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*The Socio-Economic Role of NGOs in South Africa: Specific focus of Funder Conditions and  
Voluntary Failure*

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### **Abstract**

The South African government envisages a strong role for Non-Governmental Organisations (NGOs) and regard them as partners in socio-economic development, which is evident from various policy statements. However, NGO's in South Africa, as elsewhere, rely on private and government donations to fulfil their championed role. As a result NGOs' independence remains vulnerable to donor conditionalities and demands and there is a real danger that this dependency may affect their efficient functioning. The study uses the framework of Salamon's (1987:111) theory of voluntary failure to investigate whether donor conditionalities may lead to voluntary failure among South African NGOs. The findings indicate that the role of NGOs in South Africa is jeopardised by funder conditions leading to voluntary failure. Donor conditions negatively affect the NGO's role through their distortionary effect on incentives that provide the rationale for organisations to take up initiatives. The degree of vulnerability differs according to the type of organisation activity, the size of the organisation and the size of grant income as a proportion of total income.

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## SECTION ONE: INTRODUCTION

### 1.1 MOTIVATION OF THE STUDY

Non-governmental organisations (NGOs) are hailed as the drivers of economic development and perceived as the universal solution to the problem of poverty (Mercer 1999: 247). The importance of their role is recognised through their inclusion in world forums, such as the World Economic Forum and World Social Forum. The IMF even acknowledges them as the development partners that they have been searching for to assist in the fight against poverty (Leite 2001: 1).

The South African government also envisages a strong role for NGOs and regards them as partners in socio-economic development, which is evident from various policy statements<sup>1</sup>. Despite this, NGO's in South Africa, as elsewhere, rely on private and government donations to fulfil their championed role to assist in poverty alleviation and act as critical watchdogs (Republic of South Africa 1997). The majority are non-profit organisations<sup>2</sup>, mainly dependent on donated funds from government agencies, business and other donors. As a result, NGOs' independence remains vulnerable to funder conditionalities and demands and there is a real danger that this dependency may affect their efficient functioning.

Economic theory and empirical evidence support the important role of NGOs in development. Supply theories explain the existence of NGOs as being the result of individual motivation, driven by either altruism or self-interest. Demand theories, premised on market- as well as government failure, suggest that incomplete markets and lack of information, which leads to contract failure, are the main reasons behind the role of NGOs. For example, Ilon (2002:42) notes that the importance of NGOs in economic development relates to the fact that people are dissatisfied with official institutions and their failure to solve problems of underdevelopment and poverty. Also aligned to these theories is the idea that NGOs provide a Pareto efficient channel for redistribution. Salamon's (1987) theory of voluntary failure on the other hand refuses to acknowledge the existence of NGOs based on the failures of government and markets. It proposes that NGOs bear the full responsibility of the delivery of specific public goods and services and suggests that government should intervene when they fail to do so.

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<sup>1</sup> These will be discussed in Section 3.2.

<sup>2</sup> They are also referred to in the literature as not for profit organisations.

The relative importance of these organisations has aroused interest in their effectiveness and in the quality rather than the quantity of their services. In an attempt to ensure quality of services and effective use of resources, governments and private funders have derived policy and performance conditionalities. According to Peterson (2010:6) these conditions form part of contracts and incentives that exist to insure a beneficial partnership and closer cooperation between funders and NGOs.

Although justified, there is a possibility that such conditions, when incorrectly applied, may have negative consequences for NGOs. The financial management and quality control demands of funders, together with the need to adhere to policy priorities, may constrain the capabilities of NGOs. Edwards (1999:30) warns against the behaviour of funders, as being stuck in what he refers to as 'project delivery mode'. Chau & Huysentruyt (2006:1910) also question "The viability and desirability of competitive procurement schemes targeted at organisations to improve effectiveness". Funder conditions may therefore lead to voluntary failure according to which NGOs will sometimes fail to fulfil their objectives as set out in their respective missions. They fail because of philanthropic insufficiency, particularism, paternalism and amateurism.<sup>3</sup>

Philanthropic insufficiency may lead organisation to partake in activities that divert their activities from their main mission. Furthermore, voluntary failure may result from the need for financial certainty which increases their vulnerability to funder particularism and paternalism. Organisations may adapt and change their missions to secure funding. This will seriously impact on their envisaged role. For this Edwards (1999: 29) criticizes organisations and states that "NGOs tend to import the philosophy of the market uncritically treating development as a commodity, measuring market share as success and equating being professional in their work to being business like."

The paper focuses on the socio-economic role of NGO's in South Africa and furthermore investigates whether and how funder conditions impact on the missions and functions of NGOs in the country. According to Newhouse (1970:64), given that the decisions of NGOs impact on the allocation of scarce resources, it is important to understand the factors that influence their decision-making process.

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<sup>3</sup> See Section 2.4.3 for a detailed explanation.

## 1.2 OBJECTIVES

Subsidiary to the main goal are the following objectives:

- To present a theoretical framework as basis for an investigation into the role of NGO's and the likely impact of donor conditions on their role;
- To investigate- socio-economic role of NGO's in South Africa.
- To determine the impact of funder conditions and to examine whether the role of NGO's in South African is compromised and constrained by funder influence.

## 1.3 METHODOLOGY

The paper presents exploratory research of a quantitative as well as qualitative nature. It presents a literature overview of the relevant theories and of the nature and role of NGO's in South Africa. It uses secondary data generated from a representative survey of South African NGOs conducted by John Hopkins University (2001). Interviews have been conducted with relevant government institutions and NGOs to better understand the patterns emerging from the survey analysis. The framework of Salamon's (1987:111) theory of voluntary failure is used to investigate whether donor conditionalities may lead to voluntary failure among South African NGOs.

## 1.4 LIMITATIONS

Three factors imposed limitations on this study:

- Firstly, the number of respondents in the interviews prevents the generalization of conclusions to NGOs South Africa. Only six respondents were available for interviews out of the initial ten NGOs sampled. Furthermore, on the side of funders, only government could be accessed for an interview.
- Secondly, the John Hopkins data, which is the only source of comprehensive data on South African NGOs, limits the conclusions that can be drawn with regards to the impact of funder conditions on South African NGOs. The organisations which participated in the survey included all forms of non-profit organisations; even those not directly involved in development or poverty alleviation, for example, universities. Because at the time of the study most foreign funding is channelled through the South African government, it is difficult to identify the different sources of funding. It is hard to tell whether it is from foreign sources, for example, World Bank, or from the South African government. This makes it easy to assume that government grants only refer to grants by the South African government.
- Furthermore, the data maybe dated. The survey was conducted in 1999 which raises the risk of the data not being a true reflection of the current realities of South African NGOs.

## **1.4 ORGANISATION OF STUDY**

The study is organised as follows. Section two provides the theoretical and conceptual framework. After a brief definition of NGOs, a descriptive overview is presented of the various theories which justify the role of NGOs in economic development. Thereafter, a discussion of funder condition, what they are, the rationale behind their use and the impact they may have on the function of NGOs follows. Section three focuses on the nature of the role of NGO's in South Africa, with special reference to the institutional and policy framework. Section four presents a case study of NGOs in South Africa. It explains the nature of the data and methodology employed to derive conclusions from the John Hopkins study. It further presents the findings followed by a discussion of voluntary failure among NGOs in the country. A general conclusion is presented in section five.



## **SECTION TWO: CONCEPTUAL AND THEORETICAL FRAMEWORK**

### **2.1 INTRODUCTION**

Before any investigation can take place into the socio-economic role of NGO's and of the impact of donor conditions on their role and functions, it is important to understand what they are and what the nature of their role is. It is also important to understand what is meant by funder conditions, why they exist and what the predicted impact may be on NGO functions. This section firstly defines NGO's and then provides a discussion on the justification of their role. It also provides a discussion of funder conditions and of the resultant challenges to NGO's.

### **2.2 NGOs DEFINED**

In this paper, NGOs refers to organisations involved in socio-economic development that are altruistic and do not distribute profits. The organisations also rely mostly on donated resources both financial and in kind. NGOs are different from government and private firms because they should not be constrained by the bureaucracies associated with government or distribute profits as in the case of private firms (Salamon & Anheier. 1996:3). The element of non-distribution of profits is reiterated by Hansmann (1987: 28) in his definition, according to which NGOs as charitable organisations are bound by the non-distributive constraint. This means that they are prohibited by law to distribute excess income to executives and board members.

### **2.3 ECONOMIC ROLE OF NGOS**

This section focuses on various theories to explain the role of NGOs.

#### **2.3.1 Supply Theories**

Supply theories of NGOs seek to answer questions with regards to why individuals initiate or contribute resources to NGOs, while being mindful of the different factors that influence individual motivations (Dollery and Walllis 2001:10). Individuals who initiate NGOs may adhere to the principle of equality of all human beings and may feel morally obliged to get involved financially or in kind. These individuals may be also motivated by altruism<sup>4</sup>. Anheier (2005:127) refers to them as social entrepreneurs and puts forward the idea that their significance is their concern with the generation of social rather than economic value. The goal of social entrepreneurs is to maximize

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<sup>4</sup> Such individuals are both concerned and generous (Black, Calitz and Steenekamp (2008, 61), referring to Hochman and Rodgers, 1969).

immaterial value. Malani, Philipson, & David (2003:183) add that social entrepreneurs are primarily driven by moral values.

Another branch of the supply side theories is self-interest theories. They take note of the fact that motivation maybe driven by factors either than the welfare of others. According to Rose-Ackerman (1996:715) motivations maybe a function of the tax benefits, because giving is price elastic, there is a negative relationship between marginal tax rates and charitable giving. Revenue maximizing NGOs may also exist just because of an increase in available funds, such as in the case of Ugandan NGOs<sup>5</sup>.

### **2.3.2 Demand Theories**

Demand theories of NGOs, what Salamon et al (1996:11) refer to as the heterogeneity<sup>6</sup> theories, explain their existence to be a function of markets and government failure. According to these theories inefficiencies that arise from incomplete markets and information failure provide the rationale for intervention by NGOs (Boettke & Prychitko 2004:6). The conclusion derived from these theories is that NGOs intervene to fill the gaps left by private markets which government has also failed to fill.

- *Public goods theory*, reasons that NGOs exist to deliver public goods. The theory is proposed by Weisbrod's (1974) who refers to public goods as collective goods. The theory originates from public choice theory which justifies collective action in ensuring the efficient provision of public goods (Anheier 2005:121). Due too diverse preferences, governments whose focus is on satisfying the median voter, meet majority demand while NGOs meet the demand that will never obtain majority (Salamon 1987:109). Certain public goods and services may be demanded by the majority of the population, such as education and health but others by a small portion of the population, for example, special schools for disabled children or the care of HIV/AIDs infected individuals. Government may be able to meet the demand of the former but not the latter. Allocative efficiency is constrained by government's concern with equity and the optimal level of taxation (Young 2000:151).

The autonomy of NGOs provides flexibility which allows room to be innovative and to derive efficient ways to deliver public goods and services. Indeed, one of the success stories is the increase

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<sup>5</sup> Fafchamps & Owens (2008:3) in their investigation of the dynamics of funder NGO relations among 300 Ugandan NGOs find organisations to be initiated because of the incentive of grant funding rather than altruistic motives.

<sup>6</sup> Heterogeneity refers to the differences which exist in the demand for public goods.

of access to credit facilities for the poor (Sengsouriveng 2006:56). Microcredit and savings initiatives by NGOs created self-employment and provided income generating opportunities. Jianxiu (2006:16) illustrates that initiative, such as the Hope Project, which provides education to poor rural children in China, really made a difference and increased social welfare.

- *Contract failure theory* states that NGOs exist to remedy the principle-agent problems which arise from information asymmetry between the agent (NGO) and the principal (donor). This is a situation where two parties in an economic transaction possess different levels of information. According to Eisenhardt (1989:61) the principal-agent problem results when the principal and agent have divergent goals and from the principal's inability to determine whether the agent has behaved in an appropriate manner. The non-distribution constraint is intended to eliminate the incentive for NGOs to exploit information asymmetry (Hansman 1987: 31).

NGOs therefore, provide a solution to the optimal contracting problem, especially in the case where output cannot be observed without additional costs (Easley et al 1983:538). That is why government awards grants to NGOs to deliver public goods. It was found to be better to delegate responsibilities to them rather than to private firms to avoid monitoring costs, as NGOs are regarded as more trustworthy (James & Rose-Ackerman 1986). Young (2000:153) concludes that the reduction of information costs when responsibilities are delegated to NGOs provide the rationale for them to be the preferred provider of public goods.

- Cerruli (2006: 2) notes that economic theories of NGOs need to be generalised to incorporate the importance of equity and not just efficiency. The outcomes of private market transactions may be efficient, in terms of ensuring that resources are allocated optimally, but they are not necessarily the most equitable. NGOs exist to alter the unequal distribution of income in society. The fact that they are financed through altruistic contributions, allows for a Pareto- efficient form of redistribution. According to Black, Calitz & Steenkamp (2008:62) because contributions to NGOs are voluntary, they increase the givers utility and therefore can be classified as Pareto- efficient.

### **2.3.3 Theory of Voluntary Failure**

According to Salamon's theory, NGOs cannot be seen to exist only as a mere remedy to failures by government and markets. The theory merges aspects of the theory of public goods and theory of organisations. Organisational theory, which includes the theories of the firm and transaction cost, explains why it would be more efficient for private NGOs to deliver public goods rather than

government. The theory of collective action and the free rider problem illuminate why government intervention is necessary to insure financial sustainability of NGOs.

The capabilities of NGOs place them in a better position to be solely responsible to execute programmes that drive development and alleviate poverty (Todaro & Smith 2008: 560). As an organisational form, their closeness to communities helps to mobilize the kind of social action and sense of obligation needed to deal with problems of the really poor (Salamon 1987:111). When NGOs function optimally they allow governments to promote welfare without an increase in government's administrative responsibilities (Zaidi 1999:261). Fiscal imbalances in developing countries are after all one of the reasons that necessitated the devolution of government responsibilities to NGOs (Zaidi 1999:261). The devolution of government responsibilities to NGOs leads to higher levels of efficiency and lower cost which result from competition among NGOs for government grants and the ability of NGOs to tailor services to local circumstances.

Government's responsibility for the delivery of public goods provides a less secure basis for their provision (Salamon 1987:110). For example contracted NGOs in some districts of Cambodia were found to be more responsive to contractual obligations and the efficient and equitable provision of health care services. They performed better compared to the standard government provision of the same services (World Bank 2007: 6). Governments should therefore only intervene to ensure efficient delivery of public goods when NGOs fail to do so.

Governments intervene to insure that the strengths of both institutions are collaborated. The stable stream of government resources helps to insure the financial stability of NGO's. Governments and NGOs are perceived as being in a complementary relationship; governments provide the finance and NGOs deliver the public goods (Young 2000:153). Because the needs of beneficiaries are determined through the democratic process, the duplication of services is avoided. Furthermore, government's institutions are able to set quality control and standards to insure accountability.

## **2.4 FUNDER CONDITIONS & NGOS**

### **2.4.1 Rationale for Funder Conditions**

Justification for the role awarded to NGOs does not automatically ensure that it will be executed effectively. This calls for other mechanisms to ensure efficiency, such as funder conditions.

*Exploitation of information failure* by NGOs may not be totally eliminated by the non-distribution constraint, the profit motive may exist in disguise and lack of governance may help foster corruption among organisations. Funder conditions act as tools to either minimize information asymmetry or reduce the incentive for NGO's to exploit (Eisenhardt 1989:60). When the principal has information to verify agent behaviour, the agent is more likely to behave in the interests of the principal (Eisenhardt 1989:60). Furthermore, conditions provide avenues to secure the efficiency of NGOs through their emphasis on performance and accountability.

NGOs as agents are not immune to information failure there is a high likelihood of the presence of the principal-agent problem between them and their multiple principals. This is because they do not price their services. Although they can undertake measurements of their inputs, they have no way of comparing the realised results with the expected results (Boettke& Prychitko2004:2). As a result, it is difficult for stakeholders, funders and beneficiaries to assess the results of NGO initiatives and to determine the appropriateness of their actions.

*Failure of Self- selection:* There are also NGOs that were established to take advantage of the NGO status which allows founders to take advantage of certain benefits, such as tax exemption. In these organisations staff members are not constrained by the non-distributive constraint as they can do so through higher salaries or perks. Weisbrod (1988: 16) refers to these NGOs as 'For-profits in disguise'. According to Kalb (2006:305) the failure of self-selection in developing countries due to inefficient markets and government failure causes professionals to join NGOs because they offer more lucrative and stable employment. It is also cheaper and less laborious to start a NGO than a private business in developing countries (Kalb 2006:306). The inability of the non-distribution constraint to curb opportunistic behaviour among organisations has added to the concerns raised with regards to the role of NGOs as a remedy to contract failure.

*Lack of governance* within NGOs and the absence of effective government regulation regarding NGOs in certain countries also justify the existence of funder conditions. The absence of effective regulation means corruption is rife. Gibelman & Gelman (2004:370) are concerned that governance failures, where managers and boards neglect their oversight responsibilities, may lead to misappropriation of funds and stronger incentives for NGOs to misrepresent themselves. The absence of regulation creates the incentive for funding organisations to invent mechanisms to police the organisations to which they provide funding to.

*Increased efficiency:* According to Cooley (2002:9) donor conditions are also there to increase

efficiency of NGOs. Without the profit incentive and competitive forces, there is likelihood that NGOs may be less cost-conscious (Pindyck & Rubinfeld 2009: 634). As Hailey (2000:403) puts it “It is in the context of this increasing concern about the efficiency and effectiveness of such overstretched organisations that new management controls, organisational criteria, and indicators of performance are being introduced.” Conflict of interest between NGOs and their principals may result in the desire to adhere to the demands of all, but the ability to meet only a few (Peterson 2010:4).

#### **2.4.2 Funder conditions & NGO Challenges**

Funder conditions may be justified but when little consideration is given to their application, they may result in mission creep, which refers to the gradual deviation from mission to meet funding requirements (Peterson 2010:5). Donor conditions distort NGO incentives and lead to the failure of organisations to fulfil their missions. This is especially the case when decisions that maximise mission impact and those that maximise financial resources are different (Young, Bernard, Ramsey & Jung 2008:4). According to Burger & Owens (2009:5) revenue maximization rather than fulfilment of mission becomes the primary objective of organisations. Revenue maximisation leads to mission creep because it impacts on the role of Ngo’s, their identity, transparency, accountability and bad partnerships with paternalistic prescriptions.

Irons (2002:42) warns that NGOs can only have a role in socio-economic development if they do not succumb to the temptation to adopt market based goals that are different from their initial missions. Their need for financial stability increases the likelihood to succumb to these temptations and makes them more susceptible to funder agendas. Funders are in a relatively stronger position to influence the activities of NGOs (Hailey 2000:402). The choice of NGO initiatives reflects the source of funding and activities will mirror the priorities of funding organisations rather than those of beneficiaries. NGOs become a creation of funding agencies and this result in a patron-client relationship between them and their funders. For this reason Zaidi (1999:260) suggested that the role of the state be revisited because NGOs have failed.

According to Hailey (2000:402), funder conditions pose a danger to the identity of NGOs which reflects their capabilities and their distinctiveness in the development community. The identity of NGOs is based on a set of values premised on people centred development, participation and empowerment (Hailey 2000:404). The loss of identity therefore results in the loss of the specific role of NGOs which legitimizes their existence. The values are threatened by “over emphasis on value for money, accountability, and cost-efficiency which encourages the use of mechanistic

planning and evaluation tools such as Logical Framework Analysis ('logframe'), and other tools which rely on measurable gages of output, impact, and capacity”( Hailey 2000:403).

Funder conditions may also promote lack of transparency and at times blatant misrepresentation among NGOs. Transparency matters for the effective monitoring of the actions of NGOs and deters the exploitation of information asymmetry. Burger & Owens (2008:2) in their study, employing a sample of 300 organisations, found that NGOs avoid transparency. There is no correspondence between the actions of NGO's and the communication of those actions and a large proportion of NGOs misrepresent themselves (Burger & Owens 2008:2). Lack of transparency among NGOs means they can only be held accountable by the stakeholders who have the power and resources to extract the required information. Accountability among NGOs is thus biased in favour of the funders who have the power to enforce it.

Porter's (2003:131) study of NGO relations with funders in Ghana finds unequal partnerships to erode local initiatives and problem solving methods to fight poverty. This is because funders are eager to impose generic development models adopted from Asia. Malhotra (2000:655) even finds a blessing in the decrease in aid, which he sees as the source of the strong hold that northern NGOs have on their southern partners. For an NGO a bad choice of a fund partner can result in responsibilities that are beyond the organisation's capabilities and scope of work. Peterson (2010:5) therefore suggests that improvements of application outcomes should help NGOs to avoid funding partnerships that result in mission creep.

#### **2.4.3 Funder Conditions & Voluntary Failure**

Salamon (1987) in his theory does not explicitly state that voluntary failure is the result of funder conditions. This study argues that conditions can result in voluntary failure, the failure of NGOs to provide the socially optimal level of public goods due to four categories of deficiency:

- *Philanthropic insufficiency* occurs when organisations are unable to raise the resources required to meet the demand of their services because of free-riding and economic cycles (Salamon et al 1996:16). Misalignment between available funds and community needs is also a reason.
- *Philanthropic particularism* results from the exploitation of the flexibility of NGOs. This means certain issues will be addressed at the expense of others. Providers of resources may be biased in favour of certain initiatives, resulting in a gap in the services provided.

Particularism also leads to inefficient allocation of resources due to double spending that occurs when services are duplicated (Salamon 1987:112).

- *Philanthropic paternalism* refers to the fact that the choice of NGO initiatives is not determined by the needs of beneficiaries but by the providers of resources (Salamon 1987:112). Philanthropic paternalism has adverse consequences for poor community's self-determination.
- *Philanthropic amateurism* also caused voluntary organisations to fail because of the lack of sophistication in solving the problem of the poor (Salamon 1987:112). The perception is that voluntary organisations are run by volunteers who use primitive methods to tackle issues of poverty.

## 2.5 SUMMARY & CONCLUSION

The definition serves to distinguish NGOs from government institutions and private firms. The literature review in this section provides the foundation of what NGOs are and the theoretical rationale behind their role. It also discusses the rationale for funder conditions and how they impact on the functions of NGOs. According to supply theories individual motivation is the reason why NGOs projects are initiated, whilst demand theories justify their role as being a function of market and government failures. For example, NGOs are able to provide health care more efficiently and to reach more people than government (World Bank 2007:2). Salamon's (1987) proposes that NGOs should be the first to be called on to deliver public goods and services and governments should intervene only when they have failed to do so.

Funder conditions help to ensure more efficient performance among NGOs and help funding organisations to partner with organisations that will meet their objectives and serve their overall interest. The potential dangers of funder conditions are also raised. Funders of development projects should consider the fact that NGOs are different from governments and private firms as they operate in an environment where trust and the need to care about the provision of public goods are very important. Funder conditions should not constrain the timely and efficient implementation of NGO activities. They should be guided by the needs of beneficiaries if they are supposed to enhance accountability and transparency and therefore the efficient function of organisations.



## SECTION THREE: SOCIO- ECONOMIC ROLE OF NGOs IN SOUTH AFRICA

### 3.1 INTRODUCTION

True to the global trends, NGOs in South Africa play a very prominent role. This is because of the persisting poverty and lack of social development in the country. Landman, Bhorat and Van der Berg (2003:1) claim that the fight against poverty calls for effective programmes from all sectors in society and NGOs. This section provides an overview of the role of NGOs in South Africa and of the policy and institutional framework enacted to facilitate this role.

### 3.2 INSTITUTIONAL AND POLICY FRAMEWORK

The government's stance on NGOs is in stark contrast with that of the previous government which did very little to assist some NGOs. According to Swilling & Russell (2002:4), under apartheid a dichotomous NGO sector existed with a clear division based on politics and ideology. Organisations in non-white communities were more survivalist and in political opposition to the government. Habib and Taylor (1999:73) refer to such organisations as anti-government organisations. Legislation such as the 1978 Fundraising Act frustrated NGOs' access to resources and tax laws discouraged private business from funding the anti-government organisations (Habib and Taylor 1999:74). Service oriented organisations aligned and in partnership with the government also existed; they provided social services to the white minority communities.

*The Reconstruction and Development Program (RDP)* sets the stage for the future role to be played by NGOs in South Africa (ANC 1993). NGOs would be involved in all forms of development initiatives together with government. The founding of the South African NGO Corporation (SANGOCO) in 1995, also helped to foster a more institutionalised and cooperative relationship between government and NGOs (Heinrich 2001:5). In 1996 the Growth Employment and Redistribution program (GEAR) assigned the responsibility for growth and service delivery to the private sector and NGOs were given the responsibility of welfare services (GEAR 1996:15).

*The Welfare White Paper of 1997* notes a complementary role and proposes long-term participation of NGOs in the delivery of welfare services (Rep of South Africa 1997:17). According to the White Paper the NGOs, mostly informal, "pioneered people centred development strategies, identified gaps in the delivery system which they attempted to fill, and lobbied for policies to effect fundamental social, economic and political changes." (Republic of South Africa 1997:23). The

Western Cape Education Department also identified them as role players in implementing their human capital development strategy (Lewis, Nyalashe, Hartley, Naicker 2008:16). This confidence is also evident in the Department of Trade and Industry who in their National Strategy for Development and Promotion of Small Business in South Africa formulated in 1995, highlight that the services of NGOs will be needed in helping to facilitate growth of successful small businesses.

After 1994 an institutional framework was also formulated to manage the new relationship between state and NGOs to ensure access to adequate resources and so that the organisations could be properly regulated. In 1997 the Non-profit Act was passed, which provides an environment where organisations can flourish (Republic of South Africa 1997:2). The legislation is meant to promote governance and accountability among NGOs. “Nonprofit Organisations Act 71 of 1997 defines an NPO as a trust, company or other association of persons that is has been established for a public purpose and the income and property of which are not to be distributed to members”. Through its prescription of the registration of NGOs, the act aims to increase the credibility of organisations to donors (Republic of South Africa 2009:3). It is also meant create funding opportunities through its repudiation of relevant sections of the 1978 Fundraising Act (Republic of South Africa 1997:2).

*The National Development Agency Act of 1998* was enacted to establish the National Development Agency (NDA). The Agency’s primary task is to contribute to the eradication of poverty by acting as a channel to direct funds to organisations, such as NGOs, involved in development initiatives (Republic of South Africa 1998:4). These funds include those from national government and other official international institutions. The establishment of the agency is premised on the idea that government alone cannot solve the issues of poverty and underdevelopment in South Africa, but requires the assistance of communities and other civil organisations such as NGOs. According to the National Report on the NDA this is because government has the advantage in the mobilisation of resources while NGOs are able to mobilise communities because of their close proximity. After 1994 funds formerly channelled to NGOs under apartheid were diverted to the new government. This decreased the resources for the operations of the NGOs. The NDA was established to deal with the funding challenges faced by NGOs.

*The Lotteries Act of 1997* was also enacted to meet the funding challenges of NGOs. The act prescribed that a National Lottery Distribution Trust Fund (NLDTF) be established and administered by the National Lotteries Board (Republic of South Africa 1997:28). One of the functions of the board is to distribute a prescribed portion of lottery funds to Reconstruction and Development programmes, charity, sports and recreation and arts and culture (Republic of South

Africa 1997:28).

*The Taxation Laws Amendment Act of 2000* was put in place to encourage private donations by the public. The Act makes provision for the tax deduction of an amount not greater than 5% of total taxable income of a taxpayer who donates to any Public Benefit Organisation (Republic of South Africa 2000:56). The aim of the amendment is to incentivise charitable behaviour.

Swilling & Russell (2002:4) raised concern that the legal framework in which NGOs must operate was established without empirical and qualitative knowledge of the NGO sector in South Africa. According to Young (2000:149) policies formulated should reflect policy makers' perceptions of the nature of relationship between government and NGOs. It is therefore important that the perceptions be based on the understanding of the multi-layered nature of this relationship (Young 2000:150). It is not only the fact that little knowledge of NGOs existed when the legal framework was put in place. The capacity of government to implement these policies was never fully considered. That is why the legal framework provided by the government has not resulted in the intended outcomes.

Inefficiency and contract failure due to corruption in the institutions has led to their inability to meet the functions as prescribed by government. Some of the key findings in the Funding Practise Alliance Report on the NLDTF and NDA were that the NDA did not distribute funds appropriately and that its practises were not in line with the country's developmental goals (Heynes, Benjamin-Lebert & Lebert 2011:5). Furthermore, the Agency suffered from corruption and fraud as a result of weak governance (Heynes et al 2011:5). In terms of the Distributing Agencies in the Lottery Board concerns have been raised about the lack of accountability to manage efficiency. What is also of concern is the prevalence of cronyism in the Agencies where individuals are found to distribute grants to organisations to which they are associated (Heynes et al 2011:25).

### **3.3 NATURE OF THE ROLE OF NGOS**

The policy and institutional shift by the South African government support an extensive role for NGOs in South Africa. The NGOs' role includes delivery of social services. For example, organisations deliver health care services with the use of resources from government and private firms (Wolvaardt, van Niftrik, Beira, Mapham, & Stander 2008:227). Organisations are also involved in development initiatives, such as job creation and human capital development, in the form of education and training (and even the promotion of science education in primary schools). The role of NGOs as watchdog is also no longer constrained by government's repressive legislation.

This policy shift can be seen to reflect the global recommendations of the time, with regards to the improvement of state effectiveness (World Development Report 1997:3). It also reflects the acknowledgement by government that they cannot act alone in the delivery of services. Indeed, one of the central ideas was the devolution of government responsibility and the call for private provision of public goods and services. For example, in Africa NGOs assist governments to deliver education services to the most difficult to reach areas because government may lack the resources or capacity to do so (Miller-Grandvaux Welmond & Wolf 2002:9). Furthermore, the public can hold the state to account for its actions. These two ideas are mirrored in government's current role for NGOs in South Africa.

Firstly, as predicted by the theory of public goods, a complementary role exists where NGOs help deliver public goods and services such as health and education services. They are also seen as partners to government in poverty relief (Department of Social Development 1997). This is confirmed by the Department of Social Development Western Cape officials (DSDCW) who note that the department needs assistance from NGOs to deliver the services that they are unable to offer due to capacity constraints. The department's perception of the role of NGOs falls in line with what the theory of public goods prescribes the role of NGOs in society should be. The department also acknowledges that "NGOs are the builders of social capital in communities, as they bring about community cohesion through the services they deliver to the communities" (DSDWC Interview 2011/06/13). This conclusion is also reached by Miller-Grandvaux et al (2002:9).

Secondly, NGOs have an adversarial role as social watchdogs to insure government does not act in a manner that may be detrimental to the population (Department of Social Development 1997). Lekorwe & Mpabanga (2007:7) note that this can be done through lobbying for particular issues or rights of particular individuals, such as women empowerment. According to Young (2000:169) the importance of this adversarial relationship is likely to increase in times of social unrest caused by lack of service delivery. Currently, lack of service delivery in South Africa is a major problem, similar to the situation in the UK in the 1960 where NGOs came in to fill the gaps, left by government provision, and to fight for the rights of the poor and marginalised (Young 2000:159).

### **3.4 SUMMARY AND CONCLUSION**

The section provides evidence of the important role of NGOs in South Africa. From the institutional support and the established policy framework it can be derived that the South African government sees the organisations as partners in development. They complement government in the provision of

goods and services and are also adversarial towards government in their role as critical watchdogs. However, the reservations about efficiency and corruption are matters of concern.

## **SECTION FOUR: A CASE STUDY ON SOUTH AFRICAN NGOS**

### **4.1 INTRODUCTION**

The focus of this section is on NGO's involved in direct socio-economic and development interventions in South Africa. It uses data from the John Hopkins study (2001) to determine the nature of the role of various types of NGO's. It also investigates whether, due to the dependency on donor funding, donor conditions and voluntary failure are likely to have an impact of the efficient functioning of NGO's in South Africa.

### **4.2 DATA & METHODOLOGY**

To examine the properties and challenges of these organisations in South Africa, representative survey data from the Johns Hopkins Comparative Non-profit Sector Study is used. In the John Hopkins study these organisations' activities are categorised under advocacy, culture and recreation, development and housing, education and research, health and social services. Data is collected of 1395 observations. Variables include but are not limited to employment, finances, activities, output and capacity, volunteers and number of entities. For the purpose of this study 1105 observations are retained to include only the organisations involved in the above activities.

The aim of the John Hopkins survey is to provide representative data of the NGO sector in South Africa with a focus on its size and scope. The survey provides an unbiased approximation of the size and scope of NGOs in the country, using snowballing to select NGOs from 40 randomly selected communities (Swilling and Russell 2004:12). The methodology employed in the survey is aimed to fit the unique South African context (Swilling & Russell 2004:12). The community in the sampling is based on the realisation of the relationship between the type of community and NGOs in those communities.

An analysis of the John Hopkins data has been conducted to determine the size and scope of NGOs

in South Africa. Included in the survey is an opinion survey which provided valuable information on NGO perceptions of the challenges they face in South Africa. From the opinion statements, data collected on three of the statements, which reflected the dynamics of NGO funder relationship, was used. In the original survey respondents had to choose whether they strongly agreed, strongly disagreed, agreed, disagreed, whether the statements are not applicable to them or whether they neither agreed nor disagreed. In this paper, organisations who chose not applicable and neither agree or disagree were omitted. Furthermore, strongly agree and agree and strongly disagree and disagree statements are collapsed into two categories of response's, those who agree and those who disagree. This is done for simplicity and because the study concerns only those organisations who explicitly expressed their views.

As explained in Section 2.4.3, one of the reasons NGOs fail is philanthropic insufficiency. The first statement “Our need to raise funds from selling services keeps us from main purpose” reflects philanthropic insufficiency as a source of voluntary failure among South African NGOs. Lack of resources makes it necessary for organisations to contract their services which divert organisations from their main purpose. The second statement, “Dependency on government funds and contracts places constraints on our role as critical watchdogs”, provides evidence of the loss of autonomy and dilution of NGOs advocacy role brought by over-dependence on government funds and contracts. “Receipt of government funds has distorted our main purpose”, the third statement shares with the second statement, the fact that it refers to the funding relationship between NGOs and government and how their role may be distorted due to this relationship.

Even though funder conditions are not explicitly referred to as a source of NGOs challenges, it can be inferred that they are. Funders mainly influence NGOs through the conditions and requirements they place on organisations. For example, the need to raise funds from selling services may arise from the inability to meet conditions that result from the particularism<sup>7</sup> of funding organisations. Dependency and receipt of government funds become a problem when conditions that come with them alter the incentives organisations face when they initiate programs. They also create a problem when they force organisations to take a stance they would not have taken otherwise. To determine whether organisations which agreed differed in characteristics from those who disagreed, the statements are further analysed under the headings NGO sector, size and source of funding.

Interviews have also been conducted to place the arguments derived from the data into perspective.

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<sup>7</sup> See Section 2.4.3 for an explanation.

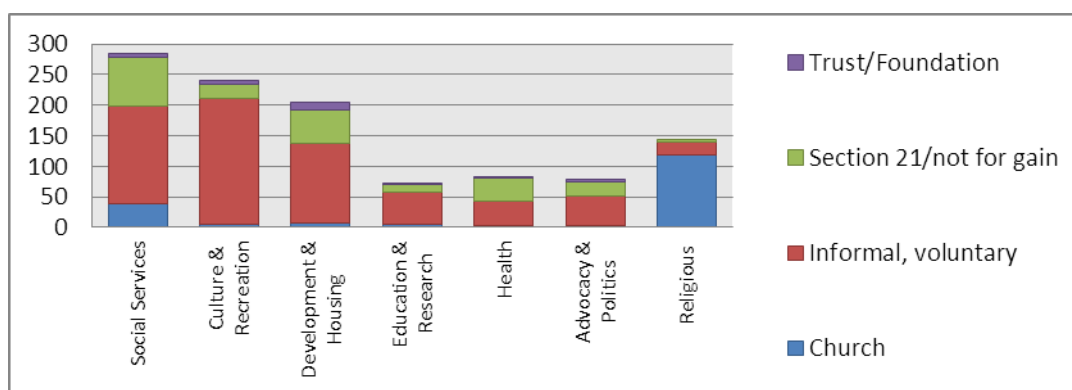
The main aim of the interviews conducted with NGO representatives is to contextualise the results drawn from the data. This enabled the researcher to determine whether funder conditions are seen to indeed pose a challenge to and have an influence on the mission of NGOs. A predetermined sample of six NGOs with activities in various fields was taken. All except two organisations were involved in areas of socio-economic development and they were all involved in income generating activities for the poor. The activities varied from skills development and job placement (three), agri-reform and urban agriculture (one). Of the other two organisations, one was involved in education and training and the other in counselling services for abused women in the townships. The numbers were too limited to generalise or draw conclusions with regards to NGOs in South Africa. The interviews were therefore just intended to provide a glimpse of the challenges faced by NGOs.

### 4.3 FINDINGS

#### 4.3.1 Size, Scope and Sources of Income

Continuous growth in the number of NGOs is experienced in South Africa, when judged by the number of registered organisations. In 2007, 44222 organisations were registered and in 2009 this number grew to 57636, a 30% increase in just over two years (Republic of South Africa 2009:6). This number further increased to 65 633 by the end of March 2010 (Republic of South Africa 2010:8). The increase is evidence that NGOs became prominent role players in South Africa’s development. This can also be seen from the choice of activities that the majority of organisations are involved in.

**Figure 4.1: NGO by Legal form and Sector**



Source: John Hopkins (2001)

Figure 4.1 illustrates the distribution of NGOs by activities in the sector in which they operate and by their legal form. One quarter (284) of the organisations provide social services. 240 NGOs are involved in culture and development and 205 in development and housing (John Hopkins 2001).

The involvement of religious organisations in poverty alleviation and socio-economic development dates back to the apartheid era. This is reflected in how they are involved in development activities currently. Over 50% of NGOs in South Africa are informal and voluntary with 653 organisations listed under this category (John Hopkins 2001). 95% of registered organisations in the non-profit database are voluntary organisations (Republic of South Africa 2010:8). Formal organisations also form a significant proportion of NGOs in the country. Over 30% of NGOs are registered under section 21 not-for-gain organisations (John Hopkins 2001).

During the past ten years the distribution of NGO by activity has not changed. Table 4.1 shows that the bulk of NGOs are still involved in social service delivery. The only difference in the distribution is that there are more organisations involved in development and housing than in culture and recreation. This could reflect the increase in the urgency of the development challenges faced by South Africa. As government fails to deliver, NGOs are established to deal with some of the development issues.

**Table 4.1: NGO by Legal form and Sector**

<b>Registered NPO per Sectors</b>	
<b>CLASSIFICATION</b>	<b>Total</b>
Social Services	21636
Development & Housing	13936
Education & Research	8010
Health	7811
Religion	7408
Culture & Recreation	3451
Law, Advocacy, Politics	1385
Philanthropic Intermediaries	827
Environment	797
Business Ass, Professionals Unions	323
International	47
Not classified	2
<b>Total</b>	<b>65633</b>

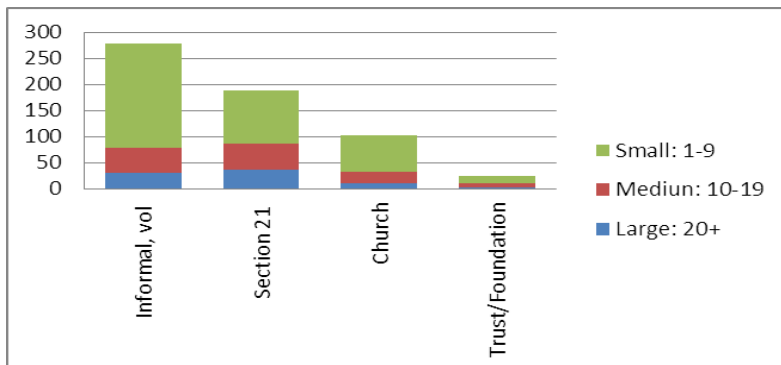
Source: NPO Registration Database (2010)

Small voluntary organisations (in terms of the number of employees) dominate in South Africa. According to Figure 4.2, 65% of organisations employ between one to nine individuals (John Hopkins 2001). These organisations are critical to poverty alleviation because of their response rate to problems that is better than that of government (Swilling & Russell 2002:21). Large and middle sized organisations are not so many and represent on average 14% and 35% of organisations, with their numbers being between 80 and 127 (John Hopkins 2001). The domination of the NGO sector



by small voluntary organisations reflects the history of NGOs in the country. During apartheid small voluntary organisations provided assistance to poor, mostly black, communities in the form of goods and services such as health care and skills development to help them increase their income.

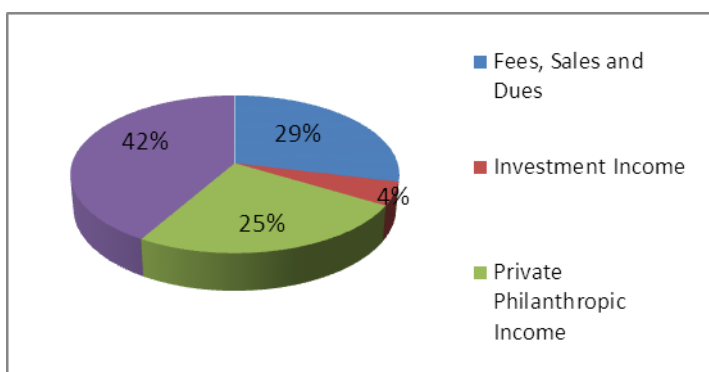
**Figure 4.2: NGOs by legal formation and size (number of people employed)**



Source: John Hopkins (2001)

Figure 4.3 shows, true to what is intended by their organisational form, that NGOs in South Africa rely mostly on donated funds both from government and the private sector. Swilling & Russell (2002: 34) compare South Africa’s contribution to NGOs to those of other countries in the John Hopkins study. They found that the South African government’s contribution is higher than in most countries in the study where the average is 39 %, but not as high as in Western Europe where it is 50 %. In 2001 R5.8 billion was channelled from government to NGOs. This amount includes 10 % for Overseas Development Aid (ODA) (Swilling & Russell 2002; 34). The South African private sector also donated a significant amount, nearly R3.5 billion, which accounts for 25% of NGOs resources This includes unofficial international donations. The rest of NGOs resources comprise of fees, sales and dues amounting to 25% and investment income amounting to 4% of total financial resources.

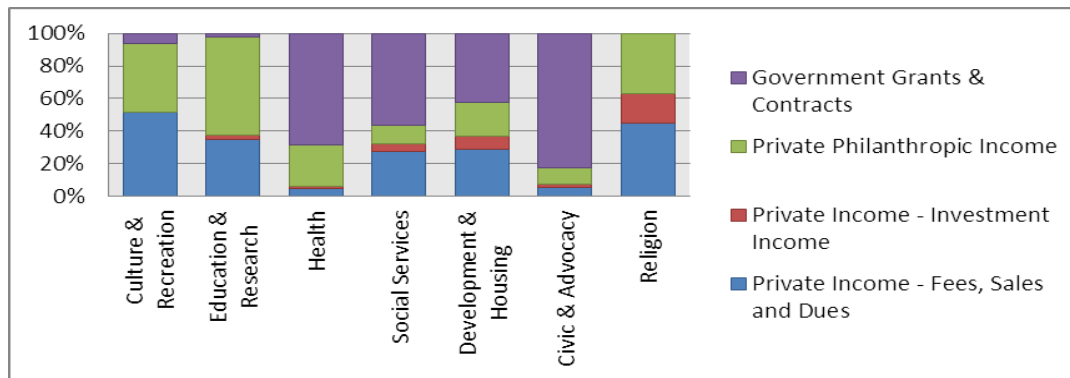
**Figure 4.3: Income breakdown % (by Source of funding)**



Source: John Hopkins (2001)

Funding to NGOs can be further broken down to examine which types of funds are associated with the different activities organisations are involved in. Figure 4.4 provides us with this breakdown. Government grants and contracts dominate as a source of funds for organisations involved in Civic and Advocacy (82%), Health (69%), Social Services (57%) and Development and Housing. NGOs in the services sector, due to the public good nature of their services, have less need for autonomy and therefore are more likely to be funded by government (Wang 2006:21).

**Figure 4.4: Income breakdown % (by NGO Sector)**



Source: John Hopkins (2001)

Swilling & Russell (2004:35) voice their concern that funds from government may not reach those who need it most. The sectors that received more government funds are concentrated with organisations who serve the high and middle income groups in South Africa, notably the health NGOs and social services (Swilling & Russell 2004:35). Private philanthropic contributions are an important contribution in the education and research sector. This reflects crowding out of government contributions to NGOs by government spending on education. Between 1994 and 2006 government spending on NGOs concerned with education increased to almost 5% of GDP, making it one of the largest portion of government spending together with health and social security (Republic of South Africa 2011).

What is also evident from Figure 4.4 is the self-sufficiency of organisations in culture and recreation and religious sectors. In culture and recreation organisations generated 52% of their own income through fees and dues (John Hopkins 2001). Religious organisations also generate 45% of their income from fees and dues (John Hopkins 2001). Wang (2006:21) notes that different NGOs require different levels of autonomy hence organisations such as religious groups would rely less on government grants. These outcomes are in line with Swilling & Russell (2002:35) results that the majority of funds are allocated to social spending. Social services received R2.1 billion, health services, R1.7 billion and development and housing, R1.1 billion.

### 4.3.2 Voluntary Failure among South African NGOs

In this section, three statements selected from the John Hopkins Study are examined. The statements are chosen as they provide evidence of the challenges faced by South African NGOs which lead to voluntary failure. The first statements reflect philanthropic insufficiency among NGOs that causes organisations to find alternative sources of funding. The second and third statements reveal the negative impact of granting funding on the role of NGOs and their mission.

**TABLE 4.2: Response to statements**

1. Our need to raise funds from selling services keeps us from main purpose			
Agree or Disagree	Frequency	%	Cumulative %
Disagree	411	56.69	56.69
Agree	314	43.31	100
Total	725	100	
2. Dependency on government funds and contracts places constraints on our role as critical watchdogs			
Agree	250	36.28	36.28
Disagree	439	63.72	100
Total	689	100	
3. Receipt of government funds has distorted our main mission			
Agree	185	29.65	29.65
Disagree	439	70.35	100
Total	624	100	

Source: John Hopkins (2001)

Table 4.2 provides a statistical summary of responses to the three chosen statements in the John Hopkins survey. In the first statement of the 725 NGOs in the sample 43% agreed that the need to contract their services impacts on their main purpose and 57% disagreed (John Hopkins 2001). Sixty four percent of organisations disagreed with the second statement compared to the 36% who agreed (John Hopkins 2001). The portion of NGOs who disagreed with the last statement is 70% and only 30% agreed (John Hopkins 2001).

What can be inferred from the data is that voluntary failure may be a common occurrence among South African NGOs. This is not surprising since the new democracy, with its new political and socio-economic environment, brought about new challenges for NGOs (Habib 2005:677). NGOs have to deal with loss of foreign funding and skills, which are now diverted to the ANC government. According to Heinrich (2001:5) lack of financial and other support led to contracting relationships, in the form of tenders, to increase revenue. The introduction of tenders by government and higher standards for foreign grant applications has constrained the operations of NGOs leading to loss of autonomy and diversion of their main mission.

Habib & Taylor (1999:80) raised concern about the negative impact this will have on NGOs' accountability to the poor. They are concerned about the commercial practises that are adopted by NGOs may result in a bias of their multiple accountabilities towards the funders and consequently loss of legitimacy (Habib and Taylor 1999:79).

The 43% of NGOs who agreed to the first statement are evidence that a large portion of NGOs suffer from philanthropic insufficiency which results in organisations assuming responsibilities that divert from their main purpose. NGOs fail to mobilise the amount of resources required for their activities because they are unable to match their activities to the funding opportunities available. One respondent from one of the organisation involved in skills development, complained: "it is difficult to find a category to which you belong when trying to apply for government funding. Our area of activities is not included in the given categories" (Interview 2011/ 07/09). Another respondent, whose organisation delivers education and training to teachers, also noted: "The type of service we provide does not allow much flexibility which means there are very few funding opportunities for our activities" (Interview 2011/05/29).

Philanthropic particularism as explained in Section 2.4.3 seems to be another problem. Funders including government agencies prefer to fund specific initiatives and not others (Bornstein 2003:493). This is because they may be driven by their own self-interest or policy considerations which set the agenda with regards the type of organisations they will fund. Bornstein (2003:402) notes that literacy is one of those areas that have been neglected even though they are important in South Africa. The respondent from the education and training organisation is of the opinion that "grant managers have their own objectives which are unrealistic and at times do not makes sense" (Interview 2011/05/29). The one grant manager would provide funds to the education program only if training is provided to primary and FET educators. According to the respondent: "What did not make sense is why skip the secondary school educators, an area which needed more attention in South Africa" (Interview 2011/05/29). Access to resources is also precluded by the donor's insistence to fund organisations on a project by project basis and when invoices are produced for expenses (Bornstein 2001:13). This means that organisations should have the capital to run and implement activities before they can access funds from donors.

At least one third of NGOs in South Africa fail to fulfil their role as watchdogs. This is because of the negative impact of dependency on and the acceptance of government grants and contracts. This is evident from the number of organisations who agreed to the second 36% and third 29% statements. The negative impact is due to paternalism on the part of government due to conditions

imposed. According to Bornstein (2001:2), funders even have the power to stipulate which activities organisations must pursue.

NGO flexibility has also been constrained by performance conditions such as management tools. The insistence by funders on the use of a logical framework analysis, monitoring and evaluations and strategic planning has been questioned. The overall impression among respondents is that a logical framework analysis is only useful when implemented correctly. One of their respondents noted that it is difficult to communicate its application to someone who has never employed the system (Smith & Bornstein 2001:19). In such cases the management tools are rendered useless while still placing a burden on NGO efforts and resources. Another respondent criticised it for its inflexibility and unrealistic outcomes (Smith & Bornstein 2001:19).

The demands of funders may divert resources from the main purpose of the organisation. Funds may come with management demands which NGOs may be unable to meet due to lack of resources both in terms of finance and staff. Particular management demands may be too ridiculous or taxing to be implemented. For example, too much time may be needed to complete the reports demanded by donors. In Bornstein's (2001:9) study of NGOs in South Africa one of the organisation's directors noted that 20% of both directors and senior management's time is required to compile reports. NGOs had to keep abreast with the current trends as donors are seen to frequently change reporting systems and requirements and also change how proposals are to be submitted. This means that NGOs need specialised personnel to compile reports. For example, one of the respondents told of the reporting required by one funder who required a monthly progress report. A respondent from another organisation involved in skills development notes that "they (the funders) want the organisation to follow each beneficiary even after they have left the organisation and found employment. This is difficult given how mobile people are in Khayelitsha. Most of them come from the Eastern Cape and sometimes they are forced to return "(Interview 2011/06/05).

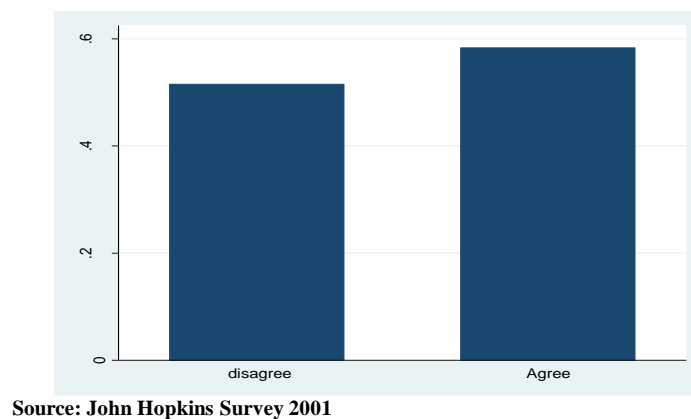
To ensure repetitive donations, NGOs exploit the information asymmetry between them and the funders and manipulate applications and reports such that documents may reflect donor expectations. In the interviews respondents implicitly and explicitly confessed to misrepresentation in both their application for funds and in reports. According to one of the respondents from the agri-reform and urban agriculture, "there is a need for this behaviour because the application and reporting process is tedious and complicated, you need specialised people who know what they are doing." The respondent further stated: "Whether you would have access to funds depends on how well informed you are, you have to be ahead of your game, the nature of donor funding changes and

you have to be up to date with the changes” (Interview 2011/07/04).

#### 4.3.2.1 Mean Grant Income as a Proportion of Total income.

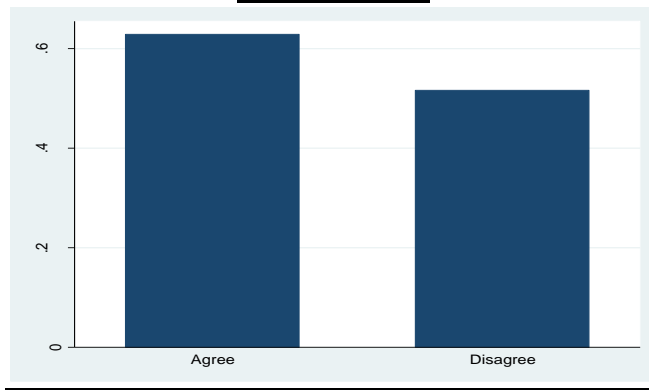
The composition of income sources determines whether a respondent agreed or disagreed to the statements. As Wang (2006:4) puts it, there is the likelihood that the source of funds will have an influence on the NGOs’ operations (Wang 2006:4). Figure 4.5 shows, for the first statement, the mean of grants as proportion of income is a little bit greater for those NGOs who agreed to the first statement. According to the theory of voluntary failure, the fact that NGOs rely mostly on voluntary contributions means that they will have funding problems (Salamon 1987:111). This is also supported in the interviews. The majority (60%-70%) of the organisation’s funds came from donations and grants. Organisations sourced a minimal amount (average 10%) from membership fees, selling of products and investment. Respondents also noted that government funds came mostly inform of contracts. Only one organisation could claim a degree of self-sufficiency of about 50% from selling its products (Interview 2011/07/05).

**Figure 4.5: Our need to raise funds from selling services keeps us from main purpose (mean difference by Agree or Disagree)**



The F-statistic 1.43 with p-value of 0.2335 in appendix one, however, shows that although there is a difference in mean grants as percentage of income between the two groups of NGOs the result is not conclusive. The low f-statistic and high p-value is evidence that we cannot reject the null hypothesis that the grant proportion of income for these two groups (NGOs who agreed and those that disagreed) could be the same.

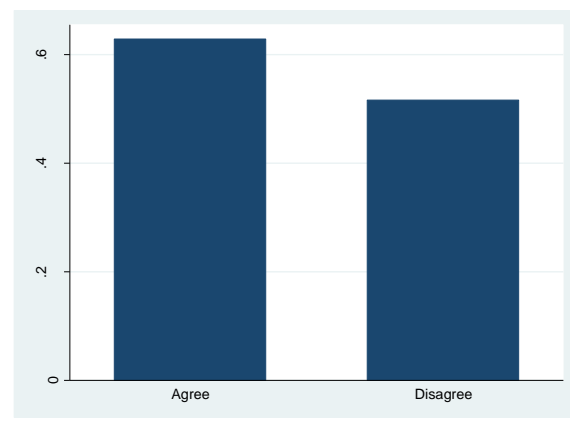
**Figure 4.6: Dependency on government funds and contracts places constraints on our role as critical watchdogs (mean difference by Agree or Disagree)**



Source: John Hopkins Survey 2001

The effect of a less diversified source of funding is also evident in figure 4.6 which illustrates the differences in means of grants as a portion of income for organisations that agreed or disagreed to the second statement. NGOs which agreed have on average 62.8% of their mean income from government grants and contracts (John Hopkins 2001). This is about 10% more than the mean grants as proportion of income of 51.6% of those NGOs who disagreed (John Hopkins). Appendix two illustrates that this difference in means of grants as a proportion of income results in an F-statistic of 3.45 which is significant at a 5% level. This result is because, according to Wang (2006:23), the autonomy of an NGO is jeopardised when their income sources are less diversified. NGOs may also be less willing and lack the ability to be assertive which may appear hostile to and unpopular with governments (Kalb 2006:316).

**Figure 4.7: Receipt of government funds has distorted our main purpose (mean difference by Agree or Disagree)**



Source: John Hopkins Survey 2001

What is clear from figure 4.7 is that on average the mean of grants as a proportion of income is significantly greater for the organisations who agree that the receipt of government funds has distorted their main purpose. There is a 12% difference in the mean of grants as a proportion of income between the NGOs who agreed and those that disagreed with the statement. As evidenced in

Appendix Three, the f-statistic of 3.94 with its p-value 0.0492 shows that the difference in the means of grants as a proportion of income is significant at a 95% level of significance.

#### 4.3.2.2 NGOs Size

**Table 4.3: Agree or Disagree to statements by NGO size**

Agree or Disagree by organisations size				
Agree or Disagree	LARGE: 20+	MEDIUM: 10-19	SMALL:1-9	Total
1. Our need to raise funds from selling services keeps us from main purpose				
Agree	38.89	32.93	43.44	40.53
Disagree	61.11	67.07	56.56	59.47
Total	100	100	100	100
2. Dependency on government funds and contracts places constraints on our role as critical watchdogs				
Agree	32	36.49	38.06	36.93
Disagree	68	63.51	61.94	63.07
Total	100	100	100	100
3.Receipt of government funds has distorted our main purpose				
Agree	16.33	27.4	30.91	28.07
Disagree	83.67	72.6	69.09	71.93
Total	100	100	100	100

Source: John Hopkins Survey 2001

Whether an organisation agreed or disagreed with the statements also differs with the size of the organisation. Table 4.3 shows, with regards to the first statement that medium sized organisations have less of a need to sell their services relative to small and large organisations. Only 33 % of medium sized organisations complained about this being a problem compared to 43% of smaller NGOs (John Hopkins 2001). What is interesting is that 39% of larger organisations agreed with the statement, which is more than medium sized organisations. This could be because larger organisations required more revenue to operate which might make their need for income more urgent than of medium sized organisations. In terms of the second and third statements, Table 4.3 illustrates the more employees an organisation has the lesser the likelihood that they would agree. This again could be attributed to the fact that smaller organisations may lack the human resources to fulfil the demands. Smaller organisations may also be powerless to the demands of funders.

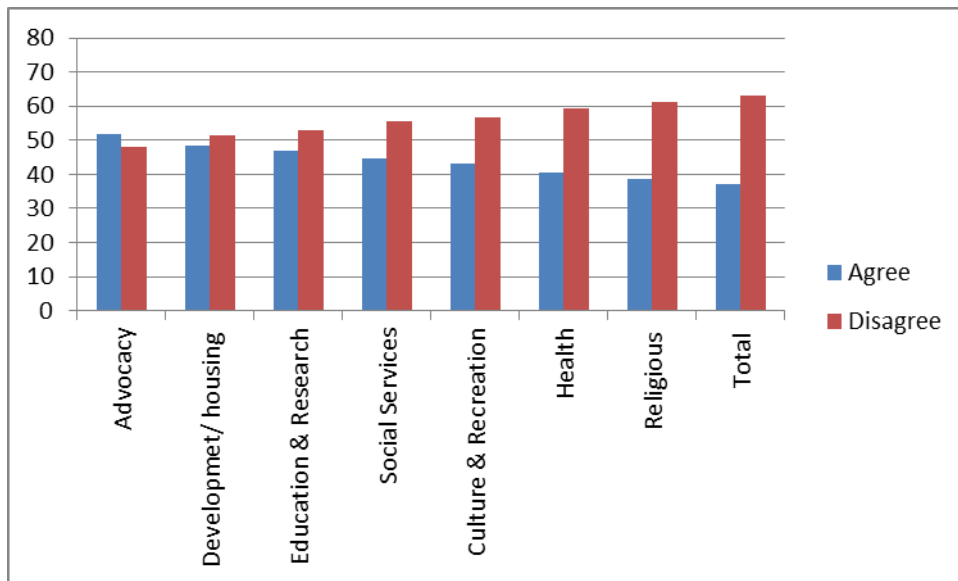
#### 4.3.3.3 NGO Sector

The sector in which an organisation is involved also determines whether they will agree or disagree with the statements which increase the likelihood of voluntary failure. Figure 4.8 gives a distribution of NGOs who agreed or disagreed according to the activities they are involved in. The



majority of organisations in advocacy (51%) agreed with the statement (John Hopkins 2001). 46.94% of organisations agreed with the statement in education and research, 48.48% in development and housing, 40.68 % in health and 44.56% social services. This reflects the fact that these organisations, in the case of education and research, derived the bulk of their income from private donations. The main source of funding of other NGOs is government contributions.

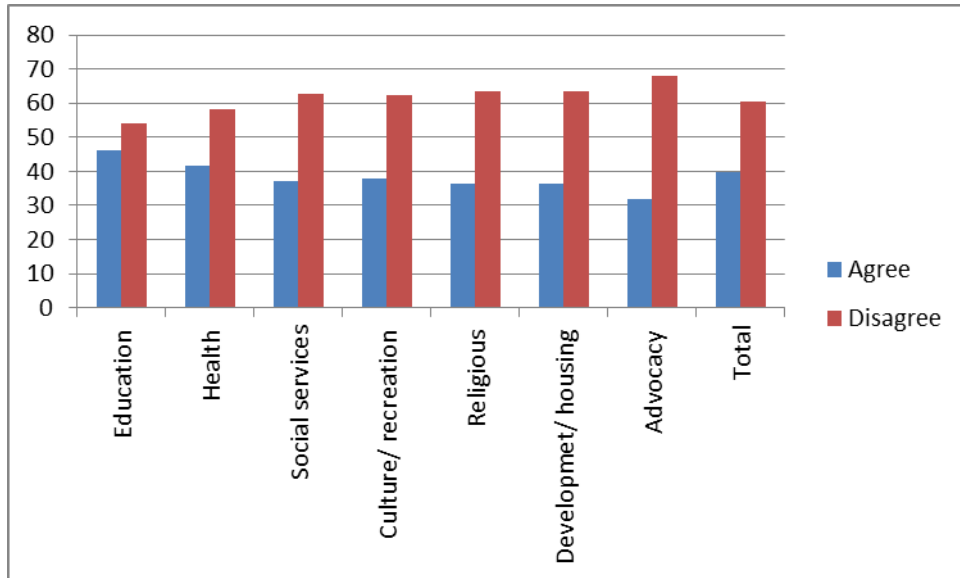
**Figure 4.8: Our need to raise funds from selling services keeps us from main purpose (Agree/Disagree as % of Sector)**



Source: John Hopkins Survey 2001

Figure 4.9 illustrates the same trend in responses as in the first statement, but the reasons are different. 46% of NGOs involved in education, 42% in health, 37% in social services and 39% in development tended to agree more with the statement. The higher 'agree' response in these NGOs could be attributed to the fact that it is difficult to be critical of government if they provide you with funding. Advocacy NGOs agreed less, and these responses should be questioned. Organisations may disagree when they are not vulnerable that their main mission will be diverted by funding agreement will result in a loss of legitimacy. Furthermore, given that government grants and contracts is their main source of funding, it is important to being seen in good light by government as it is a prerogative for repeat funding.

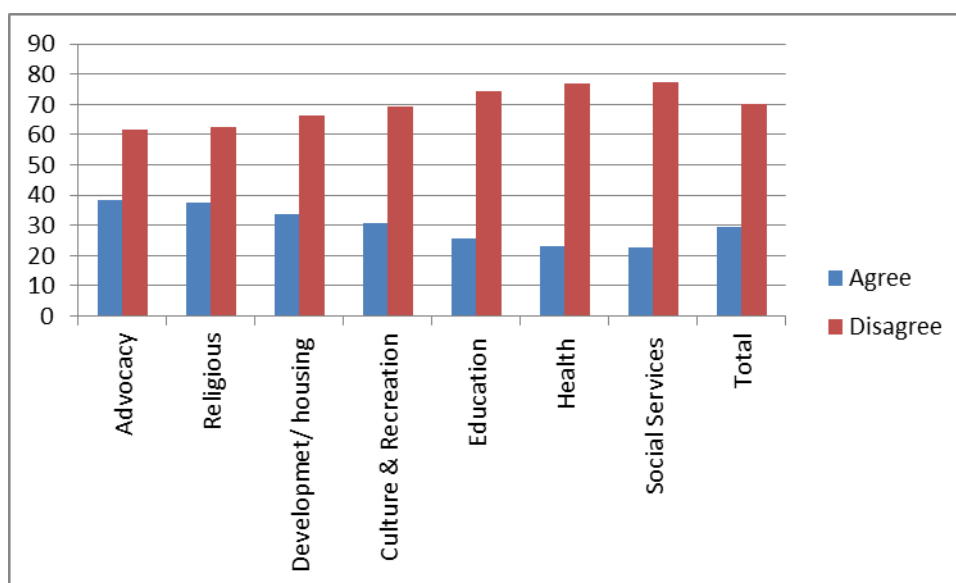
**Figure 4.9: Role as critical watch dogs constrained by over-dependence on government funds (Agree/Disagree as % of Sector)**



Source: John Hopkins Survey 2001

Figure 4.10 shows that NGOs involved in advocacy work and religious organisations complained more about the impact of the receipt of government funds on their main purpose. An average of 38% of NGOs involved in advocacy and 37% religious organisations agreed (John Hopkins 2001). Among other organisations that relied more on government funds 31 % of NGOs in development and housing and only 23% in health and social services initiatives agreed to the statement. NGOs in advocacy agreed less with the statement because they probably wanted to keep their integrity intact. Advocacy NGOs apparently cannot be influenced by the fear of repercussions to their actions when their main activity is to be a watchdog to government.

**Figure 4.10: Main mission distorted by receipt of government funds (Agree/Disagree as % of Sector)**



Source: John Hopkins Survey 2001

#### 4.4 .SUMMARY AND CONCLUSION

Findings from the John Hopkins Study (2001) show that a large number of NGOs are active in South Africa. The findings from the descriptive statistics of the John Hopkins Study also indicate that NGOs in the country are mainly small, voluntary and informal organisations. Their involvement in the South African society reflects their complementary and social watchdog roles. What is clear from the findings is that the role of NGOs in South Africa can also be jeopardised by funder conditions leading to voluntary failure. NGOs depend on donated funds for their operations and this dependency makes them vulnerable to funder agendas resulting in voluntary failure.

#### SECTION FIVE: GENERAL CONCLUSION

The objective of the study was to determine the nature of the socio-economic role of NGO's and whether funder conditions are a source of voluntary failure among South African NGOs. To achieve this objective the study first provided theoretical and conceptual foundations on which to base its arguments. The definition helped to distinguish NGOs from government and private firms. They are different from private firms as they do not distribute profits. Their flexibility distinguishes them from government that is bound by bureaucratic processes. The theory which rationalises the existence of NGOs is founded on these distinguishing characteristics of NGOs.

According to demand theories NGOs exist to remedy market and government failure. Their flexibility allows them to meet the demand for public goods that government fails to meet. The non-

distribution constraint is meant to eliminate the likelihood of contract failure which arises from the exploitation of information failure. Supply theories attempt to understand the motives of individuals who initiate or contribute to NGOs. Are they driven by altruism, such as in the case of social entrepreneurs or by self-interest as in the case of for-profits organisations in disguise? Salamon's theory refutes the theories that justify NGO existence based on government failure. It claims that it is the sole duty of NGOs to provide public goods and government intervention is only justified when they fail.

Because their importance does not necessarily prove their effectiveness and efficiency in their role nor completely eliminate information failures being exploited, additional measures are required. But, when incorrectly applied conditions may lead to unintended consequences. NGO's role may be placed in jeopardy as the incentives faced by NGOs in the initiation of projects may be distorted. As Cooley (2002:13) puts it, material incentives are strong motivation when strategic survival choices are to be made. Material incentives cause NGOs to lose sight of their initial mission, which is based on an identified need, to meet the demands of funders who insure their survival.

The case study of NGOs in South Africa proves that they have a valuable contribution to make towards development and poverty alleviation in the country. Some are directly involved in improving livelihoods, while others assume the role of watch dogs (Swilling & Russell 2002: 11). Mindful of this contribution the South African government has formulated policies and institutions to insure NGOs function efficiently and are able to deal with the challenges brought about by the transition to democracy.

The conclusion inferred from responses to the chosen statements in the John Hopkins survey suggests that voluntary failure is a problem in South Africa. Even though the statements do not refer directly to funder conditions as a source of voluntary failure, it can be argued that it is. Funders can influence the behaviour and functions of NGOs through the conditions that come with their funding. The fact that 43% of organisations agreed to the first statement is evidence that philanthropic insufficiency is a source of voluntary failure in the country. On the other hand philanthropic paternalism and particularism is evidenced by the one third of organisations sampled who agreed to the second and third statements. Furthermore, the source of income, size and NGO sector determine the vulnerability of NGOs to voluntary failure.

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## APPENDIX 1: SUMMARY OF MEAN GRANTS AS PROPORTION OF INCOME

### 1. Our need to raise funds from selling services keeps us from main purpose

Summary of mean grants as proportion of income					
Agree or Disagree	Mean	Std. Dev	Freq		
disagree	.51523383	.33834069	76		
Agree	.5829767	.32131005	62		
Total	.54566903	.33133137	138		
Analysis of Variance					
Source	SS	df	MS	F	Prob > F
Between groups	.156694381	1	.156694381	1.43	0.2335
Within groups	14.8832307	136	.10943552		
Total	15.039925	137	.109780475		
Bartlett's test for equal variances: $\chi^2(1) = 0.1774$ Prob> $\chi^2 = 0.674$					

### 2. Dependency on government funds and contracts places constraints on our role as critical watchdogs

Summary of mean grants as proportion of income					
Agree or disagree	Mean	Std. Dev	Freq		
disagree	.51641582	.33820497	92		
Agree	.62871045	.32752952	46		
Total	.55384736	.33769212	138		
Analysis of Variance					
Source	SS	df	MS	F	Prob > F
Between groups	.386709207	1	.386709207	3.45	0.0653
Within groups	15.2362184	136	.112031017		
Total	15.6229276	137	.114035968		
Bartlett's test for equal variances: $\chi^2(1) = 0.0610$ Prob> $\chi^2 = 0.805$					

### 3. Receipt of government funds has distorted our main purpose

Summary of mean grants as proportion of income					
Agree or disagree	Mean	Std. Dev	Freq		
disagree	.51186891	.33974374	100		
Agree	.64037491	.31367994	36		
Total	.5458852	.33673941	136		
Analysis of Variance					
Source	SS	df	MS	F	Prob > F
Between groups	.437129803	1	.437129803	3.94	0.0492
Within groups	14.8709834	134	.110977488		
Total	15.3081132	135	.113393431		
Bartlett's test for equal variances: $\chi^2(1) = 0.3177$ Prob> $\chi^2 = 0.573$					