Development Agency, 2003; Camay and Gordon, 2004)

National Lottery

The National Lotteries Board was established as a statutory body in terms of the Lotteries Act (Act No 57 of 1997). The board is accountable to Parliament. The proceeds of the National Lottery are split, with approximately 50% going to prize money and 28% going to a distribution agency. The board is responsible for the administration of the National Lottery Distribution Trust Fund whose funds will be divided between three sectors namely: one charities (welfare organisations); two, art, culture and national heritage and three, sport and recreation. These three categories each qualify for a minimum of 10% of the funds in the Distribution Trust Fund, and a fourth category of "miscellaneous" qualifies for a maximum of 5%. Three distributing agencies, with members nominated by the public, oversee the actual adjudication of funding applications. The National Lottery, however, have been plagued by accusations of delays in the selection of beneficiaries and subsequent pay-outs (Camay and Gordon, 2000; Camay and Gordon, 2004).

Tax regime

As alluded to earlier, following the financial crisis that engulfed civil society after 1994, the government was intensively lobbied to amend the income tax laws in respect of non-profit organisations and some changes have eventually been introduced. Until February 2000, companies could only make tax-deductible donations to formal, educational institutions and a narrow band of charities such as orphanages (Kraak, 2001). The Katz Commission went on to recommend tax relief for NGOs. Government thus realised the

importance of creating an enabling environment in which NGOs could operate. The Income Tax Act (Act 58 of 1962) was amended. NGOs engaged in a number of public benefit activities, loosely defined as organisations carrying out activities of a philanthropic and benevolent nature, which would be eligible for tax relief at the discretion of the Minister of Finance in consultation with the South African Revenue Service (Kihato, 2001; Kraak, 2001; Camay and Gordon, 2000; Camay and Gordon, 2004).

The Non-profit Organisations Act (Act 71 of 1997)

The creation of a legal framework for civil society organisations serves two purposes:

- it enables civil society organisations to establish themselves as legal structures, and

- it regulates the way in which such legal structures operate (Honey, n.d.)

The Non-profit Organisations Act (Act 71 of 1997) repeals the Fund-Raising Act (Act 43 of 1978) (with the exemption of its chapter 2 which deals with disaster and relief funds). The Fund-Raising Act was able to be misused by the apartheid government to control the fundraising endeavours of civil society organisations and often to close them down. The NPO Act is the result of a lengthy policy and legal reform process in which civil society organisations and the state negotiated and made compromises. It came into operation on 1 September 1998 (Honey, n.d.).

The key elements of the NPO Act are:

a) *Definition of an NPO*

The Act defines an NPO as a trust, company or other association of persons

(i) established for public purpose; and

(ii) the income and property of which are not distributable to its members or office-bearers except as reasonable compensation for services rendered (Section 1 (x)).

b)   ***The objectives of the Act***

The Act states that its objectives are to encourage and support non-profit organisations in their contribution to meeting the diverse needs of the population of the Republic by:

(i)   creating an environment in which non-profit organisations can flourish;

(ii)   establishing an administrative and regulatory framework within which non-profit organisations can conduct their affairs;

(iii)   encouraging non-profit organisations to maintain adequate standards of governance, transparency and accountability and to improve those standards;

(iv)   creating an environment within which the public may have access to information concerning registered non-profit organisations, and

(v)   promoting a spirit of co-operation and shared responsibility within government donors and amongst other interested persons in their dealings with non-profit organisations (Section 2).

The above objectives would be met by creating a voluntary registration facility for NPOs.

c)   ***The state's responsibility to NPOs***

Within the limits of the law, government departments should co-ordinate and implement their policies in a way that assists NPOs to carry out their work. The Act provided for the establishment of a Directorate for Non-Profit Organisations within the national Department of Welfare (Camay and Gordon, 2000; Honey, n.d.; Department of Social Development, 2001; Camay and Gordon, 2004).

Codes of Good Practice for South African Non-profit Organisations

The Department of Social Development has developed codes of good practice for South African NPOs in keeping with the requirements of the Non-profit Organisations Act of 1997, after consultation with a representative number of non-profit organisations

throughout South Africa. The codes' particular focus is on governance, administration, fundraising and the donor community. It is hoped that by setting guidelines in place, each organisation that registers under the Non-profit Organisations Act will accept these guidelines and use them to their advantage and to the advancement of the South African non-profit sector (Department of Social Development, 2001).

The Code of Good Practice focuses on three areas, namely:

- Section A: Non-profit organisations (NPO) leadership and management

- Section B: Non-profit organisation Fundraising and Resource Mobilisation

- Section C: Roles and responsibilities of Donors and Sponsors.

(Department of Social Development, 2001).

In concluding this section it is important to note that an organised, vibrant civil society is essential for participatory democracy and development. It is important that everyone involved in the building and strengthening of NPOs understand the legal framework that apply to NPOs and that roleplayers within the NGO sector will be able to choose the appropriate legal structure applicable to their particular NPO (Honey, n.d.).

2.6.3   New partnerships

The demise of apartheid brought about a general perception that after 1994 government, would build strong partnerships with non-profit organisations in key areas of delivery (Kraak, 2001; Kihato, 2001). Bourne and Seager (2000) concur with this notion and contend that it is crucial for governments to form partnership with NGOs in order to reach their constituencies effectively. They maintain that a critical choice is necessary in governments reaching mutual consensus with NGOs through which issues, usually at grassroots level, can be addressed. The alternative, which happens all too often, the authors suggests, is that governments fail to deliver to the poor, abdicate their responsibility and leave NGOs to fill in the gaps.

MacRobert (1992) noted that there must be symbiosis or partnerships between the government, the corporate sector, and the NGOs. The author suggests that it is

impossible for NGOs to relieve all the needs of the disadvantaged people in South Africa and purports that government, donor agencies, the corporate world and other specialists needs to come on board with advice and assistance at the coalface. For the potential symbiotic relationship to be effective in social service delivery, Mehl (1995) proposed that powerful provincial sub-structures be put in place which in turn, will depend on powerful local structures where all spheres of government interact with NGOs and CBOs to deliver the needs of the Reconstruction and Development Programme. Mehl (1995: 40) contends that this would lead to:

-       a democratisation of the processes of policy formulation and delivery mechanisms;
-       a far wider range of input than if government alone were charged with it;
-       a sharing of the fruits of success;
-       a joint responsibility for failing;
-       far more effective processes of monitoring and evaluation, and
-       the reality of supportive government, sharing with and being supported by its subjects.

In the context of the RDP, the expectations on the part of NGOs to form partnerships with government were not unrealistic given the tenets of the government's development programme. Donor agencies redirected overseas development aid from the non-profit sector to government departments. A proportion of this aid was designated for public-private partnerships with NPOs and business (Kraak, 2001).

Despite the scope for partnerships within the new policy framework, the incapacity of the public service, especially at provincial and local levels, implied that government consistently underspent and funds were rolled over from one financial year to the next. (Kraak, 2001). A 1998 study by the Transitional National Development Trust, as quoted in Kraak (2001), highlighted other obstacles in the way of partnerships:

-       attitudinal and bureaucratic obstacles, manifested through distrust of NPOs by government bureaucrats;
-       institutional lack of clarity – failure of government, in the wake of the RDP's demise, to formulate a coherent policy approach for NPOs;

-   institutional capacity constraints – lack of capacity in either NPOs or government departments to manage complex partnership arrangements, and

-   legal obstacles – legal constraints inherited from the apartheid era which hamper government, especially at provincial and local levels, and complicate development projects.

Accordingly many Northern donors were prompted again to increase the level of funding to NPOs after 1997 (Kraak, 2001). The author also reports that NPOs found themselves increasingly at odds with government's failure to deliver because of its continued adherence to the Growth Employment and Redistribution (GEAR) strategy with its emphasis on the market and private investment.

Nonetheless, the nature and the relationship between the state and NGOs according to Fowler, as quoted in Motala and Husy (2001), influence the manner in which support is provided. A collaborative relationship was likely where the state and NGOs shared similar goals and strategies; if the state and NGOs shared goals but not the strategies to achieve them, then a complementary relationship was more likely to succeed. (Fowler quoted in Motala and Husy, 2001). In a collaborative relationship, for example, NGOs seek support via grants and structural subsidies where the secondment of staff to non-state schools or clinics are the order of the day and where the payment of welfare organisations for services rendered on behalf of the Department of Social Development would be commonplace (Motala and Husy, 2001). In this context, NGOs engage in government-designed programmes and act as extensions of government line departments (Andersson, 1995).

Swilling and Russell (2002) maintain that the role of local government will grow in importance over the next few years with profound implications for all dimensions of NPO activity. Trends towards innovative local pacts, put together by small but powerful groups of visionary and creative leaders spanning local governments, NPOs and local businesses, will strengthen (Swilling and Russell, 2002).

2.7   CONCLUSION

The purpose of this chapter was to provide an overview of the historical and contemporary trends and tendencies of governance and financial arrangement of South African NGOs over the last ten years. In particular, attention was paid to NGOs functioning in a new dispensation where the demise of apartheid brought about fundamental changes in the form and function of the state which entailed the restructuring of cooperative governance within the different spheres of government and civil society.

Survival strategies employed by NGOs beyond 1990 were explored where NGOs had to redefine their roles in relation to the delivery of services and to the state. The South African government realised that civil society can play the role of a developmental partner, assuming a technical and apolitical role, which in turn enhances the state's service delivery capacity. In terms of funding strategies, it came to light that CSOs which emerged between 1990 and 1997 enjoyed the status of Section 21 companies or trusts and obtained funds from foreign and domestic sources in the form of consultation fees, service charges, tenders for contracts and private donations. Commercialised activities undertaken by NGOs took the form of consultations, contracts, the selling of services and products, and the introduction of user charges for services delivered to the poor. Certain NGOs continually reinvented themselves as well as their relationship to government in response to changes in the political environment and the strategies of foreign donors. The long-term sustainability of NGOs appeared to be linked to that of improving the institutional environment in which the sector functions. As donors took a much sterner stance towards financial accounting and programme reporting requirements for NGOs, the NGO sector adopted terms such as professionalism and commercialisation where concepts such as efficiency, strategic planning, cost-effectiveness and results-based management were embraced.   In addition to funding from international sources, the South African government established the National Development Agency and the Lottery Commission with the explicit mandate to fund legitimate non-profit activity.

The chapter further explored the policy and legal environment in which NGOs operate. Here particular attention was paid to internal governance structures such as NGO governing bodies. Sussland (2005) maintained that, in today's economic environment, governing boards assume the role of proactive coach, where governance emphasises procedures. Secondly, the board emphasises the process of governance and, thirdly, the board applies psychology to understand the attitudes of top-management. Sound governance was mooted as a key determinant of effective management and performance. Regular self-assessment of the organisation led by the governing board against measurable specified criteria proved an important mechanism to measure sound governance. One commentator, Camay (2006), indicated that a governing board is the only feasible governance structure for NGOs.

Valuable historical and contemporary theoretical expositions of NGO experiences, as lessons for governance and funding arrangements for current South African NGOs, have been gleaned from this chapter.

The next chapter will provide a theoretical overview of governance arrangements, sustainability and funding mobilisation and financial management arrangements within an international context.
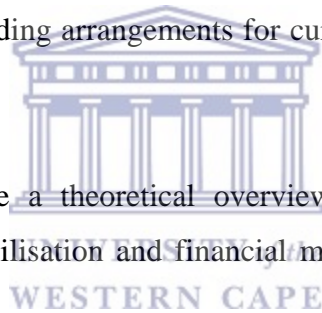
CHAPTER THREE

THEORETICAL OVERVIEW OF GOVERNANCE AND SUSTAINABILITY OF NGOs

3.1   INTRODUCTION

South Africa's transition to democracy has been a journey of almost mythical proportions (Calland, 1997). Its adoption of a new Constitution in 1996 proved the prime symbol of its democracy (Camay and Gordon, 2004). Citizens, CSOs and the for-profit sector became stakeholders with government in governance (Camay and Gordon, 2000). In particular, civil society organisations, as occupants of the space between the individual and government, were now expected to keep a watching brief on maintaining and advancing the principles enshrined in the South African Constitution (Camay and Gordon, 2004).

Around the world, citizens no longer accept the notion that governing societies is the sole responsibility of governments. More and more discussions centre around co-governance where governance refers to a partnership venture between elected officials and the organisations and institutions formed by citizens acting in the interest of the public (Naidoo, 2004).

In many ways, governance has always been a key development issue. Various sectors of society, including multilateral and bilateral aid agencies call for governance and institutional reforms so that sustainable human development can be achieved. (Aldaba, 2002). Improving a country's governance has to link with improving accountability and transparency (Van der Walt, 2004). In the South African context, as numerous CSOs declared their commitment to the building of effective democracy and broad participation in South Africa's social, economic and political endeavours, it became important for these organisations to govern themselves in a way which took responsibility for effective, accountable and democratic internal governance as this would indicate their commitment towards strengthening their credibility, legitimacy and impact as individual CSOs and as a sector (Camay and Gordon, 2004).

The purpose of this chapter is to provide a theoretical overview of governance and sustainability arrangements. In particular, an overview of theories and paradigms which regulate the governance of international institutions and NGOs will be provided.

3.2   AN OVERVIEW OF THE CONCEPT GOVERNANCE

This section explores how the concept "governance" is conceptualised and defined. This task requires recognition, first, that "governance" has gained popularity at both practical and theoretical levels, and that different meanings have been attributed to the concept by different people (Hyden and Court, 2002). These different interpretations, according to Hyden and Court (2002) have developed along two separate lines: The first views governance as being concerned with the rules of conducting public affairs; the second views the concept as a mechanism which steers or controls public affairs.

Olowu (2002: 1) contends that governance has become an important issue in development policy discourse and social science research in the last two decades. Whilst a multiplicity of definitions around the concept of governance prevails, the most popular definition, maintains the author, is used by the World Bank and most other United Nations institutions where governance is defined as: the "the manner in which power is exercised in the management of a country's economic and social development" (United Nations Development Programme as quoted in Olowu, 2002). In their conceptions of governance, leadership as a key factor is consistently emphasised by the aforementioned multilateral institutions (Olowu, 2002).

A second approach to defining governance focuses on sharing authority for public management between state and non-state organisations. A third approach to defining the concept is where it is perceived as a generic term that can be applied to all forms of human organisations be it economic, cultural, religious, military or NGOs (Olowu, 2002).

In the context of the above deliberations, the next section will provide a broader overview of the concept of governance where literature pertaining to constructs such as cooperative governance and corporate governance will be explored.

3.2.1 Governance

Many different meanings, as alluded to earlier, have been accorded to the concept "governance". The English word "governance", according to Wyatt (2004), comes from the Latin word meaning "to steer, guide or direct". The term, the author contends, generally refers to the way in which power is assumed, conveyed, and exercised within a society or an organisation.

The International Monetary Fund (IMF) suggests that "governance" as a generally used term encompasses all aspects of the way a country, corporation, or other entity is governed (International Monetary Fund, 2003). Governance by the state for example is defined, according to Camay and Gordon (2004: 13), as the manner, method or system of governing in a society. It refers to the structure and assignment of offices and their respective areas of responsibility and authority, and how they relate to each other and to the governed. It also relates to the accountability that needs to be exercised, especially of the state or government to the governed. In a similar vein, the UNDP (1997) defines governance broadly as "an exercise of political, economic and administrative authority to manage a nation's affairs".
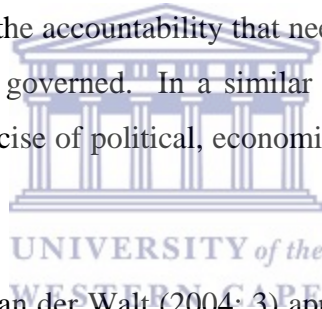
In terms of the public sector, Van der Walt (2004: 3) applies the following definition for "governance". Governance, contends the author, is the acquisition and accountability for the application of political authority to the direction of public affairs and the management of public resources. Governance is further concerned with the management of the development process, involving both the public and the private sector, as well as the rules and institutions that create the framework for the conduct of both public and private business, including accountability for economic and financial performance, and regulatory frameworks relating to companies, corporations and partnerships (Van der Walt, 2004).

Another definition for governance put forward by Du Toit, Knipe, Van Niekerk, Van der Walt and Doyle (2002: 64) implies that governance pertains to the actions undertaken to improve the general welfare of a society by means of the services delivered. It can

further be defined as the connections and interactions between national, provincial and local authorities and the public they serve.

Internal governance of civil society organisations (CSOs) on the other hand, contend Camay and Gordon (2004), refers to the relationship between stakeholders in an organisation and the arrangements arrived at to make the necessary decisions. It involves the arrangements of the structure of the organisation and the inter-relationships within that structure as well as the structure's external relationship to various stakeholders, for example, communities, beneficiaries and government (Camay & Gordon, 2004: 13).

It becomes apparent that the concept "governance", irrespective of the institutional context, implies to "steer, direct or guide". The next section will deconstruct the concept "cooperative governance".

3.2.2   Cooperative governance

The Constitution of the Republic of South Africa Act (Act 108 of 1996) was the culmination of multiparty negotiations which commenced in the 1990s. It laid the constitutional framework for the ushering in of *inter alia*, human rights, democracy, peaceful coexistence and development opportunities for all citizenry. It provides for the notion of a single government that seeks to promote good governance and the assurance of a better quality of life and common citizenship through cooperation (Reddy, 2001).

Cooperative governance constitutes the basic framework of the devolved system of government. It is based on the premise that the three spheres of government namely national, provincial and local, cooperating or acting in harmony with each other, are more likely to address challenges than if they were to act separately or in competition (Reddy, 2001).

Chapter three of the Constitution spells out the parameters for the promotion of cooperative governance and emphasises the fact that the three categories of government have distinct powers and responsibilities (Levy and Tapscott, 2001; Du Plessis, 2004;

Reddy, 2001). It specifies that the three spheres are distinctive, interdependent and interrelated (Constitution of the Republic of South Africa, Act 108 of 1996; Du Plessis, 2004; Reddy, 2001). These three key considerations constitute an integral part of the decentralised South African state (Reddy, 2001). Levy as quoted in Powell (2001) provides working definitions for the aforementioned concepts where "distinctive" according to the author implies that one sphere of government can be distinguished from the other in terms of legislative and executive competencies. It is assumed that the respective sphere of government can best serve public issues. The second concept "interdependent" refers to the interdependence of one sphere of government on another to fulfil its constitutional obligations. Local and provincial governments depend on national and provincial government respectively to undertake their functions. National and provincial government has the responsibility of oversight, empowerment and intervention in the dependent sphere (Levy as quoted in Powell, 2001). The third concept "interrelated" refers to the duty of each sphere to cooperate with one another in mutual trust and good faith for the greater wellbeing of the entire country. Here a duty is imposed on each sphere to avoid litigation against another sphere (Levy as quoted in Powell, 2001; Levy and Tapscott, 2001; Reddy, 2001).
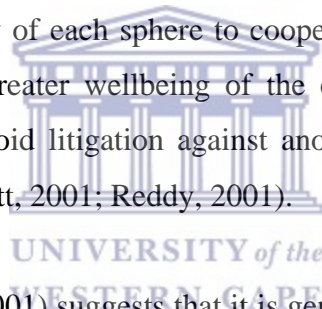
In the above context, Reddy (2001) suggests that it is generally accepted that cooperative governance is founded on a devolved system of government and that the three spheres and stakeholders working harmoniously together are more likely to address challenges than if they were acting on their own or alternatively in competition with one another.

The Constitution prescribes a set of principles for cooperative government and intergovernmental relations where all spheres of government and all organs of the state within each sphere must:

- preserve the peace, the national unity and the indivisibility of the Republic;
- secure the wellbeing of the people of the Republic;
- provide effective, transparent, accountable and coherent government for the Republic as a whole;
- be loyal to the Constitution, the Republic and its people;

- respect the constitutional status, institutions and powers and functions of government in the other spheres;

- not assume any power or function except those conferred on them in terms of the Constitution;

- exercise their powers and functions in a manner that does not encroach on the geographical, functional or institutional integrity of government in another sphere;

- cooperate with one another in mutual trust and good faith by:

  - fostering friendly relations;

  - assisting and supporting one another;

  - informing one another of, and consulting with one another on matters of common interest;

  - coordinating their actions and legislation with one another;

  - adhering to agreed procedures, and

  - avoiding legal proceedings against one another.

(Constitution of the Republic of South Africa, Act 108 of 1996).
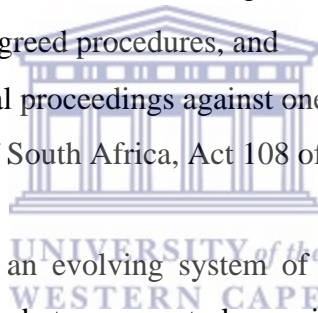
Intergovernmental relations as an evolving system of institutional cooperation extend beyond the traditional relations between central, provincial and local government. It should include relations with the private sector, labour, NGOs, political parties, parastatals and the impact of internationalisation and globalisation (Reddy, 2001).

The Constitution refers to the establishment of structures and institutions for the promotion and facilitation of intergovernmental relations (South Africa, 1996). In this regard the Chief Directorate Co-operative Governance and Provincial Affairs endeavours to enhance cooperative governance. It comprises of three directorates namely:

- Provincial Government
- Boundary Disputes, and
- Intergovernmental Relations

The work of this division is focused mainly on establishing and upholding systems of mutual cooperation among all spheres of government. This involves supporting

provincial government in its efforts to achieve effective constitutional governance, and promoting the principles and practices of multilateral cooperation, including intergovernmental relations and cooperative governance (Chief Directorate: Co-operative Governance and Provincial Affairs, 2005).

Cooperative governance is a unique governance model which embodies the best ideals of the new democracy (Cloete, Kulati, Moja & Olivier, 2003). Within South African higher education institutions, for example, cooperative governance starts from the premise that no single stakeholder can take sole responsibility for determining an institutional transformation agenda. In order for cooperative governance to work, higher education institutions must create structures and conditions that will enable the differences between stakeholders to be negotiated in participatory and transparent ways (The White Paper on higher education transformation, 1997 as quoted in Cloete, et al., 2003).

Whilst cooperative governance is a constitutional imperative it needs to be moved beyond principles into reality if South Africa's urgent development imperatives are to be met within a realistic timeframe (MacKay and Ashton as quoted in Du Plessis, 2004).

3.2.3   Corporate governance

Corporate governance, a term that scarcely existed before the 1990's, is now universally invoked wherever business and finance are discussed. The term corporate governance carry different interpretations and its analysis involves diverse disciplines and approaches (Keasey, Thompson & Wright, 2005). Sir Adrian Cadbury in his analysis of corporate governance contends that the concept is concerned with holding the balance between economic and social goals and between individual and communal goals. The aim, Cadbury contends, is to align as nearly as possible the interests of individuals, corporations and society (King Report, 2002). Mervyn King, on the other hand, describes corporate governance as simply the system by which companies are directed and controlled (King as quoted in Wixley and Everingham, 2005). Wixley and Everingham (2005) expand on this notion and suggest that corporate governance more

specifically is concerned with the structures and processes associated with management, decision-making and control in organisations.

The modern process of corporate governance reforms started in the United Kingdom with the establishment of the Cadbury Committee on Financial Aspects of Corporate Governance in 1991. This committee was established in response to three areas of concern. Firstly, anxieties were expressed over the use of "creative accounting" devices (Whittington quoted in Keasey, Thompson and Wright, 2005; Wixley and Everingham, 2005). Secondly, concerns over a number of corporate failures attributed to concealed financial weaknesses by high-profile, domineering CEOs were raised. The rapid growth in executive remuneration which was not linked to the organisation's performances, was highlighted as a third concern (Keasey and Wright as quoted in Keasey et al. 2005; Wixley and Everingham, 2005). It was the Cadbury Report, which appeared in the United Kingdom in 1992, that gave rise to improved standards of corporate governance in the United Kingdom particularly (Wixley and Everingham, 2005).

South Africa too had a number of corporate failures in the early 1990s. Corporate scandals fuelled by devious and secretive business practices had their roots in the apartheid era when the country was ostracised by the international community (Wixley and Everingham, 2005; Keasey et.al, 2005). The King Committee on Corporate Governance was formed in 1992 under the auspices of the Institute of Directors to consider corporate governance, of increasing importance around the world and in South Africa. This concurred with social and political transformation in the country and its readmission into the community of nations and the world economy. The King Committee, in 1994, successfully formalised the need for companies to recognise that they no longer act independently from the societies and the environment in which they operate (King Report, 2002).

The main components of corporate governance involve direction, executive action, supervision, and accountability of the enterprise concerned. The first recommendation of the King Report of 2002 is that the board must give strategic direction to the company

(Wixley and Everingham, 2005). In line with the aforementioned notion, Chris van Melle Kamp, a partner in the employment agency Spencer Stuart, maintains non-profit organisations are taking a much more disciplined approach to how they structure and run their boards as the spotlight on corporate governance begins to permeate the non-profit sector (Management Today, 2005).

3.2.4   Other facets of governance

James Wolfensohn in an address to the Board of Governors of the World Bank Group in September 1999 maintained that if countries do not have good governance or tackle corruption or have an adequate legal system which does not protect human rights, property rights and contracts, the development of such countries would be fundamentally flawed. Weak governance is increasingly seen to be at the core of economic development challenges where misguided resource allocation, excessive government intervention and arbitrariness and corruption have deterred private sector investment and slowed growth and poverty-reduction efforts in a number of settings (World Bank, 2000). The IMF concurs with the World Bank on the notion of poor governance and contends that, where there is poor governance, there are greater incentives and more scope for corruption (International Monetary Fund, 2003).

Whilst the foregoing sections explored various definitions of the concept "governance", this section will pay attention to other facets of governance, in particular the concept "good governance".

The terms 'governance' and "good governance" are being used with growing regularity in development and public management literature. "Bad" or "poor" governance is increasingly regarded as one of the root causes of evil in societies worldwide. Increasingly, major donors and international financial institutions are basing their aid and loans on the condition that reforms be undertaken to ensure "good governance" (Van der Walt, 2004).

Camay and Gordon (2004) prefers to use the terms "sound governance" instead of "poor governance" and maintain that "sound governance" is participatory, transparent and accountable where the implementation of government policy will succeed if affected citizens and CSOs are directly involved in the entire process. Citizens, CSOs and the for-profit private sector are stakeholders with government in governance, the authors contend (Camay & Gordon, 2004).

Good governance according to Van der Walt (2004) has eight major characteristics, namely:

a)   Participation

Participation by citizens is a key cornerstone of good governance. Participation could either be direct or through legitimate intermediary institutions or representatives. Participation needs to be informed and organised which implies freedom of association and expression on the one hand and an organised civil society on the other (Van der Walt, 2004).

b)   Rule of law

Good governance requires fair legal frameworks that are enforced impartially. Impartial enforcement of laws requires an independent judiciary and an impartial and incorruptible police force (Van der Walt, 2004).

c)   Transparency

Transparency means that decisions taken and their enforcement are done in a manner that follows rules and regulations. Information should be freely available and directly accessible in a form of media that is easily understandable (Van der Walt, 2004).

d)   Responsiveness

Good governance requires that institutions and processes try to serve all stakeholders within a reasonable timeframe (Van der Walt, 2004).

e) *Consensus oriented*

There are many actors and several viewpoints in a given society. Good governance requires mediation of the different interests in society to reach a broad consensus in society on what is in the best interest of the whole community and how this can be achieved. It also requires a broad and long-term perspective on what is needed for sustainable human development and how to achieve the goals of such development. Understanding the historical, cultural and social context of a given society proves paramount (Van der Walt, 2004).

f) *Equity and inclusiveness*

A society's well-being depends on ensuring that all its members feel part of the mainstream of society. A key responsibility of government is to ensure that the benefits of economic growth are equitably distributed across society. Taxation and expenditure measures are prominent instruments for this purpose (Van der Walt, 2004).

g) *Effectiveness and efficiency*

Good governance means that processes and institutions produce results that meet the needs of society while making the best use of resources at their disposal. The concept of efficiency in the context of good governance also covers the sustainable use of natural resources and the protection of the environment (Van der Walt, 2004).

h) *Accountability*

Accountability is a key requirement of good governance. Not only governmental institutions but also the private sector and civil society organisations must be accountable to the public and to their institutional stakeholders. In general an organisation or an institution is accountable to those who will be affected by its decision or actions. Accountability cannot be enforced without transparency and the rule of law (Van der Walt, 2004).

The contribution that the IMF can make to good governance (including the avoidance of corrupt practices) through its policy advice and, where relevant, technical assistance, manifests itself principally in two spheres:

- Improvement of the management of public resources through reforms covering public sector institutions, for example, the treasury, central bank, public enterprises, civil service, and the official statistics function, including administrative procedures, for example, expenditure control, budget management and revenue collection.

- Support for the development and maintenance of a transparent and stable economic and regulatory environment conducive to efficient private sector activities, for example: price systems, exchange and trade regimes, and banking systems and their related regulations.

(International Monetary Fund, 2003)

The World Bank's interest in governance stems from its concern about the effectiveness of the development efforts it supports. Its emphasis in recent years has shifted from its own interventions to the overall country context, that is, the governance climate within which those interventions take place. It has been guided by the nature of the operations and the opportunities for action that these offer. Key dimensions of governance identified by the World Bank are:

- public sector management;
- accountability;
- legal framework for development, and
- transparency and information.

(Van der Walt, 2004)

The World Bank prefers to draw a distinction between elements of good governance and the specific areas of action, for example: public sector management in which such elements could be promoted or their existence enhanced. Accordingly, four basic elements of good governance were identified namely: accountability, participation, predictability and transparency (Van der Walt, 2004).

a)   Accountability

Accountability is imperative if public officials are to be made answerable for government behaviour and responsive to the entity from which they derive their authority. Accountability means establishing criteria to measure the performance of public officials, as well as oversight mechanisms to ensure that the standards are met. Lack of accountability tends to reduce the state's credibility as an economic partner. Economic accountability relates to the effectiveness of policy formulation and implementation, and efficiency in resource use. Financial accountability covers accounting systems for expenditure control, and internal and external audits (The World Bank, 2000; Van der Walt, 2004; UNDP, 1997).   Accountability on the part of NGOs implies the demonstration of the effective and efficient use of resources. An accountable NGO is transparent, readily opening its accounts to donors and beneficiaries for scrutiny (Waytt, 2004).

b)   Participation

People are at the heart of development. They act through groups or associations such as trade unions, chamber of commerce, NGOs, political parties and as individuals through writing letters to newspaper editors, voting in an election and so on. Accordingly they must have access to representative democracies, which promote development (The World Bank, 2000; Van der Walt, 2004; UNDP, 1997).

c)   Predictability

According to the World Bank, predictability refers to the existence of laws, regulations and policies to regulate society and their fair and consistent application. Without predictability, the orderly existence of citizens and institutions would be compromised. The rule of law encompasses well-defined rights and duties, as well as mechanisms for enforcing these and for the impartial settling of disputes. It requires the state and its subsidiary agencies to be as much bound by and answerable to the legal system as are private individuals and enterprises (Van der Walt, 2004).

d)   Transparency

Transparency refers to the availability of information to the general public and clarity about government rules, regulations and decisions. It both complements and reinforces predictability. It may be used to strengthen the citizens' right to information with a degree of legal enforceability.   Transparency in government decision-making and public policy implementation reduces uncertainty and can help inhibit corruption among public officials.   A major development in good governance internationally has been governments' commitment to making public important information about the outcomes of policy especially fiscal, economic and business policies (The World Bank, 2000; Van der Walt, 2004; UNDP, 1997).

The four elements of governance holds, Van der Walt (2004), tend to be mutually supportive and reinforcing. Accountability, he argues, is often related to participation and is also the ultimate safeguard of predictability and transparency.

In the context of the NGO sector, NGOs have the responsibility to think about governance practices.   Good governance established at the outset encourages organisational stability and balanced decision-making (Wyatt, 2004).

3.3   GOVERNANCE: THE RELATIONSHIP BETWEEN THE STATE AND NGOs

Governance includes the state, but transcends it by taking cognisance of the private sector and civil society. Good governance entails constructive interactions among all three sectors (UNDP, 1997).

Civil society organisations may provide checks on government power. In doing so, they may contribute to better governance by enhancing the accountability and transparency of the political system. The CSOs may also contribute to policy formulations, safeguard rights, articulate interests, and deliver social services.   Such action may enhance efficiency and participation in public affairs and strengthen the rule of law, all tenets of good governance (UNDP, 2003).   Conversely, governments can impact NGOs by

creating an enabling environment in which they can function (Clark, 1993). Such enabling environment, suggests Clark (1993), would include the following best practice lessons:

- Nature and quality of governance (Good governance includes social policies which encourage a healthy civil society and public accountability of state institutions);

- The legal framework (registration, reporting requirements, sound management discipline, eliminating restrictive laws and procedures, and so on);

- Taxation policies;

- Collaboration with NGOs;

- Public consultation and information (policy impact of NGOs);

- Coordination (role of governments in coordinating NGO activities); and

- Official support (government funding, official contracts).

All the above areas, Clark (1993) cautions, have the potential for conflict, be it conflict between NGOs and the government, or between different NGOs and even within an individual NGO.
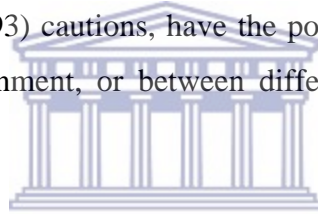
The influence of NGOs on political, economic or social endeavours in a particular country are determined in many instances by the relationship between the NGO sector and the state. General trends in the Asia-Pacific region, for example, in terms of government views and treatment of the non-profit sector are put forward by the Asia Pacific Philanthropy Consortium (2003). Both positive and negative trends are quoted. Among the positive trends are:

- increased opportunities for NGOs to be represented in the different government bodies, impacting on government decision-making processes;

- collaborative partnerships between government and developmental NGOs;

- self-regulation among NGOs and preference for less regulation, and

- collaboration and alliance among NGOs that strengthen its ability to deal with government in advocating their causes.

(Asia Pacific Philanthropy Consortium, 2003).

Some of the negative trends quoted include:

-    increased government control over the NGO sector, attributed to the sector's lack of sufficient accountability and performance management control mechanisms and
-    mutual distrust between the NGO sector and governments.

(Asia Pacific Philanthropy Consortium, 2003).

In Kenya where the NGO sector has assumed the role of a micro-actor in service delivery, friction has been experienced between the NGO sector and the state (Oyugi, 2004). Oyugi (2004) observes that:

-    The impact of NGOs has been felt especially in the time of national crisis such as famine.
-    The mode of NGO operation has been contentious. NGOs tend to work directly with beneficiaries instead of through state agencies. Still, the spirit of co-existence has emerged between the state and the NGO sector.
-    The relative operational autonomy enjoyed by the NGO sector lies in its financial sustainability. NGOs rely on financial resources from outside the country. This situation has caused tension between the state and the NGO sector.
-    NGOs have forced the state to relax its authoritarian character in the conduct of public affairs.

In light of the above, Oyugi (2004) believes that the role of Kenyan NGOs in both development and governance is bound to increase with time.

Whilst the civil society sector can be strengthened, in particular its governance endeavours, the role of the state in providing certain basic services should not be dismantled (Arnove and Christina, 2002).

3.4   CORPORATE GOVERNANCE

The King Committee's second report, as alluded to earlier in the text, made public on 26 March 2002, is South Africa's contribution to the drive for better corporate governance.

The King Report contains a Code of Corporate Practices and Conduct ('the Code'). The recommendations made are voluntary. The Code places a duty and responsibility on all boards and individual directors to ensure that its principles are observed. Though the Code only applies to certain categories of business, companies falling outside the categories listed should consider application of the Code so far as applicable (Wixley and Everingham, 2005; The King Report, 2002).

The King Report is divided into 6 sections. namely:

-	board of directors;

-	risk management;

-	integrated sustainability reporting;

-	accounting and auditing, and

-	compliance and enforcement.

(Wixley and Everingham, 2005; The King Report, 2002).

In line with the King Report, the Management Trustees of the Nelson Mandela Children's Fund, for example, ensure that the Fund's policies continue to meet current requirements, and the terms and covenants of the Trust Deed approved by the Master of the Supreme Court. These policies would pertain to duties of the full Board of Trustees, and to the delegation of authority to the Management Trustees Committee and to various sub-committees (Nelson Mandela Children's Fund, n.d.).

In their report on CSO Governing Boards in South Africa, Camay and Gordon (2002) proclaims that it is essential for CSOs to focus on their internal organisational health and governance as sound internal governance, according to the authors, is a prerequisite for CSOs' attempts to hold their government accountable in turn.

In line with the above deliberations, the purpose of the next section is to explore corporate governance in the context of governance within NGOs; leadership accountability; transparency; the relationship between the governing board and the CEO and management capacity.

3.4.1   Governance within NGOs

In a highly competitive and globalised environment characterised by funding withdrawals on the part of donors (Naidoo, 2004) and a range of questions by governments and other stakeholder on accountability, transparency, value addition, legitimacy and overall credibility of NGOs, good corporate governance has emerged not only as a tool to enhance professionalism but, more crucially, to ensure that NGO interventions are effective, sustainable, efficient and positively perceived by all stakeholders including governments, beneficiaries and donors. The credibility of an NGO can be improved by adherence to the principles and practices of good corporate governance (The National Association of Non-governmental Organisations in Zimbabwe, 2005).

An integral part of corporate governance is clarity of role of the boards, the policy-making governing structure of the entity, and management, the operational arm of the organisation. How these roles are defined and executed determine the power relations, balance of authority and the extent to which an organisation will be run smoothly, effectively and professionally (Camay and Gordon, 2002; The National Association of Non-governmental Organizations in Zimbabwe, 2005).

The corporate governance framework of an NGO should ensure the strategic guidance of the NGO, the effective monitoring of the NGO management by the board, and the Board's accountability to its stakeholders, its clients, the government, donors and the community (Government of the Hong Kong Special Administrative Region, 2002).

Good governance can be achieved through a variety of structures, hold Wixley and Everingham (2005). The classical one, often referred to as the Anglo Saxon model, derives from the UK Companies Act of 1844, which enshrined the concept of the company as a legal entity separate from its owners. In this context, governance is achieved by a single board of directors appointed by the members and reporting to them on the stewardship of the enterprise. The members would appoint independent auditors to report on the fairness of presentation on the financial statements. The practice evolved of appointing full-time executive directors (typically managing director or chief executive

officer), as well as having a number of non-executive directors (Wixley and Everingham, 2005; Keasey et al. 2005).

Germany best illustrates the system of corporate governance in Europe. Their system entails two boards of directors:

- a supervisory board, with no executive powers, but with the authority to appoint, approve or remove a manager of the board (both employees and shareholders are represented on the supervisory board);
- a management board, responsible for the ongoing management of the enterprise and with the responsibility of reporting to the supervisory board at regular internals.

(Wixley and Everingham, 2005).

The UK model is the basis of the system of governance, which applies in South Africa. The King Report (2002) recommends that the unitary board structure remains appropriate for South African companies, given the positive interaction and diversity of views that take place between individuals with different skills, experience and background (King Report, 2002; Wixley and Everingham, 2005).
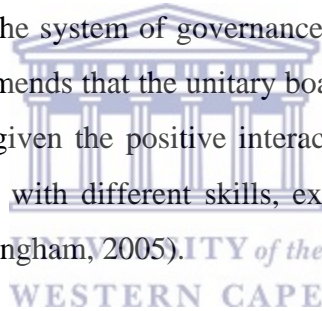
Each NGO is unique, and the particular arrangements it puts into place for good corporate governance will be influenced by that uniqueness (Government of the Hong Kong Special Administrative Region, 2002). Irrespective of the diverse interests and endeavours by NGOs, an NGO's basic documents such as the act of incorporation, statutes, charter and rules of operation can establish a basis for good governance by including the following information about the governing body or bodies (in addition to any other information required by law):

- Name of the governing body or bodies;
- Highest and principal governing bodies, with their relationship to other organisational entities;
- Basic responsibilities and powers;
- Duties of individual board members, such as loyalty and confidentiality;

- Minimum number of board members;
- Membership rules (including eligibility, suspension and expulsion);
- Terms of office (length of terms, limits on re-election);
- Minimum number of board meetings per year;
- Method of convening meetings;
- Decision-making procedures (number needed for quorum, how to vote and recording of decisions), and
- Conflict of interest provision.

(Wyatt, 2004).

In the South African context, according to the Department of Social Development: Directorate Non-profit Organisations (2001), an NPO governing body:

- Determines the organisation's mission and purpose;
- Selects and appoints the chief executive officer (CEO);
- Supports the CEO and reviews his or her performance;
- Ensures effective organisational planning;
- Ensures the organisation has adequate resources;
- Manages the organisation's resources effectively;
- Determines and monitors the organisation's programme and services;
- Enhances the organisation's public image;
- Serves as a court of appeal, and
- Measures its own performance.

Many NGOs are adopting best practice and tackling governance issues. These NGOs carefully peruse their board composition in order to support stronger corporate governance. As transparency and accountability are no longer confined to the corporate sector, NGOs need to ensure that their boards have the necessary expertise in auditing, budgeting, financial governance and diversity (Management Today, 2005).

3.4.2 Leadership accountability

Leadership refers to strategic management that is to be carried out by the members of the governing body and the chief executive officer. Leadership is the process of establishing direction and influencing others to follow that direction. Governing bodies strategise on the direction organisations should take, and the overall management and programme priorities. Good leadership seeks to develop a clear vision and mission for an organisation, and conducts planning that determines the goals needed to achieve the vision and mission. Often the leadership style adopted, for example, autocratic, democratic, participatory or *liassez faire* depends on the situation that prevails and the life cycle of the NGO. Effective leadership requires vision and commitment, and individuals who start NGOs require both. To ensure institutional sustainability, it is imperative that institutional power and leadership is not vested in one individual (Centre for African Family Studies, 2001; Odiorne, 1969; Greenberg and Baron, 1997).

Accountability in NGOs is receiving increased attention. Beneficiaries are becoming more informed about what to expect from NGO services and are thus becoming more critical. Funding agencies are also becoming more insistent about accountability. These factors are increasing the pressure on NGOs to have policies, standards and benchmarks for services which the beneficiaries can understand so that they can make comparisons and judgements (Centre for African Family Studies, 2001).

Accountability refers to the final responsibility for the successes or failures of an organisation. This final accountability rests with the governing body, which delegates this function to the chief executive officer (Centre for African Family Studies, 2001). Accountability can also be regarded as the relationship which comes into existence when a task is delegated by one party to another. The reporting may be implicit or explicit (The World Bank, 2000). For an NGO, being accountable implies being able to demonstrate regularly that it uses resources wisely and that it does not take advantage of its special privileges to pursue activities contrary to its non-profit status. An accountable NGO is transparent, readily opening its accounts and records to public scrutiny by funders, beneficiaries and other stakeholders (Wyatt, 2004).

Some commentators speak about upward accountability (to funders, donors, governments or other external actors, often in the context of accounting for resources or the fulfilment of particular service targets) and downward accountability (to constituents such as community groups, activists, or other beneficiaries of CSO activities). Others speak of horizontal accountability referring to the relationship that exists between civil society actors, who see themselves as part of a public process rather than part of a competitive culture (Naidoo, 2003).

According to the King Report (2002), corporate governance is essentially about leadership. In the absence of transparent and accountable leadership, business leaders cannot be trusted. This will lead to the decline of organisations and the ultimate demise of the country's economy.

Management or leadership within an NGO, centred on a particular individual, can be problematic. In this context, the chairperson may also be the founder of the NGO and most organisational decisions are taken by him or her. In the absence of the aforementioned chairperson, the activities of the organisation may come to a halt (Centre for African Family Studies, 2001).
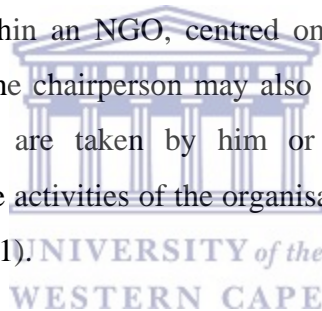
In order to ensure accountable leadership, the Department of Social Development, Director – Non-profit Organisations (2001) proposes that the CEO takes responsibility for leading organisational processes and activities and suggests that the staff leadership should:

- Endeavour to understand the organisation inside and out;
- Provide policy guidance and leadership to the governing body. Staff policies must adhere to the relevant legislation and must protect the rights of employers, employees, members and volunteers;
- Manage, direct and implement all services, fundraising and administration operations, programmes and activities of the organisation;
- Implement the policy decisions and directives of the governing body;
- Uphold and adhere to the constitution and policies of the organisation;

- Educate the governing body regarding their unique and also overlapping roles and responsibilities with the staff;

- Report regularly to the governing body and otherwise ensure that the board is kept informed of all the organisation's activities;

- Advise the governing body in a timely fashion of any developments that may affect the organisation's wellbeing;

- Establish and maintain effective internal communication systems;

- Maintain effective financial controls, approve all financial disbursements and otherwise monitor all financial and accounting activities of the organisation;

- Prepare annual budgets with the assistance of the staff, the treasurer (if appointed) and finance committee (if appointed);

- Hire, supervise, evaluate and fire staff. Develop adequate and acceptable systems of assessing skills, experience and qualifications, levels of responsibility and performance, and remunerate on this basis. Have clear and transparent procedures for employing new staff and disengaging staff;

- Encourage and support the involvement of volunteers;

- Maintain the organisation's records, files, documents and archives;

- Enter into contracts with suppliers on behalf of the organisation, with the approval of the governing body;

- Represent the organisation to other organisations, the media and the public at large;

- Prepare meeting agendas, staff notices, reports, daily correspondence and other necessary internal and external communications, and

- Maintain confidentiality of sensitive information.

(Department of Social Development, 2001).

3.4.3 Transparency

Transparency is the ease with which an outsider is able to make meaningful analysis of a company's actions, its economic fundamentals and the non-financial aspects pertinent to that business. This is a measure of how good management is at making the necessary information available in a candid, accurate and timely manner, not only the audit data but

also general reports and press releases. It reflects whether or not investors obtain a true picture of what is happening inside the company (The King Report, 2002).

Worldwide, the non-profit sector executes a wide range of humanitarian and other public works, which are indispensable in fundamental areas of human life. Conversely, evidence exists that non-profit organisations have been exploited for the financing of terrorism, for example, and other kinds of criminal abuse (European Commission, 2005). To protect the non-profit sector and to strengthen donor integrity and confidence, higher standards of transparency and accountability are called for, in the same way that NGOs demand accountability and transparency from governments, businesses, educational institutions and other organisations (European Commission, 2005; ePublic Relations, 2002).

NGOs, unlike elected governments and owned businesses, lack an adequate, clearly defined basis on which they can be held to account. The challenge for NGOs holds Michael Edwards, as quoted in Zadek (2003), is to show that they can put into practice the accountability principles that they campaign for in others. Few NGOs are obliged or voluntarily choose to publish systematic, externally audited accounts of their performance. Their senior management and board members are seldom challenged by supporters and rarely stand for election or other form of external scrutiny except for when financial fraud has been uncovered. Accountability to beneficiaries on the one hand tends to be informal and to funders, on the other, too bureaucratic, yet personalised and archaic. Resources to NGOs are awarded, more often than not, on the basis of personal relationships rather than on the past and future performance of NGOs (Zadek, 2003).

Transparency and accountability to clients, partners, volunteers and donors in Ukrainian CSOs, for example, can be enhanced according to Kuts (2001) by putting in place appropriate activities. Activities could include the development of appropriate procedures on internal monitoring, control and reporting in CSOs. The construction of a national legal framework, within which CSOs can function, will also enhance

transparency. If these activities are pursued, the internal organisational ethics will be strengthened (Kuts, 2001).

The European Commission (2005), in its draft discussion document on recommendations to Member States regarding a code of conduct for non-profit organisations to promote transparency and accountability best practices, suggests oversight mechanisms in the fight against the misuse of NPOs. The Commission proposes that competent authorities be assigned to oversee the non-profit sector in Member States. The oversight role of the competent authority should include, for example:

- Publicly accessible registration systems for NPOs operating in their territory;
- The provision of guidance to NPOs on financial transparency, explanations on the vulnerability of the sector, risk indicators, and guidance on the identification of suspicious activities;
- The requisition of further information where an NPO may be operating unlawfully, and
- The execution of effective and regular tax audits of non-profit organisations receiving special tax treatment by the tax authorities.

Registration, enhanced transparency and accountability standards, contends the European Commission (2005), confirm a visible status for NPOs and will assist in the acquisition and maintenance of public trust and the credibility of the work of the NGOs.

In the South African context, the Codes of Good Practice for South African Non-profit Organisations suggests that it is in the best interests of the organisation, its governance and leadership to enhance standards of accountability and transparency by having:

- A clear mission to drive the organisation and its programmes;
- Carefully selected governance, staff leadership and competent staff and volunteers in office, people who can be trusted;
- An effective strategic plan of action, with controls in place to monitor and evaluate progress. Opportunities must be provided for beneficiaries to be involved in the planning processes, regular evaluations and updating of programmes and projects;

- Policies and systems in place to ensure that resources are optimally used;
- Accounting systems and controls in place that ensure the transparent and effective handling of money and resources, and
- An organisation that is willing and open to public enquiry and questioning. Transparency is fostered by providing timely, accessible and accurate information on the organisation and its activities to donors and others. Its annual general meeting must be held with full, open and accurate disclosure of relevant information concerning goals, programmes, finances and governance.

(Department of Social Development, 2001).

3.4.4 The relationship between the governing board and the CEO

The separation of governance and management involves a division of both duties and personnel. The usual rule is that management runs the organisation from day-to-day, while the board sets policy, oversight, and strategically guides the organisation (Wyatt, 2004; Centre for African Family Studies, 2001; Block, 2001). The main areas of board responsibility are, for example:

- safeguarding the vision and the mission, integrity, objectives and policies of the organisation;
- setting of values and standards;
- Ensuring high standards of planning, operation, administration, evaluation and reporting in the organisation;
- Ensuring that statutory obligations are met;
- Ensuring that adequate resources are available to the organisation for all aspects of its work and administration, and
- Ensuring that resources provided to the organisation are used for their intended purpose and are properly accounted for.

(An NGO Training Guide for Peace Corps volunteers, n.d.; Wyatt, 2004; Commonwealth Foundation as quoted in Camay and Gordon, 2002; Block, 2001).

The King Report (2002: 23) suggests that organisations be headed by an effective board which can both lead and control the organisation, and goes on to require that:

> The board comprise a balance of executive and non-executive directors, preferably with a majority of non-executive directors, of whom sufficient should be independent of management so that shareowner interests (including minority interests) can be protected.

There should also be an appropriate balance of power and authority on the board, such that no one individual or block of individuals can dominate the boards' decision-making. The board should seek to ensure an adequate mix of skills and experience and diversity in demographics to enable them to operate effectively (The King Report, 2002; Wixley and Everingham, 2005).

Lately, according to Carver and Carver (2001), there has been increasing interest in the composition, conduct and decision-making of nonprofit governing boards. Board-staff relations have been under scrutiny as well as trustee characteristics, the board's role in planning and evaluation, committee involvement, fiduciary responsibilities, legal liability, and so on.
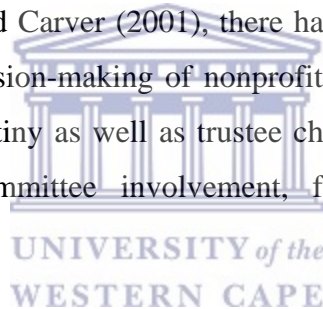
In terms of the board composition, The Commonwealth Foundation, as quoted in Camay and Gordon (2002), contends that members of the boards of NGOs may be either nominated or elected, according to the dictates of the legal entity adopted. They may delegate responsibility to others including the paid staff, but must accept ultimate responsibility for governance over all aspects of the NGO. Preconditions for board recruitment include identifying the governance needs of organisations in transition and discovering the characteristics and qualities to be found in new board members (Block, 2001).

It is important to clarify the hierarchical relationship between the board and the CEO. The board may spell out its expectations of the CEO by constructing a job description which generally includes the following duties:

- Hiring, firing and supervising the staff;

- Managing and evaluating programmes and operations;

- Identifying, acquiring and managing resources;

- Preparing an annual budget;

- Proposing policies and strategic initiatives to the board;

- Communicating with stakeholders;

- Promoting the organisation in the community, and

- Supporting the board in its work.

(Wyatt, 2004; An NGO training guide for peace corps volunteers, *sc*. The King Report, 2002).

The executive board is led by a chairperson. In many organisations the role of the chairperson is filled by the CEO. This duality of positions (the CEO also serving as chairperson of the board) places the CEO in the powerful position of managing the operations of the organisation and also overseeing the future direction of the organisation. As chairperson, the CEO is responsible for running the board meetings, setting agendas and overseeing the processes of hiring, firing and compensating top management, including the CEO (Wyatt, 2004; Petra, 2005). When the CEO also holds the dual position of chairperson, a potential conflict of interest arises. This model of corporate governance may not be an appropriate structure for all non-profit organisations (Block, 2001). To avoid these conflicts of interests, some commentators such as Wixley and Everingham (2005) have advocated for the separation of the positions of CEO and chairperson by having the position of chairperson filled by an outside independent person (Petra, 2005).

A separation of the respective roles of the board and the NGO management is important. In the **planning** function, for example, management is responsible for:

- Directing the process of planning;

- Providing input to long range goals and strategies;

- Formulation of annual objectives and plans, and

- Preparation of performance reports on achievements of goals and strategies.

Whereas as the board:

- Approves long-range goals and strategies, and

- Approves annual objectives and plans.

Both management and the board monitors the achievement of goals and strategies.

(Government of the Hong Kong Special Administrative Region, 2002)

In the **financial management** function on the other hand**,** the responsibility of management is to:

- Prepare a preliminary budget;

- Monitor that expenditure is within the budget during a fiscal year;

- Prepare financial statements, and

- Draft financial management policies and procedures.

The board takes responsibility for:

- Finalising and approving the budget;

- Approving expenditure outside the authorised budget;

- Approving financial statements;

- Approving financial management policies and procedures, and

- Ensuring annual audit of NGO accounts.

(Government of the Hong Kong Special Administrative Region, 2002).

A separation of duties should also occur in the areas of operational programming, staffing, board management and community relations (Government of the Hong Kong Special Administrative Region, 2002).

The governance of an NGO is a shared responsibility. It is important to consider the board as part of a governance structure that also includes the stakeholders, the CEO and even other staff. As with government's role in society, the CSO governing board is a crucial part of a system of checks and balances in an organisation (Camay and Gordon, 2002). It is easier for managers than for boards to exercise real power in non-profit organisations. The two principal conditions for there to be a real partnership in which power is shared, are: first, that the board contains competent and experienced members

and second, that management welcomes and/or expects boards to make an important contribution (Cornforth and Edwards, 1998).

3.4.5   Management capacity

Management is the process of administering and coordinating resources in an effort to achieve the goals of the organisation. Essentially a manager combines human resources, material resources and financial resources into a productive system in which organisational objectives are attained (Odgers and Keeling, 2000).

In recent years, much attention has been focused on the management capacity of NGOs (Mostashari, 2005).   In the NGO context, the term "management" broadly refers to activities in three general functions which include:

-   planning: identifying goals, objectives, methods, resources, responsibilities and dates for completion of tasks;
-   organising resources: to achieve the goals in an optimal manner, and
-   controlling or co-ordinating the organisation's systems, processes and structures to effectively and efficiently achieve the goals and objectives - this includes ongoing feedback, monitoring, and adjusting systems and structures accordingly.

(Centre for African Family Studies, 2001).

In order to the achieve the above, NGO managers require an organisational structure, policies, systems and qualified and committed staff in conjunction with an institutional environment in which staff can function at optimal level (Centre for African Studies, 2001).

In a study conducted by Terence Jackson (2003), it was found that a variety of hybrid management systems operate in Africa. Some of these systems are successful and highly adaptive to the operating environment, whilst others are maladaptive and often lead to organisational failure. The management systems employed are:

-   post-colonial (based on coercive leadership and alienative involvement);

- post-instrumental (based on remunerative reward and contractual involvement);

- African Renaissance (based on normative leadership and moral involvement);

- African management systems currently appear to be predominantly results- and control-oriented (post-instrumental and post-colonial), with some country differences: DRC is more control-oriented; Mozambique and Rwanda are more people-oriented (normative), and

- There is a general desire among managers to be more people- and results-oriented (particularly in Burkina Faso and Botswana), while people orientation is not reflected in managers' projections of the future of their organisations, a higher emphasis on results is (Jackson, 2003).

In a different study, the Centre for African Family Studies (2001) reports on the management capacity of NGOs in the reproductive health sector in East Africa. The Centre contends that formal organisational structures based on programmes and functions and some form of documented management policies and systems were in place. These systems however do not always translate into effective practices. Decision-making in many organisations, most times, still remained a one-person show and lacked transparency and internal democracy. Many NGOs did not have adequate management structures and processes and others commented on management practices that were too bureaucratic. In many instances, management was the responsibility of one person, usually the founder-member. In this situation transparency was often lacking.

Eugene Saldanha, quoted in an *allAfrica* article (2002), contends that the lack of skills, or insufficient, management capacity to oversee and ensure the successful implementation of NGO projects and the delivery of services was a factor contributing to the problems faced by NGOs.

French NGOs realised that in order to ensure its future legitimacy and funding base, it became imperative for the sector to enhance management capacity, particularly in the areas of monitoring, evaluation and the acquisition of funds (Sorgenfrei, 2004).

3.5   CONCLUSION

The purpose of this chapter was to provide a theoretical overview of governance and sustainability arrangements of international organisations and NGOs. Various views around the concept of "governance" were explored.

The research found that "governance" as a concept has gained popularity at both practical and theoretical levels and that different meanings have been accorded the concept by different people. The different interpretations have developed along two streams where the first views governance as concerned with the rules of conducting public affairs and the second views it as a mechanism which steers or controls public affairs. Governance was further perceived by some commentators as a generic term which could be applied to all forms of human organisations be it economic, cultural, religious, military or NGOs.

Cooperative governance as an evolving system of institutional cooperation, the research established, extends beyond the traditional relations between central, provincial and local government in South Africa. It includes relations with the private sector, labour, NGOs, political parties and parastatals. The research suggests that cooperative governance should be fostered between the state and civil society where civil society organisations, for example provide checks on government power. In doing so, they may contribute to better governance by enhancing the accountability and transparency of the political system. NGOs may also contribute to policy formulations, safeguard rights, articulate interests and deliver social services. Such actions may enhance efficiency and participation in public affairs and strengthen the rule of law, all tenets of good governance.   Conversely, governments can impact NGOs by creating an enabling environment in which they can function.

In addition to the above roles assumed by NGOs, the researcher proposes a collaborative relationship between the state and NGOs where NGOs engage in government-designed programmes and act as extensions of government line departments. Such cooperation and collaboration will enhance the future sustainability of an NGO.

In the context of governance arrangements, the research found that corporate governance, of which the main components include direction, executive action, supervision and accountability of the organisation, has permeated the non-profit sector where an NGO is now required to take a more disciplined approach on how they structure and run their organisations. Further, to protect the non-profit sector and to strengthen donor integrity and confidence, higher standards of transparency and accountability are called for, in the same way that NGOs demand accountability and transparency from governments, businesses, educational institutions and other organisations. Constructive interaction among the state, the private sector and civil society, were identified as one of the cornerstones for good governance. Accordingly, along with a number of commentators, the researcher proposes the following principles and guidelines for good NGO governance which suggest that:

- NGOs are accountable to their communities;
- Good governance is the basic form of accountability;
- Good governance has a formal governance structure;
- Good governance involves the separation of governance and management;
- NGOs are mission-based organisations;
- NGOs promote the highest professional and ethical standards where the board articulates the professional and ethical standards of the organisation;
- NGOs exercise responsible resource management and mobilisation, and
- NGOs are responsive to the constituencies which they serve.

The lack of skills and insufficient management capacity to oversee and ensure successful implementation of NGO projects and the delivery of services was quoted as contributing to the problems faced by NGOs. To alleviate these problems, NGO managers require an organisational structure, policies, systems and qualified and committed staff and an external and internal environment in which the NGO can function at optimal level.

The researcher concludes that the four basic elements of good governance, namely accountability, participation, predictability and transparency need to be activated and promoted within NGOs. By embracing these four elements, NGOs will not only enhance

organisational stability, but will ensure their future sustainability. Accountability in particular will ensure the effective and efficient use of NGO resources. An accountable NGO is transparent, readily opening its accounts and details of activities to donors and beneficiaries for scrutiny. Participation as another element will ensure that people remain at the heart of development where NGO endeavours are concerned. Predictability on the other hand refers to the existence of laws, regulations and policies which regulate NGOs. Transparency as the last element would ensure the availability of information around NGO activities. The researcher concurs with Van der Walt (2004) and emphasises that the four elements of good governance are mutually supportive and reinforcing. Accountability is related to participation and safeguards predictability and transparency. It is the duty of each NGO to think about governance practices. Good governance practices established by an NGO at the outset will encourage NGO sustainability.

Given the overview of the conceptual framework of governance and sustainability arrangements in this chapter, the next chapter will investigate specific issues relating to financial management of NGOs.

CHAPTER FOUR

THEORETICAL FOCUS ON SUSTAINABILITY AND FINANCIAL MANAGEMENT OF NGOs

4.1   INTRODUCTION

One of the main factors impacting effective management and sustainability of NGOs is the nature of their dependability on donor funding (Layton, 2006: 2).   The concepts "financial sustainability" and NGOs usually go hand-and-hand since NGOs' legal status as a "non-profit" entity locate it at the mercy of donor organisations whose inconsistent funding priorities remain the biggest threat to NGOs' financial and operational future (Layton, 2006: 2).

NGOs are required to fundraise and to generate an income to become sustainable.   They have commonly depended on funding from donor agencies, multilateral organisations such as the United Nations, the World Bank and the Commonwealth Secretariat, as well as regional organisations such as the European Union, the African Union and the South African Development Community to name but a few examples, for their own administration and for conducting programmes (Lekorwe and Mpabanaga, n.d.; Viravaidya, n.d.).   Very few NGOs are able to generate their own funding and others are unable to draft programmes independent of donors.   Some CSOs complain that when they do receive funding from donors, it usually has strings attached (Kihato and Rapoo, 1999; Smith and Bornstein, 2001; Overseas Development Institute, 1995).   With donor funding becoming more limited, competitive, and erratic, the challenge of financial sustainability has become very real for NGOs (Aldaba, 2002; Kihato and Rapoo, 1999).

Donors, according to a number of commentators, are subject to funding constraints of their own and are often under obligation to boards, government Ministries, or even national legislatures, which can limit their capacity to fund purely based on the quality of a project or the good record of a grant recipient (Viravaidya, n.d.; Lekorwe and Mpabanaga, n.d.).

As NGOs are by nature public interest institutions, they too are required to adhere to control measures such as being more transparent and accountable in terms of how they manage their finances. The financial management capabilities of NGOs will ultimately influence their sustainability (Aldaba, 2002). Some CSOs collapse due to internal problems such as corruption, lack of financial management and inadequate planning. As a consequence, foreign donors are increasingly looking for factors such as organisational capacity, accountability, sustainability and proper accounting procedures in the organisations they wish to assist (Kihato and Rapoo, 1999).

Furthermore, many NGOs fail to appreciate the importance of being entrepreneurial in the sense of creating profits or surpluses for the organisation. Conversely, some donors do not appreciate the creativity of NGOs in generating savings, as they require NGOs to spend the entire programmed budget by the end of a particular fiscal or calendar year (Aldaba, 2002).

Meanwhile, NGOs face rising costs for human resources, operational overheads and other programme inputs, straining their already limited budgets. In addition, restrictions imposed on many grants and donations, as alluded to earlier, along with the uncertainty of these funds over time, make it difficult for NGOs to do long-term planning, improve their services or reach their full potential. NGOs in general, therefore, and in developing countries, in particular, question how the sector can sustain and support its activities financially (Viravaidya, n.d.).

The primary reasons why NGOs need to find different strategies for long-term survival are: donor resources available to NGOs continue to decrease; donor agencies worldwide have shifted and narrowed funding into specific, highly political or publicly popular regions of the world, for example, Afghanistan, Iraq and Sudan and into specific markets that do not traditionally fund traditional NGO development; the growth in terms of numbers of NGOs worldwide tightened competition between NGOs for increasingly limited funding, and donors worldwide have become less willing to fund traditional overhead expenses such as salaries, rent and equipment, forcing NGOs to chase more and

more donor funds rather than develop long-term programme strategies that support their own mission (Layton, 2006; Alymkulova and Seipulnik, 2005; Viravaidya and Hayssen, 2001).

In light of the foregoing, and given the overview of the conceptual framework of governance and NGO sustainability in the previous chapter, this chapter will firstly explore financial management and financial sustainability practices within NGOs in general. Various concepts of funding arrangements from international donors and independent scholars will be addressed. Academic literature on the principles of financial arrangements for NGOs will be assessed and deliberated upon. Thereafter the chapter will investigate issues pertaining to income and expenditure of NGOs with the view to establishing whether global funding mobilisation practices could be replicated in South Africa. Conclusions will be drawn on the value of these frameworks.

4.2   GOVERNANCE AND FINANCIAL MANAGEMENT ARRANGEMENTS

Governance, as explored an earlier chapter, is a widely-used term which ranges in definition from electoral arrangements to institutional structures (Narayan, Godden, Reid and Ortega, 2000). Budgeting, accounting, financial reporting and management control, on the other hand, are the most essential tools for responsible governance, accountability, planning and management in non-profit organisations (Ott, 2001). Good financial practices will:

- help managers make effective and efficient use of resources to achieve objectives and fulfil commitments to stakeholders;
- help NGOs to be more accountable to donors and other stakeholders;
- gain the respect and confidence of funding agencies, partners and those served;
- give the NGO the advantage in competition for increasingly scarce resources, and
- help NGOs prepare themselves for long-term financial sustainability

(Alin et al., 2006).

The financial sustainability of an organisation depends to a large extent on its financial management practices. This in particular will involve:

- *Managing scarce resources*

    NGOs operate in a competitive environment where donor funds are increasingly scarce. NGOs must therefore ensure that donated funds are used properly, and to the advantage of the organisation's vision, mission and strategic objectives.

- *Managing risk*

    NGOs face internal and external risks which can threaten operations and even survival (eg. Funds being withdrawn, an office fire or fraud). Risk must be managed in an organised way to limit the damage they can cause. NGOs should establish systems and procedures to bring about financial control.

- *Managing strategically*

    Financial management is of strategic importance and must be incorporated into all aspects of operational management. Attention should be paid to financing the entire NGO in the medium and long term. Management's focus should not only be on financing projects and programmes.

- *Managing by objectives*

    Financial management involves close attention to project and organisation objectives. The financial management process – "Plan, Do, Review" – takes place on a continuous basis.

    Plan: When an NGO starts up, it sets its objectives and planned activities. The next step is to prepare a financial plan for the costs involved in undertaking the activities and where to obtain funds.

    Do: Having obtained the funds, the programme of activities is implemented to achieve the goals set out in the planning stage.

    Review: Using financial monitoring reports, the actual situation is compared with the original plans. NGO managers can then decide if the organisation is on target to achieve its objectives within an agreed times scale and budget. The learning from the review stage

is then taken forward to the next planning phase, and so on (Alin et al., 2006).

Finances are thus managed by deploying policies, standards, processes, people, technology and information to budget, control, account and report on:

- revenue;
- current expenditure;
- capital expenditure;
- working capital, including amounts owing and amounts due;
- cash;
- inventory and production;
- fixed assets;
- investments, and
- funding

(Pauw et al., 2002).

4.2.1   Financial accountability

It is a widely accepted notion that NGOs fulfil a number of functions in areas which tend to be neglected by the private and public sectors (Srinivas, n.d.). Over the last few years, NGOs and non-profit or voluntary sectors in different parts of the world have experienced a growth in the interest around their legal, fiscal, regulation and self-regulation status.   Internal NGO challenges grew, in particular around NGO professionalism, NGO finances and broader sustainability challenges of the NGO sector (Naidoo, 2000).   Cases of NGO misconduct in advocacy, fund use, management and governance came to light, questioning the NGO's legitimacy and congruency with social values and expectations.   Some NGOs have also ignored the fact that they have to account on their performance to a number of stakeholders (Srinivas, n.d.).   Accordingly, it has become imperative for NGOs to develop new accountability mechanisms (Naidoo, 2004) in order to take responsibility for their organisational structures, operations, policies and activities (Naidoo, 2003).

Accountability tools can include, for example, standards for disclosure of public reporting, which are determined in some countries by national legislation. Some CSOs tend to adopt these principles on a voluntary basis. The vehicles used for channelling information around an NGO's work, financial status, governance and operational structure may take the form of annual reports, organisational or project evaluations, strategic plans based on external assessments, and regular communications such as newsletters, updates, briefs and so on (Naidoo, 2003). As NPOs do not own the resources it raises, donors, sponsors and the state requires careful and effective management of such resources, an NGO needs to develop and maintain an appropriate financial management system, irrespective of its simplicity, to ensure appropriate use of its resources (Department of Social Development, 2001).

Lewis (2003) suggests that a series of good practice principles be identified by NGOs which set a standard for developing proper financial management systems in an NGO. The principles can be used as a checklist to help an NGO identify relative strengths and weaknesses in its systems. The principles relate to:

- *Custodianship*

This refers to the stewardship or safekeeping of the NGO's resources. An NGO's custodians hold the assets and funds in trust and must make sure that they are used in accordance with the constitution and any contractual agreements entered into.

- *Accountability*

Those who have invested not just money but also time, effort and trust in the organisation are interested to see that the resources of the NGO are used effectively and for the purpose for which they were intended. Accountability, as alluded to in Chapter 3 of this study, is the moral or legal duty placed on an individual, group or organisation, to explain how funds, equipment or authority given by a third party has been used.

- *Transparency*

Systems must be established whereby all financial information is recorded accurately and presented clearly for easy disclosure to those who have a right to request it. If this is not achieved, it can give the impression that there is something to hide.

- *Consistency*

The financial systems of an NGO should be consistent over the years so that comparisons can be made, trends analysed and transparency facilitated. This does not mean that the systems may not be refined. However, inconsistent approaches to financial management could be viewed as an indication of manipulation on the part of employees.

- *Integrity*

The integrity or honesty and reliability of an organisation, and the individuals within it, has to be beyond question for proper financial management. To achieve this there must be no doubts about how funds are being utilised. The records must be a true reflection of reality. Proper procedures should be set up and followed by all staff.

- *Non-Deficit Financing*

An NGO should not set out to achieve its objectives until it is confident that it will have sufficient funding to cover all of its activities.

- *Standard Documentation*

The system of maintaining financial records and documentation should observe internationally accepted accounting standards and principles. An NGO's system for maintaining financial records should be understood by any accountant from anywhere in the world (Lewis, 2003).
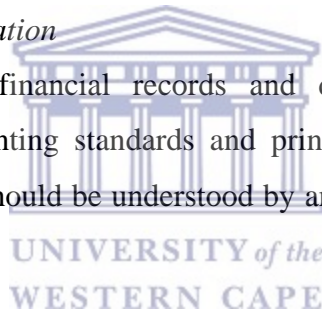
In the context of financial accountability specifically, a draft Code of Standard of Practice for Nigerian NGOs, for example, suggests that:

- An NGO should operate in accordance with an annual budget that has been approved by the board prior to the beginning of each fiscal year;
- An NGO should create and maintain financial reports on a timely (at least quarterly) basis, accurately reflecting the financial activity of the organisation, including the comparison of actual to budgeted revenue and expense;
- Quarterly financial statements should be provided to the board of directors. The statements should identify and explain any significant variations between actual and budgeted revenues and expenses;
- An organisation should subject its financial reports to an annual audit by a chartered accountant;

-   An NGO should provide employees and volunteers with a confidential means to report suspected financial impropriety or misuse of organisational resources;

-   An NGO should have written financial policies governing the following matters: (a) appropriate investment of the assets of the organisation; (b) appropriate internal control procedures; (c) appropriate purchasing practices; (d) appropriate reserve funds; (e) appropriate compensation, including salary and benefits; (f) appropriate expense account reporting, and (g), appropriate earned income;

-   The organisation should have clear and written policies on loans and staff advances, and

-   Wherever possible, the organisation should ensure that its funding base is diversified.

(International Journal for Not-for-Profit Law, 2001).
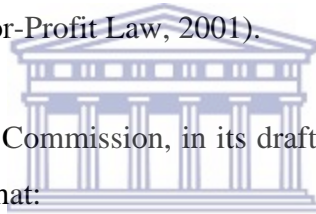
In a similar vein, the European Commission, in its draft Code of Conduct for non-profit organisations (2005), suggests that:

-   NPOs should follow proper bookkeeping procedures and prepare annual financial statements of income and expenditure. An annual report should be prepared. NPOs should report on the progress on general objectives. The financial statements and reports should be kept available at the registered office for public authorities having oversight responsibility;

-   NPOs should keep full and accurate audit trails of funds transferred outside their jurisdiction/country and of funds transferred to any person delivering service on behalf of the originator NPO;

-   Annual financial statements, reports, minutes of trustees' meetings, and records on required audit trails should be held for at least 5 years at the registered office of the NPO, and

-   NPOs should have registered bank accounts and should know their beneficiaries, donors and associate NPOs.

(European Commission, 2005).

Similarly, the Department of Social Development (2001) in South Africa contends that appropriate financial management can be achieved by, amongst others:

- Setting up appropriate financial systems and employing qualified persons, either full-time, part-time or on a voluntary basis, to administer and manage these systems;

- Developing financial policies and procedure manuals that might include: financial statement presentation; distribution and timing of financial statements; system of accounting codes; bank statement reconciliation procedures; investment policies; loan procedures to staff; petty cash handling; financial auditing; cheque signing procedures; travel expense and per diem policies; income collection and recording systems; payroll policy; insurance policies; controls over fixed assets; a contracting or tendering system; a purchasing system; fundraising procedures; controls over inventories; budgeting procedures; tax procedures and conflicts of interest and disciplinary procedures for misuse or misappropriation of resources, and

- Complying with South Africa's accepted accounting and auditing practices in terms of procedures, banking, reporting and record-keeping.

The Non-Profit Organisations Act specifically calls for adequate standards of NGO transparency and accountability (Department of Social Development, 2001). Pema and Lakha (1995) propose a similar checklist to ensure financial accountability as put forward by the Nigerian NGO sector, the European Commission and the Department of Social Development in South Africa.

NGO governing boards in particular act as a structure for the financial accountability of non-profit organisations. This accountability is rooted in a public reporting tradition rather than a managerial accounting one (Conforth and Edwards, 1998).

4.2.2 Financial experience and control

The concept of financial control is at the heart of financial management (Alin et al., 2006). Effective financial accounting and managerial control practices are as important to non-profit organisations as they are for for-profit organisations (Herzlinger and

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Nitterhouse, 2001). Financial control is a state of affairs which ensures that the finances of an organisation are handled properly. Without financial control, assets are put at risk, funds may not be spent in accordance with the organisation's objectives or donors' wishes, and the competence of managers and the integrity of the organisation may be called into question (Alin et al., 2006).

In general, financial control is achieved by designing systems and procedures to suit the particular needs of an organisation (Alin et al., 2006). For the purpose of financial control and accountability of NGOs, it is imperative that an overall financial policy be constructed which should consist of individual policies pertaining to the donors, income, budgeting, expenditure, travel, auditing, petty cash, assets, salaries, staff loans and the opening and operation of a bank account (Shapiro, n.d.).

One of the major responsibilities of a board of directors is to establish fiscal policies that protect the organisation from either intentional or unintentional misuse of funds. The board must decide how money will be handled internally to ensure that it will be safely received, recorded, deposited, and expended in a manner that seems appropriate. For example, tasks such as the receipt of cash, the preparation of financial statements and the expenditure of funds should be assigned to two staff members to ensure adequate financial controls. Other forms of control relates to rules around monitoring the budget, budget amendments, cheque writing, the receipt of monies and insurance around financial losses (Wolf, 2001).

For NGOs to survive in a changing and competitive environment, managers need to develop the necessary understanding and confidence to make full use of financial information. Whilst there is no model finance system which suits all NGOs, good practice in financial management is achieved by designing systems and procedures around:

- *Accounting records*:

    Every organisation must keep an accurate record of all financial transactions that take place so that it can show how the funds have been used. This is referred to as the financial accounting function.

- *Financial planning*:

    The budget, linked to the organisation's strategic and operational plans, is the cornerstone of any financial management system and plays an integral part in monitoring the use of funds.

- *Financial monitoring:*

    Management accounts are internal reports produced so that managers can compare the organisation's progress against the budget and then make decisions about the future. Financial statements are produced periodically for outside scrutiny to demonstrate how funds have been applied in the past.

- *Internal controls*

    Controls, checks and balances, collectively referred to as internal controls, are put in place to safeguard an organisation's assets and manage risk. Their purpose is to deter opportunistic theft or fraud and to detect errors and omissions in the accounting records. An effective internal control system serves to value and protect those who are responsible for handling the financial affairs of the organisation.

(Wolf, 2001; Alin et al., 2006)

As the process of managing and controlling an NGO becomes more complex, an NGO board will need assistance in performing its duties and discharging its responsibilities. An audit committee may be established to give the board additional assistance regarding the quality and reliability of financial and other performance information used and issued by the board (Government of Hong Kong Special Administrative Region, 2002).

In Russia, financial control of NGOs has controversially been placed in the hands of government where NGOs are now expected to disclose financial assistance from international and foreign organisations and foreign persons to a special agency. Russian

NGOs will be obliged to persuade the authorities of the practicality of NGO endeavours and the reasonableness of financial costs pertaining to specific projects (Alimov and Kudrik, 2006).

4.2.3   Budgeting

Budgeting is a process which matches resources and needs in an organised and repetitive way so those collective choices about what an entity needs to do are properly resourced. A budget on the other hand is an itemised estimate of expected income and operational expenses over a set period of time (Pauw, Woods, Van der Linde, Fourie and Visser, 2002; Odgers and Keeling, 2000).

When funders review a budget, they often compare it to the organisation's statement of need and programme description. From this comparison, they decide if the issue addressed and the anticipated programme benefits are worth the money the organisation proposes to spend. Donors look for budgets that are cost-effective (Cook, 2002). Information contained in a budget, should be presented in a meaningful way so that better decisions can be made on the allocation of scarce resources (McCaffery and Jones, 2001).
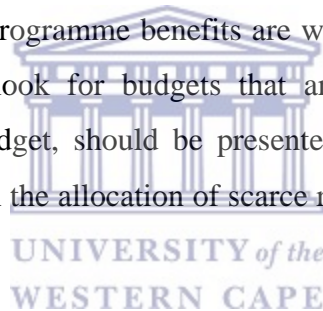
Ott, 2001 contends that after a budget has been adopted by the board of trustees, it continues to serve two vitally important purposes:

-    as a governance and accountability tool for the board and the executive director, and

-    as a management tool that provides an executive direction and the management staff with discretion (the freedom to run the organisation with some flexibility)

In terms of budget monitoring, it is important to establish a reliable procedure. In this regard, the board generally requires that two people should be involved in processing of payments. One person who is familiar with the budget, the organisation's operation, and the appropriateness of specific expenditures should be responsible for approving payments. That person is often the director of the NGO or his or her designate. Another

person should actually write the cheques and monitor the expenditure for the board of trustees (Wolf, 2001).

4.2.4   Funding mobilisation

Non-profit funding sources vary in predictability, controllability, linkage to organisational activities, and the range and amount of management effort they require (Gronbjerg, 1993).

Fundraising is a marketing or exchange process requiring an understanding of the total potential support markets (constituencies) and what turns them on and what turns them off (Department of Social Development, 2001). Fundraising is proactive and should be conceptualised and designed as a long-range programme. Fundraising is planned, systematic, ongoing and integrated into an organisation's programmes and administrative tasks (Cook, 2002). Generally, according to Kraak (2001), very few non-profit organisations have dedicated professional fundraising human resource capacity and a coherent fundraising strategy.   Building NGO fundraising capacity requires the development of a fundraising policy and regulations, a fundraising committee with clear job descriptions and mechanisms monitoring fundraising activities (Alin et al., 2006).

A well-executed fundraising strategy contains elements such as:

-       *Diversification*

        Diversified fundraising means that an NGO has several sources of funding from several different types of fundraising activities.

-       *Sustainability*

        Sustainability is about developing self-reliance. The more self-reliant an NGO is, the more control it can maintain over its resources, as well as the decisions around resource management and use.

-       *Creativity*

        Being creative means utilising available resources and taking advantage of opportunities as they emerge.

- *Inclusiveness*

Taking an inclusive approach means finding a role for supportive people to play. In this way the boundaries of the NGO will be expanded beyond its present scope. (Cook, 2002).

All funding agencies have a limit on their resources and have to make decisions around what they will support. Once a decision has been taken to fund a particular organisation a relationship begins to develop. Funding agencies emphasise the fact that this is a two-way relationship, with both parties aware of the expectations of the other (Ndlovu, 2004).

4.3 NGO FINANCING

All over the globe, there is an upsurge in the establishment of non-profit or non-governmental organisations, (Lekorwe and Mpabanaga, 2006; Scott and Hopkins, 1999) essentially funded by financial surpluses produced in other sectors of the economy (The Funding Dilemma, n.d.). With this upsurge comes competition for funding, with larger NGOs obtaining most of the available official funding.

Globally, the not-for-profit sector is worth approximately 1 trillion US dollars. Most of the NGO funding flows from the North to the South. The role of development aid in this upsurge has been phenomenal. The World Bank and a number of multilateral and bilateral organisations, for example, are funding numerous NGO programmes (Scott and Hopkins, 1999).

In South Africa, specifically, a strong culture of entitlement and a perceptible dependence on international donor funding still prevails, years after the country's transition to democracy. A key challenge facing a number of local NGOs is that much donor funding is redirected to the state, making public funds a major source of revenue for the NGO sector. The state is playing a strong regulatory role in relation to the expenditure of direct donor funding, forcing distribution into particular streams. Consequently, international donors are far more inclined to fund NGOs that support state programmes than those involved in alternative endeavours (Farouk, 2002).

South Africa, contends Farouk (2002), has a poorly developed voluntary sector and corporate social investment, the second highest source of NGO income, which is not premised on any real assessment of needs on the ground. Most local businesses develop their social responsibility programmes in line with state priorities. Local NGOs also rate poorly at inventing creative resource solutions for their long-term viability. Only a third of local NGO funding is derived from income-generation strategies according to the aforementioned author (Farouk, 2002).

From the foregoing, it is clear that a study should be made of trends, which prevail in NGO financing at international level. Lessons could be learned from such financing practices for replication in the South African NGO sector. Accordingly, the next section will provide an overview of NGO financing sources.

4.3.1 General overview of NGO financing sources

According to Viravaidya and Hayssen (2001), the work of NGOs, for example: protecting the environment; helping the sick and needy; preserving arts and culture; improving services to the poor and so on is, by nature, "unprofitable." Traditionally, NGOs relied on the goodwill and generosity of others to cover the costs of their activities through grants and donations. Today, unfortunately, NGOs find that such traditional funding sources are often insufficient to meet growing needs and rising costs.

Non-governmental organisations raise billions of dollars each year (Oxford Analytica, 2005). Figure 1 depicts an overview of the sources of NGO revenue. It reflects the variety of financing types, including self-financing, as a possible additional source of revenue (Davis and Etchart, 1999a as quoted in Glaser, 2004). In general, support can be received through the state, the public and the private sector on an international, national or local level. Within the government, financial aid may be given through international foreign sources or bilateral/multilateral grants, as well as through national or local governmental grants. The private sector may provide corporate grants or foundation grants. Furthermore, financial aid from the general public may come through international charitable and local individual donations (Glaser, 2004).

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Figure 4.1: Sources of NGO Revenue
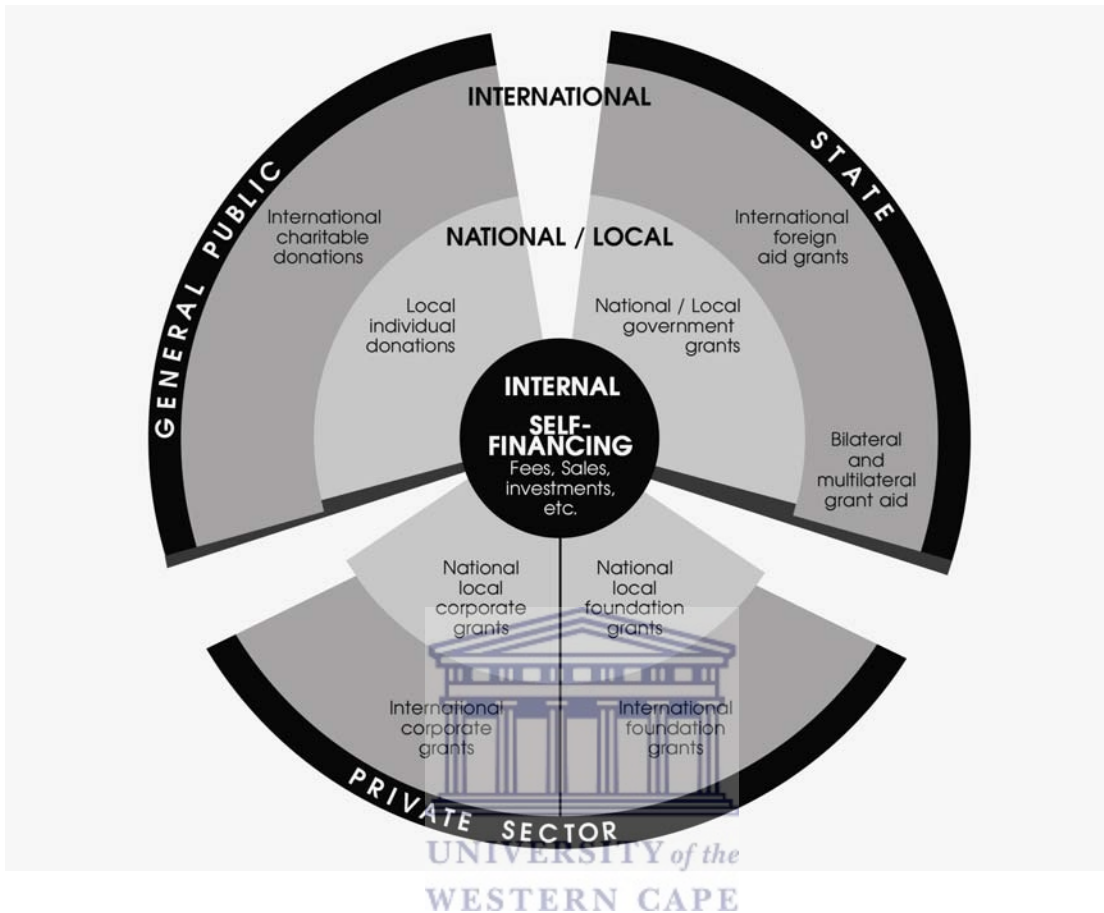
Source: Davis and Etchart, 1999 as quoted in Glaser, 2004: 25

The following section will briefly explore international aid, state funding and other sources of NGO funding.

4.3.1.1   International Aid

There have been a number of studies on foreign aid during recent years. This is understandable as:

> *Since the Second World War, foreign aid has become an institutional part of international relations. Beginning with the Marshall Plan in the late forties, aid has become a common foreign policy instrument of donors and has accounted for an important source of income for many developing countries. By 1990 foreign aid flows to developing countries accounted for $72 billion... [T]hroughout the post-war period foreign aid as a policy*

tool has evolved in ways it is provided, and the importance of various donors and recipients has shifted (Grant and Nijman, 1998: 3).

The end of the Cold War saw new political challenges - civil wars in parts of Africa and the former Soviet Union in particular – being put on the global agenda. According to literature, exploitation, poverty, dictatorship and mismanagement over a period of 30 years created deep social divisions and weak governance, particularly in Africa. Humanitarian and development aid were mandated to mitigate these challenges under difficult conditions (Uvin, 1999). The geography of aid is constantly changing. Still, globally, the not-for-profit sector is currently worth over 1 trillion US Dollars (The Funding Dilemma, n.d.).

The following scheme *(Table 4.1)* as put forward by Hjertholm and White (2000: 81) in Kanbur (2003: 25) provides an overview of the main developments in the history of foreign aid.

Table 4.1: Overview of main developments in the history of foreign aid.

	Dominant or rising institutions	*Donor ideology*	*Donor focus*	*Types of aid*
1940s	Marshall Plan and UN system (including World Bank.	Planning.	Reconstruction.	Marshall Plan was large programme aid.
1950s	United States, with Soviet Union gaining importance from 1956.	Anti-communist, but with role for the state.	Community Development Movement.	Food aid and projects.
1960s	Establishment of bilateral programmes.	As for the 1950s, with support for state in productive sectors.	Productive sectors (eg. Support to the green revolution) and infrastructure.	Bilaterals gave technical assistance (TA) and budget support; multilaterals supported projects.
1970s	Expansion of multilaterals especially World Bank, IMF and Arab-funded agencies).	Continued supported for state activities in productive activities and meeting basic needs.	Poverty, taken as agriculture and basic needs (social sectors).	Fall in food aid and start of import support.
1980s	Rise of NGOs from mid-1980s.	Market-based adjustment (rolling back the state).	Macro-economic reform.	Financial programme aid and debt relief.
1990s	Eastern Europe and Federated Soviet Union became recipients rather than donors; emergence of corresponding institutions.	Move back to the state toward end of the decade.	Poverty and then governance (environment and gender passed more quickly).	Move toward sector support at end of the decade.

Source: Hjertholm and White (2000: 81) as quoted in Kanbur (2003: 25)

International foreign aid comes in many forms. Examples of such funding sources are:

- Voluntary funding organisations such as missions, aid agencies, charitable organisations and other groups both religious and secular. Most of them are based in the North, Europe, North America and Australia.

- International Aid organisations include United Nations Agencies such as WHO, UNICEF, UNDP, FAO, the European Commission (EC), the World Bank and the Asian Development Bank. Funds from these sources are likely to be available via national umbrella bodies.

- Foreign Embassies such as the Dutch Embassies, to name but one country, tend to fund small-scale projects.

(Alin et al., 2006).

Since its founding in 1945, the United Nations has been an avid supporter of NGOs. In 2005, 2 613 NGOs were registered with the U.N. Economic and Social Council (ECOSOC), while 1 407 NGOs were accredited to the U.N. Secretariats Department of Public Information (Oxford Analytica, 2005).

The shift of official aid towards NGOs accelerated in the 1980s (Overseas Development Institute, 1995). In 1983/84, the value of grants by private voluntary agencies to developing countries was nearly 2.5 billion US dollars, increasing to nearly 5 billion US dollars in 1997. The official contributions to NGOs from bilateral assistance rose to 1.04 billion in 1994 according to the OECD (OECD, 1995 as quoted in Scott and Hopkins, 1999). These figures do not include the contribution to NGOs from multilateral organisations and the direct contribution of bilateral assistance to South-based NGOs.

The Overseas Development Institute reported in 1995 that 5% of official aid was channelled to NGOs. The organisation contends that in the ten years to 1993/94, the United Kingdom increased its official funding of NGOs by almost 400% to 68.7 million British Pounds. In the same period, Australia increased its funding of NGOs from 20 million Australian Dollars to 71 million Australian Dollars. Similar expansion occurred in the case of Finland, Norway and Sweden from the early 1980s to the early 1990s. The organisation further reports that the World Bank suggests that, by the mid-1990s, 30% of an NGO's income came from donor sources. The World Bank does not fund NGOs directly; the most common way for an to NGO receive project funds is by working as a paid consultant or contractor to the borrower (World Bank, 1996).

Most NGOs in Central Asia, for example, remain heavily dependent on international financial assistance. International aid in this region constitutes the single largest source of NGO funding (Alymkulova and Seipulnik, 2005). In Bangladesh, the share of aid to

NGOs as a portion of total aid to the country has risen from 14.4 percent in the first half of the 1990s to 24.6 percent since then. It is estimated that total aid to NGOs rose from an average of $233 million (0.7 percent of GDP) in 1990-95 to $343 million (0.7 percent of GDP) in 1996-2005 (The World Bank Office Dhaka, 2006).

French NGOs have sought to diversify their access to funding channels. Historically they were able to attract a large part of their funding from multilateral agencies such as the European Union, the United Nations and the World Bank. Complicated, bureaucratic, and time-consuming donor procedures and tendering processes, multilateral or bilateral, have led to NGOs forming consortiums in the hope of improving the likelihood of winnings bids (Sorgenfrei, 2004).

Looking at foreign aid directed at South Africa, Hearn (2000) reports that the USA was by far the largest overall foreign donor to the country and, from 1994 to 1999, it provided financial assistance to the tune of $530 million. During the same period, the European Union provided an EU Programme for Reconstruction and Development of nearly $420 million. Other significant foreign donors to South Africa, according to Hearn (2000) are the Netherlands, the Nordic countries, Germany, Canada and the United Kingdom. The World Bank acts as a knowledge bank providing lessons of international experience (Hearn, 2000).

In terms of foreign aid to South Africa from other donors and foundations, the European Union launched a programme to be implemented by Interfund to conduct capacity-building in the CSO sector in order to enhance the capability of organisations to become self-reliant. The Ford Foundation focused on building the infrastructure for a robust civil society. The Mott Foundation grant-making programme sought to strengthen the non-profit sector by building local resources for the sector. The W.K. Kellogg Foundation grant-making programme promoted partnering with community-based organisations and institutions, helping them link government and other service delivery institutions. The Open Society Foundation for South Africa was established in 1993 to promote a variety of programmes in the areas of educational, social, legal and health care reform

(USAID/South Africa, 2000; Stacey and Aksartva, 2002). *Section 4.4.1.5 of this Chapter,* will elaborate on US foundations supporting Civil Society Organisations in South Africa.

4.3.1.2   State Funding

According to Gardner and Macanda (2003: 3):

> *The challenge of fighting and eradicating poverty in South Africa and the rest of the continent does not lie solely with governments. It is also the responsibility of the communities, civil society and international agencies. Governments need to support civil society and non-governmental organisations (NGOs) and be responsive to their needs and civil society and NGOs should be accountable to the people they serve. The government has the advantage of having considerable financial muscle, especially through public revenue, whereas civil society has the advantage of proximity and a better understanding of the needs of the people on the ground.*

In the above context, the challenge in terms of financial sustainability of NGOs in developing countries is to develop domestic sources of funding and/or revenue to replace unreliable international donor funding (Stuart, 2002)

The next section provides a brief outline of international examples of state financial support to NGOs.

In France in recent years, the French government has recognised that NGOs play an important role in French development assistance. This led to a restructuring of the funding system for NGOs, and the establishment of a system with the specific purpose of allocating funds for NGO projects: la Mission pour la Cooperation Non-gouvernementale (MCNG). Government funding to NGOs takes place mainly through 'cofinancements', for example, co-financing of development projects. In some cases, NGOs obtained block funding for their programmes which were not tied to specific projects (Sorgenfrei, 2004).

NGOs based in the United States of America receive 31% of their income from government contracts. However, in 2004, it was reported that 37% of over 5 000 U.S.

NGOs reported a decrease in U.S. government funding from the year 2003 (Layton, 2006).

In the Czech Republic, NGOs receive approximately 39% of their funding from the government, and a quarter of organisations receive over half of their funding from state resources. Part of this funding comes from a unique arrangement that provides Czech NGOs with access to a portion of the funds received from state privatisation. As part of this endeavour, 73 Czech foundations received approximately 47.5 million US dollars in 2002 to build their endowments. Despite this level of state support, Czech NGOs are concerned about being over-reliant on state support (Stuart, 2002).

In Bosnia, the Council of Ministers dedicated 150 000.00 US dollars from the state budget to assist local NGOs for the first time in 2002. Despite limitations in the plans to distribute these funds and the limited amout of money, NGOs viewed the contribution as an important sign that the government recognised the significant role of NGOs in the country (Stuart, 2002).
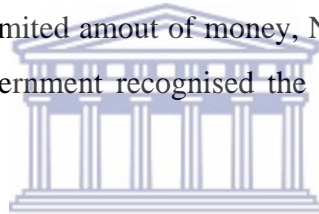
For many years, Croatian state financial support to NGOs has been provided through the Government Office of Cooperation with NGOs. For the first time in 2002, funding was made available for NGO whose initiatives exceeded a one-year period (Stuart, 2002).

Across Central and Eastern Europe, local-level governments have become a further growing source of support to NGOs. In addition to financial support through grant competitions or tenders, many local government entities provide in-kind support to NGOs, often in the form of free or reduced-cost office space (Stuart, 2002).

The Indian NGO sector, which boasts over one million NGOs, depends largely on multilateral and government funding. Misra, as quoted in Farouk (2002) contends that Indian NGOs lack an awareness of local resource mobilisation.

Indonesian NGOs are encouraged to self-finance their activities and end the dependency on foreign funding by obtaining funds from local foundations, philanthropic institutions, individual sources, their government and private companies (Jakarta Post, 2000).

As NGOs are continuously faced with funding dilemmas, Ashoka, an international non-profit organisation promotes creative and innovative ways for the NGO sector to become self-sustaining (allAfrica, 2002).

4.3.1.3   Other sources of NGO funding

Finding a comfortable balance between the need for continued foreign or international assistance to NGOs and the desire to decrease such dependency by encouraging local philanthropic activities remains a significant challenge in developing countries (Atkinson and Messing, 2002; Camay and Gordon 2004; Davis and Etchart, 1999; Jakarta Post, 2000). NESsT (Nonprofit Enterprise and Self-Sustainability Team), a US registered non-profit with branches in Santiago, Chile, and Budapest, Hungary, looks at self-financing as one alternative to the more traditional fundraising approaches used by non-profit organisations (Davis and Etchart, 1999). Self-financing, according to Atkinson and Messing (2002: 16), can be defined as:

> *…[t]he procurement of revenue by internal entrepreneurial methods, in other words, strategies used by NGOs to generate some of their own resources to further their mission.*

Self-financing methods or strategies include, for example:
- membership fees;
- fees for services;
- product sales;
- use of hard assets, for example, equipment rental;
- use of soft assets, for example, patents, copyrights;
- ancillary business ventures, and
- investment dividend

(Atkinson and Messing, 2002; Academy for Educational Development, 2004).

According to Atkinson and Messing (2002), venture philanthropy can mean different things to different people. NESsT applies a venture philanthropy approach of self-financing, analogous to that of its venture capital peers in the for-profit sector, to help non-profits develop entrepreneurial activities in order to generate sustainable income for their non-profit mission (Connecticut College Magazine, 2002; Atkinson and Messing, 2002). The support from venture philanthropists includes, for example, assisting NGOs to behave like businesses, building organisational capacity and supplying NGO managers with advisory services, and offering loans and/or equity equivalents rather than traditional donations. Venture philanthropy insists on setting clear performance goals, with expectations of concrete financial and/or social returns on an investment (Atkinson and Messing, 2002). NESsT established the Sustainable NGO Financing Project in 1997 to assist NGOs in the Czech Republic, Hungary, Slovakia and Slovenia. The primary goals of the project were to develop:

- the capacity of NGOs to use self-financing strategies effectively and responsibly and
- the financing mechanisms for providing capital to NGO entrepreneurs to start up or expand self-financing activities

(Davis and Etchart, 1999).

NESsT is but one organisation preaching NGO self-financing initiatives. Others include smaller donor agencies such as German Agro Action, Enterprise Works Worldwide, the Roberts Enterprise Development Fund, the Aspen Institute and other private foundations. They have been active in helping individual NGOs establish businesses, and in trying to upgrade the commercial skills of the NGO community as a whole (Viravaidya and Hayssen, 2001).

In Bangladesh, NGOs have established commercial enterprises, also known as endowment models, using the profit stream to support development endeavours. The endowment model is designed to reduce dependence on donors and other sources of funding, and proved an innovative solution to financial sustainability (World Bank, 2006).

NGOs, using self-financing initiatives in the NESsT project mentioned in earlier text, raised a number of challenges they have encountered (Glaser, 2004). One, the **identity** of an NGO might be influenced by internal and external factors. Some NGO members may fear that a profit-making focus may endanger the organisation's mission, where the NGO manager may focus more on what is marketable and economically feasible rather than the desirable vis-à-vis the mission (Toepler, 2004; Glaser, 2004; Atkinson and Messing, 2002). Secondly, **organisational capacity** may prove problematic, as self-financing approaches demand business-oriented management, planning and accounting skills. NGOs may lack these required institutional human resource capacity and knowledge. Thirdly, available **capital and financing** of self-financing initiatives may be lacking, as traditional donors generally do not fund self-financing initiatives. Lastly, instability in the **external environment** such as unclear legal and tax legislation, and unstable economies, diverse customer demands and challenging competitors may have negative effects on the NGO's mission-driven business (Glaser, 2004; Atkinson and Messing, 2004).

Despite the above challenges, more and more NGOs are designing intervention strategies that incorporate cost recovery components through "fees-for-services" or various loan and credit arrangements (Viravaidya and Hayssen, 2001). Viravaidya and Hayssen (2001: 7) illustrates this point by putting forward the following example:

> *Les Centres pour le Developpement et la Sante (CDS) in Haiti received a grant to install a drinking water system in a slum area of the capital Port-au-Prince. Residents pay a per bucket fee for the water, which covers all operating and maintenance costs of the system and also generates a surplus that is used to improve solid waste collection in the neighborhood.*

Whilst the above example is commendable, the authors contend that NGO programmes that depend on cost recovery components to sustain themselves may have to exclude from participation some of the people that the NGO most wishes to help (Viravaidya and Hayssen, 2001). This assertion supports the challenges and concerns expressed around the NGO's mission by Glaser (2004) and Atkinson and Messing (2004) above. For NGOs, starting a business is only one possible route to achieving greater financial

security, which in itself is a long-term goal that cannot be reached overnight (Viravaidya and Hayssen, 2001).

Besides self-financing initiatives, non-financial contributions can be raised by NGOs from local citizens, businesses, local authorities and so on, in a variety of forms, for example:

- in-kind material donations (for example: office supplies, building material, a car, sports and recreational equipment and so on);
- in-kind intellectual services (for example: legal, accounting, medical, psychological and engineering advice or assistance), and
- volunteer work of local citizens.

The non-financial contributions the community can donate to NGOs may differ from country to country and even between different communities (Academy for Educational Development, 2004).

4.3.2   The funding environment for South African NGOs

Prior to 1994, NGOs had a multitude of funding options as alluded to in an earlier chapter (Camay and Gordon, 2004). The arrival of democracy in South Africa, however, has seen the redirecting of funding to a newly legitimate democratic government (Farouk, 2004). South African organisations such the National Funding Agency (NDA), the National Lottery and the Umsobomvu Fund were created in an attempt by the government to fill the funding gap. Yet NGOs struggled to diversify their funding sources to sustain themselves financially (Camay and Gordon, 2004).

The following sections will deal with the trends in financial support for South African NGOs from individual contributions, private sector corporate social responsibility programmes, government, national funding agencies, foreign donors, foundations and community philanthropic organisations.

4.3.2.1   Conventional giving/Individual giving

According to Camay and Gordon (2004), there is a longstanding tradition of individuals making contributions, financial and in-kind, to a wide range of NGOs with which they have a particular affinity. The more enabling tax environment described elsewhere, is likely to increase individual philanthropy (Camay and Gordon, 2004).

Limited data is available on individual giving. A CSO survey conducted in 2001 for the CIVICUS Civil Society Index Project, as quoted by Camay and Gordon (2004: 59) purports that half of the respondent CSOs at the time received no funding from private individual donations and bequests. The survey further contends that 34% of respondents received up to 25% of their funding from this source, and a further 8% receive approximately 50%. This supports the notion that there may be a disinterest in individual philanthropy in South Africa.

4.3.2.2   Corporate social responsibility

Many big South African corporations have sizable social responsibility programmes now referred to as "corporate social investment" (CSI) (Kuhlase, 2005; Camay and Gordon, 2004).   Corporate Social Responsibility (CSR) emphasises the business response to economic, social and environmental considerations (Kuhlase, 2005). These programmes have the capacity to shape the agenda for social development to suit their own objectives. In this context, larger and highly visible projects and NGOs are supported by corporate donors to elevate their status. NGOs therefore are required to be business savvy and should develop the ability to integrate the corporate donor's business strategy with those social and development needs they wish to see addressed. For example, an NGO may have a very good media department that could render services to the donor at a fee. Alternatively, an NGO project could produce goods needed by the business (Erasmus, 2000).

An annual publication holds, Camay and Gordon (2004), now tries to track the trends and levels of corporate programmes. The CSI Handbook estimates that the total South African corporate CSI budget, including multinationals and parastatals as well as other

companies operating in the country, was R1.63 billion in 1999, R1.8 billion in 2000, R2.04 billion in 2001, and R2.2 billion in 2002 (CSI Handbook 2000; CSI Handbook 2002 as quoted in Camay and Gordon, 2004: 61).

In addition to individual companies' CSI programmes, South Africa has seen the erection of a number of business initiatives to contribute to the country's development. The Joint Education Trust (JET) is an example of such an initiative. It was established in 1992 by approximately 20 leading companies called the Private Sector Initiative with a commitment of R500 million. CSOs, trade unions, business associations, political parties and education organisations all became part of this endeavour to transform the country's education and training system. JET supported over 400 NGOs involved in teacher development, early childhood development, adult basic education and youth development. At the end of 2000, JET established the JET Education Services and JET Education Management to take over and continue with its work (JET Education Services – JET History, 2007).

Other examples of business initiatives are: The National Business Initiative and the Business Trust (Camay and Gordon, 2004; Business Trust, 2007).

These limited examples show that large South African businesses have made a significant contribution to funding development activity since the beginning of the 1990s. Camay and Gordon (2004: 67) contend that:

> *As with other donor funds, corporate funds are not likely to solve CSOs problems regarding financial sustainability. Whilst corporate donors may positively influence the manner in which CSOs manage their planning, budgets and expenditure, they are unlikely to become long-term supports of organisations. Also, if CSOs restructure themselves too much to operate like their business partners, they may well lose touch with their real constituency. The trend towards "marketisation" may draw CSOs away from their mission and mode of operation.*

4.3.2.3 Government funding of NGOs

After 1994, the first significant shift in donor policy occurred. Foreign ministries closed their anti-apartheid budgets and brought aid to South Africa through conventional

frameworks for development aid. Bilateral aid thus flowed to government departments which reduced the proportion of funding available to NGOs (Kraak, 2000; Galvin, 2000). In turn, government would shift funding to NGOs to assist with the implementation of the Reconstruction and Development Programme. Some NGOs benefited from the RDP fund but it soon became apparent that the RDP office was ill-equipped to deal with requests from NGOs and that the role of the office would not be to provide funding. The main way in which NGOs could access government funding was through the tendering process (Galvin, 2000). In a number of instances, however, NGOs lacked the capacity to prepare proposals and business plans, key elements needed to compete for government tenders (Camay and Gordon, 2004).

Camay and Gordon (2004) contend that little data had been collected by government to indicate how much funding was provided to NGOs. In order to draw conclusions on the nature of government funding to NGOs, they drew on the work of the CIVICUS Civil Society Index study, mentioned in earlier text, and found that:

> *...23% of respondent CSOs receive up to a quarter of their funding from fees for service provision to government and a further 11% receive up to half their funding from this source. For 24% of respondents, government grants constitute a quarter of their funds and for 10% such grants make up half their income. This would indicate that government funding is increasingly important for some CSOs....[h]alf of the respondents received no government funding whatsoever; 51% received no fees for services and 47% received no grants. Thus a large segment of civil society appears to be operating entirely without government support.*

(CORE/IDASA/SANGOCO, 2001 as quoted in Camay and Gordon, 2004).

Still, in its attempts to ensure funding for NGOs, the RDP office acted as a catalyst for the formation of two development institutions, the National Development Agency and the South African National NGO Coalition (SANGOCO) (Galvin, 2004). Many NGOs developed a "new client" relationship with government. With this new role, NGOs became an arm of the state or were co-opted to some degree and this weakened their ability to provide critical voices and to serve as government watchdogs (Bratton and Landsberg, 1998).

4.3.2.4 Foreign Donors

Official Development Assistance (ODA) to South Africa prior to 1990 was framed within the rubric of anti-apartheid endeavours, with donors deliberately choosing to bypass the state and its agencies and instead steered funding primarily to anti-apartheid bodies and NGOs, inside and outside the country (Development Assistance: an historical perspective, 2000; Kraak, 2000; Erasmus, 2000).

After 1994, ODA was shifted from NGOs to the state within the ambit of the government's overarching Reconstruction and Development Programme (Development Assistance: an historical perspective, 2000).

The table below reflects ODA commitments by individual donors in South African Rand since 1994. It shows that the five largest donors are the European Union, USAID, the European Investment Bank, Sweden and the German Development Cooperation. Collectively these five donors accounted for R12 729 million or 73% of the total ODA committed to South Africa over a six year period (Development Assistance: an historical perspective, 2000).

Table: 4.2   Overseas Development Assistance to South Africa (ZAR 000s)

DONOR	1994	1995	1996	1997	1998	1999	TOTAL
Australia	5 571	75 832	9 740	67 635	20 324	*	179 102
Austria	150	7 922	8 107	8 129	*	*	24 304
Belguim	5 078	44 632	3 476	34 646	6 336	2 892	97 060
China	*	*	*	*	137 37	*	137 137
Denmark	118 054	84 859	167 060	115 608	11 647	110 000	607 228
DFID	82 524	93 017	113 504	183 715	245 886	**	718 646
EIB	209 819	210 872	299 305	1035 380	828 729	649 283	3 233 388
EU	428 650	577 862	690 599	663 372	791 744	831 160	3 983 387
Finland	*	9 547	62 006	18 274	*	*	89 827
Flanders	390	2 874	2 723	3 218	4 094	2 422	15 721
France	*	245 010	89 573	*	*	*	334 583
GTZ***	22 873	70 518	382 273	29 150	208 463	117 361	830 638
IDRC	10 037	10 523	6 439	19 655	18 829	11 981	77 464
ILO	60	*	*	*	166	440	666
IRELAND	10 040	6 684	6 306	52 714	5 549	12 824	94 117
ITALY	6 221	4 940	3 615	85 298	3 227	1 895	105 196
JAPAN	9 808	16 341	324 236	320 539	68 594	49 725	789 243
NEW ZEALAND	1 116	*	72	7 307	3 659	3 246	15 400
NORWAY	139 432	49 659	21 590	88 410	83 760	29 723	412 574
NETHERLANDS	9 858	94 240	124 691	96 993	132 228	102 202	560 212
SPAIN	*	8 082	1 002	6 709	8 451	12 294	36 538
SDC	26 925	19 957	74 403	58 008	60 064	20 933	260 290
SIDA	88 071	259 696	58 533	242 268	181 757	271 938	1 102 263
UNDP	1 913	63 177	9 054	57 000	28 703	25 144	184 991
UNESCO	*	*	728	2 334	*	*	3 062
UNFPA	*	3 445	6 870	9 761	667	*	20 753
UNICEF	*	*	*	22 140	19 029	24 284	65 453
USAID	1 333920	870 614	566 766	706 168	102 331	*	3 579799
WB	2 661	*	*	*	1 975	6 296	10 932
TOTAL	**2 513171**	**2 830303**	**3 032671**	**3 934431**	**2 973359**	**2 286043**	**17569978**

*   Data not provided by donor

**   Donor indicated that data was not yet available (closure of financial year)

***   Strictly speaking, GTZ is not a donor but an implementing agency for the German ODA programme.

Source: Development Assistance: an historical perspective (2000: 24)

Donors have over time changed their approaches to grant-making on an ongoing basis in ways that have been detrimental to NGOs. Donors have rationalised their programmes to focus on only a few sectors, regions or localities. A number of localised NGOs were left out of the funding loop. Some donors have instituted new approaches to funding which emphasise competition rather than collaboration amongst NGOs for example: competitive, tender-like processes. Others are looking to leave behind sustainable NGOs which they can claim as the result of their funding programmes. Many donors are looking to cut down on their administrative costs and are therefore making fewer, larger grants to NGOs. A prevalent donor policy channelling a large portion of their funds through government or the government-created National Development Agency may also facilitate government control or co-optation of NGOs through favouritism shown to political allies, withdrawal of funds from NGOs which engage in advocacy critical of government policy or implementation, and loss of initiative amongst NGOs forced to implement only activities consistent with government-designed programmes (Camay and Gordon, 2004).

4.3.2.5   Foundations

Grant-making foundations, local as well as those based in countries such as the United States and Germany, have played an important role in supporting South Africa's NGO sector. Foundations each have their own priorities and criteria for funding. However, due to their own governance structures and considerable flexibility in-country, they have been better able to respond to the real needs of civil society (Camay and Gordon, 2004).

Local grant-making foundations, largely created by major corporations such as Anglo-American, Liberty Life, Standard Bank, and others have supported a range of NGOs over the years. Recently many parastatal organisations have established foundations. Prominent amongst these are Eskom, Telkom, Transnet and Rand Water (Camay and Gordon, 2004).

As alluded to in *Section 4.4.1.1* of this chapter, American foundations such as the Ford Foundation, the C.S. Mott Foundation, the Carnegie Corporation, the W.K.Kellogg

Foundation, the Andrew.W. Mellon Foundation and the South African offshoot the Open Society Foundation have been especially supportive of the South African NGO sector (Stacey and Aksartova, 2002; Camay and Gordon, 2004; USAID/South Africa: 2000). Carnegie's grants to South Africa, for example, encouraged the establishment and growth of national, regional and international networks and partnerships of researchers and leaders in governmental and non-governmental organisations (Stacey and Aksartova, 2002). The Ford Foundation, on the other hand firstly sought to improve the way citizens participated. It secondly focused on the democratic process with the aim to strengthen the non-profit sector thus bolstering democratic institutions whilst broadening the base of citizen participation in government (USAID/South Africa, 2000; Camay and Gordon, 2000; Stacey and Aksartova, 2002).

Table 4.3 below indicates areas of grant-making of six United States Foundations to South Africa for the period 1988 to 1996.

Table 4.3: Areas of grant-making of six U.S. Foundations to South Africa, 1988-1996.

	Civil Society	Universities	Education	Health/Welfare	Development	Other
	%	%	%	%	%	%
1988	14	42	13	26	2	3
1989	31	27	20	2	18	2
1990	14	45	30	7	4	<1
1991	20	27	31	4	10	8
1992	29	33	7	20	4	7
1993	33	18	13	25	6	5
1994	23	11	22	36	4	4
1995	19	13	8	33	20	7
1996	32	23	12	22	6	5

Source: Stacey and Aksartova (2002: 385)

Civil society, universities and health/welfare each garnered almost a quarter of foundation money between 1988 and 1996, with civil society marginally the best funded.

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Civil society grant-making constituted a relatively more stable proportion of the dollar amount granted to South Africa each year than universities and health/welfare grant-making. Civil society always received between 14% and 33% of grants in terms of value in South Africa, while the grants to universities and health and welfare followed something of a boom-and-bust cycle, fluctuating between 11% and 45%, and 2% and 36% respectively (Stacey and Aksartova, 2002).

Whilst a variety of official donors began to lose interest in South Africa and its civil society after the country's transition to democracy, the aforementioned foundations remained stalwart supporters of the country and its NGOs. These foundations however predominantly fund professionalised, formalised, hierarchically ordered NGOs in the fields of advocacy, research, training and government-watching (Stacey and Aksartova, 2002).

4.3.2.6 National funding agencies

Since the mid-1980s, several funding agencies have been established at a national level to channel funds to civil society for development and poverty alleviation work. These agencies were established either by the government or by donors, or by both (Camay and Gordon, 2004). The next section will explore four of these agencies namely: the Kagiso Trust, the Independent Development Trust, the National Development Agency and the National Lotteries.

Kagiso Trust

The Kagiso Trust was founded as an independent trust in 1986 with funding from the European Union. It was initially established to fund the activities of CSOs involved in the struggle against apartheid at a time when donors directed funds away from an "illegitimate" South African government. The EU was Kagiso's major donor, followed by the governments of Japan, Finland and France, the Rockefeller Foundation, and the Swedish International Development Agency. Between 1986 and 1995, the Trust invested R750 million in grants in a variety of programmes, providing employment, education, housing and social development. The trust has subsequently established a consultancy

wing, Kagiso Trust Consultancy that offers services to other donors, corporate social responsibility programmes and government. Their rationale for managing other donor funds to support CSOs is based on the need for an impartial fund manager (Kagiso Group, 2007; Camay and Gordon, 2004).

Independent Development Trust

The Independent Development Trust (IDT) was established in 1990 by the national government. Their original mandate was to disburse a grant of R2 billion in a manner that would best serve the development of disadvantaged communities in South Africa. Its programmes of operations included, for example: capital subsidy schemes, clinic and school building, health and welfare projects, water and sanitation projects, in-service training, land reform projects and NGO support. The IDT evolved as a development facilitator in addition to the prescribed funding distributor. It described its own functions as ranging from that of "facilitator, broker or intermediary between development partners" and establishing networks as well as providing advice and technical support to organisations, NGOs and delivering services" (Independent Development Trust: IDT Background, 2007; Gardner and Macanda, 2003). Because the IDT was established by the National Party Government, it did not have much credibility among CSOs involved in development. This necessitated a new funding mechanism for NGOs (Gardner and Macanda, 2003).

National Development Agency

According to Gardner and Macanda (2003), the history of the National Development Agency (NDA) may be traced back to the role of NGOs in South African society. Prior to 1994, funding was easily accessible but this situation changed after 1994. NGOs struggled in the new funding environment and a new funding structure was called for. The establishment of a National Funding Agency was perceived as a possible solution.

The National Development Agency (NDA) was constituted in accordance with the National Development Agency Act (Act 108 of 1998), promulgated in April 2000. The aim of the agency is to promote an appropriate and sustainable partnership between

government and civil society organisations to implement the Reconstruction and Development Programme. It is to act as a conduit for funding CSO development work and to create a platform for interaction between government and CSOs on development policy and practice. The vision of the agency is to become the country's key funding agency addressing poverty and contributing toward the creation of a healthy, economically vibrant and stable civil society (Camay and Gordon, 2004). Bridget Masango, executive director of marketing and communication at the National Development Agency in 2002, as quoted in Farouk (2002b), provided a different take on the role of the NDA and indicated that the NDA was primarily a development agency and secondarily a funding agency with capacity-building as its primary objective (Farouk, 2002b).

Still, according to Section 3 of the National Development Agency Act, the primary objective of the NDA is to contribute to the eradication of poverty and its causes by granting funding to CSOs for the purposes of:

- carrying out projects and programmes aimed at meeting development needs of poor communities, and
- strengthening the institutional capacity of other CSOs involved in direct service provision to poor communities.

The secondary objectives of the NDA are to:

- promote consultation, dialogue, debate and sharing of development experiences between CSOs and relevant organs of state, and
- undertake research and publication aimed at providing the basis for development policy.

(Gardner and Macanda, 2003).

In the course of its first three years of operation, the NDA learned some hard lessons after confronting problems related to management, funding allocation and disbursement, and strategy. In the 2001 financial year, the NDA distributed only 26% of its available funds. R48 million donated from the EU, for example, 18 months prior, were not distributed. The NDA was accused of being incapable of efficiently attending to the obligations of the

NGO sector. A range of South Africa's high-priority areas remained underfunded, for example: adult education, early childhood development, HIV/AIDS awareness, domestic violence, land reform, human rights education, and rural local development (Camay and Gordon, 2004).

Further problems cited were, amongst others, the lack of continuity, institutional memory, system-level expertise and shared experience. It was also reported that the initial and subsequent allocations, especially from government, were far from sufficient. In 1999, R100 million was allocated: R90 million in 2000, R92 million in 2001 and R96 million for 2002 (Gardner and Macanda, 2003). Whilst the South African government maintains a high level of funding, many NGOs are unable to access it via the National Development Agency in the Department of Social Development (allAfrica, 2002). Gardner and Macanda (2003) suggest that there is insufficient congruence between the funds committed and disbursed by the NDA to provinces and areas where poor people live and recommends that funds should be committed in order of need.

National Lottery

The National Lotteries Board is a statutory body established in terms of the National Lotteries Act (Act 57 of 1997). The board is responsible for the regulation of all lotteries conducted in South Africa, including the National Lottery, as well as other private and society lotteries. Although the board reports to Parliament annually, it operates independently. The money raised through the sale of Lotto tickets and scratch cards, after value added tax (VAT), is distributed according to the following formula:

- 50% goes to prizes;
- 20% goes to the licensee, and
- 30% goes to good causes (National Lottery Distribution Trust Fund [NLDTF]).

The National Lotteries Act (Act 57 of 1997) prescribes the purposes or which funds invested in the NLDTF can be used by distinguishing five categories for which money is to be allocated. The categories are:

- The Reconstruction and Development Programme;

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- Charities;

- Arts, Culture and National Heritage;

- Sport and Recreation, and

- Miscellaneous Purposes.

(Louw, 2002).

From the National Lotteries' inception, CSOs have been nervous that the billions of rands being raised each year will not be used appropriately and that they would lose out. In reaction to the lottery pay-outs in 2001, controversy raged when service delivery charities complained about what they perceived to be excessive amounts allocated to organisations in the sport and recreation category. It was felt that this category did not benefit previously disadvantaged communities. Complaints were also lodged about the selection of beneficiaries and the initial payments (Camay and Gordon, 2004; Louw, 2002; Development Update, 2001).

Camay and Gordon (2004: 93) contend that:

> *The evolution of these national funding agencies, and their set-up and transformation processes, are indicative of the continuing struggles for resources and control over development objectives between civil society and government. They also demonstrate the difficulties faced in terms of recasting various institutions – both state and independent – to become consistent with the revised agendas and modalities of the new South Africa.*

4.3.2.7   Community philanthropic organisations
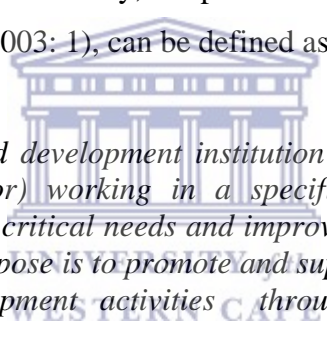
Community philanthropic organisations such as the Western Cape Community Chest and community foundations are based on the belief that there are untapped assets in communities throughout the world. If these assets are gathered, held in public trust, and managed effectively, they can be used to support sustainable community development and reduce developing countries' dependence on external sources of funding (Pearson as quoted in Camay and Gordon, 2004).

Community Chests

The Community Chests in South Africa are equivalent to the U.S-based United Ways. The Western Cape Community Chest, for example, funds 520 different organisations, with an emphasis on poverty alleviation, children, mental health, AIDS education and prevention, and orphans. In addition to making grants to non-profits in the Western Cape, the Community Chest has advocated for changes in the national tax laws to make it more appealing for individuals and corporations to make donations to non-profit organisations (Description of NGOs visited as part of NCCED's Study Tour to South Africa, 2007).

Community Foundations

According to Kuhlase (2005), community foundations have a key role to play in bringing together stakeholders such as civil society, the private and public sectors. A community foundation, maintains Legodi (2003: 1), can be defined as:

> *…[a] philanthropic and development institution (part of the non-profit, non-governmental sector) working in a specified geographical area, dedicated to addressing critical needs and improving the quality of life in that area. Its broad purpose is to promote and support local philanthropy and community development activities through constructive grant-making.*

An early example in South Africa of a community foundation was a joint initiative by a civic organisation, a CSO and a local corporation to establish a community trust (similar to a community foundation). The eMbalenhele Civic Organisation, Planact and Sasol developed an agreement which stipulated that the community would give its authority for contributions to be made, and that a trust be created and registered in order to control the application of funds (Coeser and Walker as quoted in Camay and Gordon, 2004).

Currently six community foundations are supported through the Industrial Development Corporation's (IDC) R50 million Foundation Fund established in 2003. There are three in the Western Cape, one in Mpumalanga , one in Kwa-Zulu Natal and one in the Eastern Cape, with equity stakes (shareholding/ownership) ranging from 3% to 49% . There are

long-term social and financial investments, where the dividends will flow directly to the community foundation (Kuhlase, 2005). Other community foundation programmes have been funded by US Foundations such as Ford, Mott and Kellogg (Legodi, 2003).

Camay and Gordon (2004) caution that not all community organisations may succeed, as the initial endowment (the capital sum used to generate annual income for grant-making) may be difficult to raise.

4.3.3 Funding sources: Advantages and disadvantages

When relying on donor funding, NGOs may have to face various negative and positive aspects, linked to the sources of funding (Glaser, 2004). Table 4.4 below, provide an exposition of typical funding sources and the advantages and disadvantages attached to each.

Table 4.4: Funding Sources: Advantages and Disadvantages.

FUNDING SOURCE	ADVANTAGES	DISADVANTAGES
Individual	Largest source of giving; Ongoing source one can build; Once a giver, also an advocate; Volunteers are good source of money.	Costly to develop, small return per individual unit; Hard to generate unless broad-based direct service appeal; Risky for inexperienced; Need significant assistance from the organisation's board and volunteers.
Large-Family Foundations	Source of large sums of money; Accessible, professional staff; Clear guidelines, process; Most likely to research your request; Board of volunteers can help, not always key.	Start-up funds only; Lengthy process; More difficult to access through personal influence; Proposals may be more lengthy.
Community Foundations	Much like large-family foundations; Staff may be sufficient.	There is a host of foundations within foundations; Most money is earmarked, "special funds".

Small-Family Foundations	May fund ongoing operating expenses; Personal influence with board members helps; Guidelines often broad; Not very fussy about grant format.	Hard to access, no professional staff; Often not large sums of money; Without personal influence, may not be possible.
Large Corporations/Corporate Foundations	Can be source of large sums of money; Smaller amounts of money may be ongoing; Often have accessible, professional staff; May be tied to volunteer involvement; Business Strategy may be clear; Source of cause-related marketing.	Large sums of money are not ongoing; Hard to get around staff; Must be within their guidelines; Not likely to contribute if not headquartered locally or have a public consumer base; Often want board representation.
Small Corporations	Very informal approach; Money may be ongoing; Personal connections will suffice; Neighbourhood focus will help.	Small amounts of money; Narrow range of interest; Personal contacts are key.
Federated Funds	Steady source of relatively large sums of money; Clear process; Professional staff, can be agency staff driven.	Generally cannot be start-up organisation; Must be social service and fit priority focus; Very lengthy entry process; Very time consuming as must be part of yearly fund raising process, with periodic in-depth review.
Government	Large sums of money possible; Process is set, clear; Political clout helps; May be a source of ongoing money.	May only pay by unit of service, fluctuates; Unspent monies may be returned; Difficult record-keeping.

Churches and Organisations	Often looking for group projects.	In-kind services most likely; Need to fit their service focus, neighbourhood or religious outlook.

Source: McNamara (1999).
Also see: Glaser (2004); Atkinson and Messing (2002).

In concluding this section, Camay and Gordon (2004) contend that a culture of dependency and entitlement prevails amongst some NGOs. The authors report that there is a need to build public understanding of philanthropy, social responsibility and individual citizen responsibility and voluntarism to contribute to the public good. NGOs are cautioned to work hard at achieving sustainability. Diversifying funding sources by using some of the funding channels alluded to in this chapter may be a way in which NGOs can ensure financial sustainability, usually threatened by traditional donor settings (Glaser, 2004). It is better for an NGO to hold a mixed funding portfolio instead of depending on a single donor to meet current and future needs (Viravaidya and Hayssen, 2001; Layton, 2006).

4.4 FINANCIAL EXPENDITURE AS AN INDICATOR OF SUSTAINABILITY

In spite of vast amounts of money flowing to NGOs, surprisingly little information and data is available on NGO expenditure. In the absence of such historical data, the extent of NGO expenditure in general proves hard to trace. The next section will nonetheless give a brief overview of NGO expenses as espoused in the annual reports of a few NGOs and general views of NGO expenditure put forward by a few publications and experts. The concepts "capital expenditure" and "current expenditure" will also be defined.

4.4.1 Capital expenditure

Pauw et al (2002: 65) contend that capital expenditure is:

> …[o]f a non-recurrent nature – it is usually once-off expenditure. It is for durable acquisitions. This type of expenditure usually indicates economic growth of an entity, for example, purchase of land, acquisition and erection of buildings, engineering works and the improvement of existing works to extend lifetime. It further includes the purchase of machinery, equipment, computers, vehicles, tools, furniture and buildings. The

general definition of capital expenditure includes the acquisition of all items with a lifespan exceeding one year.

4.4.2   Current expenditure

Current expenditure, according to Pauw et al (2002: 65), is:

…[e]xpenditure of a recurrent nature. It usually repeats itself year after year – for example, salaries and administrative expenditure such as travel, professional services and renting equipment such as photocopiers. Current expenditure is expenditure not intended for the acquisition of assets. Expenditure on the normal maintenance of capital goods and interest payments is also considered to be current expenditure.

Many donor grants and donations carry restrictions on the types of expenses that they may cover. The most common restriction is to cover only direct programme costs (Viravaidya and Hayssen, 2001). It would appear that donors are less willing to fund traditional overhead expenses such as salaries, rent and equipment or any other cost related to support services (Layton, 2006; Virayvaidya and Hayssen, 2001). NGOs are expected to contribute to these costs on their own, or at least cover an increasing share of these costs over time (Virayvaidya and Hayssen, 2001). Donors couch their reluctance for core funding in terms of concerns of not wanting to be the major donor to any NGO because of fears of generating an overreliance and dependency (Bornstein, 2001).

In order to get an idea of an NGO's expenses, the researcher perused the annual reports of three NGOs which reflect the following expenses: advertising, auditing, accountancy and other services, bad debts, bank charges, car hire, cleaning and office sundries, communications, computer software and support, conferences, workshops and seminars, consultancy fees, depreciation, donations, electricity and water, entertainment, equipment (maintenance and rentals), finance charges and interest, freight, fund-raising expenses, hotel accommodation, human resources, insurance and licenses, lease of motor vehicles and equipment, legal fees, motor vehicle expenses, office renovations, postage, telex, fax and telephone, printing and stationery, projects, rates and taxes, regional services levies, relocation expenses, rent, repairs and maintenance, salaries, sale of assets, Skills

Development Levy, staff development, staff and board meetings, staff recruitment, sundries, subscriptions, periodicals and books, sundry equipment, sundry furniture and fittings, travelling expenses, website maintenance and administrative fees reimbursed from projects (IDASA Annual Report 2001, Community Law Centre Annual Report 2003, Harold Wolpe Memorial Trust Annual Report 2005)

The above reflects that whilst the mission, philosophies, client bases, skills and experiences may differ across various NGO sectors, individual NGOs have designed their programmes in such a way to recover the costs of operational and capital expenses, which donors are reluctant to fund. It is imperative that the costs of an NGO's core activities, not exceed the inflow of grants and donations (Viravaidya and Hayssen, 2001).   Good cash flow management is also important and requires that information on:

- cash available;
- expected revenue inflows;
- expected capital and operating outflows, and
- financing flows

be readily available (Pauw et al., 2002). Cash flow budgets are also essential to the management of cash and requires planned inflow and outflow of cash through the organisation. This provides the base plan against which the management of working capital takes place (Pauw et al., 2002).

Alex Burger, (2007) an MBA graduate, employed by the World Bank and working in Chad, contends that a sustainable balance between capital expenditure and current expenditure occurs when:

> *No more than 15% of an NGO's budget is spent on overall administrative expenses. That means anything that cannot be charged or allocated directly to a programme for example fund-raising, overall administrative costs and so on. As for capital expenses there is no rule that exists. Often NGOs do separate capital expense campaigns because this is a big ticket item, and falls outside of a regular budget. So for example a building would fall under this category. Other capital expenses such as computers and so on should be "folded" into programmatic budgets.*

When Tracey Bailey (2007), National Coordinator of an NGO, was asked to respond to the question around how a sustainable balance between capital expenditure and current expenditure of an NGO could be attained, she responded by saying:

> *I have absolutely NO idea!*

A former stakeholder of a different NGO, who wishes to remain anonymous indicated, that whilst being involved in NGO endeavours for a number of years, he too did not know what a sustainable financial ratio between capital and recurrent expenditure, would be. When feedback was solicited from two administrators, the first located in the School of Public Health at the University of the Western Cape and the second at PLAAS also located at the aforementioned university, around an appropriate apportionment of funding between the operational and capital cost of an NGO they were "silent" on the matter. This indicated that they may not have an answer to this very important question.

4.5 SUSTAINABILITY OF NGOs (DONOR FOCUS)

Foreign donors are changing their approach to grant-making to South African NGOs in several ways (Camay and Gordon, 2000; Baden, Hassim and Meintjies, 1999). Many donors have rationalised their programmes to focus on only a few sectors or regions or localities of interest (Camay and Gordon, 2000).

4.5.1 Donors funding specific economic sectors

Before the year 2005, USAID, for example, planned to spend 400 million US dollars in six sectors in South Africa, namely democracy and governance, education, health, economic policy, micro-enterprises and housing (Camay and Gordon, 2000). Some agencies such as SIDA, UNDP, UNICEF and Norad promote gender-sensitive approaches in all programmes which they fund. Funds are also provided for gender-specific activities. Other organisations such as the World Bank and GTZ do not provide for gender-specific programmes. Thus far, donor support has concentrated on:

-       policy and institutional development: support for the national gender machinery;
-       political empowerment: training for women in Parliament and local government;

- legal rights and violence against women: support for research, training and services, and

- social sector support: gender equity in education, health care, welfare, housing and water.

(Baden, Hassim and Meintjies: 1999).

4.5.2 Variations across countries in donor-NGO funding arrangements

Generally, in terms of donor-NGO funding arrangements, there are variations across countries. In Australia, there are 32 different funding mechanisms through which NGOs can obtain funds from the government. The dominant type of NGO activity funded by donors today remains projects and programmes put forward for funding by the NGOs themselves, and utilised for projects and programmes in particular developing countries. In the United Kingdom, this is facilitated through the Overseas Development Administration's Joint Funding Scheme; in Sweden through the NGO Programme and in Finland, through the NGO Support Programme. Additionally, a small proportion of donor funds are channelled through a range of international NGOs, whilst most bilateral donors have also provided funds to NGOs specialising in sending volunteers abroad, and to NGOs working on education and information initiatives within donor countries (Overseas Development Institute, 1995).

4.5.3 Conditions attached to funding

Different donors have also applied varying degrees of conditionality to the non-project funds they provide for NGO work. In contrast to the United Kingdom, which has stringent conditions attached to official funds used for development education and information work, other donors, such as the Scandinavians, have a more permissive approach and even provide funds for activities and campaigns critical of official aid policy (Overseas Development Institute, 1995).

4.5.4 Funding attached to NGO leadership

In the context of funding attached to NGO leadership, Okiama (2004) reports that in Kenya, a charismatic leader is regarded as an asset to an NGO. Foreign funding is

attracted by NGO leaders who display eloquence, energy, purpose and courage, a proficiency in the English language and excellent public relations skills. However, once a leader obtains national or foreign support, the aims and objectives of the NGO are soon forgotten. And, as the realities of global politics and donor preferences shift, so does the original vision of the NGO. The Kenyan government has been called upon to put forward laws providing for the monitoring of operations and accounts of NGOs in the interest of consistency, transparency and accountability (Okiama, 2004).

Niloy Banerjee (n.d.). drawing on general experiences of working with NGOs on a DFID- funded project of the Charities Aid Foundation India, contends that, in India, an NGO leader needs to have a reasonable level of contact with donors and key staff in a donor agency. This, the author maintains, ensures a level of comfort on both sides and it is not infrequent to find donors line up behind a leader because he or she meets certain requirements of comfort even if the person is a known autocratic.

During the 1980s, leadership of the South African Council of Churches and the United Democratic Fund for example, despite the apartheid government's endeavours to control NGOs in general and foreign funding in particular, was able to attract considerable foreign support (Gerhart, 2000; Camay and Gordon, 2000).

In concluding this section, the researcher contends that donor funding is attached to NGO leadership.

The next section will conclude this chapter.

4.6 CONCLUSION

The purpose of this chapter was to explore financial management and financial sustainability practices within NGOs in general. Concepts pertaining to funding arrangements from international donors, and independent scholars were explored. Academic literature in the principles of financial management for NGOs, was assessed. The chapter also investigated issues pertaining to income and expenditure of NGOs with

the view to drawing lessons of experiences on global funding mobilisation practices for replication in South Africa. The following conclusions are drawn.

In terms of financial management, the chapter established that budgeting, accounting, financial reporting and management control were the most essential tools for governance, accountability, planning and management in non-profit organisations and, accordingly, NGOs are now required to develop an appropriate financial management system. In this context the NDA has put forward a document entitled: *Basic Financial Management for community-based organisations* which aims to teach South African NGOs basic financial record-keeping skills (NDA, n.d.).

Good practice in NGO financial management furthermore includes: keeping an accurate record of all financial transactions (accounting records); linking the budget to the organisation's strategic and operational plans (financial planning); producing management accounts so that managers can compare the organisation's progress against the budget and then make decisions about the future (financial monitoring); producing financial statements for outside scrutiny to demonstrate how funds have been applied in the past (financial monitoring); having internal controls or checks and balances in place to safeguard the organisation's assets and to manage risk (internal controls) and having an audit committee or auditor to assist in the quality and reliability of financial and other performance information used.

Financial control endeavours should include proper planning, programming and reporting mechanisms. In the absence of clear financial management policies and practices, the NGO will meet an early demise.

In terms of funding mobilisation, the research revealed that non-profit funding sources vary in predictability, controllability, linkage to organisational activities, and the range and amount of management effort they require. To source adequate funding, the NGO sector is required to construct a well-executed fundraising strategy which contains

elements such as diversification, sustainability, creativity and inclusiveness. In this context, the NDA can assist.

The role of the NDA as conduit for state funding in the South African context, was also explored. Research revealed that it has become increasingly difficult for South African NGOs to secure funds as it would appear that donors choose to spend money in areas different from those in which most NGOs function. In conjunction with assisting NGOs around basic financial management practices, the NDA can play a facilitative role in the NGO proposal construction process particularly when it pertains to fundraising.

The research also revealed that more literature is available on NGO income than NGO expenditures. The latter is an area, which requires more extensive research and exploration.

The chapter found that, irrespective of the business of the NGO, managers of NGOs have to pay as much attention (if not more) to finding funds as they do to using those funds. As global needs continue to change, NGOs increasingly find that available funding is inadequate to meet current programme needs. International, national and local donor funding will not be sufficient sources of sustainable NGO income. International donors have various conditions attached to their income, and funding from government impacts on the autonomy of NGOs. Donations from local corporations and government development agencies are closely linked to national development imperatives. Individual giving, too, appears underdeveloped.

One of the challenges South African NGOs faces is to devise a sustainable framework of local resource mobilisation. A possible solution is to garner financial and in-kind support form local allies, such as the media, private business, private individuals and the public in general. This could steer NGOs away from a detrimental dependence on international donors.

NESsT's (Nonprofit Enterprise and Self-sustainability Team) - an international, non-profit company committed to strengthening the financial sustainability of CSOs that work

for social change in Central Europe and Latin America - proposition of self-financing as an alternative to the more traditional fundraising approaches (explored throughout the chapter) appears an attractive alternative funding framework too.

The researcher proposes that the aforementioned funding approach, in conjunction with the mobilisation of local revenue sources, be considered as a funding framework by the South African NGO sector. While some NGOs have adopted the one approach over the other, a combination of the aforementioned approaches may prove rewarding. When financial sources are diversified, the chances of an NGO sustaining itself is enhanced.

Whilst NGOs in developing nations will rely on financial resources from developed countries for some time to come, it is imperative that they be proactive and devise strategies to determine their destiny.

It is agreed. NGOs need a variety of financing tools and sources in order to reduce risk and to sustain their work.

The next chapter will provide an assessment of selected NGO case studies in South Africa.

CHAPTER FIVE

CASE STUDIES: AN ASSESSMENT OF SELECTED NGO CASE STUDIES IN SOUTH AFRICA

5.1. BACKGROUND

The purpose of this chapter is to provide a comparative case assessment of selected NGOs in South Africa. To facilitate this process, important historical and contemporary theoretical expositions of NGO experiences, as lessons for governance and funding arrangements for current South African NGOs, have been gleaned from Chapter Two of this dissertation. These theories and paradigms will form the basis of analysis in this chapter. Specific attention was paid to NGOs operating in South Africa's new political economy where the demise of apartheid brought about fundamental changes in the form and function of the state, which included the restructuring of cooperative governance within the different spheres of government and civil society. Survival strategies employed by NGOs beyond 1990 suggest that NGOs had to redefine their roles in relation to service delivery and to the state. In turn, the South African government realised that the NGO sector can be a developmental partner to the state assuming various roles.

Research findings suggest that a large number of CSOs which emerged between 1990 and 1997 enjoyed the status of Section 21 companies or trusts, and secured funds from foreign and domestic sources in particular consultation fees, services charges, tenders for contracts and private donations. The longer-term sustainability of these CSOs appeared linked to the improved institutional environment in which they functioned. With regard to financial management practices, beyond 1994, donors took a stringent stance towards financial accounting and programme reporting requirements. In terms of governance, internal governance structures of NGOs emerged to take the form of governing boards. In this context, governance, emphasised organisational procedures and the process of governing.

Key issues identified around governance propose that the four basic elements of good governance namely accountability, participation, predictability and transparency are imperative within NGOs. By embracing these four elements, NGOs will not only enhance organisational stability, but will also ensure their future sustainability.

With regard to financial sustainability of NGOs, research shows that irrespective of the business of the NGO, managers of NGOs have to pay much attention to accessing funds. A possible solution to ensure an NGO's financial security is to mobilise financial and in-kind support from local allies such as the media, private business, private individuals and the public in general. Self-financing from own income as an alternative to the more traditional fundraising approaches appears an attractive funding option to increase sustainability. The researcher contends that a combination of the aforementioned approaches would prove a much more sustainable funding prospect. When financial sources are diversified, the chances of an NGO sustaining itself financially is substantially enhanced. NGOs thus need a variety of financing tools and sources in order to reduce risk and to sustain their work.

Developmental non-governmental organisations are mostly a funded sector, depending on funds from the community, businesses, government or from foreign governments, foundations and businesses as alluded to earlier (Mazibuko, 2000; Kihato, 2001; Fehnel, 1997). Despite its dependence on donations, NGOs are known to have a reputation for offering specific advantages over more bureaucratic government structures in the delivery of a range of social, economic, technical and political objectives. Research suggests that NGOs are better able to reach the poor, that they are flexible and responsive and that they can offer tailored and innovative service delivery interventions (Martin, n.d.; Edwards & Hulme, 1996; Bourne & Seager, 2000).

To test the above assertions, and the theoretical propositions around governance and financial sustainability of NGOs in South Africa and NGOs in general, three specific cases were decided upon. Section 5.2.4 of this chapter will elaborate on the selected cases.

The next section will reflect on the research methodology this study employed.

5.2   RESEARCH METHODOLOGY

According to Hutchinson as quoted in Brynard and Hanekom (2006: 3) "research is a scientific investigation and study undertaken to establish facts and thereby reach new conclusions. It can be distinguished from other human activities by its systematic nature". "Research methodology" contend Welman, Kruger and Mitchell (2005: 2) "considers the logic behind research methods and techniques."

A distinction between the terms "methodology" and "methods" needs to be made. Bailey as quoted in Rashe (2006: 5) suggests that "methodology refers to the philosophy of the research process." It aims to investigate the motivation of the research and helps the reader to understand in the broadest possible terms not only the products of scientific inquiry but the process itself.   Methods, on the other hand, refer to the range of approaches used in research to gather data which are used as a basis for inference and interpretation, for explanation and prediction (Cohen and Manion, 1980: 26).

In the human sciences, two basis research methodologies can be distinguished namely qualitative methodology and quantitative methodology (Brynard and Hanekom, 2006: 36).

For the purpose of this study, a qualitative research methodology was applied. Qualitative methodology refers to "research that produces descriptive data – generally the participant's own written or spoken words pertaining to their experience or perception. Usually no numbers or counts are assigned to these observations" (Brynard and Hanekom, 2006: 37). In qualitative research methods such as case studies, in-depth interviewing of key informants, participant observation, questionnaires and perusal of personal documents such as life histories, diaries and autobiographies are used (Brynard and Hanekom, 2006: 37).

The most frequently used techniques of data collection within qualitative research are:

- A literature review;

- Questionnaires;

- Interviews, and

- Observation.

The use of three of the above techniques within this study is discussed in the sections below.

5.2.1   Literature review

According to Babbie and Mouton (2001: 565) "every research report should be placed in the context of the general body of scientific knowledge….(t)he reader should be brought up to date with previous research in the area, pointing to general agreements and disagreements among the previous researchers".   According to Mouly (1970: 126) "the review of the literature is an exacting task, calling for a deep insight and clear perspective of the overall field. It is a crucial step which invariably minimises the risk of dead-end rejected topics, rejected studies, wasted effort, trial-and-error activities oriented towards approaches already discarded by previous investigators and – even more importantly, erroneous findings based on faulty research designs. It promotes a greater understanding of the problem and its crucial aspects and ensures the avoidance of unnecessary duplication. It provides comparative data on the basis of which to evaluate and interpret the significance of one's findings and, in addition, contributes to the scholarship of the investigator."

An in-depth literature review was conducted which explored existing theories and paradigms on governance and sustainability arrangements of NGOs in general and South African NGOs in particular. The literature consulted allowed the researcher to formulate an adequate conceptual framework. A solid base was constructed on which to base the research and analysis of this study.

5.2.2 Questionnaire

This study made use of a structured questionnaire. Selected candidates who participated in the completion of the questionnaire included: an NGO director, financial specialists within the NGOs and individual staff members. The advantage of a questionnaire is that "respondents have time to think about the answer to questions in the questionnaire. A disadvantage of a questionnaire is that the researcher is not at hand to explain uncertainties, which may result in biased or distorted answers by the participant" (Brynard and Hanekom, 2006: 46).

A pilot study was conducted with the Harold Wolpe Memorial Trust. The national coordinator volunteered to complete the questionnaire. This process allowed the researcher to improve sections of the questionnaire.

5.2.3 Interviews

"Interviewing, as a method of collecting data, allows the researcher to explain his or her questions if the respondent (interviewee) is not clear on what is being asked. It allows the researcher to probe more deeply following the answer of a respondent" (De Wet as quoted in Brynard and Hanekom, 2006: 40).
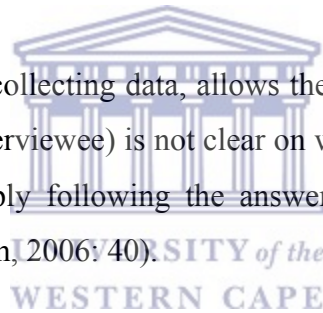
Unstructured interviews were conducted to glean information which the questionnaire and literature study did not reveal. Interviewees included the deputy director of one of the NGOs and staff members, who volunteered their participation and who wished to remain anonymous. A University of the Western Cape financial specialist was another interviewee.

5.2.4 Case study

This study is situated within the framework of a case study. The term "case study" according to Brynard and Hanekom (2006: 193 - 194), "pertains to the fact that a limited number of units of analysis are studied intensely. The units of analysis include individuals, groups and institutions". When we investigate a group or institution, we often make use of fieldwork, conducting the investigation on the spot under the natural

circumstances of the specific case. As far as the research procedure is concerned, participant observation and unstructured interviews are usually used to study the chosen case but, in some instances, even descriptive statistics may be appropriate. The aspects deserve special mention as far as case studies are concerned. Firstly, the case should be defined or demarcated. Secondly, whichever technique is used to collect data, the concern is not merely to describe what is being observed, but to search in an inductive fashion for recurring patterns and consistent regularities. Thirdly, triangulation is frequently used to discern patterns. Because the number of cases is limited, the very purpose of the case studies is to intensively examine those cases that are indeed available. In view of the consideration that the researcher himself or herself is the research instrument, an attempt is usually made to corroborate findings according to at least three different approaches.

The cases selected for this study include the Centre for the Study of Higher Education (University of the Western Cape, South Africa), Oxfam International Great Britain as an example of an international NGO and the Sustainability Institute on the outskirts of Stellenbosch, South Africa, from which lessons regarding governance and financial sustainability could be drawn. One of the cases, Oxfam International, represents the large international NGO sector; a second, Centre for the Study of Higher Education, focuses on higher education policy as an organization that is based at a university, and the third, the Sustainability Institute, has a developmental orientation with access to a variety of funding sources. As these NGOs receive funding from international, national and private sources, a comparative analysis will be allowed, which will facilitate an understanding of the nature of sustainable financial arrangements. Each NGO has a unique governance structure, which will allow for an analysis highlighting possible similarities or differences.

The following section will provide a brief overview of the type of operations of the selected cases, their contextual perspective, the nature of their activities, the governance arrangements and their fundraising and financial management practices.

5.3. OXFAM INTERNATIONAL

5.3.1 Brief historical overview

The nature and purpose of Oxfam as an NGO can perhaps best be summarised by citing the Oxfam 2007 report which contends that:

> *The name Oxfam means different things to different people. To some it is the relief agency that provides shelter and clean water when a disaster hits a community. To many people in Britain, it represents their local charity shop. To others, Oxfam is the powerful voice that speaks out nationally and globally on behalf of poor people, tackling major issues such as debt, trade and the right to education. Its aim is simple: to work with others to overcome poverty and suffering.*

Oxfam International is a confederation of 13 organisations working together with over 3000 independent non-governmental organisations in more than 100 countries to find lasting solutions to poverty, suffering and injustice, as alluded to earlier.   The organisation seeks increased worldwide public understanding that economic and social justice are crucial to sustainable development. It strives to be a global campaigning force continuously promoting equity (Oxfam International, 2005).

The endeavours of Oxfam International began in 1942 when it set up the Oxford Committee for Famine Relief, highlighting the problems created by the Nazi occupation of Greece at the time, requesting that relief be sent to those in most urgent need. From 1948 awards grants were made to projects in Europe and elsewhere and in 1949 the Committee's objectives were again broadened to 'the relief of suffering arising as a result of wars or other causes in any part of the world.' The committee gradually became known by its abbreviated telegraph address, Oxfam. This name was formally adopted in 1965 (Oxfam GB, 2007).

Oxfam's work in South Africa extends as far back as 1965 when a grant was allocated to feed poor children in the country. These feeding programmes continued throughout the 1960s when over £90 000 was allocated to a number of agencies involved in various feeding schemes. The South African programme gradually expanded as a network of

contacts was built, mainly with church representatives, involving a range of development activities in townships and rural areas (Oxfam GB, 2007).

By 1985 Oxfam had taken on more human rights-related endeavours in South Africa and was supporting 27 advice offices as well as having made a substantial grant towards the establishment of the Legal Resource Centre in Port Elizabeth. Advice offices were staffed by paralegals who played a crucial role in assisting victims of the worst abuses of the apartheid era. The Legal Resource Centre became the largest non-governmental legal service provider in South Africa (Oxfam GB, 2007).

In 1993, the country office in Johannesburg, South Africa, was opened. Over the years, Oxfam has supported a wide range of local organisations and communities mainly in rural areas of the Eastern Cape, KwaZulu-Natal and Free State provinces (Oxfam GB, 2007).

5.3.2   Contextual perspective (South Africa)

The current programme Oxfam is implementing in South Africa is an advocacy and campaigning programme. It recognises that inequality is a fundamental driver of poverty in South Africa and is worsened and perpetuated by HIV and AIDS and gender inequality. The programme focuses on women and children affected by HIV and AIDS, and women suffering from domestic violence. The geographical focus of Oxfam's work is in Welkom and Qwa Qwa in the Free State province. At a national level, Oxfam supports South African organisations that campaign for improved health services, better responses to the HIV and AIDS crisis, and those calling for an end to gender-based violence. The organisation encourages collaboration amongst civil society organisations in the aforementioned areas, and also collaboration between government and NGOs (Oxfam GB, 2007).

5.3.3   The Nature of the NGO's Activities

Oxfam International's programmes in general address the structural causes of poverty and related injustice. It works primarily through local accountable organisations seeking

to strengthen their empowerment. It helps people directly where local capacity is insufficient or inappropriate for Oxfam's purposes, and it assists the development of structures which directly benefit people facing the realities of poverty and injustice and which are accountable to them (Oxfam International, 2002).

The programme of Oxfam in South Africa specifically focuses on the following four areas. The first area is the creation of effective and accountable systems of social delivery. The focus is on health services that are effective in dealing with the HIV and AIDS pandemic, and which are responsive to the specific needs of women and the obstacles that they may face in accessing services. The second area focuses on ending gender inequality and gender-based violence. This involves work at the local level supporting survivors of gender-based violence, challenging ideas and beliefs that lead to gender-based violence, and at the national level, changing policies and programmes that impact on the prevalence of and response to gender-based violence. The third area of focus is on developing new approaches to investment and the distribution of the benefits of growth to ensure that South Africa's approach to economic development contributes to overcoming poverty and inequality. A collection of research projects informs this particular focus area. The last focus area is that of encouraging and supporting South Africa to utilise its full potential as a regional and global leader in overcoming poverty, inequality and conflict (Oxfam GB, 2005).

Oxfam's work extends over large social sectors. As an international NGO, it effectively delivers it programmes as it has very specific areas of focus.

The next section of this study explores the governance structures employed by Oxfam.

5.3.4   Governance

5.3.4.1   Introductory Biographical information

Oxfam Great Britain, established in 1942 as alluded to in earlier text, is an independent organisation registered as a charity, affiliated to Oxfam International, with partners, volunteers, supporters and staff of many nationalities. By October 2006, its headquarters

employed 692 people in various areas of expertise which include, for example, fundraising, policy, trading (shops), campaigns, media, core humanitarian, UK programme management and Middle East and Eastern Europe programme management as well as support functions (IT, HR, directorate, finance and audit). Its average field staff head count by November 2006 averaged 4716 personnel. Four hundred volunteers are employed at its headquarters. Approximately 12 000 people are employed in the Oxfam shops (Stringer, 2007; Oxfam Accountability Report 06/07).

5.3.4.2 Executive management structure

Oxfam's supervisory board is appointed by through election of members. Oxfam GB's Trustees form a council, which is the governing body of Oxfam GB, and meets approximately five times a year. Trustees, who are all unpaid volunteers, are responsible in law for everything Oxfam GB does. Oxfam's council has overall responsibility for Oxfam but delegates the management of Oxfam to the senior executive staff i.e. the Director and the Corporate Management Team (Oxfam Annual Report and Accounts 2000/02).
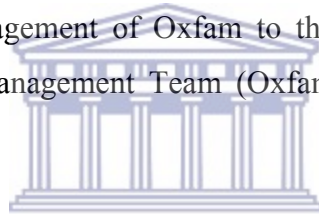
5.3.4.3 Board members

There are between 10 and 12 members of Council. Trustees serve on Council for three years with the possibility of a second consecutive three-year term of office, extendable up to nine years in the case of Honorary Officers. There is also Oxfam's Association, which can have up to 32 members. It is made up of all the current Trustees, plus around 20 other members. The Association has powers to remove and replace Trustees in the event of a major failure or default on the part of Council. The overall length of service of all board members is over 11 years. The knowledge and skills available within the board relevant to the work of the organisation ranges from legal, technical, community, management, accounting to fundraising (Oxfam Annual Report and Accounts 2005/06; Oxfam Accountability Report 2006/07).

5.3.4.4   Accountability and the board

This section explores mechanisms employed by Oxfam to support accountability. Oxfam's system of governance was revised following a strategic review, completed in June 1998. Part of the changes included the move to a smaller governing body of 10 to 12 Trustees as described above. The strategic review concluded that a smaller council should be enabled to listen to and be influenced by the views of its stakeholders. Two regular mechanisms which support this form of accountability are the Assembly and a Stakeholder Survey (Stringer, 2007).

The aim of the Assembly is to strengthen Oxfam's accountability by facilitating informed debate and an exchange of views on issues of strategic or corporate importance between different stakeholders. At the event itself, around 180 participants drawn from different stakeholder groups (e.g. overseas/GB partner organisations, volunteers, staff, campaigners and all of Oxfam's Council, Association and Corporate Management Team) meet to debate and discuss key issues. The Assembly has no decision-making powers, but enables decision-makers to hear a wider range of views on policy issues (Stringer, 2007).

The Oxfam Stakeholder Survey gathers views from different groups of stakeholders (internationally and within GB) on Oxfam's performance - both what the organisation does and the way that it works. Like the Assembly it is a key mechanism which supports Oxfam's accountability. The findings of the survey are reported to the Oxfam Assembly and are made available publicly through the Oxfam website (Oxfam Stakeholder Survey, 2000; Stringer, 2007).

The board members have a clear understanding of their roles and responsibilities, which is informed by clear organisational policies (Stringer, 2007).

5.3.4.5   Organisational policies

The Council's primary role is to ensure that the money it holds in trust is applied effectively for the purposes of and furtherance of that trust which is the relief of poverty, distress and suffering. In order to carry out this key role, council has to ensure that Oxfam

abides by its ethos, values, stated charitable objectives and constitution and operates within the constraints of the law. In so doing, it is responsible for preserving Oxfam's good name and reputation. The council determines Oxfam's policies, objectives and budgets. It satisfies itself that an appropriate strategic management process is implemented by providing an independent challenge on key assumptions and assessing whether the strategy is reasonable in relation to the risks involved, the resources required and the benefits to be achieved. The council approves the strategy, but does not itself create the strategic plan. The council further ensures that effective processes exist to identify, minimise where possible, monitor and manage the potential risks that Oxfam faces. Another function of the council is to ensure that the right management team is in place and is operating effectively and efficiently. The council's role is to question, scrutinise and actively monitor management for which purpose the council should have the opportunity to constructively question, test and challenge management views and proposals. In relation to internal control and management information systems, the council ensures that effective internal control systems exist to protect the organisation, and that the necessary management information systems exist to assess Oxfam's performance and progress in meeting its objectives. These would include the evaluation of operational effectiveness and efficiency and impact, compliance with laws and regulations, and the reliability of management and financial information. Lastly, the council gives account of its actions in appropriate ways to donors, regulatory bodies, beneficiaries, partners and staff and volunteers, other stakeholders and the public, as required by law and good practice, and to act in accordance with the Nolan Committee's Seven Principles of Public Life, namely selflessness, integrity, objectivity, accountability, openness, honesty and leadership (Stringer, 2007).

In discharging the responsibilities listed above, the role of Trustees is to ensure that Oxfam is well managed, rather than to manage it themselves. Day-to-day implementation of policy will be delegated to the Director of Oxfam, and through the Director to the rest of the Corporate Management Team (CMT). The council's responsibilities are to ensure that proper procedures and checking mechanisms are in place so that it can be certain that

management is doing its job in a cost-efficient and effective way, and that staff with the calibre needed to discharge their responsibilities are in situ (Stringer, 2007).

This in turn requires that the Director of Oxfam should be accountable to the Trustees for the effective management of Oxfam, for implementing policies and achieving the objectives laid down by the Trustees, and for appointing suitable staff (Stringer, 2007).

In addition to serving Oxfam as Trustees, most Trustees will also contribute to Oxfam by making available their specialist skills and experience. It is most important that they make a clear distinction between when they are serving Oxfam as a Trustee and when they are serving Oxfam in any other voluntary capacity, for example as an adviser (Stringer, 2007).

5.3.4.6 Board's participation in the formulation and adaptation of a formal, documented and measurable long-range or strategic plan

Trustees, advised by the Director and CMT, are responsible for setting the objectives and policies of the organisation. The Director and CMT will then develop more detailed strategies, policies, objectives and goals of Oxfam, both annual and longer term, and report on their achievement. The Trustees must consider, appraise, question and, where appropriate, challenge and improve these strategies, policies objectives and goals. They must review the performance of the Director and take appropriate action when they are not satisfied with it. The review of the Director's performance would normally be undertaken by the Chair on behalf of the Trustees after appropriate consultation with Trustees. Part of their role is to support, encourage, challenge, stimulate, help and where justified, criticise the performance of the Director and his senior colleagues (Stringer, 2007).

5.3.4.7 Self-assessment of the organisation against measurable specified criteria

At present Oxfam does not undertake evaluations in a systematic way. The Deputy International Director leads on the coordination, communication and promotion of a

range of quality initiatives driven by different units of the organisation. Following a recent review, a team within the Humanitarian Department is dealing with a specific remit of advising and supporting humanitarian programme quality and learning. Key strategic areas will include improving our work in accountability to beneficiaries; prevention of sexual exploitation and abuse; gender equity and reducing gender-based violence; and programme monitoring/evaluation & learning. This team will work with colleagues in the Programme Learning and Accountability team who provide organisational leadership and develop the monitoring, evaluation and learning process (Stringer, 2007).

5.3.4.8   Distinction between the role of the organisation's CEO and the chairperson of the governing board

There is a clear distinction between the role and the responsibilities of the CEO and the governing body. Oxfam's Trustees form a council, which is the governing body of Oxfam, and meets approximately five times a year. Trustees, who are all unpaid volunteers, are responsible in law for everything Oxfam does. These responsibilities are to ensure that Oxfam abides by its charitable aims and constitution, and operates within the law. The Trustees are ultimately accountable for the overall management of Oxfam. They ensure that income and assets are used to help Oxfam's beneficiaries, and that its finances are properly and effectively managed and monitored. The Trustees set policy and objectives, and monitor the implementation and evaluation of its results. The Trustees have to preserve Oxfam's good name and reputation (Stringer, 2007).

The Director of Oxfam is the chief executive of the charity and is responsible to Trustees for the management of Oxfam. Reporting to him/her are the five Deputy Directors and the Directors of Fundraising and Corporate Marketing, who are responsible for the six Divisions (Stringer, 2007).

5.3.5   Financial sustainaibility

5.3.5.1   Sources of funding

Oxfam GB's sources of funding range from individual giving, corporate social investment, government funding, foreign donors, grant-making foundations to national funding agencies.

Table 5.1: Revenue and Recurring Costs

1.1. Total income	Input number: £310 million
1.2. Revenue (institutional donors)	Input number: £94 million
1.3. Revenue (non-institutional donors)	Input number: £216 million
1.4. Revenue from the EU (included in above)	Input number: £15.9million
1.5. Recurring/ fixed HQ costs	A split between fixed and variable headquarter costs is not available. Governance costs (as defined by UK SORP) amount to £1m.

(See http://www.oxfam.org.uk/about-us/accounts/index.htm)

Table 5.2: Sources of income

Sources of income	% received in year ending April 2001
Donations	34%
Grants from UK Govt, EU, UN	16%
Other Oxfams and NGOs	6%
Food aid	10%
Shops and Trading	33%
Interest and other	1%

(See This is Oxfam, n.d.)

Figure 5.1: Sources of income
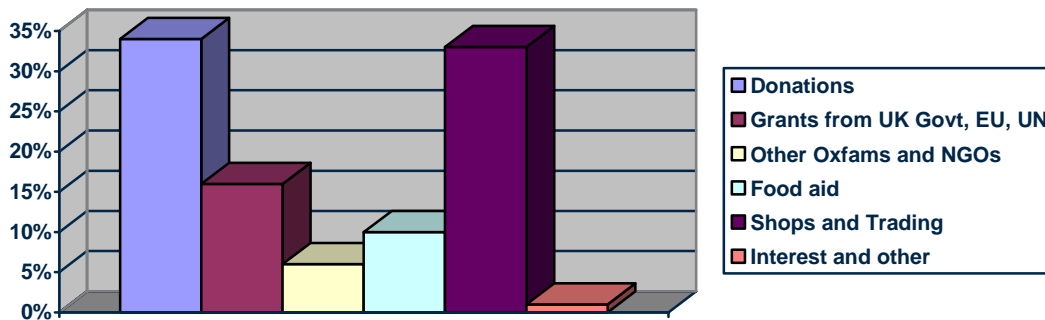
5.3.5.2   Self-financing

Trading is responsible for making as much money as possible to overcome poverty and suffering by maximising the value of the gifts of time, product and money that are given to Oxfam by its volunteers, donors and customers (Oxfam Annual Report and Accounts 2005/06).

In 2005/2006, Oxfam shops contributed £25.2 million to overcome poverty and suffering. Oxfam Shops also made significant contributions to Oxfam and Disaster Emergency Committee (DEC) appeals (Oxfam Annual Report and Accounts 2005/06).

5.3.5.3   Self-financing strategies

Oxfam has been making money from the gift of time (the time spent by volunteers) and the gift of product (the donations given by the public) for over 50 years, with the first shop opening in 1947 in Broad Street, Oxford. Since then, Oxfam's Trading Division has grown to be the largest charity network in the country, with around 750 shops (Oxfam: About our shops, 2007).

Every Oxfam shop is unique, some shops sell a wide range of products while others focus almost exclusively on one product; such as music, furniture, clothing, or books (Oxfam shops are the largest second hand book retailers in Europe, selling 1million books a month).

What every Oxfam shop does have in common is the aim to make as much money as possible to overcome poverty and suffering. Every Oxfam shop aims to be at the heart of its community, with each shop team deciding what their shop will offer, what prices to charge, what promotions to do, and what products to sell. Oxfam shops receive almost all of their stock from customers over the counter. Some shops augment this with stock from textile and book banks, and other initiatives (Oxfam: About our shops, 2007).

Started in 1975, Wastesaver has developed into one of the largest recycling centres in Europe, processing a massive 10,000 tonnes of clothes, textiles and shoes every year. Wastesaver contributed almost £700,000 to the cause in 2002/03 (Oxfam: About our shops, 2007).

Many Oxfam shops sell new products, such as Fair Trade food and drinks. There is also a wide range of gifts and Christmas cards. Oxfam shops sell more Christmas cards than any other charity retailer (Oxfam: About our shops, 2007).

All this is supported by the largest number of charity shop volunteers in the country. 21 000 volunteers of all ages and from all walks of life come to Oxfam for friendship, training, work experience and the chance to help Oxfam make a difference in the lives of poor people all over the world. These volunteers provide the equivalent of over 4,000 full time staff, working nearly 7,7 million hours per year. Without their gift of time, the Trading Division would be not be able to make its contribution to overcome poverty and suffering (Oxfam: About our shops, 2007).

Oxfam GB has good prospects for long-term sustainability.

5.3.5.4   Categories of Expenditure

Expenditure and income is charged to an account code. These define the category of expenditure (eg, salaries, equipment, travel). The account codes are mandatory and controlled by UK Finance in Oxford. In addition, each project and code is identified by a unique project code within the PeopleSoft System. This code is the same in both the

PeopleSoft Project Management Module (OPAL) and the general ledger. Expenditure is also tracked against a contract code generated by the PeopleSoft contract module (Crimson). All items of expenditure relating to a project are booked to the project code. Within each project, further elements of the coding system are used to identify partner and cost classification (Stringer, 2007).

The organisation's capital expenditure and financial investment amounts to approximately ₤ 2.5 million (Stringer, 2007).

5.3.6   Financial management

In terms of good financial management practices, Oxfam keeps an accurate record of all financial transactions. It links the budget to the organisation's strategic and operational plans. The organisation produces management accounts so that managers can compare the organisation's progress against the budget and then make decisions about the future. It produces financial statements for outside scrutiny to demonstrate how funds have been applied in the past and it has internal controls (checks and balances) in place to safeguard the organisation's   assets and to manage risk. Oxfam has an audit committee/auditor to assist with the quality and reliability of financial and other performance information issued.

The organisation has, amongst others, the following financial policies, rules and procedures in place. An Expenditure Authorisation Policy, an Expenses Policy, an Investment Policy, a Reserves Policy 2006, Restricted Income Policies, Restricted Income Procedures, International Division Guide to Mandatory Procedures, International Division Finance Procedures and the United Kingdom Accounting Finance Procedures (Oxfam Annual Report and Account 2005/06).

5.3.7   Financial control endeavours

Each year the annual corporate objectives are derived following the production of the three-year strategic plan. The achievement/ measurement of progress on these annual objectives is recorded through a written quarterly reporting process. These annual

corporate objectives for the following year are set out in the annual report and accounts and the progress achievement against the previous year's objectives are also reported upon in the annual report and accounts. Budgetary control exists at HQ and all local offices. Accountancy software exists at HQ and all local offices. Oxfam uses PeopleSoft Financials as its accounting software. Access to the system is controlled by logon options and passwords. Users' individual access rights are determined by 'roles' within the system (eg, only certain staff can post journals). Once items have been posted to the ledger, they cannot be removed - they only can be 'journalled' by staff with appropriate authority. The accounting software is web-based and accessible by HQ in Oxford, regional centres and country offices. It is accessible in some local sub offices. It is delivered via the Internet and accessibility is determined by the local Internet connections (Stringer, 2007).

An organisational risk register is developed and approved by Trustees. A progress report against actions defined to mitigate risks is reviewed every 6 months. The internal audit team carries out a risk evaluation process with local managers as an integral part of the audit approach (Stringer, 2007).
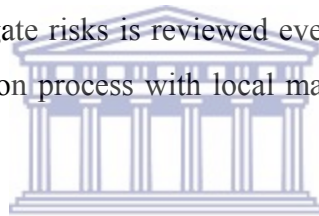
In concluding the discussion on Oxfam, it is imperative to recapture the discussion on governance and financial management. As alluded to earlier, Oxfam's supervisory board is appointed by the election of members. Oxfam GB's Trustees form a council, which is the governing body of Oxfam GB, and meets approximately five times a year. There are between ten and twelve members of council. Their term of office ranges from three to nine years. Trustees are all unpaid volunteers. They are responsible in law for everything Oxfam GB does. Oxfam's council has overall responsibility for Oxfam but delegates the management of Oxfam to senior executive staff.

In relation to finances, Oxfam GB's sources of funding ranges from individual giving, corporate social investment, government funding, foreign donors, grant-making foundations and national funding agencies. Oxfam's self-financing strategies take the form of a large number of shops, and it has been making money through the assistance of volunteers and the donations given by the public. In terms of good financial management

practices, the organisation employs a number of financial policies, rules and procedures which take the form of, for example, an expenditure authorisation policy, an expenses policy and so on.

The next section will deal with the Centre for the Study of Higher Education, formerly known as the Education Policy Unit.

5.4 CENTRE FOR THE STUDY OF HIGHER EDUCATION (UNIVERSITY OF THE WESTERN CAPE)

5.4.1 Brief historical overview

The Centre for the Study of Higher Education, formerly the Education Policy Unit (EPU), is a specialist centre of research, analysis and teaching in the field of higher education policy. It is located in the Faculty of Education at the University of the Western Cape (UWC) (Centre for the Study of Higher Education, n.d.).

The EPU was originally established in 1992 by Professor Harold Wolpe, a leading intellectual figure in the anti-apartheid struggle. Working in exile in the United Kingdom until then, he founded a unit called Research in Education in South Africa (RESA). Close ties were developed with a similar unit at UWC, the Research and Training Project on Education in South Africa (RETPESA), led by Dr Saleem Badat, who later became the second director of the EPU. After the 1990 unbanning of the liberation movements and the subsequent transition towards democracy, it was decided to relocate RESA to South Africa and to merge with RETPESA to form the EPU as a joint project of UWC and the National Education Co-ordinating Committee (Centre for the Study of Higher Education, n.d.).

At its inception, its immediate function was to provide support to the mass democratic movement and to the African National Congress government-in waiting on the process of formulating a post-secondary education policy framework for the new South Africa. The EPU has since focused exclusively on the field of higher education studies. During 2001, it was decided to change the name of the Unit to the Centre for the Study of Higher

Education (CSHE) in order to reflect its focus on higher education, and its functions as a centre of critical scholarly research, analysis and teaching in this field (Centre for the Study of Higher Education, n.d.).

5.4.2   Contextual perspective

The mission of the centre is to conduct high quality, relevant research and analysis in the field of higher education policy studies, and to contribute to building capacity among researchers, policy-makers, planners and institutional personnel in this field.   In undertaking this, the CSHE seeks to contribute to political, economic, intellectual and cultural development and to the transformation of education and training in South Africa (Centre for the Study of Higher Education, n.d.).

5.4.3   Nature of activities

The CSHE's programme focused initially on background research in support of formulating the national policy framework for the transformation of higher education in South Africa.   As part of this, CSHE staff participated in a number of key policy processes including the National Education Policy Investigation (NEPI), the African National Congress's policy framework for HE and its implementation plan, the National Commission on Higher Education (NCHE), the National Committee on Further Education (NCFE) and the Gender Equity Task Team of the Department of Education. (Centre for the Study of Higher Education, n.d.).

The CSHE's research programme has been periodically revised in response to changes in the policy terrain and the field of HE studies.   With the finalisation of the higher education macro-policy framework around 1997, the focus of CSHE work has shifted towards policy implementation and change management, and monitoring and evaluation. As part of this evolving programme, CSHE researchers are involved in conducting self-initiated and commissioned research projects for government, donor and other agencies, institutions and other role-players.   The organisation contributes towards scholarly and popular publications and presentations at local and international conferences, seminars and workshops.   It provides higher education materials and data to government, political

and popular organisations, institutions and the media. The research staff contributes towards teaching at the University of the Western Cape and other institutions. One of its programmes is geared towards capacity-building of particularly black and women policy researchers. The organisation has hosted local, national and international conferences, seminars and workshops. A range of national and international visitors and students have been attached to the Centre. The CSHE works closely with a wide network of local and international associates and agencies (Centre for the Study of Higher Education, n.d.).

5.4.4 Governance

5.4.4.1   Introductory Biographical Information

The Education Policy Unit (EPU) originally established in 1992 by Professor Harold Wolpe as a joint creation of the University of the Western Cape (UWC) and the National Education Coordinating Committee, arising out of an agreement that "an appropriate education policy is crucial to the creation of a viable, non-racist, unitary and democratic South Africa" (Education Policy Unit, 1999; Centre for the Study of Higher Education, n.d.), as discussed in earlier text, began its work with a research staff of three. During 1996-97, the EPU operated with a full-time staff complement of 15 persons – a director as Chief Executive Officer with the responsibility to lead, direct and coordinate work of the UWC EPU, six senior researchers, three researchers, a librarian and four information technology and administrative support staff. As the need arose, senior researchers, researchers, and research assistants were drawn into the work of the EPU. All staff, excluding the director, were supported through donor funds and funds secured from commissioned and contract research (Centre for the Study of Higher Education, n.d.). In 1999, the EPU proposed to operate with a full-time staff complement of eleven consisting of a director, two senior researchers, two researchers, two trainee researchers, two administrators, one data processor/analyst and a librarian. However, in 2001, the staff complement expanded to a director, a deputy director, three senior researchers, three researchers, one doctoral fellow, one research intern, one research librarian, one library assistant, one operations and project manager, one administrator and one data and IT manager (Education Policy Unit, 1999; Centre for the Study of Higher Education, n.d.).

In 2005, the CSHE was reconfigured into a virtual centre and refocused its work in line with three main strategic functions which included, firstly, postgraduate work in Higher Education Studies. A second focus is on research in the area of Higher Education and related fields that will lead to accredited academic publications. The last area of focus would be selected and relevant applied research and professional development projects, subject to the availability of funding (The future of the CSHE, n.d.).

The downsizing of the CSHE in 2005 resulted in twelve staff members being laid off. Future work contracts awarded to individuals within the "new virtual" centre were to differ in nature (full-time or part-time) and duration, depending on the needs of the CSHE in relation to commissioned project requirements (The future of the CSHE, n.d.).

The Education Policy Unit operated like an NGO, in particular around its funding base, according to one of its strategic workshops in 2003. Its assistance in the formulation of higher education policy for the African National Congress (ANC) government-in-waiting prior to 1994 locates it within Smith's (2001b) definition of an NGO which contends that "in the South African context, the focus is on what prior to 1994 might have been called 'anti-apartheid' or 'anti-governmental' organisations, which provided research, policy, advocacy and various developmental or welfare services intended to support the struggle against apartheid and assist the victims thereof". No records could be located of the EPU formally registering as a Section 21 organisation under the Companies Act (Act 61 of 1973). Dr Bev Thaver in an interview in April 2007 contends that the EPU, prior to 1994, could be regarded as a CSO.

5.4.4.2   Executive management structure

The Constitution of the NECC/UWC Education Policy Unit, signed by the Rector of the University of the Western Cape on 19 March 1991, stipulated that the UWC EPU shall have a management committee, answerable to the NECC and to the Senate of the University of the Western Cape jointly and severally, comprising the following people: the Rector of UWC or such alternate person as the Rector of UWC shall nominate for the

purpose: five persons elected triennially by the Senate of the University of the Western Cape, of whom at least two shall be members of the Faculty of Education of UWC, and provided that any person may be elected to repeat term of office; a person nominated by the National Executive Committee of the NECC to represent the NECC at the national level; five other persons nominated triennially by NECC, provided that any person may be so nominated to repeat a term of office; the Director of the UWC EPU; two students registered for degree or diploma programmes at UWC to be nominated annually by the Student Representative Council of UWC, provided that any student may be nominated to repeat a term of office; two members elected annually by the staff of the UWC EPU (excluding the director) from within its own ranks, provided that any person may be elected to repeat a term of office (The Constitution of the NECC/UWC Education Policy Unit, 1991).

With the disbanding of the NECC, the EPU was governed effectively by a Management Committee comprising of UWC senior managers and academics and a University of Cape Town Professor of Education. The 1996 Senate Academic Planning Working Group recommended that the EPU become a Unit within the Faculty of Education and that reports to the Faculty Board be channelled through a reconstituted Board of Management responsible for approving the research and financial management of the EPU (Education Policy Unit, 1999).

A new governance structure was proposed in 1999. Emphasis was placed on the key elements such as accountability where it was proposed that the EPU be accountable to the Executive Committee and Faculty Board of the Education Faculty and that the Unit render an annual report to the Executive Committee and Faculty Board of the Education Faculty. Interim reports are to be submitted to the Executive Committee and Faculty Board of the Education Faculty as those bodies may require from time to time stipulate (Education Policy Unit, 1999).

Coming to the Management Committee, it was proposed that the supervision of the EPU be delegated to a Management Committee, answerable to the Executive Committee and

Faculty Board of the Education Faculty, comprising of the Dean of the Education Faculty, the Dean of Research, the Deputy-Dean of the Education Faculty, the Vice-Rector (Academic), the Academic Planning Officer, the EPU Director, an EPU member elected annually by the staff of the EPU, and two to three persons with specialist knowledge of the field of higher education (Education Policy Unit, 1999).

The overall governance structure, which persisted after the EPU became the CSHE continued in its complexity. The CHSE Constitution dictates that the Management Committee, as alluded to earlier, of which the Dean of the Education Faculty is the chair, is the first level of accountability. This body takes strategic decisions and provides advice. The Centre provides financial statements to the aforementioned committee. However, the director of the Centre reports to the Faculty of Education's Executive Committee. In turn, the Dean reports to the Faculty Board on the activities of the Centre. The Management Committee provides the Faculty Board with the CSHE's annual report. In turn, the Faculty Board reports to the University Senate (Limani Consulting CC, 2003).
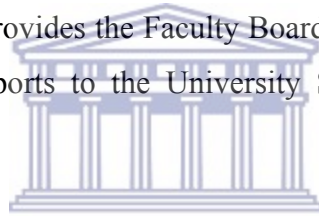
5.4.4.3 Internal management systems, structures and procedures

A 2003 report on a CSHE's strategic planning workshop revealed very complex overall decision-making structures and processes. In particular, no clarity existed at the time around the roles of the Director and Deputy Director and on the relationship between these two roles. Decision-making in the organisation was centralised in the office of the Director for example. This impacted negatively on the implementation of plans and decisions. The financial manager at the time was uncertain about how her position fitted into the overall management structure of the CSHE (Limani Consulting CC, 2003).

5.4.4.4 Organisational policies

The Constitution of the NECC/EPU Education Policy Unit (1991), of which a review was considered in 2003, bestowed upon the Management Committee the following decision-makings powers: Firstly, to own or control movable and immovable property in the name of the UWC EPU, or in the name of UWC, or in the name of the NECC. Secondly

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it can hire and fire staff, including the Director of the UWC EPU, for which purpose the Management Committee shall have the power to appoint and receive advice from such selection committees as may from time to time, be necessary, saving that the Management Committee may choose to disregard the advice of the selection committee. Lastly, the Management Committee has the power to own copyright in the research publications of the UWC EPU. The aforementioned Constitution was up for review in 2003 as its content became outdated. No new Constitution currently exists.

5.4.4.5 Board's participation in the formulation and adaptation of a formal, documented and measurable long-range or strategic plan

Both the Management Committee and the Executive Board reviewed and commented on the organisation's programmes, operations and financial reports. The board also assisted in the formulation of a human resource strategy (Limani Consulting CC, 2003).

5.4.4.6 Procedures for evaluating projects and activities

Both donors and the Centre determined the procedures for evaluating projects and activities. The Centre had internal procedures for evaluating and monitoring particular projects. Each researcher, for example, (Thaver, 2007) was required to monitor progress and projects and to meet donor reporting deadlines. External procedures were set by funders in terms of what projects and categories were to be funded and when reporting needed to take place. Funding was attached to individual research (Thaver, 2007).

5.4.4.7 Self-assessment of the organisation, against measurable specified criteria

The Centre undertook regular, yearly strategic planning workshops. Here issues such as the strategic direction, management systems, structures and procedures, internal relationships, outputs, administration and support, information services, the stakeholders, partners, clients, competitors, and donor organisations were deliberated upon (Limani Consulting CC, 2003).

5.4.4.8 Distinction between the role of the organisation's CEO and the chairperson of the Board of Trustees

There was a clear distinction between the roles and responsibilities of the Director, Management Committee and Executive Committee. The Director was responsible for framing strategy, programmes and operations. The role of the Deputy Director appeared obscure. The Management Committee chair was responsible for governance, in particular, financial oversight, guidance and support of the director (Limani Consulting CC, 2003).

5.4.5 Financial Sustainability

5.4.5.1 Sources of funding

The Centre derived its funds from five different sources:

Core funds have been provided by the Swedish International Development Agency (SIDA). The SIDA core funds proved vital in supporting a core research and administrative team, the research needs of civil society organisations without the funds to commission research, research training, publishing, networking and infrastructure (Education Policy Unit, 1999).
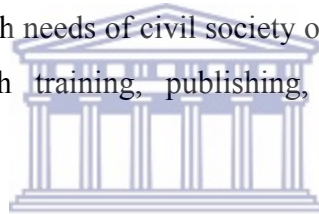
Project funds have been derived from numerous international and local agencies on the basis of applications for the funding of specific research projects (Education Policy Unit, 1999).

Commissioned/consultancy research funds have been derived from research, by the Centre or individual staff members, commissioned by various bodies and consultancy work (Education Policy Unit, 1999).

Miscellaneous funds have been provided by various agencies such as the British Council for specific purposes such as supporting staff development, overseas networking visits, conference attendance and so forth (Education Policy Unit, 1999).

University of the Western Cape funds funded the salary of the Director. The contribution of the university also included free accommodation, free basic utilities and various services of an administrative nature (Education Policy Unit, 1999).

According to an CSHE staff member, 80% of the funding was secured from international donors and 20% of funding was secured from project funds and commissioned research (CSHE, 2008).

Table 5.3: Sources of income

Sources of income	Approximate % received per annum
International donors	80%
Commissioned projects/research	20%

(Source: CSHE staff member, 2008)

Figure 5.2: Sources of income

5.4.5.2   Self-financing

The Unit/Centre generated its own income by producing work for clients such as: government, NGOs, SAUVCA, JET, CHE, CHET, UWC, DANIDA, Ford Foundation, students organisations, academics and students and the private sector (Limani Consulting CC, 2003).

It was committed to pursuing alternatives to core funding and, in this regard, considered lobbing the corporate business sector for annual grants to sustain core activities and to obtain occasional contributions for specific activities (Limani Consulting CC, 2003)..

5.4.5.3 Financial sustainability

The UWC CSHE Workshop Report dated April 2003 noted that the organisational culture of the Centre was determined by money and time. The workshop questioned whether the sustainability of the organisation should be the concern of the Director alone. Sustainability should be linked to accountability, and not only issues of finance, the strategic session contended.

The following propositions were made with regard to developing an appropriate and effective funding and financial management strategy which in turn would impact on financial sustainability. The organisation intended to ensure the ongoing flow of longer-term and larger-scale project funding through ongoing strategic reflection on priorities, networking and procurement of project work. It wanted to make certain that project budgets increasingly covered overall costs by developing a comprehensive budget template, including billable days and rates, and by incorporating realistic rates into budgets, working from the template, accommodating all non-project costs. As not all operating and support costs can be borne by project funding, it was proposed to secure alternative forms of core funding by creating a list of possible funders, including private donors, by creating publicity material and contacting funders. The organisation further proposed the development of appropriate time-management tools. It considered cutting operating costs. The last proposition included the investigation of income-generating activities such as "costing out" the Resource Centre and information services (Limani Consulting CC, 2003).

The Education Policy Unit, in a document entitled: "Funding Request: The Research and Training Programme of the Education Policy Unit, University of the Western Cape, June 1999, asserts that:

> *Increasingly, traditional and major core funders of units like the Education Policy Unit are moving towards structuring direct bilateral funding agreements with government departments or shifting their funding programmes to other areas of education and/or other social sectors. While the EPU has been fairly successful in securing funds from commissioned and contract research projects and consultancies, the volume of such*

funding remains inadequate in meeting all the resource requirements of the EPU. The EPU is committed, over the next three years, to diversifying its core funding sources in order to maintain its operations through approaching various donor agencies as well as the local corporate business sector. In the meantime, and during the next three years however, the EPU will have to continue to look to SIDA for core funding support.

Despite the commitments expressed above, in 2005, the EPU/CSHE experienced severe managerial and financial difficulties. Managerial difficulties started with the untimely death of Prof Harold Wolpe in 1996. Two acting-directors were appointed. Thereafter Professor Badat assumed the directorship. In 1999, he was replaced by Associate Professor Subotzky. Dr Bev Thaver, deputy director of the CSHE in an interview (April 2007) contended that:

Post Harold's death the EPU experienced a period of instability and struggled to realign itself. Saleem took over in 1999. The year 2000 to 2004 saw a period of "consolidation". No funding was available however due to changes in the higher education sector. The lack of funding saw 12 researchers retrenched between 2004 and 2005.

Table 5.2: Categories of expenditure

ITEM	PERCENTAGE OF OVERALL BUDGET
Personnel	56%
Research	16%
Training	13%
Equipment	2%
Conferences/Seminars	4%
Library/Resource Centre	2%
Publications	1%
Administration	6%

Figure 5.3: Categories of expenditure
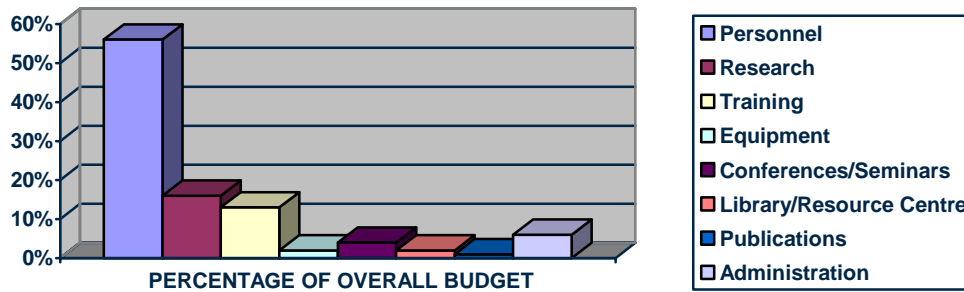
The above table and graph indicates that the largest portion of the organisation's funds was spent on personnel. This situation was not cost-effective. The financial sustainability of the organisation was compromised. When the Centre experienced financial difficulties according to Thaver (2007), as alluded to earlier, staff retrenchments took place.

5.4.5.4 Financial management

The University of the Western Cape developed a Financial Procedure Manual to achieve effective and efficient management of "Restricted Funds[1]". It provides specific step-by-step procedures to be performed in achieving the aforementioned objectives. It was proposed that the manual be used in conjunction with the Draft Policy on Restricted Funds and the Draft User Guide on Restricted Funds.

In terms of good financial management practices, CSHE keeps an accurate record of all financial transactions. It links the budget to the organisation's strategic and operational plans. The organisation produces management accounts so that managers can compare the organisation's progress against the budget and then make decisions about the future. It produces financial statements for outside scrutiny to demonstrate how funds have been applied in the past and it has internal controls (checks and balances) in place to safeguard the organisation's   assets and to manage risk. The university has an auditor to assist in the quality and reliability of financial and other performance information issued.

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[1] Restricted Funds in this context refers to funding received from external donors.

To further enhance an effective cost-centred financial system, the following propositions were made at the UWC CSHE Workshop in 2003 to periodically review the financial reporting system. The workshop suggested that financial, administrative and research reports such as finance reports, leave reports, telephone usage reports, timesheets and inventory lists be presented to management on a monthly basis. The working relationship with the university's finance department required enhancement.

Despite the above policies and procedures, it was confidentially revealed by a staff member of the university's finance department that the Centre still exhibited inappropriate use, and failure to report donor funding (Anon, 2007).

5.4.5.5   Financial control

The financial accountability of the EPU/CSHE was to various donors as well as to the University of the Western Cape. Unstructured interviews with individuals associated with the Centre revealed that inappropriate shifting of funds between the different programme funds occurred. Funds were also not spent in accordance with the assigned budgetary line items. Proper financial control was thus not exerted (Anon, 2007).

5.4.6   General orientation

The following table indicates who is actively involved in the planning, designing, implementation and evaluation of the organisation's programmes and projects.

	Planning	Designing	Implementing	Evaluating
Management Committee/Executive Committee	X	X		
Executive leadership	X	X	X	X
Senior Staff	X	X	X	X
Junior Staff	X	X	X	X
Beneficiaries/target groups	X	X	X	X
Other NGOs/CSOs/CBOs	X	X	X	

The management committee of the Centre was involved in the planning and design of the institution's programmes. The Centre's executive leadership, together with the senior

and junior staff and target groups on the other hand, participated in the planning, designing, implementation and evaluation of the organisation's programmes. Other NGOs/CSOs/CBOs were involved in the planning, designing and implementation of the Centre's programmes (Anon, 2007).

Unstructured interviews and a strategic workshop report revealed that the Centre did not adequately deal with organisational governance. The Centre was inadequately managed and the day-to-day running of the organisation proved problematic. Financial expenses were not properly monitored and controlled. In this regard, the Centre did not adhere to basic ethical principals of good governance.

In concluding the discussion on the Centre, it is important to emphasise that the EPU was governed by a Management Committee comprising UWC senior managers and academics and a University of Cape Town Professor of Education. The overall governance structure persisted after the EPU became the CSHE. With regard to internal management structures, no clarity existed around the roles of the director and deputy director. Decision-making, for example, was centralised in the office of the director.

The Centre derived its funds from different sources such as core funds from the Swedish International Development Agency, project funds, consultancy research, miscellaneous funds from, for example, the British Council and funds for the director's position from the University of the Western Cape. The Centre generated its own income by producing work for various clients. Whilst clear financial management procedures existed, unstructured interviews revealed that, at times, funds were not spent according to budgetary line items.

The next section will deal with the Sustainability Institute.

5.5 SUSTAINABILITY INSTITUTE

5.5.1 Brief historical overview

The Sustainability Institute, a non-profit trust, is an international living and learning centre located on the outskirts of Stellenbosch. It forms part of the wider Lynedoch EcoVillage which is the first ecologically designed socially mixed community in South Africa, (Facts about the Lynedoch EcoVillage, 2003) built around a learning estate, at the centre of which is located a primary school accommodating 400 children descendant from families of farm workers (Sustainability Institute Brochure, n.d.).

Founded in 1999 by Eve Annecke[2] and Mark Swilling[3], the Sustainability Institute provides residential accommodation for visiting writers, artists, development workers, and a learning space for participants in the organisation's various education programmes. The Institute works in partnership with the School of Public Management and Planning University of Stellenbosch, with reference to Masters and PhD degrees in Sustainable Development Planning and Sustainable Agriculture; Early Childhood Development (ETDP SETA accredited service provider for training for women from poor and violent areas incorporating early learning, healing and sustainability); Community Development Practice and Management (building capacity in the NGO sector through focusing on competent and capable development practitioners through assessed and certified training by means of a network of service providers facilitated in a hub around specific and agreed standards); Project facilitation to establish Sustainable Neighbourhood

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[2] Eve Annecke is the director of the Sustainability Institute. She is co-founder of the Institute and of Lynedoch Development. She has worked for many years in organisational learning, with a special focus on process facilitation, dialogue and leadership. She has been an early childhood development worker and is a trained Montessori pre- and primary educationist. Her Masters in Management Learning through Lancaster University, UK, focused on the relationship between sustainability and the practice of leadership (See http://www.sutainabilityinstitute.net)

[3] Professor Mark Swilling is Division Head – Sustainable Development in the School of Public Management and Planning at the University of Stellenbosch, Academic Director of the Sustainability Institute and a Senior Research Fellow at the Warwick Institute of Governance and Public Management, Warwick University (UK). He was co-founder, former Director and Professor of the Graduate School of Public and Development Management, University of Witwatersrand, 1993 – 1997. Prior to joining the Graduate School of Public and Development Management, Professor Swilling worked for PLANACT, an urban development NGO which he helped establish in 1985. He assisted in the initiation of various NGOs in various parts of South Africa (See http://www.sopmp.sun.ac.za/contact/main/staffdetail.asp?staff_id=5)

Developments in various localities, and policy research in the sustainable development sector (Overview: Sustainability Institute, n.d.[4]).

In 2002, the institute started to operate independently from Spier, after receiving some grant funding from its owners. During the same year, Eve Annecke became the fulltime director or the institute whilst Mark Swilling was appointed as a Professor at the University of Stellenbosch (Overview: Sustainability Institute, n.d.).

5.5.2   Contextual perspective

The focus of the Sustainability Institute has been combining practice with theory in a way that integrates ecology and equity in support of a sustainable South Africa, with special reference to ways of reducing and eradicating poverty (Overview: Sustainability Institute, n.d.).

5.5.3   Nature of the NGO's activities

At the end of 2006, the institute was involved in a home-base at the Lynedoch EcoVillage Development, which demonstrates child-centred sustainable living in practice. Another one of the organisation's initiatives was an M.Phil in Sustainaible Development Planning and Management (130 participants in 2006). It is involved in a PhD programme and Early Childhood Development (50 participants in 2006). The organisation created jobs for youth through Sustainable Construction Training (40 participants). Another initiative focuses on Community Development Management and Practice with specific reference to capacity-building and career pathing in the HIV/Aids sector. This endeavour, in the end, impacts on civil society as a whole. Further initiatives take the form of projects (applied research) on strategic design of sustainable neighbourhoods at Phillipi Agri-Business Place, Oude Molen and other locations. Ongoing research such as Government's Economic Policy, Sustainable Cities, the Non-Profit Sector, complexity theory, leadership development form the organisation's portfolio (Overview: Sustainability Institute, n.d.).

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[4] Also see http://www.sustainabilityinstitute.net

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From 1999 to 2002, the Sustainability Institute, strategically participated at executive management level in the Spier Estate which culminated in the awarding to Spier of the Fair Trade in Tourism in South Africa Awards in 2003. It actively participated in creating a sustainable context for the Spier developments, demonstrating in practice a working example of an integrated private/public/community partnership, which would provide the space for the future learning programmes. A partnership emerged between the Sustainability Institute Trust, Lynedoch Development (Section 21 not-for-profit company), Spier Holdings and the Stellenbosch Municipality (Overview: Sustainability Institute, n.d.). Between 2000 and 2005, the Sustainability Institute acted as the founding members of Lynedoch EcoVillage Development (Overview: Sustainability Institute, n.d.).

5.5.4 Governance

5.5.4.1 Introductory Biographical Information

The Sustainability Institute, established in 1999 as alluded to in earlier text, is an independent organisation, registered as a Trust (PBO with Section 18A status) under the Trust Property Control Act of 1988. It employs ten full-time and eight part-time people. Areas of expertise within the institute include, for example, programmes and project management; coordination and administration; expertise in public management, and planning and development planning options.

5.5.4.2   Executive management structure

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┌─────────────────┐
│    Director     │
└──────┬──────────┘
       │
       ├──────┌──────────────────────────────────────────────────────┐
       │      │          Reports to Board of Trustees                 │
       │      └──────────────────────────────────────────────────────┘
       │
       ├──────┌──────────────────────────────────────────────────────┐
       │      │    Reports to a management team on operational issues │
       │      └──────────────────────────────────────────────────────┘
       │
       └──────┌──────────────────────────────────────────────────────┐
              │ Reports to small highly autonomous teams on programmes and projects. │
              └──────────────────────────────────────────────────────┘
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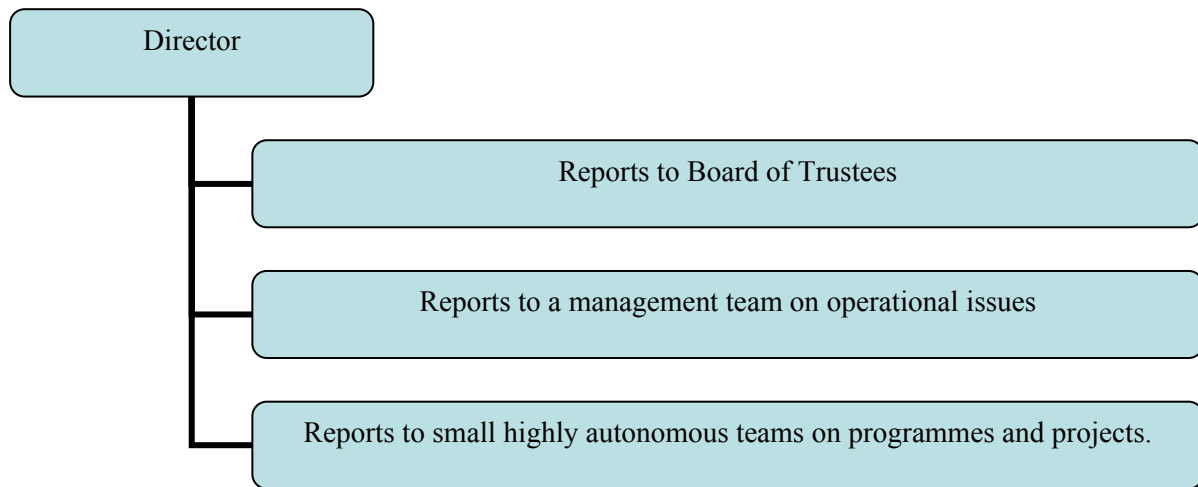
The above organogram suggests the Institute's director heads the organisation and reports to a Board of Trustees. On operational issues the director reports to a management team, and on programmes and projects, the individual reports to small highly autonomous teams.
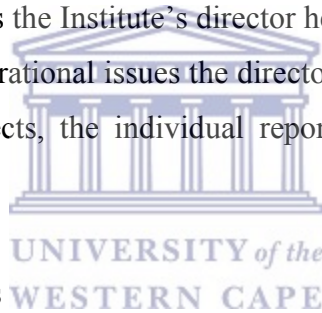
5.5.4.3   Board members

The organisation is governed by a board of trustees. There are 7 board members. The overall length of service of all board members is between 4 and 7 years. The types of knowledge and skills on the board, relevant to the work of the organisation, ranges from technical skills, community engagement, management skills to fundraising skills (Anneke, 2007).

The board of trustees does not undertake a process of self-evaluation. They do however have a clear understanding of their roles and responsibilities. Written organisational policies governing the roles and responsibilities of the trustees take the form of a Trust Deed and a Constitution which outlines the responsibilities of board members (Anneke, 2007).

The board annually reviews, comments and signs off the organisation's programmes and operations. It also assists in the formulation of a human resource strategy.

5.5.4.4 Distinction between the role of the organisation's CEO and the chairperson of the Board of Trustees
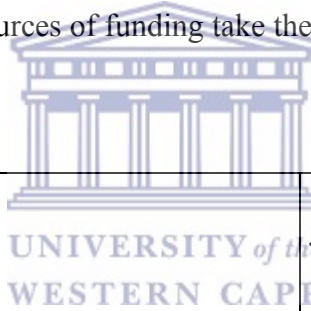
There is a clear distinction between the role and responsibilities of the director and the board of trustees. The director is responsible for framing strategy, programmes and operations. The board chair is responsible for governance issues i.e. convening meetings, financial oversight, guidance and support of the director, and the holding of the vision and values within the trustee decision-making processes (Anneke, 2007).

5.5.5 Financial Sustainability

5.5.5.1 Sources of funding

The Sustainability Institute's sources of funding take the following form:

Table 5.5: Sources of funding

Sources of Income	approximate % of funding received per annum from each source
Individual giving	10%
Corporate social investment	70%
Government funding	
Foreign donors (International Development Assistance)	5%
Grant-making foundations	5%
National Funding Agencies	
Community philanthropic organizations	
Fees (membership/service provision)	5%
Small business development, running guest house	5%

The largest portion of the organisation's funding is secured from corporate social investment. Equal portions of funding are received from foreign donors, grant-making foundations, fees and the running of a small business (Anneke, 2007).

To date, the Sustainability Institute and the Lynedoch EcoVillage Development have received grant funding from the Spier Estate, USAID, DANIDA, Investec, IFC, Ford Foundation, PriceWaterhouseCoopers, Nedbank, University of Stellenbosch, Mott Foundation, BOE Bank and the Development Bank of South Africa (Sustainability Institute, n.d.).

5.5.5.2   Self-financing

Self-financing is a funding approach that the Institute pursues. The institute has been making money from small business development, charging fees for courses and the running of a guesthouse. It believes that self-financing strategies will enhance entrepreneurship and will contribute to its independence (Anneke, 2007).

5.5.5.3   Financial sustainability

The organisation has good prospects of long-term sustainability with a good balance of fees for services and a diversified donor base. The organisation contends that a diverse funding base has a longer chance of lasting, creates less dependency on one source of income and allows more freedom in ways of responding rapidly to a changing environment (Anneke, 2007).

5.5.5.4   Categories of expenditure

Approximately 10% (including land and buildings) of the organisation's overall budget is spent on capital expenditure. Ninety percent of the organisation's budget is spent on recurrent (operating) expenditure (Anneke, 2007).

5.5.5.5   Financial management

In terms of good financial management practices, the Sustainability Institute keeps an accurate record of all financial transactions. It links the budget to the organisation's strategic and operational plans. The organisation produces management accounts so that managers can compare the organisation's progress against the budget and then make decisions about the future. It produces financial statements for outside scrutiny to demonstrate how funds have been applied in the past and it has internal controls (checks

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and balances) in place to safeguard the organisation's assets and to manage risk. The university has an auditor to assist with the quality and reliability of financial and other performance information issued.

The organisation has, amongst others, the following financial policies, rules and procedures in place: Each programme manager takes responsibility for all expenses incurred against his/her programme. The director must approve all expenses. All payments made must be co-signed by two signatories. All financial transactions are processed on a daily basis and the financial records are updated monthly, with management reports given to the director as well as to the programme managers.

5.5.6   Financial control

Financial control endeavours take the following forms: The financial planning is done between the management team and the financial manager. Financial programming, for example, setting up the budget, is done between the director, programme co-ordinator and financial manager. Financial reporting, on the other hand, is done monthly between the financial manager and programme co-ordinator, financial manager and director. The board of trustees signs off the overall budget annually. A financial audit is also performed annually (Anneke, 2007).

5.5.7   General orientation

The following table indicates who is actively involved in planning the organisation's programmes and projects.

	Planning	Designing	Implementing	Evaluating
Donors/Funders				
Board of directors/trustees				
Executive leadership	X	X	X	X
Senior Staff	X	X	X	X
Junior Staff	X	X	X	X
Beneficiaries/target groups	X	X	X	X
Other NGOs/CSOs/CBOs		X	X	
Membership		X		X
Ordinary Citizens				

The table reflects that donors, the board of trustees and ordinary citizens play no role in the planning, designing, implementation and evaluation of the organisation's programmes and projects.

The director contends that the organisation "on the whole" is dealing with organisational governance, management of the organisation, administrative matters, controlling and monitoring of expenses and adherence to ethical principals very well. She admits that daily challenges may arise in each of these aforementioned areas (Anneke, 2007).

The organisation suggests that an NGO can be a developmental partner to the state, and the roles that they can assume could provide strategic direction, design, implementation and technical support for poor communities in ways that are owned and dictated by these poor communities, within the policy framework created by the state.

In concluding the discussion on the Sustainability Institute it is important to review the organisation's governance structure. The institute's director heads the organisation and reports to a board of trustees. There are seven board members and their overall length of services ranges from between four to seven years. Various types of skills such as management skills, fundraising skills and so on, are found within the board relevant to the work of the organisation. A trust deed and a constitution governs the roles and responsibilities of the board members.

In relations to funding, the largest portion of the organisation's funds is secured from corporate social investment. Equal portions of funding are received from foreign donors, grant-making foundations, fees and the running of a small business. The organisation has good prospects of long-term sustainability due its diverse funding base. The organisation also has sound financial management practices. Each programme manager, for example, takes responsibility for all expenses incurred against his/her programme. The director, however, approves all expenses. Proper budgeting and financial auditing practices are in place.

5.6   CONCLUSION

This chapter contextualised the case studies by emphasising the key empirical assertions, and the theoretical propositions around governance and financial sustainability of NGOs in South Africa and NGOs in general. A set of specific financial and governance issues were identified that were investigated in the case of each NGO.   Three cases were explored. These included the Centre for the Study of Higher Education (University of the Western Cape, South Africa), Oxfam International as an example of an international NGO, and the Sustainability Institute in Stellenbosch, South Africa.

Each organisation operates within a specific economic sector and has different areas of business. Their governance structures differed too. Oxfam as an international NGO has very clear governance structures. The roles of individuals within these structures are clearly defined. In the case of the CSHE, located within a university setting, governance structures are more complex. Numerous hierarchical levels blur reporting lines. Clear roles and responsibilities were not assigned to individuals within this organisation. The Sustainability Institute, on the other hand, has a very simplistic governance structure. Clear roles and responsibilities are assigned to individuals and to board members.

In relation to funding options, Oxfam appears most established. It has a hybrid funding source which is sustainable.   Its self-financing strategies, specifically its shops, is a financially beneficial endeavour. Whilst prior to 1994 the CSHE had a range of funding options, this situation changed after 1994, and the organisation struggled to redefine itself in the new political economy.   Even though it attempted new funding strategies, the organisation met an early demise and is now operating in a virtual capacity.   The Sustainability Institute, on the other hand, places more emphasis on generating its own income. It does not rely entirely on one source of funding. This organisation believes that a diverse funding base is more sustainable. The organisation is also cushioned by the fact that it is located within a well-established internationally renowned university.

With regard to financial management practices, both Oxfam and the Sustainability Institute have clear financial management policies. Whilst the CSHE had to adhere to

university financial policies, at times internal organisational decision-making practices hampered effective and efficient financial reporting activities.

The next chapter will assess the research findings.

CHAPTER SIX

RESEARCH RESULTS AND FINDINGS: AN APPLICATION OF THE PREFERRED FRAMEWORK

6.1   INTRODUCTION

This chapter presents the results and findings of the qualitative research undertaken in order to meet the research objectives as set out in Section 1.4 of Chapter one. It provides an application of the preferred framework in terms of governance and financial sustainability.

The historical and contemporary trends and tendencies of governance and financial arrangements in South African NGOs revealed that the new dispensation brought about fundamental changes. NGOs had to redefine their roles in relation to the delivery of services. The sector's funding strategies had to be revised and commercialised activities took the form of, for example, consultations, contracts, the selling of services and products. As donors took a tighter stance towards internal governance, NGOs had to improve their accounting and programme management practices. The non-profit sector was forced to adopt concepts such as efficiency, strategic planning, cost-effectiveness and results-based management. Changes occurred within the legal framework in which NGOs operated.   The roles of NGO governing bodies in conjunction with NGO management became more and more important. In addition, non-profit organisations are now required to do regular self-assessment, led by the governing board, against measurable and specified criteria to ensure sound governance.

Corporate governance, the main components of which include direction, executive action, supervision and accountability of the organisation, have permeated the non-profit sector where non-profit organisations are required to take a more disciplined approach in terms of how they structure and run their organisations. Higher standards of transparency and accountability, are called for.

Principles and guidelines for good governance suggest the following: NGO's are accountable to their communities; Good governance is the basic form of accountability; Good governance has formal governance structures; Good governance involves the separation of governance and management; NGOs are mission-based organisations; NGOs promote the highest professional and ethical standards where boards articulate the professional and ethical standards of the organisation; NGOs exercise responsible resource management and mobilisation. They are also responsive to the constituencies they serve.

With regard to financial management, budgeting, accounting, financial reporting and management control are the most essential tools for governance, accountability, planning and management in a non-profit organisation. Accordingly, NGOs are compelled to develop an appropriate financial management system.

NGO financial management should include: keeping an accurate record of all financial transactions; linking the budget to the organisation's strategic and operational plans; producing management accounts so that managers can compare the organisation's progress against the budget and then make decisions about the future; producing financial statements for outside scrutiny to demonstrate how funds have been applied in the past; having internal controls or checks and balances in place to safeguard the organisation's assets, and to manage risk and having an audit committee or auditor to assist in the quality and reliability of financial and other performance information used.

Funding mobilisation strategies reveal that the non-profit funding sources vary in predictability, controllability, linkage to organisational activities, and the range and amount of management they require. To ensure sufficient funding, the NGO sector is required to construct a well-executed fundraising strategy, which contains elements such as diversification, sustainability, creativity and inclusiveness. NGO self-financing strategies appear a very attractive funding option in comparison to the more traditional fundraising approaches. NGOs need a variety of financing tools and sources to reduce risk and to sustain their work.

The following section will provide an analysis of governance and financial sustainability of NGOs by positing theoretical knowledge gathered in Chapter two, three and four of this study, and statements posited above, against empirical evidence as forwarded in Chapter five.

6.2   RESEARCH FINDINGS

The researcher will report on the research findings pertaining to NGO governance and NGO financial sustainability. The latter will be explored in a later section whilst the next section will pay particular attention to an NGO's legal status, its leadership, the executive management structure, the composition of the board, the role of the CEO *vis-a-vis* the chairperson of the board, organisational policies, procedures employed by NGOs to evaluate its projects and activities, and cooperative governance between the state and an NGO.

6.2.1   Governance

Section 3.2.1 of this study suggests that many different meanings have been accorded to the concept "governance". The term generally refers to the way in which power is assumed, conveyed and exercised within a society or an organisation. This section will report on the lessons of experience learnt from governance arrangements within Oxfam, the Centre for the Study of Higher Education and the Sustainability Institute.

6.2.1.1 Legal status

The long-term sustainability of the non-profit sector is linked to the legislative framework of a country in which the NGO operates. In South Africa, the Non-Profit Organisations Act (Act 71 of 1997), lays out in great detail a framework for the creation and operation of civil society organisations.

Oxfam GB is an independent organisation, registered as a charity, affiliated to Oxfam International, with partners, volunteers, supporters and staff of many nationalities. The Sustainability Institute operates as a Trust and is registered under the Trust Property Control Act of 1988. The Centre for the Study of Higher Education, as a university-

based organisation, on the other hand, reflects no record of formal registration as a non-profit organisation, Trust or Section 21 not-for-gain organisation. This may have impeded its sustainability, as literature reveals that local and international funding agencies increasingly demand that funding recipients be registered as non-profit organisations as evidence of compliance with basic criteria of authenticity as a bona fide organisation. The fact that Oxfam GB and the Sustainability Institute are formally registered organisations enhances their long-term sustainability prospects.

6.2.1.2 NGO leadership

Corporate governance is essentially about leadership. In the absence of transparent and accountable leadership, the organisation will decline. To ensure accountable leadership the chief executive officer should take responsibility for organisational processes and activities. A charismatic leader is regarded as an asset to an NGO. In the context of the Sustainability Institute, both Professor Mark Swilling and Ms Eve Anneke, as founder members of the organisation, can be regarded as charismatic leaders. Professor Harold Wolpe, the founder of the Education Policy Unit/Centre for the Study of Higher Education, could be regarded as a charismatic leader too. However, with the untimely death of Professor Wolpe, the organisation struggled to secure sustained leadership. In the same vein, the organisation was unable to attract funding in the same way as Professor Wolpe did. Leadership centred on a particular individual proves problematic. Potential leadership capacity within the organisation should be identified and groomed. In the case of Oxfam GB, its Council holds overall leadership responsibility and delegate the management of the organisation to the senior executive staff such as the Director and Corporate Management Team. The latter are not the founder members of the organisation.

6.2.1.3 Executive management structure

An executive management team, the operational arm of the organisation, who clearly understands its roles and functions should manage an organisation. Oxfam's executive management structure has clear responsibilities as evident in *Chapter five Section 5.3.4.2.*

The same can be concluded for the Sustainability Institute where the director reports to the board of trustees, a management team and small highly autonomous teams on programmes and projects. The EPU/CSHE management structure proved complex and peculiar. Various disconnected reporting lines existed *(See Chapter five Section 5.4.4.2)*. Where an non-cohesive management structure exists the administration and coordination of resources will not be utilised in an effective and efficient manner towards the attainment of the organisation's vision, mission and strategic objectives. Staff within the organisation will lose their commitment and will not function at optimum level. This is evident in the displeasure expressed by the EPU/CSHE at a strategic session around the management of the organisation.

Formal, effective organisational structures based on programmes and functions in documented management policies and systems should be in place. The policies and systems should be translated into effective management practices. Management practices should also not be too bureaucratic where the organisation's activities are hampered.

6.2.1.4 Composition of the Board

Organisations should be governed by an effective board, which can both lead and control the organisation. There should be an appropriate balance of power and authority on the board, such that no one entity or block of persons can dominate the board's decision-making. The board should seek to ensure an adequate mix of skills and experience and diversity in demographics to enable them to operate effectively. Particular knowledge and skills amongst board members is essential to ensure efficient governance.

The case studies explored in this study show that the governing boards consisted of between 7 to 16 members. The types of knowledge and skills within the board as reported by the Sustainability Institute and Oxfam GB, relevant to the work of the two organisations, ranged from technical skills, community engagement skills, and management skills to fundraising skills. The composition of the board of the EPU/CSHE represented diversity in relation to the education sectors the individual board members represented. The construction of the board in this instance was not centred on the skills

and knowledge individual board members bring to the organisation. Boards should play a key role in fundraising, for example and it is imperative for this particular skill to be present. Such expertise will enhance the organisation's financial sustainability.

It is imperative that the construction of the board be considered carefully. Board members should possess knowledge and skills relevant to the work of the organisation. Legal expertise as a requisite skill for one or more board members should be considered to ensure that the organisation remain compliant within the legal framework of the country and sector in which it finds itself.

6.2.1.5 Distinction between the role of the CEO and Chairperson of the Governing Board

In many organisations, the CEO fills the role of the chairperson of the board. This duality of positions places the CEO in a powerful position to manage the operations of the organisation and also to oversee the future direction of the organisation. This situation is problematic and a conflict of interest may arise. It is suggested that the position of CEO be separated from that of the chairperson of the board. The hierarchical relationship between the board and the CEO should also be clearly defined. The board may spell out its expectations of the CEO by devising a job description with very specific duties (*see Section 3.4.1 of Chapter three*).

The three cases studied (*see Chapter five of this study*) support the notion of the separation of power between the CEO of the organisation and the chairperson of the board where each entity has clearly assigned roles and responsibilities.

6.2.1.6 Organisational policies

To uphold the Code of Corporate Practices and Conduct as forwarded in the King Report, it is imperative for organisations to have specific policies elucidating the duties of the governing board and the management committee of the organisation. Such policies will contribute to sound internal governance.

The cases investigated in this study support the above notion and have policies reflecting, for example, the ethos and values of the organisation. Other policies, to name but a few, focus for example on strategic management, risk identification management, internal control and management information systems, a trust deed and a constitution. A range of policies existing within these organisations govern the role and responsibilities of both management and the board.

Whilst CSHE had various policies in place, both at organisational and university level, tensions existed between the roles of the financial manager, the deputy-director and the director of the organisation. In this situation, unhealthy internal management practices, and tensions between individuals soured working relations, and impacted negatively on the implementation of the organisation's policies. At times, even the best-formulated organisational policies cannot remedy internal strife.

Policy documents may dictate governance structures. Internal environmental factors may impact negatively on the efficient and effective execution of these policies and should be taken into account in the policy formulation process.
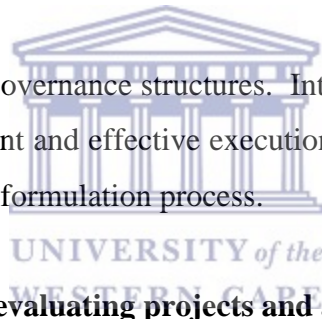
 6.2.1.7   **Procedures for evaluating projects and activities**

In order for an NGO to remain relevant in relation to its role and purpose in today's global context, it should regularly evaluate its projects and activities, which in turn will impact on good corporate governance.

The Sustainability Institute reports that both funders and the organisation initiate evaluating strategies. Evaluation is done on an ongoing basis, against the objectives of specific programmes.

Oxfam, on the other hand, reports that its evaluation mechanisms are currently under review. At present the organisation does not undertake evaluation in a systematic way. This is extremely surprising given the nature and business of the organisation and the number of years it has been in existence.

At the CSHE, each researcher working on a research project, was required to monitor progress on projects to meet donor reporting deadlines. External procedures were set up by funders in terms of what projects and categories were to be funded and when reporting needed to take place. Both internal and external evaluation mechanisms thus existed. This information is contentious as an anonymous source revealed how funding was shifted between various projects without proper authorisation.

The researcher contends that it is imperative for organisations, at set intervals, to assess its relevance in the sector in which it operates. Not only should the vision, mission and strategic objectives of the organisation be in line with the services that are required in the environmental context, the business of the organisation must also reflect activities which attracts sufficient funding. Against the vision, mission and strategic objectives of the organisation, clear control and evaluating mechanisms should be instituted. In this way the organisation remains relevant and sound governance is insured.

6.2.1.8 Cooperative governance between NGOs and the state

A state, antagonistic towards its NGO sector, will not provide an enabling environment in which the sector can operate. NGOs can play a number of important roles in various areas. It can assume a social watchdog role and it can hold government to account. Government in turn can hold NGOs to account on their activities, through legislative frameworks.

The EPU/CSHE, prior to 1994, assisted the ANC government-in-waiting in formulating higher education policy. After 1994, the organisation's focus shifted toward higher education academic research specifically. At various intervals, the centre was commissioned by the South African state to pursue specific research endeavours.

The Sustainability Institute contends that this organisation can be a developmental partner to the state where it provides a assistance in strategy formulation, design, implementation, technical support with poor communities in ways that are owned and dictated by these poor communities, within the policy framework created by the state.

Oxfam believes that to overcome poverty and suffering involves changing unjust policies and practices, nationally and internationally, as well as working closely with governments and people in poverty.

Cooperative governance thus extends beyond the government and includes NGOs. Working with the state to achieve development endeavours will impact favourably on an NGO's long-term sustainability.

In concluding the discussion on governance, the researcher contends that, in order to sustain an NGO, the following tenets as captured above, are very important in its governance: The organisation has to reflect its legal status, a charismatic leader is imperative and the executive management structure should be clear. The composition of the governing board is important and the roles between the CEO and chairperson of the board should be clearly defined. Organisational policies should be spelled out clearly and it is crucial for activities and projects to be evaluated at regular interval. Lastly, cooperative governance between the state and the NGO can only enhance the organisation's long-term prospects.
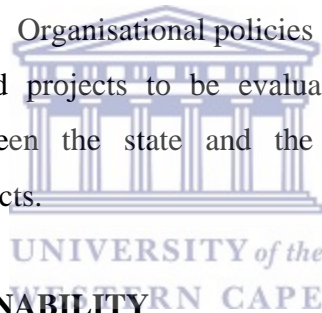
6.2.2 FINANCIAL SUSTAINABILITY

Chapter four subsection 4.1 of this thesis contends that one of the main factors impacting effective management and sustainability of NGOs is the nature of their dependability on donor funding. In many instances, donor organizations have inconsistent funding priorities, further threatening financial sustainability of dependent organisations. Foreign donors are also increasingly looking for factors such as organisational capacity, accountability, sustainability and proper account procedures in organisations they wish to assist. NGOs are further compelled to develop proper financial management systems. In light of the foregoing, this section will report on the lessons of experience learnt from financial sustainability practices within Oxfam, the Centre for the Study of Higher Education and the Sustainability Institute.

6.2.2.1 Sources of NGO Funding

NGOs are required to fundraise and to generate an income to become sustainable. In general, NGOs have commonly been able to raise revenue through the state, the public and the private sector on an international, national, or local level. Within the government, financial aid may be given through international foreign sources or bilateral/multilateral grants, as well as through national or local governmental grants. The private sector may provide corporate grants or foundation grants. Financial aid from the general public may come through international charitable and local individual donations (*See Figure 4.1 of this thesis*). The aforementioned sources of revenue vary in predictability, controllability, linkage to organisational activities and the range and amount of management effort they require. Some NGOs complain that, in some instances, when they do receive funding from donors, it usually has strings attached.

The Centre for the Study of Higher Education derived its funds from five different sources. Core funds were received from the Swedish International Development Agency. Project funds were sourced from numerous international and local agencies. Commissioned or consultancy research funds were derived from various bodies and consultancies. Miscellaneous funds were provided by various donor agencies such as the British Council. The University of the Western Cape funded the salary of the Director. Research revealed that 80% of the organisation's overall funding was derived from international sources.

Oxfam GB's sources of funding ranges from individual giving, corporate social investment, government funding, foreign donor funding, funding from grant-making foundations to national funding agencies. Percentage wise, 34% of funding is derived from donations, 16% from grants from the United Kingdom government, European Union and the United Nations, 6% from other Oxfams and NGOs, and 10% from food aid. Another 33% of funding is derived from shops and trading and 1% of funding is derived from interest accrued.

The Sustainability Institute's sources of funding takes the following form: 10% of funding is derived from individual giving, 70% from corporate social investment, 5% from foreign donors, 5% from grant-making foundations, 5% from fees charged for service provision and 5% of its income is derived from running a guest house and small business development.

Whilst the three organisations derived their funding from a diverse range of funders, the CSHE derived 80% of its overall funding, in particular its core funding, from international sources. This proved problematic. Firstly, the South African government formed bilateral agreements with international funding agencies after 1994, channelling funds away from this organisation. Also, donors world-wide have become less willing to fund traditional overhead expenses such as salaries, rent and equipment. As a consequence, the organisation chased more and more donor funds rather than developing long-term programme strategies in support of their own vision, mission and objectives. Its inability to attract further funding contributed to its demise. The Sustainability Institute has been able to successfully garner local corporate social investment which forms the biggest portion of its income. Oxfam GB, on the other hand, sources approximately equal percentages of funding from donations and its shops and trading respectively. The latter clearly enhances the organisation's financial sustainability.

The researcher contends that it is more conducive for an NGO to hold a mixed funding portfolio than to depend on a single donor to meet current and future needs.

6.2.2.2 Self-financing strategies

Self-financing, an internal entrepreneurial method to generate an income, as an alternative to the more traditional fundraising approaches used by non-profit organisations, will contribute to financial sustainability if applied correctly. Traditional donors, however, do not fund self-financing initiatives. Self-financing strategies may include for example: membership fees, fees for services, product sales, equipment rentals, use of patents or copyrights, ancillary business ventures and investment dividends.

Self-financing is a funding approach that the Sustainability Institute pursues. The organisation has been making money from small business development, charging fees for courses and the running of a guesthouse. The institute believes that self-financing strategies will not only enhance entrepreneurship, but will also contribute to its independence.

The Centre for the Study of Higher Education generated its own income by producing work for clients such as the South African government, other NGOs, the Ford Foundation, student organisations, academics, students and the private sector.

In relation to Oxfam, trading is responsible for making as much money as possible by maximising the value of the gifts of time (the time spent by volunteers) and the gift of product (the donations given by the public). Oxfam's Trading Division is the largest charity network in Great Britain with around 750 shops. Every Oxfam shop is unique. Some shops sell a wide range of products while others focus almost exclusively on one product such as music, furniture, clothing or books. Wastesaver, another one of Oxfam's money-generating endeavours, developed into one of the largest recycling centres in Europe processing tonnes of clothes, textiles and shoes on an annual basis. Because of these initiatives, Oxfam has very good prospects for long-term sustainability.

The researcher concludes that self-financing strategies do contribute to an organisation's long-term financial sustainability.

6.2.2.3 Expenditure

Many donor grants and donations carry restrictions on the types of expenses that they will cover. The most common restriction is to cover only direct programme costs. Donors are less willing to fund traditional overhead expenses such as salaries, rent and equipment or any other costs related to support services. NGOs, in general, devise their programmes in such a way so as to recover the costs of operational and capital expenses. An NGO's core activities should not exceed the inflow of grants and donations.

In 2004/05 and 2005/06, Oxfam's support costs, governance costs and other resources expended amounted to 13% and 11% respectively of the organisation's overall budget. This is in line with general trends where experts suggest that no more than 15% of an NGO's budget should be spent on administrative costs.

The Sustainability Institute spends approximately 10% of the organisation's annual budget on capital expenditures and 90% of the budget is spend on operating expenses.

The EPU/CSHE, on the other hand, reported that it spends approximately 56% of its budget on staffing costs. When the Unit experienced financial difficulties as reported in an earlier chapter, staff retrenchments occurred. In essence the Unit reduced its biggest expense.

A sustainable balance between capital expenditure and current expenditure should be achieved. Separate fundraising campaigns should be launched for huge capital expenses. A lesson learnt from the above expositions is that each organisation, in line with its vision, mission and strategic objectives, will devise its programmes in such a way so as to recover the costs of operational and capital expenses.

6.2.2.4 Good practice in financial management

Good financial management practices will help NGO managers to make effective and efficient use of resources to achieve organisational objectives and to fulfil commitments to stakeholders. It will help NGOs to be more accountable to donors and other stakeholders and gain the respect and confidence of funding agencies and partners. Another advantage derived from good financial management practices is that an NGO will have a competitive advantage over other organisations in securing scarces resources and, in this context, the NGO will further prepare itself for long-term financial sustainability.

Whilst there is no "one-size fits-all" financial management model for NGOs, good practice in financial management is achieved by designing systems and procedures around accounting records, financial planning, financial monitoring and internal controls

In terms of good financial management practices, Oxfam, the Sustainability Institute and the Centre for the Study of Higher Education keep an accurate record of all financial transactions. Each organisation links the financial budget to the organisation's strategic and operational plans. Each organisation produces management accounts so that managers can compare the organisation's progress against the budget and then make decisions about the future. Financial statements are produced for outside scrutiny to demonstrate how funds have been applied in the past and internal controls (checks and balances) are in place to safeguard each organisation's assets and to manage risk. Auditors assist in the quality and reliability of financial and other performance information issued.
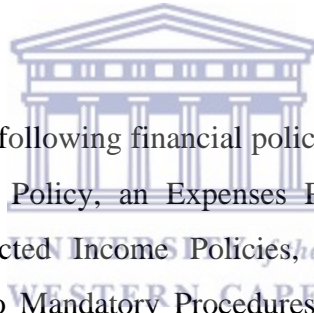
Oxfam has amongst others, the following financial policies, rules and procedures in plan. An Expenditure Authorisation Policy, an Expenses Policy, an Investment Policy, a Reserves Policy 2006, Restricted Income Policies, Restricted Income Procedures, International Division Guide to Mandatory Procedures, International Division Finance Procedures and the United Kingdom Accounting Finance Procedures.

At the Sustainability Institute, each programme manager takes responsibility for all expenses incurred against his/her programme. The director must approve all expenses. All payments made must be co-signed by two signatories. All financial transactions are processed on a daily basis and the financial records are updated monthly with management reports given to the director as well as to the programme managers.

A staff member of the Finance Department at UWC reported that, despite the institutional procedures and practices around financial management control mechanisms, the CSHE still displayed inappropriate use and reporting of donor funding.

Inadequate and inappropriate financial management practices will lead to the early demise of any organisation. It is imperative that clear and suitable financial management policies and procedures be devised for an organisation and that everyone in the organisation is familiar with its content and how it should be applied.

6.2.2.5 Financial control

The concept "financial control" forms the core of financial management. Financial control is a state of affairs that ensures that the finances of an organisation are handled properly. Without financial control, assets are put in jeopardy, funds may not be spent in accordance with the organisation's objectives or donor's desires, and the competence of managers and the integrity of the organisation may be called into question. Financial control is achieved by designing systems and procedures to suit the particular needs of an organisation.

Oxfam has a very intricate financial control system in place. They combine the organisation's corporate strategic objectives with an appropriate budget. Various forms of information technology are used to facilitate this process. The Trustees and staff members play an integral role in the entire process. *Section 5.3.7 Chapter five* sets out a detailed discussion.

Whilst rules and procedures exist at UWC to exert financial control over entities like CSHE, the Centre persisted in applying its own rendition of financial control where funds were applied and shifted outside assigned budgetary line items. *Chapter five* puts forward a discussion on this aspect.

Financial control endeavours at the Sustainability Institute take the following forms. The organisation's financial planning is done between the management team and the financial manager. Financial programming, for example, setting up the budget, is done between the director, programme co-ordinator and financial manager. Financial reporting, on the other hand, is done monthly between the financial manager and programme co-ordinator,

financial manager and director. The board of trustees signs off the overall budget annually. A financial audit is also performed annually.

It is clear from the above deliberations that if you do not exert effective financial control, your organisation will not sustain itself financially.

6.2.2.6 Fundraising strategies.

Some of the main reasons why NGOs need to find different fundraising strategies for long-term survival are that donor resources available to NGOs continue to decrease and donor agencies worldwide have shifted and narrowed funding into specific, highly political or publicly popular regions of the world. Funding has been shifted into specific markets and the "mushrooming" of NGOs worldwide has tightened competition between NGOs for increasingly limited funding.

Fundraising is a marketing or exchange process. It is a proactive endeavour and should be conceptualised and designed as a long-term programme. Fundraising strategies are thus planned, systematic, ongoing and integrated into an organisation's programmes and administrative tasks. Research revealed that, generally, very few non-profit organisations have dedicated professional fundraising human resource capacity and a coherent fundraising strategy. Fundraising capacity within organisations requires the development of a fundraising policy and regulations, for example, and a fundraising committee with clear job descriptions and mechanisms for monitoring fundraising activities.

A well-executed fundraising strategy contains elements such as diversification, sustainability, creativity and inclusiveness.

Not one of the organisations surveyed indicated that they have a dedicated team of fundraisers. It would appear as if fundraising formed part of the job description of every staff member employed at the EPU/CSHE. The director of the centre was tasked to sourcing core funding. Funds for particular projects were sourced by individual

researchers. The same applied for the Sustainability Institute. The Institute has highly charismatic leadership, and is able to attract funding for endeavours they perceive as crucial. Oxfam, as an established organisation, has very specific income-generating endeavours in place, as alluded to in earlier discussions. Their current fundraising strategies, as mentioned in *Section 6.2.2.1 of this Chapter*, have contributed to the organisation's financial sustainability.

The researcher contends that clear fundraising strategies should be devised over a long-term period, linked to the organisation's vision, mission and strategic objectives. A fundraising team should exist within the organisation, or individual fundraisers should be appointed.

6.3   CONCLUSION

This chapter presented the results of the research findings of the qualitative research undertaken in order to meet the research objectives set out in Chapter one of this study. It provided an analysis of governance and financial sustainability of NGOs by positing theoretical knowledge against empirical evidence attained.

The researcher concludes the following: In relation to governance, and in particular the legal status of organisations, local and international organisations increasingly demand that funding recipients be registered as non-profit organisations. A charismatic leader the research concludes, impacts positively on any organisation, be it in the capacity of leader or fundraiser.

The executive management structure of an NGO should be clearly defined where roles, functions and responsibilities are understood by everyone in the organisation.

The composition of the NGO board should be centred on the skills and capacity board members bring to the organisation. Board members should add value to an NGO. There should be a clear distinction between the role of the CEO and the chairperson of the governing board.

Organisational policies should be properly constructed and prove adequate in governing an NGO. When it comes to NGO projects and programmes, these should be evaluated against clearly defined objectives at regularly determined intervals.

NGOs, in relation to the state, can play a number of very important roles. It is imperative for the state to provide a conducive, legislative environment in which NGOs can function at optimum level. The state can also act as a conduit for NGO funding.

With regard to financial sustainability, the researcher concludes that NGOs should have a diverse funding base built on a properly constructed fundraising strategy. NGOs should have a fundraising committee or an assigned fundraiser. Self-financing strategies proved a viable funding solution for NGOs.

In relation to NGOs' income and expenditure endeavours, a sustainable balance should be sourced between the two. Good financial management practices will help NGO's manage to make effective and efficient use of resources to achieve the organisation's objectives. Proper financial controls will assist in this regard.

The next chapter will develop an appraisal framework for the sustainability of NGOs.

CHAPTER SEVEN

AN APPRAISAL FRAMEWORK FOR THE SUSTAINABILITY OF NGOs

7.1   INTRODUCTION

This study traces the governance and financial sustainability of NGOs/CBOs/CSOs in general and South African non-governmental organisations in particular, with the intention of developing improved options for the future regarding the sustainability of the NGO sector in South Africa, especially as regards financial management and governance. Accordingly, this chapter aims to develop an appraisal framework for the sustainability of NGOs.

A theoretical analysis of existing literature pertaining to governance and financial sustainability of NGOs revealed that a generally agreed upon appraisal framework assessing the long-term sustainability of NGOs did not exist, but was indeed required by a number of NGO stakeholders. Research revealed that in terms of sustainability, it is particularly necessary to assess an NGO's legal status, its leadership capacity, the roles and responsibilities of the executive management, the role of the NGO board in its governance processes, and the extent to which principles of good governance are practiced within the organisation. These key criteria proved the most important in the governance endeavours of NGOs.

Furthermore, research revealed that sources of NGO funding should be assessed. Self-financing strategies and practices should be appraised. It was evident that fundraising strategies, good practices in financial management and financial control mechanisms should be assessed, as these key aspects were proven to impact on the organisation's financial sustainability.

In context of the above, an appraisal instrument has been developed in this study as a result of the theoretical assessment as well as case experiences. This appraisal instrument, formulated for the South African NGO sector specifically, has been applied to the case studies as presented in Chapter One, Section 1.6. The results of this pilot study are presented in Section 7.4 (Also refer to Annexure B). The purpose

for initiating this pilot study was to highlight the strengths, weaknesses and areas for future improvement.

The next section presents the aforementioned appraisal framework. Groups identified as potential users (See Section 7.2) will be advised on how it may be utilised.

7.2   THE APPRAISAL FRAMEWORK

The purpose of this appraisal instrument is to provide a framework for assessing the governance and financial sustainability of NGOs. During this research investigation, many NGO stakeholders noted that a standardised appraisal system would be useful in particular for the NGO/CBO/CSO sectors, statutory bodies that exist to regulate NGOs, network organisations, organisations providing funding and NGO managers. This instrument does not negate the importance of the output or the impact of an NGO on its constituents. Whilst the latter is imperative to the survival of an NGO, the focus of this research in particular is on an NGO's compliance with good governance and financial management practices.

The governance and financial sustainability appraisal framework for NGOs consists of systematically developed appraisal criteria based on theoretical assumptions and empirical evidence explored by this research. Its purpose is to assess and to make explicit recommendations with a definite intention of influencing how NGOs are governed and financially sustained.

The appraisal framework is intended to be used by the following groups:
a)   By policy makers in South Africa with specific reference to:
- The South African Revenue Service (SARS);
- The Master of the High Court;
- The Minister for Social Development;
- The Director-General: Social Development, and
- The Registrar of Companies regarding Section 21 companies,
  to help them decide which guidelines could be recommended for NGOs in relation to its governance and financial sustainability. In this instance, the instrument should be part of a formal assessment process. This instrument

should not be used to the detriment of civil society organisations lobbying government to change/reformulate certain public policies nor should NGOs calling for new legislation on certain issues be penalised;

b) By NGOs/CBOs/CSOs as a self-assessment tool to ensure that their governance and financial sustainability practices are sound;

c) By government, donors, private sector social responsibility funders, the National Development Agency (NDA) and development banks that wish to undertake their own assessment of an NGO/CBO/CSO before committing any resources, and

d) By NGO/CBO/CSO staff to help identify critical skills required by the organisation.

An appraisal form has been constructed consisting of a governance section and a financial sustainability section. Each section consists of assessment criteria against which scores are assigned. A practical cumulative scoring system has been devised that should be facilitated by an assessor who has extensive experience in the area of NGOs.
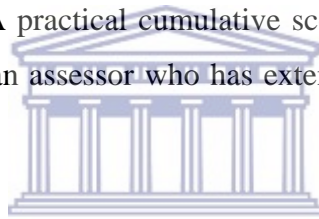
The theoretical assumptions forwarded by the study form the basis of the assessment criteria utilised in the appraisal framework. In particular, evidence from Chapter Two (Historical perspectives of NGO governance and funding in South Africa), Chapter Three (Theoretical overview of governance and sustainability of NGOs) and Chapter Four (Theoretical focus on sustainability and financial management) suggest that an NGO's legal status proves imperative to its legitimacy and its receipt of funding. NGO managers, in turn, influence the organisation's longevity particularly where subordinates are groomed to take up leadership. The form of leadership practised by the organisation, whether autocratic or participatory, is an essential component of NGO governance. An NGO's executive management should understand its roles and responsibilities. Furthermore, diversity in terms of composition and the skills of the NGO's board, theorists suggest, is of utmost importance to the NGOs sustained existence. Lastly, the extent to which principles of good governance is applied will influence the organisation's sustainability.

All the aforementioned chapters suggest that the financial sustainability of an organisation is dependent on, *inter alia*, the sources of NGO funding, the management of a funding strategy and sound financial management and control. Self-financing strategies employed by an NGO are proposed as key contributors to an NGO's long-term prospects. The research suggests that it is imperative for NGOs to apply good financial management practices and financial control. Most NGOs do not have clearly defined fundraising strategies or personnel responsible for fundraising. In many instances this has led to the organisation's early demise. Williams[1] (2008: 2) contends that:

> *Donors have the upper hand in terms of determining what aspects of an NGO they would fund. Generally they want to focus on programme delivery and often sets limits to the overhead/organisational/administrative costs of the organisation, including governance costs. In this context it would be unlikely that donors would provide resources for a fundraising capacity. In addition if an NGO appoints an external fundraiser the donor may argue that if they do not have the capacity to develop funding proposals and liase with donors what internal capacity exists to manage their funds and the programme? Furthermore, most external fundraisers require a percentage payment out of the funds they raised. Most donors would not agree to pay such a commission and this puts the NGO in a difficult position if it receives funds through the efforts of an external fundraiser. Do they misappropriate funds from the donor to cover the costs of the fundraiser or do they take on contract work to cover this cost. In so doing their focus is shifted away from the programme that the funder originally intended for them to work on.*

The above suggests that it is important that each criterion developed and forwarded in this assessment instrument be considered carefully, before any score is assigned. The user will be taken through various steps to follow to ensure that this framework is utilised properly.

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[1] Christopher John Williams (Director – TRAC) joined TRAC-MP in 2000 after working at the DLA Provincial Office. Chris holds a BA, Honours and MSC in Development Planning and provides overall management, leadership and strategic support to TRAC-MP's programme activities.
Also see http://www.trac.org.za/context/About-US.asp

In concluding the appraisal process, score categories have been developed which will indicate whether the NGO is sustainable, or whether particular areas require improvement. The total score attained by an NGO should be measured against one of the following score categories.

DIAGRAM 7.1: SUSTAINABILITY INDICATOR

SCORE CATEGORY	FINAL SCORE	SUSTAINABILITY INDICATOR
GREEN CATEGORY	60% +	Sustainable
ORANGE CATEGORY	41% - 59%	Strengthen governance and financial management practices
RED CATEGORY	0% - 40%	Drastic action required with regard to governance and financial management practices

The following appraisal framework has been developed based on the theoretical and empirical research of this study, and the key categories[2] consists of NGO legal status, NGO standards of accountability and transparency, NGO leadership, roles and responsibilities of the executive management, the NGO board, the extent to which principles of good governance are practiced, sources of NGO funding, self-financing strategies, good practices in financial management, financial control measures and fundraising strategies. These areas will be discussed in detail in the sections that follow.

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[2] See Sections 2.6; 2.6.2 of Chapter Two
See Sections 3.1; 3.2.4; 3.3; 3.4; 3.4.1; 3.4.2; 3.4.3; 3.5 of Chapter Three
See Sections 4.1; 4.2; 4.2.1; 4.2.2; 4.2.3; 4.5.4; 4.6 of Chapter Four

APPRAISAL FORM 1: APPRAISAL INSTRUMENT FOR THE SUSTAINABILITY OF NGOs

	APPRAISAL CRITERIA	MAXIMUM SCORE	SCORE ATTAINED
GOVERNACE	NGO legal status	10	
	NGO leadership (Chief Executive Officer/Director/Manager)	10	
	Roles and responsibilities of the executive management	10	
	NGO Board	10	
	The extent to which principles of good governance are practiced	10	
	Score: Sub-Total	**50**	
FINANCIAL SUSTAINABILITY	Sources of NGO funding	10	
	Self-financing strategies	10	
	Good practices in financial management	10	
	Financial control measures	10	
	Fundraising strategies	10	
	Score: Sub-Total	**50**	
TOTAL SCORE:		**100**	
PERCENTAGE SCORE:			**%**

The user should note that the criteria and weighting of scores are relative. Weighting (how many points are allocated to each criterion) can be adjusted depending on the value placed on particular criteria, within acceptable parameters and particularly by facilitating agreement between stakeholders of a particular NGO being appraised. An acceptable parameter in this context will be an adjustment of not more or less than two points in the possible score column pertaining to a particular criterion which may require an adjustment.

The next section will explain the theoretical relevance of the assessment criteria, and perspectives will be provided on the reasoning for the assessment scores pertaining to each criterion.

7.2.1   NGO legal status

In the South African context, the Nonprofit Organisations Act (1997) has been enacted to provide an environment in which non-profit organisations can flourish, and to establish an administrative and regulatory framework within which non-profit organisations can conduct their affairs.

The NPO Act encourages and supports non-profit organisations in their contribution to meeting the diverse needs of the South African population. Non-profit organisations are particularly encouraged to maintain and improve adequate standards of governance, transparency and accountability. The Act provides that the Minister responsible for non-profit organisations prescribes benefits and allowances to *registered* non-profit organisations after consultation with the committees of the two Houses of Parliament responsible for welfare and with the concurrence of every Minister whose department is affected by a particular benefit or allowance (Nonprofit Organisation Act, 1997).

Whilst the South African government encourages the registration of non-profit organisations, research has shown that local and international donors are also increasingly demanding that their grantees be registered as non-profit organisations, as evidence of compliance with basic criteria of authenticity as a bona fide organisation.

As the legal status of NGOs has proven to be an important aspect of good governance, the criteria of: the existence of a legal entity; an NGO registered as a non-profit organisation under the NPO Act 1997; an NGO registered as a PBO; a non-profit trust registered under the Trust Property Control Act 1998; an NGO registered as a Section 21 not-for-profit gain organisation under the Companies Act 1973, and an NGO registered for value added tax (VAT) are suggested for determining the status of an NGO in this respect (See Appraisal Diagram 1.1). Also refer to Sections 4.1 and 2.6.2 of this study for the theoretical discussion.

APPRAISAL DIAGRAM 1.1

GOVERNANCE APPRAISAL		
NGO LEGAL STATUS **Assessment Criteria**	**Possible Score**	**Score Assigned**
Existence of a legal entity	/5	
Registered as one of the following: • NGO registered as a non-profit organisation under the NPO Act of 1997 • Registered as PBO • Non-profit trust registered under the Trust Property Control Act 1998 • Section 21 not-for-profit gain organisation as per the Companies Act of 1973	/4	
Registered for value added tax (VAT)	/1	
Sub-Total	**/10**	

How to assign scores:

- Insert a score in each column. Where the organisation does not meet the specified criteria, assign a zero (0). Where the organisation has partially met the assessment criteria, where appropriate and at the discretion of the assessor, assign a score of between five (5) and zero point five (0.5).

-   Transfer sub-total of score attained under Appraisal diagram 1.1   to the appropriate block in Appraisal Form 1.

7.2.2   NGO leadership

Leadership is the process of establishing direction and influencing others to follow that direction.   Often the leadership style adopted, for example, autocratic, people-orientated, participatory, and democratic or *liassez faire*, depends on the circumstances that prevail and the life cycle of the NGO (Centre for African Family Studies, 2001; Odiorne, 1969; Greenberg and Baron, 1997).

As corporate governance is essentially about leadership, it is imperative for this concept to be assessed within an NGO.   One of the key problems in many NGOs, contends Williams[3] (2008), "…is the confusion between governance and management. By grouping all in terms of leadership, this confusion is exacerbated." It is thus important to clarify the hierarchical relationship between the governing board and the CEO. To eliminate such confusion, NGO leadership in the context of this appraisal instrument refers to an NGO's chief executive officer/director/manager or management, the operational arm of the organisation.
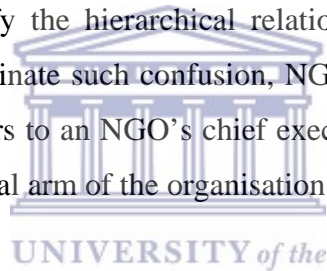
Charisma as an attribute is evoked by some commentators whenever NGO leadership is discussed.   In the NGO context a charismatic leader is able to attract funding according to Indian, Kenyan and South African commentators,[4] which in turn impacts on the organisation's financial sustainability.   A charismatic leader exhibits confidence, dominance, a sense of purpose and the ability to articulate goals.   A charismatic leader is considered an exceptional person and, with his or her sheer presence and personality, is able to shape and influence the future of an organisation (Bass, 1990; Raelon, 2003).

In the above context, the following assessment criteria under the heading "NGO leadership" have been devised.   Scores can be assigned as indicated in Appraisal diagram 1.2.

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[3] Williams, as noted earlier, has extensive experience in NGO governance. The National Director of the Harold Wolpe Memorial Trust supports this notion.

[4] Also see Section 2.2 of Chapter Two and Section 4.5.4 of Chapter Four

APPRAISAL DIAGRAM 1.2

GOVERNANCE APPRAISAL		
NGO LEADERSHIP Assessment criteria	**Possible Score**	**Score assigned**
The NGO displays ALL of the following leadership criteria	/3	
NGO manager/director displays transparent and accountable leadership in line with the organisation's constitution	/1	
NGO leadership (manager/director) is not centred on a particular individual where the manager is also the chairperson of the governing board. Clear separation of powers exists between the two entities	/1	
NGO has a charismatic leader (director/manager)	/1	
NGO manager/director delegates the management of the organisation to senior executive staff (where subordinates exist)	/1	
NGO manager/director served for 3 years or more as managing director or director	/1	
NGO manager/director effectively manages the operational arm of the organisation, and the chairperson of the governing board and/or governing board does not intervene in administrative issues of the organisation except in the formulation of operational policies	/1	
There is regular supervision of the director/manager/management by the chairperson of the governing board	/1	
Sub-total	**/10**	

How to assign scores:

- Insert a score in each column. Where the organisation does not meet the specified criteria, assign a zero (0). Where the organisation partially meets the assessment criteria, where appropriate and at the discretion of the assessor, assign a score of between three (3) and zero point five (0.5).

- Transfer sub-total of score attained under Appraisal diagram 1.2 to the appropriate block in Appraisal Form 1.

7.2.3 Roles and responsibilities of executive management

An executive management team[5], the operational arm of the organisation, that typically includes the CEO of the organisation, with clearly assigned roles, functions and responsibilities, should manage an NGO. How these roles and responsibilities are defined and executed determine the power relations, balance of authority and the extent to which an organisation will be run smoothly, effectively and professionally (See for example also Camay and Gordon, 2002; The National Association of Non-governmental Organizations in Zimbabwe, 2005).

Essentially, the executive management team combines human resources, material resources and financial resources into a productive system in which organisational objectives are attained (Odgers and Keeling, 2000). This requires an organisational structure, policies, systems and qualified and committed staff together with a facilitating institutional environment[6].

The lack of skills or insufficient management capacity to oversee and ensure the successful implementation of NGO projects and the delivery of services was quoted as a key factor contributing to the problems faced by many NGOs (Saldanha, 2002). Refer to Section 3.4.5 of Chapter Three for further discussion.

The above suggests that it is imperative for the executive management structure of the organisation to have clearly defined roles and responsibilities. It is in this context that the following assessment criteria have been developed.

Under the assessment criteria "Roles and responsibilities of executive management" the following scores can be assigned:

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[5] Also see Section 3.4.2 of Chapter Three.
[6] Also see Section 3.4.5 of Chapter Three.

APPRAISAL DIAGRAM 1.3

GOVERNANCE APPRAISAL		
ROLES AND RESPONSIBILITIES OF EXECUTIVE MANAGEMENT **Assessment criteria**	**Possible Score**	**Score Assigned**
The NGO meets ALL the assessment criteria, as stated in this diagram, pertaining to the roles and responsibilities of the executive management structure. *(First complete the sections below before assigning a score in this block.)*	/4	
The executive management team clearly understands its roles and functions	/1	
The executive management team has clearly assigned responsibilities	/1	
A cohesive management structure exists	/1	
Executive management effectively and efficiently manages the NGO's resources	/1	
Executive management upholds the NGO's vision, mission and strategic objectives as displayed in its constitution	/1	
A sound strategic and business plan exists. Executive management assisted in its formulation and oversees its implementation	/1	
Sub-total	**/10**	

How to assign scores:

- Insert a score in each column. Where the organisation does not meet the specified criteria, assign a zero (0). Where the organisation partially meets the

assessment criteria, where appropriate and at the discretion of the assessor, assign a score of between four (4) and zero point five (0.5).

- Transfer sub-total of score attained under Appraisal Diagram 1.3 to the appropriate block in Appraisal Form 1.

7.2.4   Composition and skills of the board

The separation of governance and management involves a division of both duties and personnel. The usual rule is that management runs the organisation from day to day, while the board sets policy, oversight and strategically guides the organisation (Wyatt, 2004; Centre for African Family Studies, 2001; Block, 2001).

The King II Report (2002) suggests that the governing board seeks to ensure an adequate mix of skills, experience and diversity in demographics to enable them to operate effectively and efficiently. NGO governing boards may delegate responsibility to others including paid staff, but must accept ultimate responsibility for the governance of the NGO. Preconditions for the recruitment of new board members include identifying the governance needs of NGOs and discovering the characteristics, qualities and skills of potential board members commensurate with the needs of the organisation (Block, 2001; Camay and Gordon, 2002).

The Centre for Family Studies (2001) reports that where board members are friends and family, or intrinsically linked to the organisation, for example, board members are also founder members of the NGO, they cannot always act independently and in an unbiased fashion. Therefore, development theorists[7] suggest that the governing board be composed of 50% internal membership and 50% external membership. In this way, an equitable distribution of power is ensured. See Section 2.4.1 for further discussions.

Under the assessment criteria "composition of the board", the following scores may be assigned:

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[7] The National Director, Harold Wolpe Memorial Trust (2008)
See the writings of Loukas Spanos (2005) on governing boards in the Greek context.

APPRAISAL DIAGRAM 1.4

GOVERNANCE APPRAISAL		
COMPOSITION AND SKILLS OF THE BOARD **Assessment criteria**	**Possible Score**	**Score assigned**
Existence of a governing board.	/4	
Diversity of the board. The board consists of representatives from the NGO sector, community, government and private sector.	/2	
The board consists of more than 50% of external membership.	/2	
The board reflects diversity in terms of technical skills, community engagement skills, management skills, fundraising skills, financial skills and legal skills, commensurate with the business of the NGO.	/2	
Sub-total	**/10**	

How to assign scores:

- Insert a score in each column. Where the organisation does not meet the specified criteria, assign a zero (0). Where the organisation partially meets the assessment criteria, where appropriate and at the discretion of the assessor, assign a score of between four (4) and zero point five (0.5).

- Transfer sub-total of score attained under Appraisal Diagram 1.4 to the appropriate block in Appraisal Form 1.

7.2.5 Extent to which principles of good governance are practiced

NGOs have the responsibility to think about governance practices. Good governance established at the outset encourages organisational stability and balanced decision-making.

Good governance consists of a number of characteristics, which forms the core of the next appraisal diagram. These characteristics according to Van der Walt (2004) are: participation, rule of law, transparency, responsiveness, consensus-orientated, equity and inclusiveness, effectiveness and efficiency, and accountability (Also see Section 3.2.4 for discussion).

According to Van der Walt (2004), participation in the context of an NGO can be direct where staff provides feedback on the formulation and implementation of organisational policies. Good governance further requires fair organisational policy frameworks that are enforced impartially. Transparency in turn implies that decisions are taken and their enforcement is done in a manner that follows rules and regulations. Information pertaining to the organisation should be available and directly accessible by stakeholders. Responsiveness requires that the organisation serve all parties (internal and external to the organisation) fairly and within an appropriate timeframe. Consensus-orientated decision-making requires recognition by the organisation of community needs. Accordingly, broad and long-term perspectives on how these needs could be addressed towards the attainment of sustainable human development should be formulated. Equity is paramount in the appointment of human resources and when services and resources are acquired externally. When it comes to accountability, civil society organisations must be accountable to the public and to their respective institutional stakeholders. For further discussion around the principles of good governance, refer to Section 3.2.4.

In line with the above assertions around good governance, the following appraisal diagram has been devised.

APPRAISAL DIAGRAM 1.5

| GOVERNANCE APPRAISAL		
THE EXTENT TO WHICH PRINCIPLES OF GOOD GOVERNANCE ARE PRACTICED **Appraisal criteria**	**Possible Score**	**Score Assigned**
ALL of the following characteristics of good governance are present within the organisation. - Staff participation in policy formulation and implementation - Transparency of decisions by management - Responsiveness to clients - Consensus-oriented decision-making - Equity with regard to human resource appointments - Equity with regard to the procurement of external services and resources - Effectiveness and efficiency in responding to client needs - Accountability to stakeholders - Legal frameworks are enforced impartially *(Refer to Section 3.2.4 for discussion).*	/1	
Staff participation, where staff comments on the practicality around the implementation of policy frameworks	/1	
Transparency of decisions by management	/1	
The organisation's responsiveness to clients	/1	
Consensus-oriented decision-making	/1	
Equity with regard to human resource appointments	/1	
Equity with regard to the procurement of external services and resources	/1	
Effectiveness and efficiency in responding to client needs	/1	
Accountability to stakeholders	/1	
Legal frameworks are enforced impartially	/1	
Sub-total	**/10**	

How to assign a score:

- Insert a score in each column. Where the organisation does not meet the specified criteria, assign a zero (0). Where the organisation partially meets the assessment criteria, where appropriate and at the discretion of the assessor, assign a score of between one (1) and zero point five (0.5).

- Transfer sub-total of score attained under Appraisal Diagram 1.5 to the appropriate block in Appraisal Form 1.

7.2.6   Sources of NGO funding

NGOs have generally been able to raise revenue through a variety of sources. Before 1994, South African NGOs had a multitude of funding options. The arrival of democracy saw the redirecting of funding away from NGOs to a new legitimate democratic government. Organisations such as the National Funding Agency (NDA), the National Lottery and the Umsobomvu Fund were created in an attempt by government to fill the funding gap. These organisations operated with little success. NGOs, accustomed to traditional sources of funding, struggled to diversify their funding base (Camay and Gordon, 2004; Farouk, 2004)[8].

The challenge, therefore, for South African NGOs is to devise a sustainable framework for financial resource mobilisation. It is within this context that the following assessment criteria become imperative.

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[8] See Sections 4.3.1 and 4.3.2 in Chapter Four for detailed discussions on NGO sources of funding.

APPRAISAL DIAGRAM 1.6

FINANCIAL SUSTAINABILITY		
SOURCE OF NGO FUNDING **Assessment criteria**	**Possible Score**	**Score assigned**
The organisation has multiple funding sources which may include funding from government, the private sector, other donors or several from the same category	/1	
The organisation receives funding from [9]international foreign aid grants	/1	
The organisation receives funding from national/local government grants	/1	
The organisation receives funding from bilateral and multilateral grant aid	/1	
The organisation receives funding from international foundation grants	/1	
The organisation receives funding from national/local foundation grants	/1	
The organisation receives funding from international, national and local corporate grants	/1	
The organisation receives funding from international charitable donations	/1	
The organisation receives funding from local individual donations	/1	
The organisation receives funding from internal self-financing strategies	/1	
Sub-total	**/10**	

How to assign a score:

- Insert a score in each column. Where the organisation does not meet the specified criteria, assign a zero (0). Where the organisation partially meets the assessment criteria, where appropriate and at the discretion of the assessor, assign a score of between one (1) and zero point five (0.5).

- Transfer sub-total of score attained under Appraisal Diagram 1.6 to the appropriate block in Appraisal Form 1.

7.2.7   Self-financing strategies

Self-financing is an alternative to the more traditional fundraising approaches used by non-profit organisations. Donor agencies such as German Agro Action, Enterprise

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[9] Refer to Section 4.3.1.1 for a discussion on international aid.

Works Worldwide, the Roberts Enterprise Development Fund, the Aspen Institute and a number of other private foundations encourage NGO self-financing initiatives (Viravaidya and Hayssen, 2001). A number of self-financing methods or strategies exist which could be used by the NGOs to sustain themselves. These include, for example, fees-for-services, various loans and credit arrangements, membership fees, product sales and so on (Viravaidya and Hayssen, 2001).

Williams (2008) warns that South African NPOs should not generate more than 25% of their income from "service provision" in which they compete with the private sector for contracts[10]. TRAC, a non-profit organisation of which Williams is a director, reports in their fundraising proposal[11] that in an attempt to develop capital reserves, a percentage of the income derived from the contract work, which TRAC-MP undertakes on occasion on behalf of the government, higher education institutions or the private sector, accrues to a capital reserve fund. Williams (2008) suggests that it is important for an NGO to build up capital reserves, particularly where delays in donor contributions may cripple the organisation financially.

It is the researcher's view, contrary to Williams' warnings, that South African NGOs should be allowed to generate 50% of their own income. In line with this proposition, assessment criteria have been devised. See appraisal diagram 1.7.

The reader is cautioned that self-financing strategies may differ from country to country and even between different communities (Academy for Educational Development, 2004).

To assess the presence of self-financing strategies within an NGO, the following assessment diagram has been developed.

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[10] A developmental theorist, who wants to remain anonymous, contends that an NGO should be allowed to generate 50% of its funding from self-financing strategies. In this way, the commentator argues, NGOs will be less dependent on funding from external sources, particularly in instances where terms and conditions are attached to the funds.

[11] See http://www.trac.org.za/content/Fund-Raising.asp

APPRAISAL DIAGRAM 1.7

FINANCIAL SUSTAINABILITY		
SELF-FINANCING STRATEGIES **Assessment Criteria**	**Possible** **Score**	**Score** **Assigned**
Self-financing strategies or methods are present and in use within the organisation.	/5	
Not more than 50% of the organisation's overall income is generated through: - Membership fees - Fees for services - Product sales - Use of hard assets, for example, equipment rental - Use of soft assets, for example, patents, copyrights - Ancillary business ventures - Investment dividends - Gift of time (time spent by volunteers) - Gift of product (donations given by the public)	/3	
The organisation has capital reserves to be used at the board's discretion.	/2	
Sub-total	**/10**	

How to assign a score:

- Insert a score in each column. Where the organisation does not meet the specified criteria, assign a zero (0). Where the organisation partially meets the assessment criteria, where appropriate and at the discretion of the assessor, assign a score of between five (5) and zero point five (0.5).

- Transfer sub-total of score attained under Appraisal diagram 1.7 to the appropriate block in Appraisal Form 1.

7.2.8 Good practice in financial management

For NGOs to survive in a changing and competitive environment, managers need to develop the necessary understanding and confidence to make full use of financial information. Whilst there is no one financial model that suits all NGOs, good practice in financial management is achieved by designing appropriate systems and procedures.

Organisations should be committed to the practice of good governance and should in every instance adhere to the recommendations of the King Commission Report?. An NGO's management of funds should comply with the highest professional and ethical standards. It is thus essential for financial management systems to be in place to instil confidence in donor partners on how their funding contributions are being managed and expended within the NGO. South African NGOs, in particular, in accordance with South African statutes, should have a financial year ending in March. Audits should be conducted in an appropriate period of time. Reports to donor agencies are presented based on respective agreements either quarterly, every six months, biannually or annually[12].

Refer to Section 4.2 for a discussion on financial management arrangements in general. Authors such as Narayan, Godden, Reid, Ortega, Ott and Alin have written extensively on good practice in financial management. Section 4.2 gives an exposition of their views.

The following assessment criterion has been devised in the context of the above discussion.

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[12] See http://www.trac.org.za/content/Fund-Raising.asp
Allan Roman, an NGO financial management expert, interviewed in May 2008, concurred with a number of the views expressed by Williams, 2008.

APPRAISAL DIAGRAM 1.8

FINANCIAL SUSTAINABILITY		
GOOD PRACTICE IN FINANCIAL MANAGEMENT **Assessment criteria**	**Possible Score**	**Score Assigned**
In terms of good practice in financial management, the organisation: - Keeps an accurate record of all financial transactions **(accounting records)**	/2	
In terms of good practice in financial management, the organisation: - Links the budget to the organisation's strategic and operational plan **(financial planning)**	/2	
In terms of good practice in financial management, the organisation: - Produces management accounts so that managers can compare the organisation's progress against the budget and then make decisions about the future **(financial monitoring)** - Produces financial statements for outside scrutiny to demonstrate how funds have been applied in the past **(financial monitoring)**	/2	
In terms of good practice in financial management, the organisation: - Has internal controls (checks and balances) in place to safeguard the organisation's assets and manage risk **(internal controls)**	/2	
In terms of good practice in financial management, the organisation: - Has an audit committee/auditor to assist in the quality and reliability of financial and other performance information issued.	/2	
Sub-total	**/10**	

How to assign a score:

- Insert a score in each column. Where the organisation does not meet the specified criteria, assign a zero (0). Where the organisation partially meets the assessment criteria, where appropriate and at the discretion of the assessor, assign a score of between two (2) and zero point five (0.5).

-   Transfer sub-total of score attained under Appraisal diagram 1.8 to the appropriate block in Appraisal Form 1.

7.2.9   Financial control

Financial control[13] is at the heart of financial management. Effective financial accounting and managerial control practices are as important to NGOs at they are to the private sector. Without properly executed financial control, the organisation's assets and resources are at risk, funds may not be spent in accordance with the organisation's strategic objectives or the wishes of funders, and the competence of managers and the integrity of the NGO may be called into question (Alin et.al. 2006; Herzlinger and Nitterhouse, 2001).

Designing systems and procedures to suit the particular needs of the NGO enforce financial control. Accordingly, an overall financial policy should be formulated and implemented which pertains to donors, income, budgeting, expenditure, travel, auditing, petty cash, assets, salaries, staff loans and the opening and operation of bank accounts (Shapiro, n.d.).
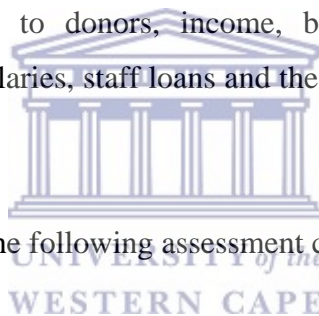
To test the above assertions, the following assessment criteria have been formulated.

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[13] See Section 4.2.2 of Chapter Four
See Section 4.2.3 of Chapter Four
Allan Roman, a financial expert, asserts that not only is the existence of financial policies in NGOs extremely crucial, but - he contends - the implementation and the monitoring of these policies is even more imperative. He argues that, in this way, the organisation's financial resources will be protected.

APPRAISAL DIAGRAM 1.9

FINANCIAL SUSTAINABILITY		
FINANCIAL CONTROL **Assessment criteria**	**Possible Score**	**Score Assigned**
The organisation has fiscal policies that protect it from intentional or unintentional misuse of resources	/1	
Financial policy and implementation of procedures and systems relevant to South African company and tax law are in place. The financial reporting requirements of donors/funders are also recognised in this policy.	/1	
Financial policy exists around staff salaries, staff loans and the opening and the operating of bank accounts. Implementation procedures and systems around this policy are in place within the organisation	/1	
Financial policy exists around how money is received and recorded. Implementation procedures and systems pertaining to this policy are in place.	/1	
Financial policy, implementation procedures and systems exist around how money is spent.	/1	
Tasks such as the receipt of cash, the preparation of financial statements and the expenditure of funds are assigned to more than one staff member to ensure adequate financial control.	/1	
Rules exist around how the budget should be monitored and amended.	/1	
Rules exist around the writing of cheques.	/1	
The organisation has insurance in place to cover financial losses.	/1	
Auditing procedures are in place.	/1	
Sub-total	**/10**	

How to assign a score:

- Insert a score in each column. Where the organisation does not meet the specified criteria, assign a zero (0). Where the organisation partially meets the assessment criteria, where appropriate and at the discretion of the assessor, assign a score of between one (1) and zero point five (0.5).

- Transfer sub-total of score attained under Appraisal diagram 1.9 to the appropriate block in Appraisal Form 1.

7.2.10 Fundraising strategies

Fundraising[14] is proactive and should be conceptualised and designed as a long-range programme. Very few NGOs have dedicated professional fundraising human resource capacity and a coherent fundraising strategy. Building NGO fundraising capacity requires the development of a fundraising policy and regulations, and a fundraising committee with clear job descriptions and mechanisms monitoring fundraising activities (Kraak, 2001; Alin et.al., 2006). Williams (2008) notes that externally appointed fundraisers require a commission on the funds they raise on behalf of organisations. Many donors may refuse to pay such commissions. The latter commentator contends that, in many instances, funders may argue that if the NGO does not even have the internal capacity to draft a funding proposal, they may also lack the capacity to manage the financial resources of the organisation.

It is the researcher's view that a fundraiser is essential within an NGO and that the cost to the organisation of such an incumbent should be recovered from the administrative categories of budgets of individual projects or programmes.

All donor agencies have a limit to their resources and have to make decisions around what they are prepared to fund. Once a decision has been taken by a particular funder around what activities/programmes they will fund, a relationship between the receiver of funding and the donor begins to develop. Donor agencies emphasise the fact that this is a mutually beneficial relationship, with both parties aware of the expectations of the other (Ndlovu, 2004). The researcher contends that the funding agency still holds the dominant power in this relationship which inevitably proves uneven.

A well-executed fundraising strategy remains imperative within organisations and, as such, the following assessment criteria have been devised.

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[14] See Section 4.2.4 of Chapter Four
See Section 4.3 of Chapter Four

APPRAISAL DIAGRAM 1.10

<table>
<tr><td colspan="3">FINANCIAL SUSTAINABILITY</td></tr>
<tr><td>FUNDRAISING STRATEGY

Assessment criteria</td><td>Possible Score</td><td>Score Attained</td></tr>
<tr><td>The organisation has a well-executed fundraising strategy that contains ALL of the following elements present in this diagram.</td><td>/2</td><td></td></tr>
<tr><td>Diversification: Diversified fundraising means that an NGO has several sources of funding from several different types of fundraising activities</td><td>/2</td><td></td></tr>
<tr><td>Sustainability: Sustainability is about developing self-reliance. The more self-reliant an NGO is, the more control it can maintain over its resources, as well as the decisions around resource management and use</td><td>/2</td><td></td></tr>
<tr><td>Creativity: Being creative means utilising available resources and taking advantage of opportunities as they emerge</td><td>/2</td><td></td></tr>
<tr><td>Inclusiveness: Taking an inclusive approach means finding a role for supportive people to play. In this way, the boundaries of the NGO will be expanded beyond its present scope.</td><td>/2</td><td></td></tr>
<tr><td>Sub-Total</td><td>/10</td><td></td></tr>
</table>

How to assign a score:

- Insert a score in each column. Where the organisation does not meet the specified criteria, assign a zero (0). Where the organisation partially meets the assessment criteria, where appropriate and at the discretion of the assessor, assign a score of between two (2) and zero point five (0.5).

- Transfer sub-total of score attained under Appraisal Diagram 1.10 to the appropriate block in Appraisal Form 1.

7.3 FRAMEWORK APPLICATION GUIDELINES

The following section will forward a discussion on the structure and content of the appraisal framework, how documentation should be assimilated, who should appraise and how final scores should be calculated.

7.3.1 Structure and content of the appraisal framework

This appraisal framework consists of 10 assessment criteria. Each criterion is intended to capture a separate dimension of governance and financial sustainability as informed by theoretical and empirical evidence.

The scope and purpose of this appraisal instrument is to provide a framework for assessing the governance and financial sustainability of NGOs as alluded to in section 7.2 of this chapter.

7.3.2 Documentation/Information

The assessor should attempt to identify all information pertaining to the organisation prior to the start of the appraisal exercise. Information can be collated through consulting, for example, the organisation's annual reports and other relevant documentation, or through site visits, interviews, questionnaires and focus groups.

7.3.3 Who should appraise

It is recommended that the appraisal instrument be facilitated by an assessor experienced in the area of NGOs in order to increase the reliability of the assessment outcomes. The assessor may be assisted by a moderator. Focus groups can be utilised to deliberate the outcomes of the appraisal exercise

7.3.4 Score scale/overall assessment

A cumulative scoring system has been devised. Each item within the assessment criteria has been awarded a possible score. The assigned score measures the extent to which a criterion has been fulfilled.

- If the assessor is confident that the criterion has been fully met, then the full possible score can be assigned.

- If the assessor is confident that the criterion has partially been fulfilled, a portion of the possible score, at the discretion of the assessor, may be assigned. However, if a possible score equals one, a score of zero (0), at the discretion of the assessor, may be assigned.

- If the assessor is sure that a criterion has not been fulfilled, due to a lack of corroborating evidence, a score of zero (0) may be assigned.

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- Sub-totals attained in each appraisal diagram should be transferred to Appraisal Form 1, whereafter a final score and a percentage score should be calculated.

- The percentage score should be compared to the Sustainability Indicator presented in Section 7.2.

7.4   APPLICATION OF THE APPRAISAL FRAMEWORK

Chapters Two, Three and Four of this study, together with the case studies, formed the conceptual underpinning of this appraisal framework. This appraisal instrument, formulated for the South African NGO sector specifically, as alluded to earlier, has been applied to the case studies as presented in Chapter One, Section 1.6. The purpose of the following section is to present the results of this pilot study[15] where the areas for future improvement of the appraisal framework will be highlighted.

This section will report on the results of the application of the appraisal framework with regards to the governance arrangements within Oxfam GB, the Centre for the Study of Higher Education and the Sustainability Institute. With regard to legal status, Oxfam GB is registered as a charity. The Sustainability Institute operates as a Trust, and is registered under the Trust Property Control Act of 1988. The Centre for the Study of Higher Education reflects no record of formal registration as a non-profit organisation. Accordingly, the latter organisation scored zero (0) under the NGO legal status appraisal criteria. The other two organisations scored (ten) 10 respectively.

Under NGO leadership, in the case of Oxfam GB, its Council holds overall leadership responsibility and delegates the management of the organisation to the senior executive staff such as the Director and Corporate Management Team. This organisation scored eight (8) under this appraisal criterion. In the context of the Sustainability Institute, the founder members of the organisation are regarded as charismatic leaders who took responsibility for the organisation's processes and activities. Accordingly, a score of ten (10) was justified under the NGO leadership appraisal criterion. The Centre for the Study of Higher Education, however, struggled to secure sustained leadership. Therefore a score of six (6) was assigned.

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[15] See Appendix B for the results of the pilot study conducted.

With regard to the <u>roles and responsibilities of the executive management team</u>, Oxfam's executive management structure has clear responsibilities and roles. The same can be concluded for the Sustainability Institute. The EPU/CSHE management structure proved complex and peculiar. Various cumbersome reporting lines exist. The EPU/CSHE scored three (3) under the appraisal criterion, roles and responsibilities of the executive management, whilst Oxfam and the Sustainability Institute scored eight (8) respectively.

The <u>types of knowledge and skills within the board</u>, as reported by the Oxfam GB and Sustainability Institute, ranged from technical skills, community engagement skills and management skills to fundraising skills. Oxfam GB's board showed the most diversity in terms of skills and composition. The composition of the EPU/CSHE board represented diversity in relation to the education sectors the individual board members emanated from. Board members did not necessarily bring specific skills to the organisation. Accordingly, the EPU/CSHE scored three (3) in this assessment category, the Sustainability Institute scored eight (8) points and Oxfam GB scored ten (10). It should be noted that the three cases studied support the notion of the separation of power between the CEO of the organisation and the chairperson of the board where each entity has clearly assigned roles and responsibilities.

It was found that the EPU/CSHE, to a lesser degree, applied <u>the principles of good governance</u> and scored seven (7) in the category "The extent to which principles of good governance are practiced". The Sustainability Institute scored ten (10) and Oxfam GB scored seven and a half (7.5), reflecting their effective and efficient application of the principles of good governance.

The next section will report on the results of the financial sustainability practices within Oxfam, the EPU/CSHE and the Sustainability Institute.

With regard to the appraisal criteria '<u>Sources of NGO funding</u>', the CSHE derived 80% of its overall funding, in particular its core funding, from international sources. The Sustainability Institute has been able to garner funding from local corporate social investment, which forms the biggest portion of its income. Oxfam GB sources

approximately equal percentages of funding from donations and its shops and trading respectively. Both the CSHE and the Sustainability Institute was awarded a score of six (6) and Oxfam GB received a score of ten (10).

In relation to self-financing strategies, both the CSHE and the Sustainability Institute scored three (3) respectively. Oxfam GB scored nine (9) as their self-financing strategies proved highly developed and successful.

In terms of good financial management practices, Oxfam GB, the Sustainability Institute and the Centre for the Study of Higher Education keep an accurate record of all financial transactions. Each organisation produces management accounts, financial statements, and has auditors in place to assist in the quality and reliability of financial and other performance information produced. The CSHE, it was found, despite institutional procedures and practices around financial management control mechanisms, displayed inappropriate use and reporting of donor funds. In the appraisal category 'good practices in financial management', the Sustainability Institute and Oxfam GB scored ten (10) whilst the CSHE scored six (6).

When it comes to financial control, Oxfam GB has an intricate financial control system which proved very effective. The same could be said for the Sustainability Institute. The CSHE, in the presence of rules and procedures applicable to organisations operating within the university setting, persisted with its own form of financial control. This proved problematic. As a consequence of ineffective financial control, a score of five point five (5.5) was assigned in the financial control measures category, whilst both the Sustainability Institute and Oxfam GB scored ten (10).

With regard to fundraising strategies, which concludes the appraisal process, it would appear that fundraising formed part of the job description of every staff member of the CSHE. The director was tasked with sourcing core funding. Funds for specific projects were sourced by individual researchers. The Sustainability Institute, on the other hand, has highly charismatic leadership and is able to attract funding for projects they perceive as crucial. Oxfam GB, as an established organisation, has very specific income-generating endeavours in place. The latter organisation appeared the most financially secure. In the appraisal criteria category 'fundraising strategies', the

CSHE scored four (4), the Sustainability Institute scored eight (8) and Oxfam scored ten (10).

In tallying the percentage scores, the CSHE's overall percentage score was 45%. The Sustainability Institute scored 83%. Oxfam GB had a score of 93%. Looking at the Sustainability Indicator forwarded in this chapter, Oxfam GB falls within the green category which implies that the organisation is sustainable. The same applies for the Sustainability Institute. CSHE falls within the orange category which implies that the organisation needs to strengthen its governance and financial management practices. See Appendix C for another way of illustrating the results of applying the appraisal framework to the three case studies.

In light of the foregoing, the next section will highlight the limitations of the appraisal instrument.

7.5 LIMITATIONS OF THE APPRAISAL INSTRUMENT

The success and the sustainability of a particular NGO sector depend on the sector's ability to deliver and meet the expectations of its constituency, and to retain credibility in the eyes of that constituency. This particular instrument is not results-orientated, which implies that it does not measure output or outcomes of a particular NGO/CSO/CBO. This appraisal framework can only be applied by an assessor who is regarded as an expert in the area of NGOs with specific reference to institutional, financial and governance matters.

This appraisal framework has been developed for the South African context specifically and should be revised as the economic, social, political and technological conditions of the country changes. It is not necessarily applicable to NGOs in other developing countries in Eastern Europe or East Asia, for example.

The appraisal criteria could be revised in the future should a researcher find evidence of alternative criteria more applicable to the sustainability of NGOs. Assessment categories forwarded within the appraisal diagrams may also require refinement should the need arise in the future. Whereas this doctoral thesis attempted to develop (and test) an appraisal framework for NGOs, it is recommended that research agencies

may further develop this framework and test the instrument more comprehensively and that researchers may further refine the specific categories and considerations for it's measurement.

7.6   CONCLUSION

South African NGOs undeniably have a critical role to play in the provision of welfare, basic and other services to those disadvantaged by the socio-political system which prevailed. The challenge is thus to create an environment in which NGOs can flourish.

It is concluded that this study has provided an opportunity to develop an appraisal framework for the sustainability of NGOs. The pilot application of the appraisal framework to the three selected cases have shown that the instrument may be used to ascertain the sustainability of NGOs.   It is the researcher's view that this appraisal framework will assist in the creation of a sustainable South African NGO sector. It will prove invaluable to all stakeholders dealing with NGOs, CBOs, CSOs and non-profit organisations, testing the organisation's long-term prospects for sustainability.

The following chapter will elaborate on the above debate and draw specific conclusions, make recommendations and identify further areas for research.

CHAPTER EIGHT

CONCLUSIONS AND RECOMMENDATIONS

8.1   INTRODUCTION

This study traced governance and the financial sustainability of South African non-governmental organisations (NGOs) with the intention of developing improved options for the future regarding the sustainability of the NGO sector in South Africa, especially with regard to financial management and governance.

The importance of NGOs can perhaps best be summarised by citing Stone (2004: 545) who contends that:

> *Globalisation during the 20th century gave rise to the importance of NGOs. Many problems could not be solved within a nation. International treaties and international organizations such as the World Trade Organization were perceived as being too centred on the interests of capitalist enterprises. Some argued that in an attempt to counterbalance this trend, NGOs have developed to emphasise humanitarian issues, developmental aid and sustainable development.*

A predetermined research structure was devised. The structure commenced with chapter one in which an introduction and background to the study were provided.   The basic points of departure were elucidated and included aspects such as the problem statement, research objectives, a literature review and the significance of the study. It provided a brief explanation of the research methodology employed in the study and explained how the study would be composed.

Whilst the first chapter introduced the study, the purpose of this chapter is to provide conclusions on theoretical assumptions forwarded in the study particularly around governance and financial sustainability of NGOs. Conclusions will be forwarded on historical trends and tendencies of governance and financial arrangements of NGOs; governance and sustainability arrangements of NGOs in general; financial management and financial sustainability practices within NGOs specifically; the case studies presented

in the study and, lastly, conclusions on the appraisal framework for the sustainability of NGOs will be presented.

Concluding remarks on the aforementioned themes, recommendations and an overall conclusion to the study will follow.

8.2 CONCLUSIONS

8.2.1 Historical trends and tendencies of governance and financial arrangements of NGOs

An overview of the historical trends and tendencies of governance and financial arrangements of NGOs over the last ten years was forwarded. Particular attention was devoted to sustainable aspects of financial arrangements and assistance received by NGOs from international and other donors. Historical trends, such as the decline in international funding to South African NGOs, were analysed in detail. A study was made of the survival strategies employed by NGOs to ensure their sustainability. This historical theoretical exposition provided valuable lessons of NGO experiences. The discussion concluded *inter alia* that internal governance structures such as NGO governing boards, with clear roles and responsibilities, were imperative to the survival of an NGO. Commercialised activities undertaken by NGOs adopted the form of, for example, consultations, contracts, the selling of services and products and the introduction of user charges for services delivered to the poor. Donors, it was reported, took a stricter stance towards financial accounting and programme reporting requirements for NGOs and, accordingly, the NGO sector adopted terms such as professionalism and commercialisation where concepts such as efficiency, strategic planning, cost-effectiveness and results-based management were embraced.

8.2.2 Governance and the sustainability arrangements of NGOs

An overview of theories and paradigms that regulate the governance of international institutions and NGOs was provided. The study concluded that corporate governance, of which the main components include direction, executive action, supervision and accountability of the organisation, has permeated the non-profit sector where an NGO is

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now required to take a particularly disciplined approach to the structuring and managing of its organisation. The lack of skills and insufficient management capacity to oversee the successful implementation of NGO projects and the delivery of services was quoted as contributing to the problems faced by NGOs. The study further concluded that functions such as accountability, participation, predictability and transparency, the four basic elements of good governance, should be activated and promoted within NGOs.

8.2.3 Financial management and financial sustainability practices within NGOs

It is concluded that useful literature and theoretical material existed to provide a conceptual basis and analytical framework for this study. Although limited material existed on specific instruments to ascertain the sustainability of NGOs, useful theoretical frameworks were accessed, selected and applied to the field of study concerning the various areas of financial and governance sustainability. These principles and key considerations allowed the development of an appraisal framework and informed the research design for the development of such an instrument.

The study explored financial management and financial sustainability practices within NGOs in general. Various factors pertaining to funding arrangements were explained. Academic literature on the principles of financial arrangements for NGOs was assessed and deliberated on. The study further investigated issues pertaining to income and expenditure of NGOs with the view to establishing whether global funding mobilisation practices could be replicated in South Africa. In terms of financial management, the study concluded that budgeting, accounting, financial reporting and management control were the salient tools for governance, accountability, planning and management in non-profit organisations. Accordingly, NGOs are now required to develop an appropriate financial management system. Best practice in NGO financial management was called upon where accounting records, financial planning, financial monitoring and internal control proved to be key components of the management processes. In terms of funding mobilisation, the study concluded that non-profit funding sources vary in predictability, controllability, linkage to organisational activities, and the range and amount of management effort they require. To source adequate funding, the NGO sector is required

to construct a well-executed fundraising strategy, which contains elements such as diversification, sustainability, creativity and inclusivity. NGO managers should pay the same attention to finding funds as they do to using funds.

8.2.4   Case studies

The case studies re-emphasised the key empirical assertions and the theoretical expositions around governance and financial sustainability of NGOs in South Africa and NGOs in general. A set of specific financial and governance issues was identified and investigated in the case of each NGO. Three specific cases were explored   - the Centre for the Study of Higher Education (University of the Western Cape, South Africa), Oxfam Great Britain as an example of an international NGO, and the Sustainability Institute on the outskirts of Stellenbosch, South Africa, that has a developmental orientation.

The qualitative research conducted in order to meet the study's research objectives provided an analysis of governance and financial sustainability of NGOs by positing theoretical knowledge against empirical evidence attained (See Chapter Six).

8.2.5   An appraisal framework for the sustainability of NGOs

It is concluded that a set of key requirements for the sustainability of NGOs regarding financial management and governance arrangements has emerged from this study, and that a specific instrument has been developed to assist in the appraisal of NGOs in this respect. The study provided a motivation for the appraisal framework, motivated the key criteria, focus areas and key considerations for such an instrument, and consulted with practitioners and researchers on the relevance of this framework. It is also concluded that this study has tested the instrument by applying it to the three chosen cases, and it was found that the instrument provided an accurate rating of the sustainability factors of these NGOs, as confirmed by the parallel fieldwork discussed in Chapter Six.

A description of the development of a practical appraisal framework for the sustainability of NGOs was provided. The study concluded that NGOs have a critical role to play in

the provision of various services in South Africa.   In this context, NGOs require an environment within which they can flourish. The appraisal framework forwarded in the study (See Chapter Seven) can contribute to the long-term sustainability of the South African NGO sector.

8.3   RECOMMENDATIONS

The purpose of this section is to provide a range of recommendations for consideration by NGOs, CBOs, CSOs, NPOs, governments and funding organisations.   These recommendations are proposed to improve structural, organisational and management characteristics of NGOs in general and their role in the community in particular.

Recommendation 1:

It is recommended that the proposed appraisal framework for the sustainability of NGOs (see Chapter Seven) in conjunction with the recommendations mentioned in Section 8.3 be considered as a framework for use by relevant authorities and interested parties.

This may include the South African Revenue Service (SARS), Master of the High Court, the Minister of Social Development, the Registrar of Companies in terms of Section 21 companies, the NGO/CBO/CSO sector, government, donors, private social responsibility funders, the National Development Agency (NDA) and development banks.   The proposed appraisal framework for the sustainability of NGOs in conjunction with the recommendations forwarded in the study should be regarded as imperative for improved governance and financial sustainability of NGOs in South Africa.

Recommendation 2:

It is recommended that the appraisal instrument proposed in Chapter Seven be tested and developed further through research and application. It is the intention of the researcher to further refine the appraisal instrument in future research.   Research output will be presented at conferences for further refinement and discussion.

Recommendation 3:

It is recommended that NGOs with a successful track record in governance and financial management, higher education institutions and the private sector with specialist NGO human resource capacity train NGO management, staff and the governing board in areas of governance and financial management.

Recommendation 4:

It is recommended that NGO board members be appointed on the basis of skills they possess commensurate with the business of the NGOs and, also, a hybrid mix of skills such as legal skills, technical skills, community engagement skills, management skills, accounting skills and fundraising skills should be represented on the governing board.

Recommendation 5:

It is recommended that NGO self-financing strategists/specialists, within the confines of South Africa's legal and tax legislation, train NGOs, CBOs, CSOs and NPOs in the area of self-financing initiatives to enable and assist these organisations with the generation of a sustained income.

Recommendation 6:

Every non-profit organisation that is dependent on external funding for its sustained existence should continue to pursue increasingly its own sources of funding and should have dedicated professional fundraising human resource capacity. It is recommended that the cost of this position be absorbed proportionally within the budget of every project that the organisation is implementing.

Recommendation 7:

NGOs in South Africa have a pertinent role to play. It is recommended that South African NGOs set the development agenda by linking their core business to one or more of the United Nations' Millennium Development Goals, in particular, poverty eradication, primary education, gender equality, child mortality, maternal health and

other diseases. Many donor agencies link their financial assistance to policies and programmes designed to address the aforementioned goals. In this way, the business of the NGO will remain relevant to the socio-economic context of the country and the globe, and the NGO will be able to attract funding which in turn will impact on its continued existence.

Recommendation 8:

The role of the NGO board is to steer the organisation towards a sustainable future. Accordingly, the board is required to formulate the vision, mission, strategic objectives and organisational policy for the NGO to contribute towards such sustainability. NGO management is required to implement organisational policy. It is recommended that the NGO governing board not micro-manage the organisation, particularly in the case of founder members that display a misplaced sense of ownership.

Recommendation 9:

The policy formulators of the National Lotteries Act (Act 57 of 1997), and similar institutions, should review the categories for which money is allocated, in particular the sports and recreation category. Research has shown that this category does not benefit a large number of NGOs and previously disadvantaged communities. The NGOs' sustainability is impacted upon negatively. The selection process of beneficiaries and the initial payment timeframes, in the context of aforementioned legislation, should be revised.

Recommendation 10:

Whilst the South African government maintains high levels of funding, many NGOs are unable to access such funds via the National Development Agency in the Department of Social Development. It is recommended that the National Development Agency evaluate how funds are disbursed with the intention of improving this particular aspect of the agency's tasks.

Recommendation 11:

It is recommended that NGOs be allowed to generate more than 50% of their own income through self-financing strategies. NGOs will be less dependent on funding from external sources which inevitably have terms and conditions attached. In this context, the South African tax legislation will require revision

Recommendation 12:

It is recommended that a number of South African NGOs/CBOs/CSOs and NPOs link the core business of their organisation with the New Partnership for Africa's Development (NEPAD) goals and priorities in particular in the following areas: sustained sources of energy, integrated transport systems, the provision of water to rural communities and developing sanitation infrastructure. As with the UN Millennium Development Goals alluded to in an earlier recommendation, funders will be prepared to fund NGO endeavours that are linked to the overall improvement of the physical infrastructure of the African continent.

Recommendation 13:

It is recommended that funders recognise the important role played by NGOs in human development.   In terms of aid provided, donors should contribute to the sustained existence of NGOs, instead of contributing to the organisations' early demise through late disbursement of funding or requesting tedious, complex and irrelevant material from organisations. Donors should assist NGOs through training in fundraising endeavours and financial management practices.

8.4   AREAS FOR FUTURE RESEARCH

The following section proposes areas for future research.

8.4.1   NGO governing boards

The role of South African NGO governing boards in the organisation's governance, financial management and fundraising practices in particular, and an assessment of the

board members' skills capacity requires further research. Current research revealed that a large number of NGO boards lack the capacity to conceptualise the organisation's strategic direction. Boards interfere in the day-to-day running of the NGO instead of steering the organisation in a particular direction. Board members are unable to identify and secure funds on behalf of the organisation. The board should assist in the formulation of clear, effective and efficient financial management policies. Future research in these areas should influence the formulation of clear guidelines and strategies on the board's role and assistance in the aforementioned areas. Research should also advise on the skills required by a board member commensurate with the work of the organisation and how these should be identified.

8.4.2   Role of NGOs in post-apartheid South Africa

The role of NGOs in post-apartheid South Africa should be revisited by the South African government, in particular policy-makers and policy implementers. The NGO sector should also revisit its relationship with government specifically in the area of service delivery. It is important to investigate whether NGOs operate as envisaged in the Constitution of the Republic of South Africa (Act 108 of 1996). Parliament must undertake this particular study.

8.4.3   NGO self-assessment strategies

Self-assessment strategies for NGOs should be devised by the NGO sector in conjunction with legislative bodies and donors. The aim of this assessment tool will be to measure the organisation's output, governance and financial management practices with the view to influencing the organisation's sustained existence in an evolving political, social, economic, cultural and technological environment. As the external environment in which NGOs function changes all the time, new knowledge and information should be generated continuously to inform the NGO's internal management practices.

8.4.4   NGOs meeting an early demise

A study should be made into the reasons why a large number of NGOs across different NGO sectors, met an early demise post-1994. Information derived from this study can

serve as a lesson of experience for prospective NGOs envisioning operation in a particular NGO sector. The research should highlight shortcomings and areas where operational improvements, for example, can be made.

8.4.5 NGO fundraising practices

A study should be made of NGO fundraising practices commensurate with the business of the NGO. The research should forward recommendations on what fundraising practices are suited to which NGO sector and what makes certain fundraising endeavours more successful than others. Sufficient literature is available on how to fundraise. There is a lack of literature on successful NGO cases. Practical information on NGO fundraising practices may impact on the sustained existence of an NGO.

8.4.6 National Development Agency

The role of the National Development Agency in post-apartheid South Africa should be revisited. Research should investigate whether the categories of beneficiaries are still relevant in South Africa's current socio-economic context or whether they should be revised. At the same time, the National Development Agency should evaluate whether its current funding disbursement mechanisms are effective and efficient or whether current practices have led to the demise of NGOs for lack of funding.

8.4.7 Testing and refinement of the appraisal instrument

The appraisal instrument proposed in Chapter Seven can be further refined. Appropriate guidelines (See Section 7.3) tailor-made to specific types of organisations such as donor agencies, development banks, parastatal bodies and specific NGO sectors should also be developed. As socio-economic, political and technological changes occur in South Africa, changes will be required to the assessment categories within the appraisal diagrams (See Chapter Seven).

8.5 CONCLUSION

This study met its primary objective which was to evaluate existing governance and financial arrangements of NGOs, CBOs and CSOs with the view to developing

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alternative approaches to governance and financial arrangements with specific reference to lessons of experiences of South African NGOs.

This study has augmented current literature available on the subject 'governance and financial sustainability of NGOs in South Africa', enhancing the future prospects for policy formulation, thereby making a contribution to the existing body of knowledge on the research topic.

NGOs worldwide have a significant role to play in the delivery of services. Reflecting on the current May 2008 xenophobic attacks, where "black" on "black" violence has been recorded over a period of two weeks in South Africa, NGOs instead of the South African government (to name but one example of an area in which NGOs deliver particular services) assisted in the delivery of numerous services such as the provision of shelter, food, advocacy and so on to a large number of displaced foreign nationals. Research has confirmed that there is a role for South African NGOs in service delivery where collaboration, not competition, between the state and the non-profit sector is the key to sustained human development.
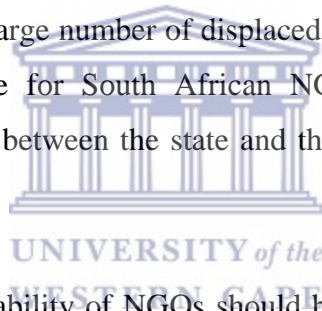
It is concluded that the sustainability of NGOs should be regarded as being of strategic importance in the quest for development and reconstruction in South Africa and that the developmental state, through pursuing its objectives *inter alia* through cooperative governance, should regard sustainable NGOs as key partners in the development effort. Furthermore, the role and sustainability of NGOs is regarded as a key ingredient to the vision of an African Renaissance on the continent, and that global visions, such as the Millennium Development Goals, will only be reached if civil society and NGOs are regarded as key partners and players in this respect.

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10.   APPENDICES

APPENDIX A: Structured questionnaire

APPENDIX B: An application of the appraisal framework for the
                       sustainability of NGOs

APPENDIX C: Appraisal framework – Sustainability Indicator

APPENDIX D: Ethical statement

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APPENDIX A

Structured questionnaire

SECTION 1: BIOGRAPHICAL INFORMATION

Please mark the appropriate box with an X or provide the necessary information

1.1 Name of organisation

……………………………………………………………………………………..

1.2 In which year was the organisation established?:………….………...………

1.3 Indicate the legal status of the organisation

Legal Status	X
Non-profit organisation (under NPO Act of 1997)	
Trust (Trust Property Control Act of 1988)	
Section 21 not-for-gain (Companies Act of 1973)	
Voluntary Organisation	
*Other	

*Please specify: ………………………………………………………………...

1.4 Indicate the number of employees at establishment and currently

Number of employees	Establishment	Now
Fulltime		
Part-time		
Volunteers		

1.5 Describe your organisation's executive management structure.

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SECTION 2: STRATEGIC OPERATIONS

> *Please provide the necessary information*

2.1   What is the mission of the organisation?

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2.2   In terms of your organisation's operations, what sector(s) of civil society does
        your organisation represent?

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2.3   Indicate the geographical area of operation

Geographical area of operation	X
International	
Southern Africa	
National	
Provincial	
*Local	

*Note: *local may refer to region, metropolitan area or community*

SECTION 3: GOVERNANCE

Please mark the appropriate box with an X or provide the necessary information

3.1   Does your organisation have a governing board/board of directors/board of trustees?

Yes	No

If YES:

a)   How many board members do you have? ……………………………..

3.2   Indicate the overall length of service of all board members.

Number of years	X
> 3	
4 – 7	
8 – 10	
11+	

3.3   Indicate the types of knowledge and skills available within your board relevant to the work of your organisation.

Type of knowledge/skill	X
Legal	
Technical	
Community	
Management	
Accounting	
Fundraising	

3.4   (Accountability) Does the governing board undertake a process of self-evaluation?

Yes	No

If YES:

a)   List the evaluation method(s) utilised.
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b)   How often, per year, does self-evaluation take place?

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3.5   Good organisational governance depends on the board members having a clear understanding of their roles and responsibilities. Does your organisation have a clear policy governing the roles and responsibilities of board members?

Yes	No

3.6   List the written organisational policies your organisation has in place.

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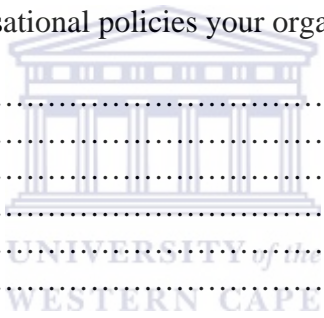
3.7   Explain the board's participation in the formulation and adaptation of a formal, documented and measurable long-range or strategic plan.

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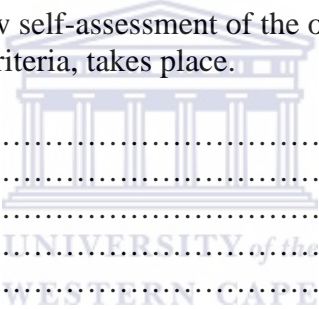
3.7 Are your organisation's procedures for evaluating your projects and activities determined by donors or your organisation?

	X
Do not conduct evaluations	
Determined by donors	
Determined by organisation	
Determined by both donors and organisation	

3.8 Describe when and how self-assessment of the organisation, against measurable specified criteria, takes place.

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3.9 Is there a clear distinction between the role of the organisation's CEO and the chairperson of the governing board?

Yes	No

If YES:

a) Describe this distinction.

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SECTION 4: FINANCE

Please mark the appropriate box with an X or provide the necessary information

4.1   Indicate your organisation's sources of funding:

Sources of Income	X	Indicate the approximate % of funding received from each source
Individual giving		
Corporate social investment		
Government funding		
Foreign donors (International Development Assistance)		
Grant-making foundations		
National Funding Agencies		
Community philanthropic organisations		
Fees (membership/service provision)		
*Other		

*Please specify:

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4.2   How would you characterise your organisation in terms of financial
       sustainability.

	X
Permanently sustainable (eg. With an endowment)	
Good prospects for **long-term** sustainaibility (eg. With good balance of fees for service and diversified donor base.)	
Average prospects for **medium-term** sustainability (eg. With some income-generating activity and likely donor support for at least five years)	
Fair prospects for **short-term** sustainability (eg. With donor funding for up to three years but uncertain beyond)	
Existing from hand to mouth (eg. From short-term contributions)	
Presently not funded	
On the verge of closing	
*Other	

*Please specify:

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4.3   In your opinion, does a diversity of financial sources of income, impact on
       financial sustainability?

Yes	No

       a)   If YES, describe how.

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4.4   List your organisation's categories of expenditure.

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4.5   Approximately what percentage of your organisations overall budget is spent
        on capital expenditures?

        …………………………………………………………………………..

4.6   Approximately what percentage of your organisation's overall budget is spent
        on recurrent expenditure?

        …………………………………………………………………………..

4.7   In terms of good practice in financial management, does your organisation:

	YES	*NO*
Keep an accurate record of all financial transactions? (accounting records)		
Link the budget to the organisation's strategic and operational plans? (financial planning)		
Produce management accounts so that managers can compare the organisation's progress against the budget and then make decisions about the future? (financial monitoring)		
Produce financial statements for outside scrutiny to demonstrate how funds have been applied in the past? (financial monitoring)		
Have internal controls (checks and balances) in place to safeguard your organisation's assets and manage risk? (internal controls)		
Have an audit committee/auditor to assist in the quality and reliability of financial and other performance information issued?		

4.8   Name and describe the financial policies, rules and procedures that exist in your organisation.

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4.9   Describe your organisation's financial control endeavours with particular
       reference to:
                    -         Planning
                    -         Programming
                    -         Reporting

SECTION 5: GENERAL

Please mark the appropriate box with an X or provide the necessary information

5.1   Indicate who are actively involved in PLANNING your organisation's
programmes and projects.

	Planning	Designing	Implementing	Evaluating
Donors/Funders				
Board of directors/trustees				
Executive leadership				
Senior Staff				
Junior Staff				
Beneficiaries/target groups				
Other NGOs/CSOs/CBOs				
Membership				
Ordinary Citizens				

5.2   How well would you say your organisation is handling the following matters?
Would you say *very well*, *fairly well*, *not very well* or *not at all well*?

	Very well	Fairly well	Not very well	Not at all well
Organisational governance				
Management of the organisation				
Administrative matters/day to day running				
Controlling/monitoring expenses				
Adhering to ethical principles				

Rozenda Hendrickse
23 Luckhoff Street
Idas Valley
Stellenbosch
7600
Email: hendrickseR@cput.ac.za
Tel: 021 – 460 3929

12 March 2007

Dear Sir/Madam

SURVEY QUESTIONNAIRE: GOVERNANCE AND FINANCIAL MANAGEMENT OF NGOS

I am a Ph.D candidate at the School of Government, University of the Western Cape. My Ph.D research title is: *Governance and financial sustainability of NGOs in South Africa*. After deliberations with the proposal committee of the School of Government, three specific cases were decided upon, these include the *Centre for the Study of Higher Education (UWC), Oxfam* as an example of an international NGO and the *Sustainability Institute* (Stellenbosch). The study will also use comparative case methodologies and will consider the application of funding frameworks as a result of theoretical assessment.

The central problem addressed in this research investigation is the lack of adequate governance arrangements and financial funding to ensure the sustainability of NGOs in general and South African NGOs specifically. Attached to this letter is a survey questionnaire which is aimed at evaluating governance and financial sustainability of your NGO.

Following the processing of this information I will be able to develop alternative approaches to governance and financial arrangements with specific reference to lessons of experiences for South African NGOs.

I would like to appeal to you to complete the accompanying questionnaire as thoroughly as possible.   If you encounter any problems or questions in this regard you may contact me personally at (+27 – 21 - 83 744 1629 – International) or (083 744 1629 – South Africa). Please return the completed questionnaire by the 31st of March 2007. Following the completion of this study I will provide feedback to your organisation.

Thank you for your willingness to devote some of your valued time to this study.

Yours sincerely

ROZENDA HENDRICKSE

APPENDIX B

An application of the appraisal framework for the sustainability of NGOs

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APPRAISAL FRAMEWORK FOR THE SUSTAINABILITY OF NGOs

NAME OF ORGANISATION:……………………………………………….

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APPRAISAL FRAMEWORK FOR THE SUSTAINABILITY OF NGOs

Education Policy Unit/Centre for the Study of Higher Education

Appraisal date: 20 May 2008

UNIVERSITY *of the*
WESTERN CAPE

APPRAISAL FRAMEWORK FOR THE SUSTAINABILITY OF NGOs

Sustainability Institute

Appraisal date: 20 May 2008

APPRAISAL FRAMEWORK FOR THE SUSTAINABILITY OF NGOs

Oxfam Great Britain

Appraisal date: 20 May 2008

APPRAISAL FORM 1: APPRAISAL INSTRUMENT FOR THE SUSTAINABILITY OF NGOs

	APPRAISAL CRITERIA	MAXIMUM SCORE	SCORE ATTAINED
GOVERNANCE	NGO legal status	10	
	NGO leadership (Chief Executive Officer/Director/Manager)	10	
	Roles and responsibilities of the executive management	10	
	NGO Board	10	
	The extent to which principles of good governance is practiced	10	
	Score: Sub-Total	**50**	
FINANCIAL SUSTAINABILITY	Sources of NGO funding	10	
	Self-financing strategies	10	
	Good practices in financial management	10	
	Financial control measures	10	
	Fundraising strategies	10	
	Score: Sub-Total	**50**	
TOTAL SCORE:		**100**	
PERCENTAGE SCORE:			**%**

APPRAISAL DIAGRAM 1.1

GOVERNANCE APPRAISAL		
NGO LEGAL STATUS **Assessment Criteria**	**Possible Score**	**Score Assigned**
Existence of a legal entity	/5	
Registered as one of the following: • NGO registered as a non-profit organisation under the NPO Act of 1997 • Registered as PBO • Non-profit trust registered under the Trust Property Control Act 1998 • Section 21 not-for-profit gain organisation as per the Companies Act of 1973	/4	
Registered for value added tax (VAT)	/1	
Sub-Total	**/10**	

3

APPRAISAL DIAGRAM 1.2

GOVERNANCE APPRAISAL		
NGO LEADERSHIP **Assessment criteria**	**Possible Score**	**Score assigned**
The NGO displays ALL of the following leadership criteria	/3	
NGO manager/director displays transparent and accountable leadership in line with the organisation's constitution	/1	
NGO leadership (manager/director) is not centred on a particular individual where the manager is also the chairperson of the governing board. Clear separation of powers exist between the two entities	/1	
NGO has a charismatic leader (director/manager)	/1	
NGO manager/director delegates the management of the organisation to senior executive staff (where subordinates exist)	/1	
NGO manager/director served for 3 years or more as managing director or director	/1	
NGO manager/director effectively manages the operational arm of the organisation, and the chairperson of the governing board and/or governing board does not intervene in administrative issues of the organisation except in the formulation of operational policies	/1	
There is regular supervision of the director/manager/management by the chairperson of the governing board	/1	
Sub-total	**/10**	

4

APPRAISAL DIAGRAM 1.3

GOVERNANCE APPRAISAL		
ROLES AND RESPONSIBILITIES OF EXECUTIVE MANAGEMENT **Assessment criteria**	**Possible Score**	**Score Assigned**
The NGO meets ALL the assessment criteria, as stated in this diagram, pertaining to the roles and responsibilities of the executive management structure	/4	
Executive management team clearly understands its roles and functions	/1	
Executive management team has clear responsibilities	/1	
A cohesive management structure exist	/1	
Executive management effectively and efficiently manages the NGO's resources	/1	
Executive management upholds the NGO's vision, mission and strategic objectives as displayed in its constitution	/1	
A sound strategic and business plan exists. Executive management assisted in its formulation and oversee its implementation	/1	
Sub-total	**/10**	

APPRAISAL DIAGRAM 1.4

GOVERNANCE APPRAISAL		
COMPOSITION AND SKILLS OF THE BOARD **Assessment criteria**	**Possible Score**	**Score assigned**
Existence of a governing board.	/4	
Diversity of the board. The board consists of representatives from the NGO sector, community, government and private sector.	/2	
The board consist of more than 50% of external membership.	/2	
The board reflects diversity in terms of technical skills, community engagements skills, management skills, fundraising skills, financial skills and legal skills, commensurate with the business of the NGO.	/2	
Sub-total	**/10**	

APPRAISAL DIAGRAM 1.5

<table>
<tr><td colspan="3" align="center">GOVERNANCE APPRAISAL</td></tr>
<tr>
<td>THE EXTENT TO WHICH PRINCIPLES OF GOOD GOVERNANCE IS PRACTICED

Appraisal criteria</td>
<td>Possible Score</td>
<td>Score Assigned</td>
</tr>
<tr>
<td>ALL of the following characteristics of good governance are present within the organisation.
- Staff participation in policy formulation and implementation
- Transparency of decisions by management
- Responsiveness to clients
- Consensus oriented decision-making
- Equity with regard to human resource appointments
- Equity with regard to the procurement of external services and resources
- Effectiveness and Efficiency in responding to client needs
- Accountability to stakeholders
- Legal frameworks are enforced impartially
<i>(Refer to Section 3.2.4 for discussion).</i></td>
<td>/1</td>
<td></td>
</tr>
<tr>
<td>Staff participation, where staff comments on the practicality around the implementation of policy frameworks.</td>
<td>/1</td>
<td></td>
</tr>
<tr>
<td>Transparency of decisions by management</td>
<td>/1</td>
<td></td>
</tr>
<tr>
<td>The organisation's responsiveness to clients</td>
<td>/1</td>
<td></td>
</tr>
<tr>
<td>Consensus oriented decision-making</td>
<td>/1</td>
<td></td>
</tr>
<tr>
<td>Equity with regard to human resource appointments</td>
<td>/1</td>
<td></td>
</tr>
<tr>
<td>Equity with regard to the procurement of external services and resources</td>
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<td></td>
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<tr>
<td>Effectiveness and efficiency in responding to client needs</td>
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<td>Accountability to stakeholders</td>
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<td></td>
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<tr>
<td>Legal frameworks are enforced impartially</td>
<td>/1</td>
<td></td>
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<tr>
<td>Sub-total</td>
<td>/10</td>
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</tr>
</table>

APPRAISAL DIAGRAM 1.6

FINANCIAL SUSTAINABILITY		
SOURCE OF NGO FUNDING **Assessment criteria**	**Possible Score**	**Score assigned**
The organisation has multiple funding sources which may include funding from government, the private sector, other donors or several from the same category	/1	
The organisation receives funding from international foreign aid grants	/1	
The organisation receives funding from national/local government grants	/1	
The organisation receives funding from bi-lateral and multi-lateral grant aid	/1	
The organisation receives funding from international foundation grants	/1	
The organisation receives funding from national/local foundation grants	/1	
The organisation receives funding from international, national and local corporate grants	/1	
The organisation receives funding from international charitable donations	/1	
The organisation receives funding from local individual donations	/1	
The organisation receives funding from internal self-financing strategies	/1	
Sub-total	**/10**	

APPRAISAL DIAGRAM 1.7

FINANCIAL SUSTAINABILITY		
SELF-FINANCING STRATEGIES **Assessment Criteria**	**Possible** **Score**	**Score** **Assigned**
Self-financing strategies or methods are present within the organisation.	/5	
Not more than 50% of the organisation's overall income is generated through: - Membership fees - Fees for services - Product sales - Use of hard assets for example: equipment rental - Use of soft assets for example: patents, copyrights - Ancillary business ventures - Investment dividend - Gift of time (time spent by volunteers) - Gift of product (donations given by the public)	/3	
The organisation has capital reserves to be used at the board's discretion.	/2	
Sub-total	**/10**	

APPRAISAL DIAGRAM 1.8

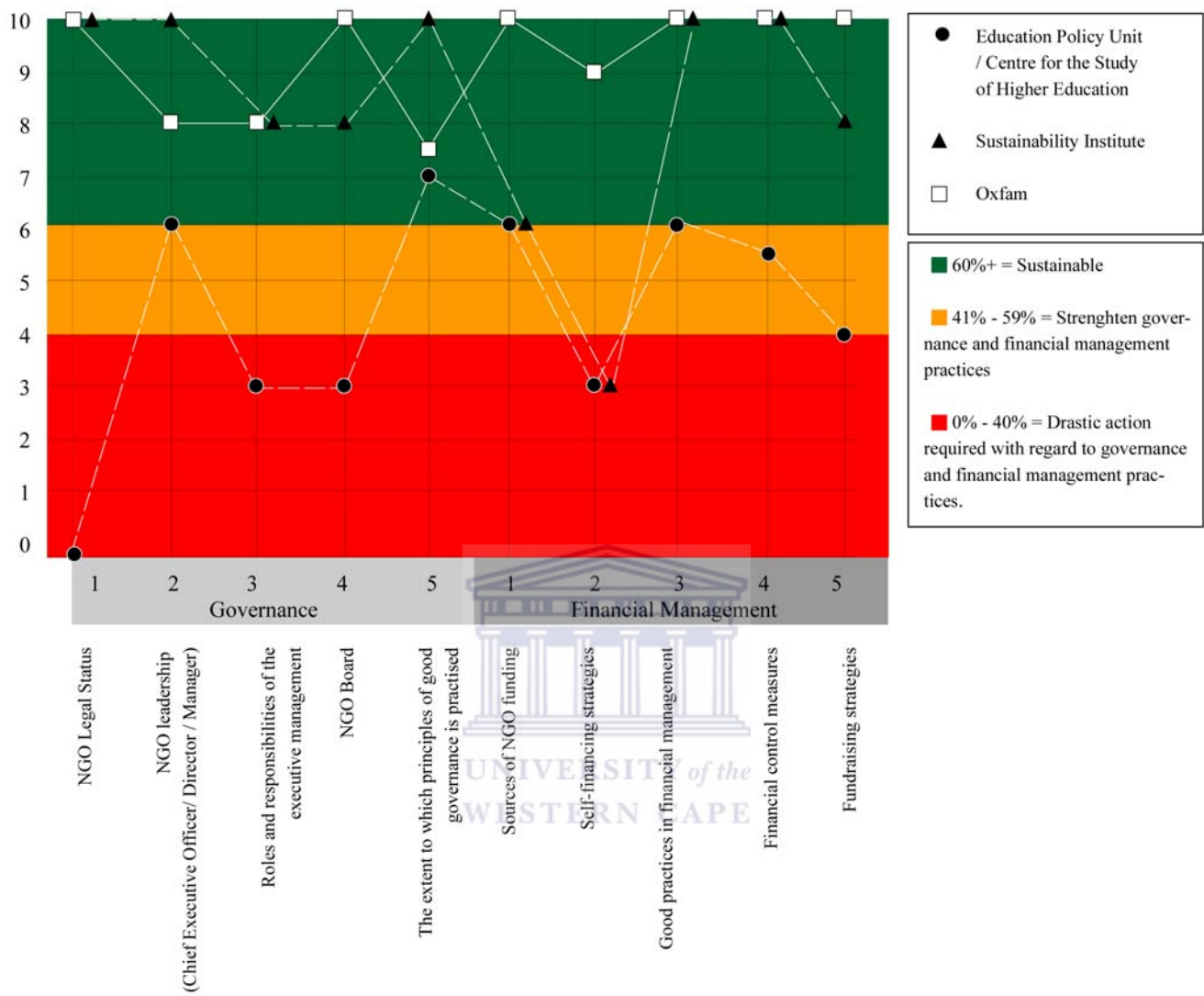| FINANCIAL SUSTAINABILITY		
GOOD PRACTICE IN FINANCIAL MANAGEMENT **Assessment criteria**	**Possible Score**	**Score Assigned**
In terms of good practice in financial management the organisation: - Keeps an accurate record of all financial transactions **(accounting records)**	/2	
In terms of good practice in financial management the organisation: - Link the budget to the organisation's strategic and operational plan **(financial planning)**	/2	
In terms of good practice in financial management the organisation: - Produce management accounts so that managers can compare the organisation's progress against the budget and then make decisions about the future **(financial monitoring)** - Produce financial statements for outside scrutiny to demonstrate how funds have been applied in the past **(financial monitoring)**	/2	
In terms of good practice in financial management the organisation: - Have internal controls (checks and balances) in place to safeguard your organisation's assets and manage risk **(internal controls)**	/2	
In terms of good practice in financial management the organisation: - Have an audit committee/auditor to assist in the quality and reliability of financial and other performance information issued.	/2	
Sub-total	**/10**	

APPRAISAL DIAGRAM 1.9

FINANCIAL SUSTAINABILITY		
FINANCIAL CONTROL **Assessment criteria**	**Possible Score**	**Score Assigned**
The organisation has fiscal policies that protect it from intentional or unintentional misuse of resources	/1	
Financial policy and its implementation procedures and systems are in place relevant to South African company and tax law. The financial reporting requirements of donors/funders are also recognised in this policy.	/1	
Financial policy exists around staff salaries, staff loans and the opening and the operating of bank accounts. Implementation procedures and systems around this policy are in place within the organisation	/1	
Financial policy exists around how money is received and recorded. Implementation procedures and systems pertaining to this policy are in place.	/1	
Financial policy, implementation procedures and systems exist around how money is spent.	/1	
Tasks such as the receipt of cash, the preparation of financial statements and the expenditure of funds are assigned to more than one staff member to ensure adequate financial control.	/1	
Rules exist around how the budget should be monitored and amended.	/1	
Rules exist around the writing of cheques.	/1	
Insurance are in place to cover financial losses.	/1	
Auditing procedures are in place.	/1	
Sub-total	**/10**	

APPRAISAL DIAGRAM 1.10

<table>
<tr><td colspan="3" align="center">FINANCIAL SUSTAINABILITY</td></tr>
<tr>
<td>FUNDRAISING STRATEGY

<div align="center">Assessment criteria</div></td>
<td>Possible Score</td>
<td>Score Attained</td>
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<tr>
<td>The organisation has a well-executed fundraising strategy that contains ALL of the following elements present in this diagram.</td>
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<tr>
<td>Diversification: Diversified fundraising means that an NGO has several sources of funding from several different types of fundraising activities</td>
<td>/2</td>
<td></td>
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<tr>
<td>Sustainability: Sustainability is about developing self-reliance. The more self-reliant an NGO is, the more control it can maintain over its resources, as well as the decisions around resource management and use</td>
<td>/2</td>
<td></td>
</tr>
<tr>
<td>Creativity: Being creative means utilising available resources and taking advantage of opportunities as they emerge</td>
<td>/2</td>
<td></td>
</tr>
<tr>
<td>Inclusiveness: Taking an inclusive approach means finding a role for supportive people to play. In this way the boundaries of the NGO will be expanded beyond its present scope.</td>
<td>/2</td>
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<tr>
<td>Sub-Total</td>
<td>/10</td>
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</tr>
</table>

Another way of illustrating the result
of applying the appraisal framework to the 3 case studies:

Legend:

- ● Education Policy Unit / Centre for the Study of Higher Education
- ▲ Sustainability Institute
- □ Oxfam

- 🟩 60%+ = Sustainable
- 🟧 41% - 59% = Strenghten governance and financial management practices
- 🟥 0% - 40% = Drastic action required with regard to governance and financial management practices.

Governance

1. NGO Legal Status
2. NGO leadership (Chief Executive Officer/ Director / Manager)
3. Roles and responsibilities of the executive management
4. NGO Board
5. The extent to which principles of good governance is practised

Financial Management

1. Sources of NGO funding
2. Self-financing strategies
3. Good practices in financial management
4. Financial control measures
5. Fundraising strategies

APPENDIX C

Appraisal framework – Sustainability Indicator

SUSTAINABILITY INDICATOR

SCORE CATEGORY	FINAL SCORE	SUSTAINABILITY INDICATOR
GREEN CATEGORY	60% +	Sustainable
ORANGE CATEGORY	41% - 59%	Strengthen governance and financial management practices
RED CATEGORY	0% - 40%	Drastic action required with regard to governance and financial management practices

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WESTERN CAPE

APPENDIX D

Ethical statement

Ph.D Candidate: Rozenda Hendrickse
School of Government
University of the Western Cape

Description of research project and ethics clearance

Project title: Governance and financial sustainability of NGOs in South Africa

1.   BACKGROUND AND RATIONAL

A Government of National Unity, elected by South Africans, under the leadership of the African National Congress, came into power in 1994 (Dangor, 1995). As a consequence, the 1990s saw new priorities being placed on the state's development agenda, especially those driven by the needs of the Reconstruction and Development Programme (RDP). The government was now required to take up the space that non-governmental organisations (NGOs) occupied in communities, previously denied resources by an oppressive government (Harding, 1994).   The role and identity of NGOs became a critical issue beyond 1994 where NGOs were required to position themselves at the cutting edge of development thinking and practice in their field if they were to stay active (Hollowes, 1999).   Former comrades-in-arms, having moved from positions in the NGO sector into government, were questioning the role of NGOs and were requesting them to redefine themselves (Financial Mail, 1994).   In addition to this state of uncertainty, foreign governments and international donors were increasingly channelling funding through the state further weakening the position of South African NGOs (Hollowes, 1999; Pereira, 1999).

This study proposes to trace governance and the financial sustainability of South African non-governmental organisations (NGOs) for the period 1990 to 2002 with the intention to develop improved options for the future regarding the sustainability of the NGO sector in South Africa, especially with regards to financial management and governance.

2.   RESEARCH OBJECTIVES

This research investigation will focus in particular on options for funding and governance of NGOs in South Africa. The primary and secondary objectives of the study are:

2.1   Primary objective:

It is the primary objective of this research study to evaluate existing governance and financial arrangements of NGOs, CBOs and CSOs with the view to develop alternative approaches to governance and financial arrangements with specific reference to lessons of experiences for South African NGOs.

2.2   Secondary objectives:

The secondary objectives of this research study are to:

- develop a historical perspective on trends and tendencies of NGO funding in South Africa
- provide a theoretical overview of the financial management and governance arrangements of NGOs
- examine options for funding arrangements for NGOs in South Africa
- provide a comparative case assessment of selected NGOs in South Africa
- develop research findings and to apply the preferred financial arrangements to the case studies
- develop a set of conclusions and recommendations for the improved funding of NGOs in South Africa

It should be noted that all secondary objectives have been formulated in support of the primary objective and that these have been directly linked to the composition of the chapters in the study.

3.   RESEARCH METHODOLOGY

This study will largely employ qualitative evaluation as this research tool encompasses a broad variety of approaches to interpretive research. The study will also use comparative case assessment and the application of a funding model as a result of theoretical assessment. Qualitative research can be historical, sociological, political, educational, and much more, providing an apt tool for a study of this nature (Leedy, 1997). A qualitative approach will provide a theoretical assessment of governance and financial arrangements of NGOs.   A further reason for choosing "evaluation" as a research method is that it allows for *"…[t]he systematic acquisition and assessment of information to provide useful feedback about some object be it a programme, policy, technology, person, need or activity.*   (Introduction to Evaluation, s.c found at: http://trochim.human.cornell.edu/kb/intreval.htm).   Another reason for this method of research is that the researcher will be allowed to use her judgment and experience to ultimately select a preferred governance and financial model for NGOs.

This research study makes use of multiple-case studies. A case study is characterised by:
-    'how' and 'why' questions;
-    more than one case study is investigated, but the total number is limited;
-    A contemporary phenomenon over which the researcher does not have direct control is studied within its real-life context;
-    It aims at collecting qualitative data and in-depth knowledge about a phenomenon, not at collecting quantitative data to generalize on one aspect of the phenomenon;
-    Multiple sources of evidence is used and

-        Fieldwork is included (Arts, 1998: 37).

Swanborn in Arts (1998: 38) contends that the study of two cases instead of one, would yield knowledge through comparison. However, whilst this research seeks to trace and compare governance and the financial sustainability of South African NGOs for the period 1990 to 2002, four NGOs were selected namely the Centre for the Study of Higher Education at the University of the Western Cape formerly known as the Education Policy Unit, Oxfam, the Sustainability Institute and the Treatment Action Campaign. Though they differ fundamentally in terms of service sectors, two of the NGOs existed pre the 1994 democratic elections and all are, and had been, recipients of international and domestic aid.   A brief description of each NGO follows.

The Centre for the Study of Higher Education, formerly known as the Education Policy Unit, began operations in January 1992. Its immediate function was to provide support to the democratic movement and to the African National Congress government-in-waiting in formulating a post-secondary education policy framework for the new South Africa. During 2001, it was decided to change the name of the Education Policy Unit to the Centre for the Study of Higher Education in order to reflect its focus on higher education and its function as a centre for scholarly research, analysis and teaching in this field (Centre for the Study of Higher Education, 2005).

Oxfam has characterized itself as "a development and relief agency working to put an end to poverty world-wide," a grand project based on the belief that poverty is not inevitable, it can be tackled and must be ended. Using its trademark approach to development of working with poor people, to help them, help themselves. Oxfam's strategy of responsively helping people empower themselves has important implications for the development and maintenance of global civil society. In its efforts to relieve poverty, distress and suffering in any part of the world, Oxfam supports a variety of social development, health, agricultural, and humanitarian projects, and emergency programs. It also aims to educate the public concerning the nature, causes, and effects of poverty, and engages in advocacy, education and campaigning work on issues that are central to the achievement of Oxfam's charitable objectives (Kalema, 2001).

The Sustainability Institute at Spier is an international living and learning centre, situated on the outskirts of Stellenbosch. Founded in 1999, the Sustainability Institute, according to its website, provides a space for people to explore an approach to creating a more equitable society that lives in a way that sustains rather than destroys the eco-system within which all society is embedded. It provides residential accommodation for visiting writers, artists, activists, volunteers and scholars, and a learning space for participants in the Institute's various educational programmes (www.sustainabilityinstitute.net).

To be able to meet the research objectives on the basis of a multiple-case study, specific information and knowledge should be collected, for example on the historical trends and tendencies of NGO funding in South Africa for the period 1990 to 2002; and the financial management of NGOs in particular.   Therefore relevant and multiple sources of information and knowledge will be selected and perused. Some of the main primary and

secondary sources of information for this study are people and documents specifically NGO and government role-players, international donors, policy documents, internet searches, annual reports, legislation and numerous 'other' relevant literature.

4. ETHICAL STATEMENT

The following statements were examined: The draft Code of Conduct for Research Involving Humans, sponsored by the Medical Research, Natural Sciences and Engineering Research, and Social Sciences and Humanities Research Council of Canada, 2007), The Social Research Association's Ethical Guidelines (2007). Having read and understood the codes of conduct, I commit to:

- Obtain the consent of the participants before research is undertaken;
- Ensure that the well being of the participants takes precedence over the expected benefits to knowledge.
- Inform participants of their right of refusal and of the degree of confidentiality with which the material that they provide will be handled.
- Ensure that participants have the right to remain anonymous and to have their rights to privacy and confidentiality respected; permitting no release of information about individual persons that has been guaranteed as confidential, to any person inside or outside the institution.
- Approach the project with an unbiased attitude and strive to gather evidence fairly and accurately.
- Document the sources of information and the process of analysis in each task in sufficient detail to enable a technically qualified colleague to understand what was done and to verify that the work meets all appropriate standards and expectations.

Rozenda Hendrickse

1 June 2007