NPO ACCOUNTABILITY

in a disconnected and divided South Africa

Burger, Jegers, Seabe, Owens & Vanroose
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We want to thank the community members and community leaders that worked with us and supported this work as well as our partners, the Department of Social Development and the Eastern Cape NGO Coalition. This would not have been possible without our funders, the National Research Foundation and Fonds Wetenschappelijk Onderzoek. But most importantly, we want to thank the NPOs that we interviewed for their willingness to share their experiences and stories with us.
In many ways accountability amounts to a relationship rooted in the recognition that there is a connection and a shared or reciprocal dependency between the NPO and its stakeholders.

More than two decades after the end of apartheid, South African society remains fragmented and unequal. Its Gini coefficient is among the highest in the world. Due to the legacy of apartheid the divides between rich and poor tend to overlap and align with other social dimensions such as residential neighbourhood, education, language groups and race, and this reinforces and deepens these divides.

Following the euphoric post-1994 Mandela period of reconciliation, racial tensions have come to the fore again in recent years. Class tensions have also become more pronounced, often coinciding with racial tensions in some cases, but not in all. Significantly, a deep rift has appeared between decision makers, elites and the rising middle class vs. the ordinary people who continue to live in poor communities and have been frustrated by the slow pace of post-apartheid social change. Widespread government corruption and poor service delivery have strengthened perceptions of a disconnect between high-ranking government officials and citizens, resulting in protests and unrest.

This report considers NPO accountability to stakeholders, but recognises that this question is embedded in the challenges of a divided and disconnected South Africa. As in other countries around the world, South Africa’s non-profit sector has been shaped by changes to the country’s social, political and economic landscape. Accountability is particularly sensitive to such shifts.

In many ways accountability amounts to a relationship rooted in the recognition that there is a connection and a shared or reciprocal dependency between the NPO and its stakeholders. Therefore such divisions pose an important challenge to accountability.

Our research project

This report presents the results of a four-year study exploring accountability within the non-profit sector in South Africa. The main focus has been on investigating the accountability relationship (formal and informal) between the NPO and their stakeholders, but to understand how accountability may respond to context we also gathered data on NPO characteristics, revenue streams and the regulatory environment. Stakeholders include employees, donors, government, communities broadly and beneficiaries more specifically.

The term NPOs is used throughout the report to refer to a wide range of non-profit organisations that are formally registered with the Department of Social Development (DSD) in terms of the Non-Profit Organisations Act 71 of 1997. This report only considers formally registered NPOs and therefore excludes the non-registered associational life of South African society.

The study spanned 2014 to 2017, supported with bilateral funding from the Fonds voor Wetenschappelijk Onderzoek (Belgium) and the National Research Foundation (South Africa). Professor Ronelle Burger from Stellenbosch University and professor Marc Jegers from Vrije Universiteit Brussels served as the Principal Investigators, leading a large inter-disciplinary research team including Dineo Seabe (VUB and Stellenbosch), professor Trudy Owens (Nottingham University), professor Annabel Vanroose (VUB and Stellenbosch), Ncedo Mngqibisa (Stellenbosch University), Nwabisa Makaluza (Stellenbosch University), Frederik Claeye (Lille Catholic University). Dineo Seabe was the field work manager and responsible for the literature survey and the write-up of the results as part of her PhD thesis. Dr Asmus Zoch (Stellenbosch) assisted with the analysis of the NPO register data.

Research approach

In our survey we have focused on community-based NPOs in the Eastern Cape and Western Cape. The focus on community-based organisations is motivated by the research aim of examining accountability and particularly downward accountability. A provincial selection was necessary due to budgetary constraints. We opted to survey NPOs in the Eastern Cape and the Western Cape due to logistical considerations balanced by the need to select provinces that would be broadly representative of the variety of communities and NPOs within South Africa.

A random sample of communities was selected based on main place level data from the 2011 Census, stratified by community types. The community typology was derived via cluster analysis. The survey included 195 NPOs, but the number of NPOs interviewed in each community was proportional to the population share of the community. In each community a sampling frame of NPOs was compiled via a snowballing process, starting with combining lists of NPOs operating in this community using information from the NPO register, the community development officer and the NGO forum office. We limited the sample of NPOs to registered organisations delivering social services to this community.

We also conducted focus group discussions to obtain the community perspective and to understand how the community feels about these NPOs. Due to the demands of qualitative analysis, the team has not completed this analysis and the report is therefore focused on reporting the findings from the NPO survey.

Lastly, to supplement the small and limited literature on the South African NPO sector, we conducted interviews with seven key decision makers in the NPO sector. The interviews were structured around a number of open ended questions about the state of sec-
1.2 The evolving South African non-profit landscape

South African non-profit landscape has undergone a series of fundamental shifts in response to the movement to end apartheid, the transition to democracy and, more recently, growing demand for socioeconomic justice and better service delivery.

South African society was deeply divided under apartheid. These divisions were mirrored in the development of a dualistic non-profit sector. One segment of the sector was made up predominantly of welfare organisations, which were subsidised by the apartheid government and where funds were mainly used to meet the needs of white population (Mamdani, 1996). A second group of organisations also emerged during this period. These included NPOs and social movements that opposed apartheid, worked to empower the oppressed black majority, and mobilised people around issues such as protesting the pass laws and demanding adequate service delivery (Mamdani, 1996).

Many such organisations formed and evolved organically in response to the social, political and economic concerns, and their members assumed leadership roles in driving the call for change (Julie, 2009).

Its existence under threat, the apartheid government sought to cut off support for these organisations, for example, by passing the Affected Organisations Act of 1974 and the Fundraising Act of 1978. Nonetheless, many continued to receive funding in support of their work to bring about democracy and provide relief to impoverished communities, particularly from international sources. Such funding was often covert and, from an accountability perspective, came with few conditions or reporting requirements.

The transition to democracy in 1994 brought about significant shifts in the political, legal and funding environment for NPOs (Habib and Taylor, 1999; Julie, 2009). With the election of the new majority government, some organisations active in the anti-apartheid movement closed down completely (Julie, 2009). For others, democracy brought new opportunities to cooperate with the state (Habib and Taylor, 1999). For example, the Reconstruction and Development Programme (RDP) named NPOs as important partners in development. Many of the antagonistic apartheid-period relationships between the state and the non-profit sector were replaced with collaborative partnerships.

However, this change also brought a number of critical challenges for NPOs. International funds were redirected to support the new government in achieving its developmental objectives. Funding opportunities for NPOs diminished, and often came with stricter conditions. Increasingly organisations were required to demonstrate evidence of good governance, impact and accountability. Many small, informal organisations were unable to meet these requirements and did not survive as a result. For those that were able to adapt, donors effectively began setting organisational objectives and priorities, and became the main line of accountability. This period also saw a significant exodus of skills from the non-profit sector. Many senior leaders left NPOs to work in business or for the new government, weakening the capacity of the sector overall. According to Habib and Kotze (2003), these changes in the post-1994 political and donor environment significantly remoulded the sector. Greater emphasis was placed on ensuring accountability to donors and government, rather than the communities and beneficiaries who legitimise the existence of NPOs.

Despite diminished resources and capacity in the post-1994 period, there has once again been a surge of activity in the non-profit sector. New social movements and a range of small and informal CBOs and GROs have emerged to help meet the needs of disadvantaged communities, and in response to issues such as poor service delivery. South Africans are increasingly forming self-help groups to alleviate poverty, including stokvels, cooperatives and burial societies (Graham et al, 2008, p. 16).

The size and activities of the NPO sector

Under apartheid, there were no accurate estimates of the number of organisations operating in the country or comprehensive descriptions of NPO activities. Since then number of empirical studies have made important contributions to better understand the sector overall, with the 2002 survey by Johns Hopkins University (Swilling & Russell, 2002) as a prominent example.

The NPO size and activities are estimated on the basis of the number of registered NPOs. The register offers an overview of the NPO register data for 2012 and used the data to estimate the NPI sector in accordance with the the UN Handbook on Non-Profit Institutions in the System of National Accounts. The NPO register data includes all registered nonprofits and is therefore comprehensive, however it contains very little information on each of the organisations.

Analysis of NPO register data shows that there has been strong growth in the number of registered NPOs from 65 633 in 2009 to 136 453 in 2014 (as shown in Figure 1 overleaf).
The majority of registered NPOs in the country work in providing social services (40%), followed by development and housing (21%) and religious activities (12%) (see Figure 2).

1.3 Funding for the NPO sector

While there have always been complaints about a lack of adequate funding for the NPO sector analysis suggests that NPO funding has become more difficult to access recently. During the apartheid years there was an abundance of funds with flexible conditions and requirements, but the post-apartheid era has been characterized by greater financial uncertainty (Bornstein, 2003). Foreign donors have reduced their funding to South Africa, because as a higher middle-income country South Africa is no longer viewed as vulnerable or fragile (Kabane, 2016). While there has been a steep increase in the ODA to South Africa over the past 15 years, but the share allocated to NPOs has declined from 30% in 2009 to 13% in 2014. Donors such as the Mott Foundation, Kellogg Foundation and DANIDA have drastically cut their funding, some by as much as 30% (USAID, 2012). The 2008 global economic downturn has exacerbated the situation because it has led to the reduction of the size of the international funding available for development aid. Furthermore, O’Riordan (2013) noted that donor funding tends to be awarded to larger, better resourced NPOs due to skills shortage plaguing small CBOs and GROs.

The decrease in international donations has caused NPOs to turn to government and other national funding streams. However, according to national government agencies such as the National Development Agency (NDA) and National Lotteries Board (NLB) have been unable to address the funding shortfall and operational problems at these agencies have created further constraints and bottlenecks (CCSRM, 2012).

Organizations experiencing the funding crises have devised various strategies to deal with the resource shortfalls and uncertainty and to secure their survival (Bornstein, 2003). These strategies include forming closer relationships with international donors, taking on government contract work, providing services to the private sector or charging user fees. Other organizations have decreased the number of core staff or have started to rely on short-term contract staff (Bornstein, 2003, p. 402). Hendrickse (2008) found that NPOs raised funding via commercial activities such as selling goods and services and consultation contracts.
Accountability in the South African non-profit sector

As discussed at the outset of the report, describing and understanding accountability relationships among community-based registered South African NPOs was the main aim of this research project.

2.1 What is accountability?

Accountability refers to an NPO’s obligation to provide its stakeholders with information and explanations about organisational actions and decision-making. Stakeholders should also have the right to ask questions and get answers (Lawry, 1995). However, some definitions go beyond this, arguing that the willingness to share information and provide explanations to stakeholders implies a much deeper claim on the NPO: it is not only a responsibility to account for actions, but to undertake or avoid certain actions (Cronin and O’Reagan, 2002).

NPO accountability is important for a number of reasons. In South Africa, as in other countries, NPOs are public organisations. Their status through the NPO Act is based on the benefits they bring to the public and to specific stakeholders, who in turn provide organisations with resources, information, advice, feedback and opportunities. The question of who is owed accountability is critical, but often complex and contentious.

The relationships between NPOs and stakeholders are often complex and their needs, priorities and claims are not always aligned. Ebrahim (2003b, p. 196; 2006) describes these accountability relationships as often fluid and contested, and involving the “push and pull of constituent interest”. In this sense, accountability is relational and “does not stand objectively apart from organisations” but rather reflects social and power dynamics between actors. Slim (2002) also observes that the idea of accountability, and the relationships that accompany it, are embedded in society. As such, there is some risk that accountability mechanisms can entrench, rather than challenge existing power structures.

Given this complexity, many organisations are challenged to mediate competing accountability relationships (Edwards and Huime, 1996; Christensen and Ebrahim, 2006). NPOs often need to engage with large and diverse sets of stakeholders, which may include government, donors, staff, beneficiaries, peer organisations and the broader public. Further, there are often relatively few external mechanisms in place to ensure NPO accountability, and many organisations need to self-regulate. Milofsky and Blades (1991, p. 372) posed a critical question in this regard: “Governed neither by the profit motive nor by the need to face voters, what makes non-profit organisations accountable for the assets of society that they accumulate and distribute?”

Upward and downward accountability

In practice, measures to increase NPO accountability are often imposed by funders, governments and other influential and regulatory agencies. It is therefore unsurprising that many organisations prioritise meeting the accountability requirements of these stakeholders before others. Little emphasis is placed on downward accountability to beneficiaries, which often does not feature in performance measurement (Benjamin, 2012).

However, this situation appears to be changing. In addition to upholding the “moral responsibility to provide services that reflect the true needs of the people they serve” (Guo, 2007, p. 459), there is growing awareness among NPOs of the importance of engaging with the people from whom organisations “claim to derive part of their mandate” (Slim, 2002). Morrison and Salipante (2007, p. 199) also suggest that good governance requires that organisational leaders consult with beneficiaries on issues including “the appropriate criteria, measures, and interpretations of success in ways that respond to the organisation’s history, values, and mission”.

Downward accountability of this kind is not only an issue of principle or compliance: there are many benefits for NPOs themselves. Actively engaging communities can result in more trusting, cooperative relationships and greater organisational legitimacy (Grønbjerg, 1990, p. 209; Ebrahim, 2003, p. 819). Beneficiaries are more likely to make use of services which they have helped to develop themselves (Mlokovsky, 2014).

Despite these benefits, some NPOs remain reticent to practice downward accountability. In a study of international organisations, Brennan (2010) found that while many paid lip service to appreciating community contributions and inputs, they seldom allowed beneficiaries to participate in decision-making. Similarly, Schmitz and Mitchell (2009) found that resource-dependent organisations remain incentivised to focus mainly on upward, rather than downward accountability.

Beneficiaries are more likely to make use of services which they have helped to develop themselves.
The current regulatory framework consists of four streams of legislation, which prescribe how NPOs should be constituted and governed. These pertain to the following issues:

**Registration requirements** are regulated through the Companies Act of 2008 and the Trust and Property Control Act 57/1988. NPOs can opt register as a non-profit company or a trust, subject to the form and objectives of the organisation. These Acts are administered by the Department of Justice and Constitutional Development (DoJCD).

**Registration as an NPO** is regulated by the Non-Profit Act 71 of 1997, which established the NPO Directorate within the DSD to administer NPO registrations. Registration is voluntary and free, but organisations must have a written constitution stipulating their activities, structure and operations. Registered NPOs are required to submit a narrative report and annual financial statements.

**Eligibility for preferential tax treatment** requires that organisations register as public benefit organisations (PBOs) with the South African Revenue Services (SARS), per the Tax Act 58 of 1962. Qualifying PBOs, which are awarded status by the Tax Exempt Unit (TEU), are exempt from income tax, donations tax, estate duties and other fiscal levies. Preferential treatment eases the tax burden on NPOs and promotes donations, which are tax deductible. The more recent Taxation Laws Amendment Act [No. 30 of 2000] allows for a deduction of not greater than 5% of total taxable income for individuals donating to PBOs.

**Sector-specific legislation** is also applied to certain NPOs, depending on their nature of their operations. For example, the Children’s Act 38 of 2005 establishes norms and standards for ECD programmes, and makes provision for provincial government funding of such programmes.

Furthermore, in 2012 the sector came together to formulate the Independent Code of Good Governance for Non-Profit Organisations as a mechanism for self-regulation and in response to the King III Code, which was seen as top-down and inappropriate for NPOs. The former Code is a set of values and principles intended to guide and inform the way organisations are managed and conduct their affairs. It also provides standards for performance measurement as well as good governance guidelines. While not legally binding, the code makes provision for a renewable Voluntary Commitment and Undertaking of Compliance, which are signed on behalf of the Board, members and employees of the organisation concerned.

2.2 Practicing accountability: survey results among community-based NPOs

The research study explored how the accountability relationships of our survey sample of community-based social services NPOs account-ability of a variety of different stakeholders, including the government, donors, and communities.

### Accountability to government

The South African government is a leading funder of the non-profit sector, as discussed in greater detail later in this report, and therefore a main stakeholder in terms of upward accountability requirements. Compliance with government requirements was regarded as resource-intensive for small organisations in particular, which often experienced difficulties in the NPO registration process and in fulfilling audit obligations (see Figure 3). On this scale 10 is very easy and 1 is very difficult. In our interviews key decision makers said that financial statements were viewed as prohibitively expensive for some smaller NPOs. Some also of the decision makers expressed concern over the fragmented NPO regulatory system, which spans the DSD, SARS and the DoJCD. Access to registration and compliance with the conditions are particularly challenging for rural NPOs.

**Figure 3: Ease of compliance with government accountability requirements, by NPO size**

<table>
<thead>
<tr>
<th>NPO Size</th>
<th>How easy was the registration process?</th>
<th>How easy was it to comply with annual financial statement submissions?</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 15 staff</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>11-15 staff</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>6-10 staff</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>1-5 staff</td>
<td>4</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Own analysis of community-based NPO survey, 2015

Our interviews with key decision makers in the sector showed that budgeted financials are expensive and not all NPOs can afford this. Additionally, there are also concerns about the fragmented NPO regulatory system spanning across the Department of Social Development (NPO Status), the South African Revenue services (public benefit status for tax exemption) and Department of Justice (Section 21/trust status for fundraising). Hofisi and Hofisi (2013) note that the fragmented registration process has created cracks in the system that can make it more difficult to detect financial mismanagement. Furthermore, the complicated system has placed rural NPOs at a disadvantage because of the consequent increased demands on travel time and access to information.
Accountability to donors

Research findings showed relatively high levels of compliance with donor accountability requirements. Even within our community-based sample of NPOs, survey results showed that 75% of organisations had compiled balances sheets and 77% had developed annual reports.

Participating NPOs appeared to be under considerable pressure from donors; almost half of all respondents feared that donors would withdraw funding if their organisations failed to demonstrate impact. However, many NPOs indicated that they were unable to effectively measure impact due to a lack of resources (two-thirds of all organisations) or trained staff (about half of all organisations). NPOs responded to this pressure in different ways. Less than 7% indicated that they had changed their main focus or ideas in response to donor pressures. However, between a quarter and a third of organisations had introduced new activities or areas of work, or moved to new premises, for this reason.

Community accountability

While the government was the main stakeholder imposing formal accountability requirements on NPOs participating in the study, research findings also showed considerable evidence of downward accountability practices, although these were often informal. Three-quarters of NPOs indicated that community participation is a requirement of their funding. However, even those without funding were actively engaging communities in their activities. Survey results showed that:

- 79% of NPOs held scheduled meetings to interact with community members
- 69% of NPOs had initiated broad-based mobilisation campaigns to encourage direct community involvement in organisational activities
- 60% a further six in ten NPOs invited community members to attend their board meetings
- 57% freely shared sensitive information with these stakeholders

The research further explored how NPOs measure their own success with regard to community involvement, given the possibility of superficial compliance measures and box-ticking among some organisations. Fieldworkers were asked to note how soon respondents mentioned community needs during the course of each interview, and how prominently this issue featured in the conversation overall. Analysis of these results showed that beneficiaries were prioritised in 80% of interviews with community-based NPOs.

Interview participants did however mention some challenges with regard to community participation and downward accountability. These included short-sightedness and an inability to see the “full picture” (35%) and unavailability to participate in NPO activities (35%), as shown in Figure 4.

Internal accountability

There often tends to be little focus on internal accountability measures within the NPO sector. However, the survey found that internal stakeholders have significant influence over NPO operations and decision-making. When asked about the individuals or bodies that have the most “important influence” over their organisations, the most frequent responses included the manager/director (93%), board (82%) and employees (76%), as shown in Figure 5. With regard to authority and decision-making, respondents identified NPO boards as having the greatest influence over decisions about new activities or expanding into different geographic areas, but the voices of community members were most important in the purchase of new buildings (see Figure 6).
Figure 6: Number of stakeholders involved in strategic decision-making

Source: Own analysis of community-based NPO survey, 2015

Peer accountability

More than 70% of NPOs were members of networks or forums, but 22% did not know the code of conduct at all and 16% attempted to summarise the code of conduct, but could not. It is still encouraging that 62% of network members were aware of their network’s code of conduct and appear to know and understand the main points.

Reframing accountability as openness to learning and a commitment to responsiveness

Analyses of the NPO sector often cite two main challenges with accountability: first, an over-emphasis on formal mechanisms and enforced compliance; and second, too much focus on meeting the priorities and demands of donors.

With regards to this first challenge, there is little evidence that formal accountability mechanisms, such as required reporting, improve overall organisational effectiveness or depth of impact. Accountability becomes associated with completing forms, and compliance over content. This poses the risk that NPOs simply tick boxes to adhere to accountability requirements imposed by donors, government or other stakeholders, but lack substantive commitment to the principles and practices of transparency and good governance. Christensen and Ebrahim (2006: 208) argue that a “central challenge for non-profits and funders alike lies in creating a culture of accountability that is built on mission and purpose rather than external scrutiny.” Graham, et al, (2008: 17) also warn of a second unintended consequence: rather than focusing on small CBOs that are well-placed to meet the needs of vulnerable and marginalised communities, the preoccupation with accountability and compliance often means that governments partner with “consultants, experts and very well resourced NGOs” instead.

The second challenge relates to the overemphasis on upward accountability to donors, sometimes at the expense of downward accountability to communities. Pressure by donors, governments and other stakeholders to meet accountability requirements has often caused resentment and frustration among NPOs, and smaller organisations in particular. More recognition is required of the wide variety of NPO stakeholders, as well as the importance of accountability to communities.

The impact of these challenges in practice was evident in interviews with key decision-makers, who questioned the value of enforced accountability through generic and top-down mechanisms. This approach to accountability, interview participants suggested, did not adequately take into account the circumstances of South African NPOs or contribute to a more authentic, internalised model within organisations themselves. Without an accountability approach that is contextualised and designed to improve feedback, learning and performance, simulated compliance and tacit dissent are incentivised.

Research findings suggest that among surveyed NPOs, a more substantive commitment to accountability would require better strategies for performance and impact measurement. None of the community-based NPOs in the sample had systems in place to measure impact, and there was considerable uncertainty about what this would entail. Many organisations tracked data such as participation through attendance registers (87%) or with other numeric targets, but fell short of actually assessing impact or change in the lives of beneficiaries. Reasons cited for limited performance and impact measurement included a lack of resources (67%) or trained staff (45%), and difficulties capturing full organisational performance (35%).

Further, although survey respondents answered questions on performance and impact measurement, fieldworkers also found that in many cases these concepts were unfamiliar and not fully understood. 41% of all NPOs surveyed were unaware of the term “performance management” and 21% thought it was not applicable to their organisation. Based on these findings, it is clear that more information and organisational support are needed. Further, innovative thinking is required to come up with simple principles for unbiased and useful performance measurement, which are appropriate for smaller organisations with limited funds and a lack of specialised skills in this area.

More recognition is required of the wide variety of NPO stakeholders, as well as the importance of accountability to communities.
Although its dividing lines have shifted since the end of apartheid, the non-profit sector remains dualistic: a few large, well-resourced, formal NPOs receive the most funding, while many small and less formal organisations subsist with little or no support.

To enable this analysis of the distribution of NPOs and NPO funding, we used address line information in the NPO register to extract information on neighbourhoods, postal code, town and province. We then matched each NPO in the NPO register to a Census municipality using the Census municipality codes. Our analysis of the NPO register data show that overall, the largest 10% of NPOs receive 80% of total funding.

3.1 Unequal distribution of NPO revenue

In order to better understand the state of the non-profit sector at present, the study analysed the distribution of revenue among registered South African NPOs. Figure 7 shows a Lorenz curve of revenue distribution among registered NPOs that submitted financial statements to the NPO Secretariat (DSD) over the time period 2007 – 2014. The Lorenz curve clearly falls well below the 45-degree line, indicating than revenue distribution within the sector is highly unequal. The bottom 40% of organisations reported virtually no revenue (visually not differentiable from zero) when plotted on the same scale as NPOs with the highest revenue.

Table 1: Poverty, NPO revenue, NPOs per capita and number of NPOs

<table>
<thead>
<tr>
<th>Poverty of municipal area</th>
<th>Average NPO revenue</th>
<th>NPOs per 1000 community members</th>
<th>NPOs per 1000 poor community members</th>
<th>Number of municipalities</th>
<th>Number of NPOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poorest fifth</td>
<td>R444 980</td>
<td>1.80</td>
<td>11.66</td>
<td>73</td>
<td>3 991</td>
</tr>
<tr>
<td>Poorer than average fifth</td>
<td>R458 188</td>
<td>2.28</td>
<td>14.09</td>
<td>85</td>
<td>5 100</td>
</tr>
<tr>
<td>Average fifth</td>
<td>R907 962</td>
<td>2.08</td>
<td>15.31</td>
<td>41</td>
<td>5 028</td>
</tr>
<tr>
<td>More affluent than average fifth</td>
<td>R1 212 444</td>
<td>2.07</td>
<td>17.64</td>
<td>33</td>
<td>7 018</td>
</tr>
<tr>
<td>Most affluent fifth</td>
<td>R2 733 194</td>
<td>3.32</td>
<td>30.79</td>
<td>2</td>
<td>5 220</td>
</tr>
</tbody>
</table>

Source: Own analysis of NPO register 2007 to 2014, Census 2011

3.2 NPOs, geography and poverty

Divisions and dualism within the NPO sector reflect many of the common features of inequality within South African society as a whole. They align closely with traditional markers of household poverty and social exclusion, including geographic location, educational achievement, language and race.

Table 1 compares data on the poverty levels of communities derived from the 2011 Census with information on the numbers and average revenue of NPOs located in these municipalities based on DSD NPO register data. Poverty levels were estimated using a range of community assets. These were combined to form a poverty index using a multiple correspondence analysis. Municipalities were then ranked from poorest to wealthiest and divided into five groups, or quintiles, each representing one fifth of the population. Based on this approach, there were more municipalities in the poorest quintiles. This was because the poorest municipalities tended to be smaller, less populous and more rural than the wealthiest.

Several important findings are clear based on the analysis shown in Table 1. Firstly, results show that there are far more NPOs per capita in affluent communities. What is interesting is that the discrepancy appears largest if we consider NPO concentration relative to poor individuals and households. However, the inequality runs even deeper because NPOs located in poorer communities also report far lower revenue than their counterparts in more affluent areas. The inequality shown here is stark, but it is complicated to understand what is driving these patterns and more research and further analysis are needed. While the NPO tendency to locate close to funders and in ar-

Our analysis of the NPO register data show that overall, the largest 10% of NPOs receive 80% of total funding.
3.3 NPO size, professionalism and founder-managers

The research also found an important distinction among NPOs on the basis of whether or not the organisation's manager was also its founder. Where management roles are filled by non-founders NPOs have often gone through a professionalisation process. Generally, this is the case among more formal, mature and bureaucratised organisations, and is often linked to increased funding, lower reliance on volunteers, and more paid staff members with higher levels of education. Simply put, when NPOs mature and become larger and more professional organisations, founders would often appoint a manager “from outside” to run the NPO.

Within the sample of 195 NPOs, 70% of organisations were headed by founder-managers. These NPOs had operated for ten years on average. Comparatively, the average age of organisations with professional managers was 25 years. In addition, while 59% of professional managers reported a tertiary level education, the same was true of only 41% of founder-managers.

Further, there were clear differences in revenue between “professionalised” organisations and those run by founder-managers. NPOs operated by founder-managers reported a mean revenue of R 1 183 418; far below the R 3 765 834 in mean revenue reported by organisations without founder-managers.

This distinction was also evident in other facets of organisational operations. Survey results showed that founder-managers were more likely than professional managers to perceive the NPO registration process and compliance requirements as difficult. Professionalised NPOs (44%) were also more likely than organisations with founder-managers (25%) to use formal needs assessment mechanisms in their operations. In terms of community communication strategies, organisations with founder-managers (80%) were far more likely than others (20%) to rely on informal individual conversations.

The research found some evidence that the less professionalized NPOs were more likely to benefit from DSD training. As shown in Table 2, NPOs with founder-managers were more likely than other organisations to have receive support from the DSD, with this support ranging from training to help with financial accounts and narrative reports.

Table 2: Share of NPOs receiving support from national and provincial DSD

<table>
<thead>
<tr>
<th>TYPES OF SUPPORT</th>
<th>FOUNDER IS MANAGER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Training support from national DSD</td>
<td>NO 11.11 YES 19.80</td>
</tr>
<tr>
<td>Training support from provincial DSD</td>
<td>34.69 35.14</td>
</tr>
<tr>
<td>Support with financial accounts from national DSD</td>
<td>0.00 7.00</td>
</tr>
<tr>
<td>Support with financial accounts from provincial DSD</td>
<td>10.20 19.27</td>
</tr>
<tr>
<td>Support with narrative reports from national DSD</td>
<td>2.22 8.91</td>
</tr>
<tr>
<td>Support with narrative reports from provincial DSD</td>
<td>16.33 18.02</td>
</tr>
</tbody>
</table>

Source: Own analysis of community-based NPO survey, 2015

3.4 Challenges emerging from a divided non-profit sector

Persistent dualism within the non-profit sector has created a number of policy dilemmas. The government has been challenged to introduce regulations that are appropriate for both small, informal organisations and larger, more formal NPOs. However, introducing separate policies or regulatory requirements would formalise and legitimise this divide, working against the larger goal of a more equitable and integrated sector overall.

NPOs with founder-managers were more likely than other organisations to have receive support from the DSD
since the end of apartheid, there have been significant changes within the South African non-profit sector, including in the shift from adversarial, to more collaborative relations. During this period, the government has also assumed a greater role within the sector, as a leading funder, regulator and capacity-builder.

4.1 Government as funder

The changes in the relationships between the NPO sector and the government during the transition to democracy occurred against the backdrop of a “new policy agenda” adopted internationally (Habis & Kotze, 2003), which championed a new set of public management policy prescriptions based on liberalisation and decentralisation. In effect, governments were encouraged to withdraw from providing public goods and increasingly rely on NPOs to implement developmental programmes (Lewis, 1998, p.2).

The international shift towards greater reliance on NPOs to assist with providing services has also been evident in the national context post-1994. South Africa’s policy identity as a “developmental state” may have helped to foster closer relationships between the government and the NPO sector (Ranchod, 2007; Julie, 2009).

Also, according to Salamon (1987, p. 37) subcontracting services to NPOs can be advantageous in that it combines the service delivery advantages of small, agile community-based groups with the revenue-generating and democratic priority-setting capacity of government. In theory sub-contracting NPOs also allows governments to meet service delivery needs while avoiding an overinflated bureaucracy. However, the South African experience with “tenderpreneurs”5 and corruption provides a warning against a naively optimistic view on subcontracting.

Furthermore, such a relationship is only mutually beneficial in so far as NPOs are able to maintain their independence and comparative advantage. Key questions have emerged related to the role of the South African government as both the regulator and main funder of the sector, and the implications for the independence and advocacy capacity of NPOs.

Government funding of the non-profit sector

The findings of the research raised a number of important questions about the dependency of the South African non-profit sector on government for financial support. As discussed previously, a significant amount of international funding was redirected away from the non-profit sector and towards government after 1994. More recently, policy prioritisation of ECD has resulted in increased subsidies through the DSD for NPOs involved in these kinds of activities, further strengthening government’s role in the NPO sector overall.

5. This is a South African word that was created to describe a person in government who abuses their political power and influence to benefit from government tenders and contracts. The word tenderpreneur is created by merging “tender” and “entrepreneur”.
NPOs with founder-managers were more likely than other organisations to have received support from the DSD.

The results from our survey of community-based NPOs indicated that the South African government was the main funder of NPOs included in the research sample. As shown in Figure 9, 74% of NPOs that received outside funding, indicated that the government was their main funder, while fewer than 10% identified any other main source of financial support.

Considering the full sample of registered NPOs (not just the subsample receiving funding), analysis of the 2012 NPO register suggests that government funds accounted for 39% of sector revenue. The 2002 study conducted by Johns Hopkins University estimated that 42% of NPO funding comprised of government grants and contracts. Although the Johns Hopkins survey is now quite outdated it is still useful because the study allows for cross-country comparisons. In this era the government’s share of funding for South Africa was broadly in line with that for the full sample of countries (39%) but much higher than the average for the developing country subsample (22%) (Swilling and Russell, 2002; Salamon, Sokolowski et al, 2004). Comparisons between South Africa and other developing countries may be more appropriate given the relatively recent transition to democracy and short lifespan of government institutions. Given current challenges related to good governance, corruption and “state capture”, there may be reasons for concern if NPOs become over-reliant on government funding.

4.2 Government as regulator

In addition to being a leading funder, the South African government is also the primary regulator of the NPO sector. While government regulation of the NPO sector is appropriate and necessary, the diminishing presence of other regulatory bodies and mechanisms (for example, as imposed by funders or through peer review) when compared with other countries is a reason for concern.

Survey results showed that among participating NPOs, a majority (74%) had been visited by either the DSD or NPO Directorate since they were established. This was over 20 percentage points more than the proportion of NPOs that reported having been visited by the local municipality or another public body.

4.3 Government as capacity-builder

In addition to being a leading funder of the NPO sector, the government has supported organisational development through training workshops and other capacity building initiatives, via the NPO Directorate located within the DSD. These programmes have achieved an impressive reach; 46% of surveyed NPOs attended training workshops hosted by government, while 20% received government support with compiling their financial accounts and 20% received support from government with their narrative reports. Figure 10 shows that NPOs most frequently received support of these kinds from provincial DSDs, rather than the national department or municipalities.
4.4 Implications of the multiple roles of government

As alluded to earlier in this section of the report, there are some risks associated with government’s dominant role in the NPO sector. Questions arise as to the independence and capacity for advocacy and criticism when the government controls both the regulatory environment and large shares of sectoral funding. This issue is particularly relevant in the current national context, given concerns over the extent of transparency, corruption and accountability within state institutions.

Interviews with key decision-makers elicited further reasons for concern. Some alleged that public funding is only available to NPOs that deliver services, follow government instructions and are “not rocking any boats”. As a result, some interview participants believed that it has become increasingly difficult for organisations involved in political and advocacy activities to obtain funding. Key decision-makers also discussed the impact of these funding patterns on relations with government and the composition of the sector overall. They suggested that NPOs involved in service delivery are over-represented, while numbers of advocacy and watchdog-type organisations have declined. Further research may be required to analyse these issues in greater depth.

The research also raised questions about the role of government and the DSD in particular, which fulfils the roles of both funder and regulator of the NPO sector. The most important safeguard may be transparency in funding allocation and regulatory decisions - allowing other powerful institutions to monitor the decisions of DSD and government broadly. Further, it is important that the department considers ways to ensure that its funding strategy remains responsible, enhances the vitality and vibrancy of the sector, and uses public funds optimally, while not discriminating against smaller, less formal organisations.

Lastly, the study provides food for thought on the issue of accountability: research findings showed that many of the community-based organisations in our survey sample tend to place the community first, but did not know how to assess whether or not they were making a difference. This poses a challenge to both NPOs and their stakeholders to start thinking in new ways about how small community-based organisations with limited resources can assess their impact and performance effectively and appropriately, as part of a larger strategy to ensure that the sector becomes more open to learning, continuous improvement and maximum responsiveness to the needs of beneficiaries and communities.