

**Faculty of Business & Economic Sciences**

*Managing tomorrow*

Student Name: Bogadi Manzere

Student Number: 215058038

**Module Code: EMR501**

Supervisor Name: Jonathan Makuwira, PhD

Title:

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# **FINANCIAL SUSTAINABILITY MECHANISMS FOR LOCAL NGOS IN THE GAUTENG PROVINCE, SOUTH AFRICA**

**by**

**Bogadi Patricia Manzere**

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Faculty of Business and Economic Sciences

Nelson Mandela Metropolitan University

**Supervisor: Professor Jonathan Makuwira**

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## DECLARATION

DEPARTMENT OF ACADEMIC ADMINISTRATION  
EXAMINATION SECTION  
SUMMERSTARND NORTH CAMPUS  
PO Box 77000  
Nelson Mandela Metropolitan University  
Port Elizabeth  
6013



**Nelson Mandela  
Metropolitan  
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Enquiries: Postgraduate Examination Officer

### DECLARATION BY CANDIDATE

**NAME:** BOGADI PATRICIA MANZERE

**STUDENT NUMBER:** 215058038

**QUALIFICATION:** MPHIL IN DEVELOPMENT FINANCE

**TITLE OF PROJECT:** FINANCIAL SUSTAINABILITY MECHANISMS FOR LOCAL NGOS

IN THE GAUTENG PROVINCE, SOUTH AFRICA

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In accordance with Rule G5.6.3, I hereby declare that the above-mentioned treatise/ dissertation/ thesis is my own work and that it has not previously been submitted for assessment to another University or for another qualification.

**SIGNATURE:** 

**DATE:** 01 SEPTEMBER 2016

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## **ABSTRACT**

The role of NGOs has been widely recognised in eradicating poverty and creating sustainable development in communities. Governments and private corporations view them as complementary partners in enhancing the livelihoods of people. In order to survive, NGOs need to be financially sustainable to carry out their missions. Their existence is, however, threatened by the current economic and political climate. In South Africa, the recent global economic recession and the country's recovery from the apartheid system since 1994 have both had a negative impact in funding financial flow to NGOs. Compounded by the growing demand for new NGOs, evidence shows that there is fierce competition between NGOs for the same funding and, since NGOs by nature do not produce commercial outputs, they are limited to pursue funding opportunities made available through donations. This study explored the issues of financial sustainability within local NGOs in the Gauteng Province. The aim was to build mechanisms that could be put in place to monitor organisational financial sustainability over time. The study used a qualitative methodology and the researcher adopted an exploratory design to gain insight and meaning into the issues faced by NGOs. A sample of ten members from local NGOs in the Gauteng Province was identified and data was collected through key informant interviews and questionnaires.

The study found that the majority of NGOs face difficulties in achieving financial sustainability over the long-term. The results indicated that funding in the sector is shrinking, with very few NGOs surviving through endowments. Their major challenges in raising funds are due to area limitations, competition within the sector, lack of skills, staff shortage and visibility. They optimise available opportunities but also acknowledge that they are not implementing other fundraising strategies that could be effective in raising funds. Evidence also showed that these NGOs are meeting the requirements of good financial management practices, which could improve their likelihood to achieve financial sustainability. The research recommends that NGOs need to be empowered to negotiate restrictions under the grants, raise endowments through income-generating activities, manage stakeholder relationships and cost any future funding prospects for key decision making that is likely to have an impact on the structure and the strategic direction of an organisation.

## **ABBREVIATIONS**

ANC	African National Congress
CBO	Community-Based Organisation
DSD	Department of Social Development
IDASA	Institute for Democracy in South Africa
NDA	National Development Agency
NGO	Non-Governmental Organisation
NMMU	Nelson Mandela Metropolitan University
NPO	Non-Profit Organisation
NYDA	National Youth Development Agency
PBO	Public Benefit Organisation
RDP	Reconstruction and Development Programme

## **CHAPTER 1**

### **INTRODUCTION AND CONTEXT**

#### **1.1 BACKGROUND TO THE STUDY**

The past few decades have seen the role of Non-governmental Organisations (NGOs) being widely recognised for eradicating poverty and ensuring sustainable development in rural communities. This role was captured by Lewis and Kanji (2009), who indicated that NGOs have come to be recognised as important actors on the landscape of development. The NGOs existed in various forms for centuries, but rose to high prominence in international development, increasing their numbers dramatically in the 1980s and 1990s (Lewis, 2010). In many developing countries, the role of NGOs has evolved in response to the market gaps left by the government (Gaist, 2009). Most governments and corporations are in full support of their interventions as they generally view NGO work as complementary to the services they provide in enhancing the livelihoods of people. It is increasingly being accepted that the state can no longer be the sole provider of goods and services for eradicating poverty and ensuring sustainable development among its people (Okorley and Nkrumah, 2012). Without the care and intervention of NGOs, it is likely that the poor and destitute may not be able to acquire the very basic needs they require.

While NGOs are recognised for their greater impact in addressing social, economic and environmental issues, there is greater scrutiny from various stakeholders on the matters of accountability and stewardship, especially in the times of financial crisis (Francois, 2015). Many NGOs strive to achieve financial sustainability in order to accomplish their organisational missions. However, achieving this goal is a challenge. A study conducted by Omura and Forster (2014) observed that this is because of the fierce competition between NGOs for private donations, caused by their inability to produce viably commercial outputs. Many rely on donations from governments, individuals and private corporations. As a result, the uncertainty of donations and the reduction in individual contributions in times of financial hardships make financial sustainability more relevant than ever before (Francois, 2015).

In order for NGOs to survive, they need to not only be organisationally sustainable, but also financially sustainable. Financial sustainability for an NGO implies that it can survive financially to meet the goals and objectives it set out to achieve, regardless of the social, political, environmental and economic changes or funding conditions. According to Sontag-Padilla and Staplefoote (2012), it involves managing financial viability in an evolving landscape, competing with other NGOs, establishing collaborative partnerships, demonstrating value and accountability to funders and supporters and maximising the contribution of leadership within a community. In theory, financial sustainability allows an NGO to prioritize its activities and cover its administrative costs without undertaking interminable negotiations with stakeholders who may or may not agree with its vision (León, 2001). Without financial sustainability, NGOs either fail or struggle to carry out their activities. South Africa has witnessed a number of NGOs that have failed because of their heavy reliance on historical resources for funding. Such organisations, particularly those that played a major role in the country's move to democracy since 1994, have had their doors closed down and many believe that it was because of the feeling of entitlement. The Institute for Democracy in South Africa (IDASA), an internationally recognised organisation, closed its doors in 2013, after 27 years of fighting the apartheid system; the reason given by its leadership was that funds had dried up (O'Riordan, 2014).

All NGOs in South Africa rely on a diverse set of funding streams in order to achieve financial sustainability. According to Harding (2014), they rely on the South African government and the international community for funding to ensure their sustainability. Kabane (2011) observes that, before the end of apartheid in 1994, there were fewer restrictions in acquiring funds from these institutions and reporting requirements were not as intense. The NGOs didn't have to invest a lot of money in fundraising strategies or ensuring that their staff acquired the relevant skills. They did not have to be as transparent and accountable to donors, compared to the current expectations of donors. These factors have, however, not discouraged local NGOs from being established as reports indicate that the number of NGO registrations continues to rise. According to the National NPO Database Report (2015), a total of 28,945 NPO applications were received and processed by the National Department of Social Development for NPO registration between April 2014 and March 2015. In the South African context, NPO is a collective name used for both NGOs and Community-Based

Organisation (CBOs). The growing number of these organisations gave rise to competition for funding that is already limited, thereby creating a challenge for NGOs that rely on donor funding streams for financial sustainability.

## **1.2 MOTIVATION FOR THE STUDY**

The selection of this topic was largely influenced by the researcher's own experience in the sector and working closely with local NGOs that are facing similar challenges of striving for financial sustainability. The researcher also noted that despite the limited research that has been conducted on NGO financial sustainability, the mechanisms that can be adopted for achieving this goal are not well documented. Also, with the growing demand for NGO registrations in South Africa, having solid financial sustainability mechanisms will certainly guide local NGOs, including those that are newly-registered, to identify issues of financial sustainability early and be able to make appropriate decisions.

In this context, the researcher's interest is in the desire to build mechanisms that local NGOs can adopt in order to determine their status of financial sustainability regularly and so make the necessary strategic decisions. The researcher further aims to contribute to current knowledge on this topic through empirical research, the findings of which could be of significant benefit to all NGOs, government sector, private sector and academics.

## **1.3 THE RESEARCH PROBLEM**

To be able to survive, NGOs need to be financially sustainable. Bowman (2011) defines financial sustainability as an organisation's ability to maintain financial capacity over time. Many NGOs in South Africa depend on government, local and international communities for financial sustainability. However, these institutions have refocused their priorities over time, leaving most NGOs with limited time and resources to review their strategies towards achieving financial sustainability. The South African Government has slowly shifted its focus from aid to promoting self-development, where members of the community are encouraged to take responsibility for the improvement of their own lives. Government funding and grants are currently being made available to previously disadvantaged individuals and business ventures that can make a difference to the economy. (Nicol, 2012). Local funders have ring-fenced

their funds for very specific projects. At the same time, traditional foreign donor agencies have scaled down their funding drastically or withdrawn completely due to the global recession (Coalition on Civil Society Resource Mobilisation, 2012). Bilateral agreements between the South African government and other foreign governments have also changed because of a strong focus to move away from financial aid to trade relations. South Africa is now viewed as a middle-income economy, thus resulting in decreased funding opportunities (Kabane, 2011).

The growing number of local NGOs in South Africa has further deepened the financial sustainability gap by creating fierce competition between NGOs for the same funding. According to the National NPO Database report (2015), the average growth rate of Non-Profit Organisation (NPO) registrations between 2009 and 2014 hovered around 86% and there is still a growing demand for NPO registrations. The report also indicated that Gauteng is the leading province in terms of the number of registered NPOs by 32%. Because the province is generally considered a hub for rural-urban migration, the need for local NGOs to address urgent social problems in the Province is paramount and financial sustainability is a key factor.

Although extensive research has been done on the sustainability of NGOs, very little research focusses on the financial sustainability for local NGOs. Therefore, the problem is not well documented. Investing in local NGOs is indeed essential to ensuring that the needs of the poor and vulnerable are addressed. Ultimately, it is the most vulnerable that will be affected if these organisations are not able to develop well thought-through responses to the funding situation (Harding, 2014).

#### **1.4 THE RESEARCH QUESTION**

The main research question of the study is:

*What mechanisms can local NGOs in the Gauteng Province apply to assess their status of financial sustainability?*

The following sub-questions will guide the research process:

- To what extent are the local NGOs striving to achieve financial sustainability?

- What methods or strategies do NGOs use in order to achieve financial sustainability?
- How effective are the methods and strategies?
- What are the challenges and opportunities that NGOs experience as they strive to achieve financial sustainability?
- How do NGOs solve the challenges and utilise available opportunities?

## **1.5 RESEARCH AIMS AND OBJECTIVES**

### **1.5.1 Research aim**

The overall aim of the study is to develop a deeper understanding of the ways in which local NGOs in the Gauteng Province develop financial sustainability mechanisms in order to carry out their development initiatives. The study will start by examining the strategies and methods that are currently being implemented by the local NGOs to ensure that they are financially sustainable.

### **1.5.2 Research Objectives**

The objectives of the research are:

- To determine the extent to which local NGOs in the Gauteng Province strive towards achieving financial sustainability;
- To explore methods and strategies for ensuring organisational financial sustainability;
- To analyse the effectiveness of the methods and strategies NGOs use to achieve financial sustainability;
- To identify common success factors necessary to attain organisational financial sustainability;
- To determine the ways that NGOs use to solve financial challenges, as well as the means of utilising available opportunities;
- To recommend financial sustainability mechanisms that will help NGOs track financial sustainability issues early and provide necessary feedback for any adjustments;



## **1.6 SCOPE AND SCALE OF RESEARCH**

This study started by examining current strategies and methods implemented by local NGOs to ensure financial sustainability. Local NGOs in the Gauteng Province were selected and data was collected from senior members within the organisations. The financial assessment of the NGOs selected covered a period of five years, between 2010 and 2015, in order to fairly assess the impact of the current strategies and methods of achieving financial sustainability.

## **1.7 SIGNIFICANCE OF THE STUDY**

Although extensive research has been done on NGO sustainability, there is not enough research that focuses on financial sustainability for local NGOs in South Africa. Literature suggests that local NGOs are facing a myriad of challenges in order to achieve financial sustainability. According to a study conducted by León (2001), the greatest challenge facing NGOs at national, local and international levels is that of obtaining critical funds to carry out the necessary activities to fulfil their mission. Harding (2014) noted that this is a big concern for NPO leaders, current and potential funders and the communities that they serve. As these organisations are established to implement programmes to address social, economic and developmental issues, they are unable to because of funding. Sontag-Padilla (2012: vi-vii) expounded on four key challenges to achieving financial sustainability, namely reliance on external funding sources, creating a non-profit brand, partnership expectations and demonstrating value and accountability to funders. The majority of registered NGOs have no actual existence, and were created with the goal to attract funding that never materialised (Fafchamps and Owen, 2009).

This study aims to design financial sustainability mechanisms that can be put in place for these NGOs to identify financial sustainability issues and to make the necessary strategic decisions. The researcher assumes that the findings of this research could ignite debates around the issues faced by local NGOs as they strive to achieve financial sustainability. The outcomes and recommendations of the study can also serve as a guide for other local NGOs within the country that face similar challenges. There is a gap that exists on the mechanisms that can be applied by NGOs to identify such issues earlier. This research will be able to inform government, private sector,

corporate social investors and other donor communities regarding financial sustainability issues that are prevalent within local NGOs and how they overcome them. It is hoped that documenting such issues will provide strategies that will help NGOs to make well-informed decisions about their long-term sustainability plans. With the current NPO Act review process currently underway, this study will also contribute towards strategies for creating an enabling policy framework.

## **1.8 STRUCTURE OF THE STUDY**

*Chapter 1* introduces the background of the study and illustrates how the study will make a contribution to the issues of financial sustainability for local NGOs. The researcher also highlights her motive for selecting the topic. The chapter further explores the research problem and questions and documents the research aims and objectives, scope and scale of the research, as well as the significance of the study. It ends by giving a brief structure of the study.

*Chapter 2* set out to provide a concise summary of the current literature on financial sustainability of local NGOs. It sought to find similarities, differences and gaps on the topic under scrutiny.

*Chapter 3* emphasises the methodology, research design and methods applied to conduct the research.

*Chapter 4* presents the findings from the research as well as the interpretations of data.

*Chapter 5* draws conclusions from the study and makes recommendations in response to the conclusion.

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 INTRODUCTION**

The literature review starts with an overview of the NGO sector and covers the definition of NGOs in South Africa, the legal framework under which the sector operates, the historical role of NGOs during and after the apartheid era, and the scope and size of the sector in South Africa. It then covers the challenges that NGOs face in their quest to achieve financial sustainability and the strategies that they implement to achieve this goal. The chapter goes further to cover sources of income for NPOs in South Africa, developments in the sector and the current status of NGO sector in South Africa. It ends by drawing conclusions from the current literature.

#### **2.2 OVERVIEW OF THE SOUTH AFRICAN NGO SECTOR**

##### **2.2.1 Defining an NGO in South Africa**

Before defining an NGO in South Africa and how it functions, we must first define an NPO. According to section 1 of the NPO Act 71 of 1997, an NPO is defined as a trust, company or other association of persons established for a public purpose and whose income and property are not distributable to its members or office bearers except as reasonable compensation for services rendered (Department of Social Development, 2005). According to the South African NPO Database Report (2015) by the Department of Social Development, NGOs and CBOs are collectively referred to as NPOs. Thus, NGOs are purely established for public benefit and are by no means in the business of making profit.

The Act, however, does not provide any further specifications of what these organisations might do, in which sectors they may operate and what specific goals they may pursue, except that they may not be organs of state (Department of Social Development, 2005). The NPO Directorate of the Department of Social Development, for its own purposes, classifies them into different categories. The main categories of NGO activities are:

- welfare and humanitarian;
- health care;
- land and housing;
- education and development;
- religion, belief or philosophy;
- cultural, conservation, environment and animal welfare;
- research and consumer rights;
- sport; and
- providing resources for approved PBOs.

A study conducted in 2002 as part of the Johns Hopkins comparative international non-profit sector study, adopted a broad structural approach that used five operational criteria in defining its scope (Department of Social Development, 2005). NGOs must be:

- Organised (they must have an institutional form)
- Private (but may receive funds from government)
- Self-governing (be able to control their own activities)
- Operate not for profit (profits must be reinvested in the mission of the organisation); and
- Voluntary (must engage volunteers and have non-compulsory contributions and membership).

An NGO is usually formed by a group of individuals who come together to achieve a common goal. They identify a need in a community, and together form an organisation that seeks to take action in addressing such needs. Once an organisation has been formally established, funds are raised to implement the activities that address the community needs.

### **2.2.2 The legal framework for South African NGOs**

The current South African legal framework of NPOs is rooted in the fundamental rights as stated in the South African Constitution (Department of Social Development, 2015). The Council on Foundations (2015) defines the legal framework for the South African NGOs as consisting of four primary tiers.

The first tier (establishment) allows for the establishment of the following three forms of NGOs under statutory and common law:

i.) Voluntary associations

Established under the common law, voluntary associations are the most common legal form of NPO in South Africa. To form a voluntary association requires only that three or more people agree, verbally or orally, to achieve a common objective that is primarily not-for-profit. There is no office of registry for voluntary associations. Voluntary associations can be classified as:

- corporate bodies under the common law (also known as “*universitas*”), and
- bodies that remain unincorporated in common law (known as “*non-corporate associations*”).

An organisation can only be considered a *universitas* when it meets the following requirements:

- it must be structured to continue as an entity notwithstanding a change in membership;
- it must be able to hold property distinct from its members; and
- no member can have any rights, based on membership, to the property of the association.

ii.) Non-profit Trusts

Trusts can be established for private benefit or for charitable purposes, and they are governed by the Trust Properties Control Act of South Africa and the common law. It is created when property is transferred by a trust deed and it manages the property for the benefit of others or for the achievement of a particular goal. The property can be transferred by written agreement, testamentary writing or court order. The person administering the trust property is called a trustee, the Master of the High Court has jurisdiction over a trust if the majority of the trust property is situated in his or her jurisdiction, and the Master is the custodian of trust instruments, oversees the appointment of trustees and polices the trustees’ performance with respect to the trust

property. A trust does not have a separate legal personality, but trustees still enjoy limited liability. All the rights and responsibilities vest collectively in the trustees.

### iii.) Non-profit Companies (Section 21 companies)

The South African Companies Act makes provision for the incorporation of a not-for-profit company, which is recognised as a separate category of a company. Such organisations must have at least three directors and can enter into contracts, sue and be sued in their own name. The non-profit company is incorporated with the Companies Commission; it can also be incorporated for a public benefit objective or an objective related to one or more cultural or social activities or communal or group interests.

The second tier of legislation (voluntary registration) allows any of the organisational forms to apply for the status of a “Registered Non-profit Organisation”. Among other requirements, registered non-profit organisations cannot distribute profits and must meet certain governance criteria.

The third legislative tier (partial tax exemption) enables NGOs to apply for the status of “PBO”. Among other requirements, the organisation’s sole purpose must be to undertake one or more public benefit activities, carried out in a not-for-profit manner and with an altruistic or philanthropic intent. Such PBOs may not use their resources to directly or indirectly support, advance or oppose any political party, but they are not restricted from lobbying. They are entitled to a broad range of fiscal benefits, including a partial income tax exemption, an exemption on donations tax and, for some, an exemption on transfer duty on immovable property.

Lastly, the fourth legislative tier (donor deductibility status) allows PBOs to apply for the right to receive tax-deductible donations.

According to Bown (2012), while the current system of NPO registration by the Department of Social Development is still not as efficient as most developed countries, since it takes months to complete the registration process, the framework has much more structure and is continually improving.

### **2.2.3 History of the NGO sector in South Africa**

- *The role of NGOs during the apartheid era*

South Africa's past is one that is characterised by a prolonged history of oppression and discrimination of the African people (Jagwanth, 2003). Since the introduction of the first South African Constitution in 1910, the South African Act of 1910, many Africans, especially blacks and coloured people, suffered the injustice caused by a grossly divided society. The Act made provision for an all-white government and gave rise to a continued and often bloody struggle by the majority for a system free from discrimination and oppression (Jagwanth, 2003). During this era, NGOs played a significant role in addressing the challenges caused by the apartheid regime. The establishment of the NGOs during that era were based on race, ethnicity and class, and they were largely involved in advocacy work to oppose the apartheid activities (National Development Agency, 2008). These anti-apartheid NGOs lobbied for change from "within the political system" to break down racial barriers (Heinrich, 2001). Many NGOs positioned themselves outside of the government, due to its inherently undemocratic state, but their mission was to change the distribution of power in society (Department of Social Development, 2005). Their mission was aligned with that of the ANC, the political party which later came into power in 1994. As part of its liberation movement, the ANC acknowledged the need for the role of NGOs in its pre-1994 election constitution (Kumaran et al., 2012).

Between 1990 and 1994, NGOs established themselves as a sector through building networks and coalitions and worked together with the ANC to develop policy positions (Kumaran et al., 2012). It was during this period that the South African political system changed. The ANC had been unbanned, prisoners for the struggle were released and the ANC took its rightful place as the chief negotiator for the liberal movement (Jagwanth, 2003). The NGOs were also involved in monitoring the elections and facilitated the process to ensure they were free and fair (Greenstein, 1998).

- *The role of NGOs in the post-apartheid era*

With the ANC winning the elections in 1994, South Africa went through a transition phase. This transition to democracy left NGOs in a state of disarray as one NGO after

another failed due to lack of funding (Hendrickse, 2008). A substantial portion of their donations was given to effectively end the apartheid system, and with the ANC in power, this need subsided. In addition, international funding was usually provided through the government, which left NGOs with limited funding for their own initiated programmes as well as competition amongst them.

The ANC introduced the RDP project, which NGOs had to implement. Some NGOs found it difficult to adapt to the new agenda, which caused them to discontinue their operations (Kumaran et al., 2012). Other NGOs continued carrying out their activities as they no longer needed to align themselves with the ANC. Many anti-apartheid activists left the NGO sector to assume upper management positions in the newly elected democratic government, which led to a loss of skills and experience in the sector (Kumaran et al., 2012). This, unfortunately, created a relationship conflict between the ruling party and NGOs.

Although government legislation on all levels makes reference to the importance of the involvement of NGOs and other civil society in the decision-making process, it remains to be seen whether they have become truly empowered to effect changes on the ground. Their relationship with the current government has certainly resulted in many shortcomings, particularly with the funding opportunities. These challenges have ultimately affected their ability to respond to the needs of the poor (Noyoo, n.d.).

South African NGOs have certainly played a major role during and after the apartheid era. They contribute significantly to the socio-political and economic development of the country as they often play an intermediary role within society. They have the ability to provide particular goods and services where the markets have failed or where government falls short (Department of Social Development, 2012). Their involvement in humanitarian work and in decision-making at various levels is recognised by government through the Reconstruction and Development Programme, but whether they are truly empowered to continue making a positive contribution to society is questionable, given the current funding landscape.



#### **2.2.4 Size and scope of the NPO sector in South Africa**

According to the report released by the Department of Social Development (2015) and the South African NPO Database Report (2015), the demand for NPO registration rose significantly with numbers of registered organisations increasing from 65,633 in 2009/10 to 136,453 in 2014/15, an average growth of 86% over five years. The majority of these registered NPOs are voluntary associations, followed by non-profit companies and non-profit trusts (ibid).

According to the study conducted by Swilling and Russell (2002), NPOs are a major force in the economy. In terms of their contribution to the fiscal of the country, their total income in 2007 was estimated to be R12.5 billion, to which the South African government contributed substantially in the form of subsidies and other forms of grants, followed by the private sector through its corporate social investment programmes (Department of Social Development Discussion Document, 2012). Other forms of funding sources were derived from investments, membership fees and sales for services, goods and other forms of philanthropic giving (ibid). Swilling and Russell (2002) believed that the sectors that received most of the government funding were already well-developed, formal NPOs and that they were located in urban working- and middle-class communities rather than in poorer communities.

Swilling and Russell (2002) concluded that almost half (53%) of the NPOs were less formalised CBOs which were not registered and operating at a community level. Such informal organisations were believed to be making a significant contribution to alleviating poverty because of their ability to respond to issues at a community level (ibid).

### **2.3 FINANCIAL CHALLENGES FACING NGOS IN SOUTH AFRICA**

Achieving financial sustainability continues to be a challenge for most NGOs as their sources of income are mostly limited to funding opportunities made available by private donors or government grants. Sontag-Padilla (2012:vi-vii) identified the following as key challenges of financial sustainability for NPOs: risks associated with reliance on external funding sources and streams; creating of a non-profit brand; external expectations of partnerships; demonstrating value and accountability to funders and promoting community engagement and leadership. According to Fruttero

and Gauri (2005), the dependence of NGOs on external funding from official financiers as principals tends to drive a wedge between charitable objectives such as poverty alleviation in the recipient countries, and organizational imperatives related to the future of NGO operations and sustained funding. As a result, NGO missions and visions become donor-driven due to the financial dependency on donors.

Financial sustainability issues are compounded by the existence of competition for funds among charities operating in the same areas (Parsons, 2003; Trussel and Greenlee, 2004; Trussel and Parsons, 2008). The competition arises because NGOs do not necessarily produce commercial outputs, but rely heavily on income derived from donations. It has been argued that competition for funds diminishes sustainability (Lyons, 2001; Weerawandena et al., 2010). As funding becomes tighter, competition increases (Wallace, 2003). While a number of studies have been on competition for funding among NGOs, there is very little evidence on critical deficiencies that drive them to seek alternatives.

Due to these financial pressures, some NGOs transform into microfinance institutions to improve their financial performance. This process is often described as privatisation or de-mutualisation (Adams and Armitage, 2004). The reason is that it allows them greater freedom to raise capital. While financial sustainability may be achieved to some extent, the challenge that remains is that the focus on the priorities for growth and development in a society may shift to profit-making, thereby compromising the mission of an organisation.

Accountancy SA (2011), in the article "The CFO in the NPO arena: a complex environment", recommends the creation of endowments, that is the money that an organisation invests and spends prudently in order for it to continue to fund its operations into perpetuity. Their argument is that organisational endowments can provide a sense of security to trustees, management and organisational staff. The benefits could indeed be beneficial to an organisation's cash flow and improve sustainability. However, the challenge is that of sourcing potential donors who would be willing to assist NGOs in creating this endowment. Most donors have objectives they would like to achieve and they also have shareholders that they need to report to with regards to fund allocations. Fafchamps and Owen (2009) believe that NGOs must be able to have network effects, such as being part of an NGO Network or Umbrella,

in order to secure funding. However, this approach may inaccurately suggest that local NGOs with vast network effects operate efficiently and that donors are overlooking the value derived from other NGOs without network effects. Indeed, a fair evaluation process of selecting potential NGOs for funding that are not tied only to network effects may result in identifying efficient and effective local NGOs fulfilling their missions.

## **2.4 SOURCES OF INCOME FOR NPOS IN SOUTH AFRICA**

In order to overcome the challenges of financial sustainability, some NGOs establish income-generating activities to bridge the gap in times of financial hardships. According to the discussion document compiled by Statistics South Africa (2011), the majority of the income of such NPOs is derived from 3 core sources:

### **a) Local donations**

These are the largest providers of income to NPOs, and are in the form of either donations or sponsorships, which may be in cash or in kind. The extent to which in-kind contributions are reported depends upon the accounting practices of individual organisations.

### **b) Government subsidies**

Government subsidies are the second largest provider of income for NPOs. A number of central and provincial governments give grants to NPOs directly.

### **c) Membership subscriptions**

Membership subscriptions are also a major contributor to the transfer of income to NPOs in South Africa. Households make monetary donations in a variety of settings – from street appeals to collection plates at churches, to bequests. In addition, their participation in institutions may include a contribution via a subscription or membership fee, both of which are considered transfers because the actual service that members may receive from the NPO is unlikely to bear a strong relationship to the amount paid.

It is indicated that 30,9% of the total income of South African NPOs in 2011 was sourced from local donations, followed by government subsidies (28,9%), and membership subscription (24,6%) (Statistics South Africa, 2011). The smallest

contributor to the total income of South African NPOs was sales income (6,8%) and service income (8,8%) (ibid).

## **2.5 DEVELOPMENTS IN THE NGO SECTOR IN SOUTH AFRICA**

In 2012, the Department of Social Development (DSD) sought to review its principal policy legislation, the NPO Act 71 of 1997. A number of meetings and consultations were held during this period and the first draft Policy Framework was presented at the DSD Ministerial Summit (Inyathelo, 2014). Since then, there have been several amendments to the Framework. According to the draft document, the objective of the Framework is to regulate NPOs with the aim of enhancing the existing enabling environment for NPOs to flourish and also to protect the sector from abuse as well as to minimise undue disruptions to many of its positive contributions (Department of Social Development, 2012). The draft paper also clearly stated that this legal framework reform will involve an overall review of the current NPO Act, but with due consideration given to existing statutes and common law associated with the establishment of the relevant entities within the sector.

The policy proposes, amongst other things, the establishment of a new entity to be called The South African Nonprofit Organisations Regulatory Authority (SANPORA) and it is envisaged that SANPORA will fulfil a different role to that which the NPO Directorate is currently fulfilling (NGO Pulse, 2013). According to the policy, SANPORA would be responsible for:

- Registering organisations – it will register NPOs and will introduce an electronic registration process;
- Examining organisations – it will *“have at least the right to examine books, records and activities of non-profit organisations. To ensure further compliance, all reporting organisations must be subjected to random and selective audit by the supervisory organ”*
- Issuing sanctions – it will be responsible to issue sanctions against noncompliant organisations and the Policy states that: *“it is appropriate to have special sanctions for violations peculiar to non-profit organisations”*.

- Promoting compliance and enforcing punitive measures – SANPORA should: *“act swiftly and effectively to ensure compliance, prevent wrongdoing and enforce punitive measures”*.
- Providing guidance – SANPORA will also provide advice and guidance to noncompliant organisations and educate office-bearers about their duties and facilitate access to accredited training programmes on governance.
- Enabling blacklisting of organisations – it will, through the provision of public access information; *“enable the blacklisting of organisations that have been involved in unscrupulous practices to be known and to be dealt with accordingly so as to protect the sector and avoid prejudicial generalisation of the sector”*.  
*Reference for all these quotes?*

It is clear from the draft Policy Framework that NGOs in South Africa will be facing a more stringent Policy Framework. The intentions of the policy review will certainly benefit NGOs, and further discussions around the debate will provide a platform for NGOs, donors and academia to provide input that will shape the final document.

## **2.6 CURRENT STATUS OF THE NGO SECTOR IN SOUTH AFRICA**

According to an article titled ‘The South African Nonprofit Sector: struggling to survive, needing to thrive’ by Stuart (2013), the current NPO sector can be characterised by what is referred to as ‘new generation NGOs’. It further states that organisationally, NGOs are configured to have strong relationships with the public and corporate sectors, and to have innovative funding models and a variety of resource mobilisation strategies. These partnerships have led to the establishment of concepts and tools such as the setting of targets and log frames into the NGO sector. Dhunpath (2003) concluded that this has led to promoting more streamlined managerial structures and a higher degree of professionalism within NGOs as, over an extended period, basic strategic planning, monitoring, evaluation and general management skills have entered the sector.

Funding remains a major obstacle for NGOs. South Africa was not spared from the global economic crisis and it is evident that funding from donors has diminished substantially. According to the article titled ‘Critical perspectives on sustainability of the South African civil society sector’ by the Coalition of Civil Society Resource

Mobilisation (2012), private and corporate donor funding are the most reduced and, as a result, many NGOs have turned to the government for funding in order to keep afloat, ultimately creating increased competition among NGOs for government funds. As a result, NGOs are finding themselves in a difficult space of having to redefine their relationship with government. Friedman and McKaiser (2012) state that a perception exists that the current political leadership has enabled more conservative views to be expressed. The reality is that whenever NGOs hold the state to account, they are threatened with budget cuts. The Human Rights Commission attempted to hold some ANC politicians to account, but they were met with budget-cut threats (Friedman and McKaiser, 2012). This creates a view that government's invitation to participate is merely to show the public that it has had consultations before making any policy changes.

At present, South Africa has a challenging but growing NGO sector which boasts 136,453 registered NPOs. The current NPO Act 71 of 1997 is still the primary policy framework of legislation for NGOs in South Africa and the Department of Social Development is held responsible for implementing the Act. Despite its challenges, particularly the lack of funding opportunities, the sector is still flooded by demands for new registrations and rightfully so, as there is still a great demand for their services in the country.

## **2.7 CHAPTER SUMMARY**

South African NGOs play a significant role in nourishing a new democratic nation and addressing the needs of communities. Their contribution both during and after the apartheid era has been invaluable and is recognised by government and private corporations. Like many others in other developing countries, NGOs in South Africa have also been affected by the global economic recession, fuelling an already existing crisis of limited funding. Without funding, many NGOs have collapsed, leaving communities vulnerable as their basic needs are not met.

While the findings suggest that NGOs need capital or funding to achieve financial sustainability to survive this volatile environment and suggest various ways to secure it, they also need to have mechanisms in place to be able to measure their financial sustainability gaps on an ongoing basis. This study goes further to develop financial

sustainability mechanisms that would allow local NGOs to measure their future sustainability to meet their organisational vision and mission.

## **CHAPTER 3**

### **RESEARCH METHODOLOGY**

#### **3.1 INTRODUCTION**

This chapter describes the methodology, research design and methods that were used in this research study. It describes how data was collected, captured and analysed. Ethical considerations associated with an academic research process of this nature are also discussed in this chapter.

#### **3.2 METHODOLOGY**

A qualitative research methodology was used for this study in order to provide relevant answers to the research question. According to Van Maanen (1979), as cited in Welman et al., (2005), qualitative research covers an array of interpretative techniques which seek to describe, decode, translate and come to terms with the meaning of naturally occurring phenomena in the social world. Because the study aimed to examine the issues of financial sustainability for local NGOs, it was therefore appropriate and fitting that qualitative research be considered. The purpose of using a qualitative research was to allow the researcher to focus on the quality, nature, understanding and meaning of the human experience. It is precisely in a qualitative research design that the emphasis is on understanding as well as constructing meaning (Draper, 2004).

#### **3.3 RESEARCH DESIGN**

A research design is a strategy to find answers to the research question. Bless et al., (1995) define research design as a set of steps that guide the researcher in reviewing, collecting, analysing and interpreting data, and documenting observed facts. According to Trochim (2006), it is used to structure the research by showing how major parts of the research project work together to address the research problem question. The choice of the design is based on the philosophical orientation of the researcher and the intended outcome, whether it is qualitative or quantitative information (Leedy, 1993).



Due to the nature of this study, an exploratory study was identified as the most appropriate research design for this study. According to Babbie (2005), an exploratory design is useful when a researcher is examining a relatively new area of interest and that it seldom provides satisfactory answers to research questions. Based on the literature review, much focus has been given to NGO sustainability, with little focus on their financial sustainability and this study aimed to gain insight into this particular aspect.

The emphasis of the study was to determine common success measures local NGOs need to adopt towards their goal of achieving financial sustainability. It began by examining current strategies and methods used by local NGOs in addressing financial sustainability issues.

### **3.3.1 Research population**

Welman (2007) defines a research population as the total collection of all units of analysis from (about) which the researcher wishes to draw specific conclusions. It assists the researcher in deciding which units to include and which ones to exclude from the study. Since the inception of the NPO Act until end of March 2015, there were a total of 136,453 registered organisations (National NPO Database Report, 2015). Of this, 43,875 were registered in the Gauteng Province, from which the researcher sampled for the study. The researcher's targeted population sample consisted of members from local NGOs based in the Gauteng Province. The NGOs targeted were those that are registered as NPOs in terms of the Non-Profit Organisations Act 71 of 1997.

The researcher also targeted individuals who have the leadership responsibility, either directly or indirectly, of ensuring that financial sustainability of an NGO is achieved. Proficiency in English and the ability to demonstrate knowledge on issues of organisational financial sustainability was a key requirement for targeted individuals.

### **3.3.2 Sampling**

Maree et al., (2011) define sampling as the process by which a portion of a population is selected for a research study. In simple terms, it is a process in which people or objects are selected to represent the broader community. In most instances, it is

impossible to gain knowledge about an entire community or a large group of objects and sampling provides researchers with the opportunity to select an element of a target population.

### ***3.3.2.1 Sample size***

For the purpose of the study, fifteen members from fifteen local NGOs in the Gauteng Province were identified. According to De Vos et al. (2005:328), there are no specific rules on the sample size as the size is determined on the basis of what the researcher wants to know, the objectives that the research wants to achieve, what will bring credibility and what will be useful. Due to the qualitative nature of the study, the selected sample size was sufficient to provide answers to the research problem that the study was trying to address. The local NGOs selected are legally registered in terms of the NPO Act 71 of 1997, and at least one participant from each of the fifteen organisations was selected to participate. The research took into consideration the organisational activities as defined by Department of Social Development, and attempted to select at least one NGO that falls within each of the defined categories. The geographical selection for the study was deliberate mainly due to budget constraints. As the researcher resides in the Gauteng Province, collecting data was easier, cheaper and convenient.

The research was conducted in a fair and equitable manner. Attributes such as culture, language, gender, race, ethnicity, age and disability are normally taken into consideration during sampling. However, for the purpose of this study, these attributes did not have an impact on the findings and results of the study. The participants were selected on the basis of their knowledge of organisational financial sustainability and their proficiency in the English language.

### ***3.3.2.2 Sampling methods***

In research, there are two types of sampling techniques or methods, namely probability and non-probability sampling.

a) *Probability sampling*

According to Fink (2003), in probability sampling (also known as random sampling), every subject or unit has an equal chance of being selected from the population. The advantage of using this technique is that it is easier to calculate sampling error since each population member has a known, non-zero probability of being selected.

There are different types of probability sampling, summarised as follows (Henry, 1990: 25):

- *Simple random sampling* which requires that each member of the population has an equal probability of being selected;
- *Systematic random sampling* which requires each member of the study population to be either assembled or listed. A random start is designated, then members of the population are selected at equal intervals;
- *Stratified random sampling* which requires each member of the study population to be assigned to a group or stratum, from which a simple random sample is selected;
- *Cluster random sampling* which requires each member of the study population to be assigned to a group or cluster. The clusters are selected at random and all members of a selected cluster are included in the sample.

b) *Non-probability sampling*

In non-probability sampling, it is almost impossible to determine the extent to which the sample differs from the population. In this technique, the elements of the population are selected on the basis of their accessibility or availability; thus it does not give all the individuals of the population an equal chance of being selected.

Henry (1990) summarizes the types of non-probability methods as follows:

- *Convenience sampling* which selects participants/cases based on their availability for the study;
- *Purposive sampling* involves selecting a sample based on the judgement of a researcher as representing similar characteristics;

- *Snowball sampling* in which group members identify additional members to be included in the sample; and
- *Quota sampling* whereby interviewers select a sample that yields the same proportions as the population proportions on easily identified variables.

Generally, the choice between probability and non-probability sampling depends on the goal of the research. Probability sampling is appropriate when a researcher wants to have a certain degree of confidence in the data to be collected, whereas non-probability sampling does not provide this advantage but is useful for researchers to achieve particular objectives of the research at hand (Henry, 1990). Other researchers assert that while probability methods are suitable for large scale studies that are concerned with representativeness, non-probability methods are more suitable for in-depth qualitative research in which the focus is on understanding complex social phenomena (Marshall, 1996; Small, 2009)

For the purpose of this study, purposive sampling, a non-probability sampling method, was adopted. According to Patton (1990), purposive sampling allows participants to be selected because of a certain characteristic and it is a popular sampling method in qualitative research. This method was found to be suitable because the study was informed by individuals who were purposely selected due to their understanding of the research problem and their ability to reflect on the phenomena within the appropriate context. The respondents were evaluated based on their knowledge and experience of the research problem.

### **3.4 RESEARCH METHODS**

According to Frey et al. (1991), research methods are the particular strategies researchers use to collect the evidence necessary for building and testing theories. They serve as tools by which research information is gathered.

The nature of the research determines a suitable approach for the study, either qualitative or quantitative methods. A qualitative method was used in view of the objectives of this study that are aimed at assessing the issues of financial sustainability for local NGOs in Gauteng.

### **3.4.1 Data sources**

For this study, only primary data was used. Primary data refers to data gathered by a researcher and is done by survey research.

### **3.4.2 Data Collection Instruments**

Due to the qualitative and exploratory nature of the study, the following primary data collection instruments were used:

#### *a) Key informant interviews*

Key informant interviews involve interviewing a select group of individuals who are likely to provide the needed information, ideas, and insights on a particular subject (Kumar, 1989). The interview covered a range of questions designed to answer the research question. They were designed and administered to those who were willing to be interviewed at a time and place that was convenient to them. According to Kumar (1989), there are advantages and disadvantages to using key informant interviews. The advantages are:

- Information comes directly from knowledgeable people hence key informant interviews often provide data and insight that cannot be obtained using other methods;
- They provide flexibility to explore new ideas and issues that had not been anticipated in planning the study but that are relevant to its purpose;
- It is generally easy to find people with the necessary skills to conduct key informant interviews because they possess the professional training and experience required;
- Key informant interviews are among the least expensive of the research methods.

The disadvantages to using key informant interviews are that:

- Key informant interviews provide only a very limited basis for quantification; they are rarely appropriate when quantitative data are needed;
- Findings can be biased if the informants are not carefully selected;

- Findings are susceptible to interviewer biases, particularly if he/she picks up information and ideas that confirm his/her preconceived notions, give more credence to the views of the elites than those from lower socioeconomic strata or respond more to vivid descriptions and selective data than to abstract ideas and explanations. It is therefore imperative that the investigators become familiar with these pitfalls;
- When only a few people are interviewed (i.e. fewer than 15), it may be difficult to demonstrate the validity of the findings. It is not easy to prove that the interviewees are, in fact, knowledgeable and informed and that they are representative of their peers in their information and recommendations.

#### *b) Self-administered questionnaires*

Self-administered questionnaires are the most popular methods of gathering information from respondents. They consist of a series of questions and prompts that are administered to the target population for the purpose of gathering the required data.

This study used self-administered questionnaires to collect data, and administered them to those who were willing to participate in the study but couldn't make the time or were unavailable for key informant interviews. The researcher noted that participants were senior members of organisations who weren't always available for interviews due to work commitments, travels, and other demanding commitments they had.

In order to solicit as much information and input as possible, both open- and closed-ended questionnaires were designed. The study targeted rich data which enabled the researcher to find meaning in the responses.

### **3.4.3 The research process**

#### ***3.4.3.1 Preparatory Stage***

The preparatory stage of data collection began with fieldwork preparations. According to Gomm (2006), fieldwork preparation varies. It can start with seeking permission to

enter the areas where the study is to be conducted, as well as constructing the interview questions, printing and acquiring the necessary stationery for data collection.

Informed by the research objectives, the researcher constructed interview questions that were administered to selected participants. In preparation for data collection, the researcher acquired a tape recorder for recording the participant interview, as well as stationery for noting all the responses. Residential addresses and contact details of selected NGOs were sourced and verified through the NPO Database of the National Department of Social Development to ensure that their NPO registration status was still valid.

#### ***3.4.3.2 Data Gathering***

A key informant interview was administered by the researcher to a senior management official of a local NGO based in the Gauteng Province. The interview was held in a safe and comfortable space, allowing the respondent to feel comfortable in her response. The respondent was allowed to share areas she felt were important for inclusion in the study. The interview lasted between twenty and thirty minutes. The questions for the interview guide were predetermined according to the objectives of the study.

Questionnaires were only administered to respondents who couldn't make the time for key informant interviews. The questions that were used for this instrument were designed similar to key informant interview questions, and the respondents were provided a section where they could add any other comments they felt needed to have been included in the questionnaire and deemed necessary to be part of the study. Completing the questionnaire was also estimated to last for not more than thirty minutes.

#### ***3.4.3.3 Data Capturing***

An audio recording was captured during the key informant interview. According to McLafferty (2004), audio recordings act as validity checks as the respondents' contributions are always available for scrutiny. The researcher also took notes during the interview. The researcher was also aware that the recording of the interview could have influenced the responses of the respondent.

E-mail correspondence was used for administering questionnaires to respondents who were not available for interviews. The researcher provided sufficient time for the respondents to complete the questionnaires and followed up telephonically on returning completed questionnaires.

### **3.5 DATA ANALYSIS**

The data was analysed using a thematic analysis. The reason for using thematic analysis is because it is the most appropriate method for analysing patterns in qualitative data. Braun and Clarke (2006) define thematic analysis as a qualitative analytic method for identifying, analysing and reporting patterns or themes within data. They further state that it minimally organises and describes a data set in rich detail and frequently goes further by interpreting various aspects of the research topic. The aim of a thematic analysis is to explore the understanding of an issue or the significance of an idea, and it involves the process of deriving themes from the gathered data and illustrating them (Attridge-Stirling, 2001).

According to Alhojailan (2012), thematic analysis is appropriate in the following situations:

#### *a) Data interpretation*

Good qualitative research needs to be able to draw interpretations and be consistent with data collected. With this in mind, thematic analysis is capable to detect and identify factors or variables that influence any issue generated by participants. As a result, the participant's interpretations are significant in terms of giving the most appropriate explanations for their behaviours, actions and thoughts.

#### *b) Deductive and inductive approaches*

The flexibility of thematic analysis allows it to be used in both inductive and deductive methodologies (Frith and Gleeson, 2004; Hayes, 1997). This flexibility would enable any researcher to deal with the observational data collected throughout the study.



#### *c) Analysis of two different phases of data*

Thirdly, thematic analysis could be appropriate when the study aims to understand the current practices of any individual, in particular, the influence of any variable used by participants in a practical way in order to investigate and identify how current situations are influenced by their points of view. This approach fits in with analysing the different phases of data collection, the pre- and post-data.

#### *d) Coding and categorising*

Lastly, thematic analysis provides the opportunity to code and categorise data into themes. For example, how issues influence the perceptions of participants. In the case of thematic analysis, processed data can be displayed and classified according to its similarities and differences (Miles and Huberman, 1994). In order to achieve the above, the process should include coding, categorisation and noting patterns (Braun and Clarke, 2006). In addition, it is also able to provide a relationship between the variables and factors in order to create a reasonable and logical chain of evidence (Creswell, 2009; Braun and Clarke, 2006; Miles and Huberman, 1994). Therefore, the research findings will be analysed according to the themes for both the key informant interview as well as data collected through administering questionnaires.

### **3.6 LIMITATIONS OF THE STUDY**

The research was conducted with local NGOs in the Gauteng Province only. Although the Province itself has the highest number of registered NGOs, the findings of the research cannot therefore be used as a generalisation for other local NGOs in the other Provinces. The study also did not select local NGOs according to certain criteria. The selection criteria were random because the researcher was of the opinion that the responses could not have offered any different perspective on the research question and thus did not compromise the credibility of the study.

### **3.7 ETHICAL CONSIDERATIONS**

According to Saunders *et al.* (2003), a range of ethical issues may arise during the research process regarding: privacy of the respondents; their right to withdraw and the voluntary nature of participation; consent and possible deception of participants;

maintenance of confidentiality of data provided and anonymity of participants; effects on participants of the way in which the researcher uses, analyses and reports the data; behaviour and objectivity of the researcher. The research was conducted ethically, guided by the NMMU code of research ethics. The participants were requested to participate in the study via e-mail or telephonically. For respondents who were available, an appointment was scheduled and the interview took place at the time and place convenient to the respondent.

A consent form was provided for the respondents to grant the researcher permission to collect data and to use the information for the purpose of the study. Participation in the research was voluntary and the researcher took care to protect the rights of the participants.

### **3.8 CHAPTER SUMMARY**

The purpose of this chapter was to design a plan of action for collecting, sorting and presenting the data collected for the study. The research employed qualitative research methods, which were described. The research methods were carefully selected to yield the best results and to provide a clear analysis. The researcher recognised the ethical conduct necessary for academic research of this nature and the need to take full responsibility for all the ethical concerns and procedures related to the research. The next chapter, Chapter 4, will present the findings from the data to be collected.

## **CHAPTER 4**

### **FINDINGS AND INTERPRETATIONS OF DATA**

#### **4.1 INTRODUCTION**

This chapter presents the findings and interpretations of data collected during the research process. The main purpose of this research was to assess the issues of financial sustainability within local NGOs based in the Gauteng Province and how they can identify financial sustainability gaps over the long-term. The objectives were to:

- determine the extent to which these local NGOs strive to achieve financial sustainability;
- explore methods and strategies for ensuring organisational financial sustainability;
- analyse the effectiveness of the methods and strategies that they use to achieve financial sustainability;
- identify common success factors necessary to attain organisational financial sustainability;
- determine ways which these NGOs solve financial challenges, as well as the means of utilising available opportunities; and
- recommend financial sustainability mechanisms that will help NGOs to track financial sustainability issues early and provide necessary feedback for any adjustments;

As outlined in Chapter 3, the research followed a qualitative approach to achieve the purpose and objectives of the study. Data was gathered through self-administered questionnaires for those respondents who were not available for an interview and a key informant interview was conducted where the respondent was available for a face-to-face interview. The respondents were purposely selected based on their knowledge of the subject matter.

## 4.2 RESPONSE RATE

The results of the study were collected from ten (10) respondents, nine (9) of whom responded through completion of the self-administered questionnaire, and only one (1) through a face-to-face interview. The researcher aimed to collect data from fifteen (15) respondents from various NGOs, but due to the low response rate, could not reach the target. A total of 104 e-mails were sent to local NGOs, requesting their permission to participate in the study. Of these, 31 were not interested in participating, 21 could not be reached due to their schedules, 42 did not respond despite follow ups done telephonically and by e-mail, 9 requested to complete questionnaires and only 1 requested a face-to-face interview. The response rate, which makes up two-third (2/3) of the target, was sufficient to analyse the feedback received.

## 4.3 FINDINGS AND INTERPRETATIONS OF DATA

This chapter presents the findings and interpretations from the data collected, using themes and sub-themes. These findings represent the data collected through a key informant interview and self-administered questionnaires. In preparing the analysis of data, the researcher adopted the phases of thematic analysis, as described by Braun & Clarke (2006).

**Table 4.1: Phases of thematic Analysis (according to Braun & Clarke, 2006).**

<b>Phases of Thematic Analysis</b>	<b>Phase Description of the process</b>
1 Familiarise yourself with your data	Transcribing data (if necessary), reading and rereading the data, noting down initial ideas.
2 Generating initial codes	Coding interesting features of the data in a systematic fashion across the entire data set, collating data relevant to each code.
3 Searching for themes	Collating codes into potential themes, gathering all data relevant to each potential theme.
4 Reviewing themes	Checking if the themes work in relation to the coded extract and the entire data set, generating a thematic 'map' of the analysis.

<b>Phases of Thematic Analysis</b>	<b>Phase Description of the process</b>
5 Defining and naming themes	Ongoing analysis to refine the specifics of each theme, and the overall story the analysis tells, generating clear definitions and names for each theme.
6 Producing the report	The final opportunity for analysis. Selection of vivid, compelling extract examples, final analysis of selected extracts, relating back of the analysis of the research questions and literature, producing a scholarly report of the analysis.

### Theme 1: Organisational profile

As illustrated in Table 4.1, the local NGOs that were selected for the study have been in existence for more than a decade, with the youngest operating for 14 years and the oldest for 97 years. The vast number of years that they have been operating suggests that they have identified strategies over time to remain sustainable both from an organisational and financial standpoint.

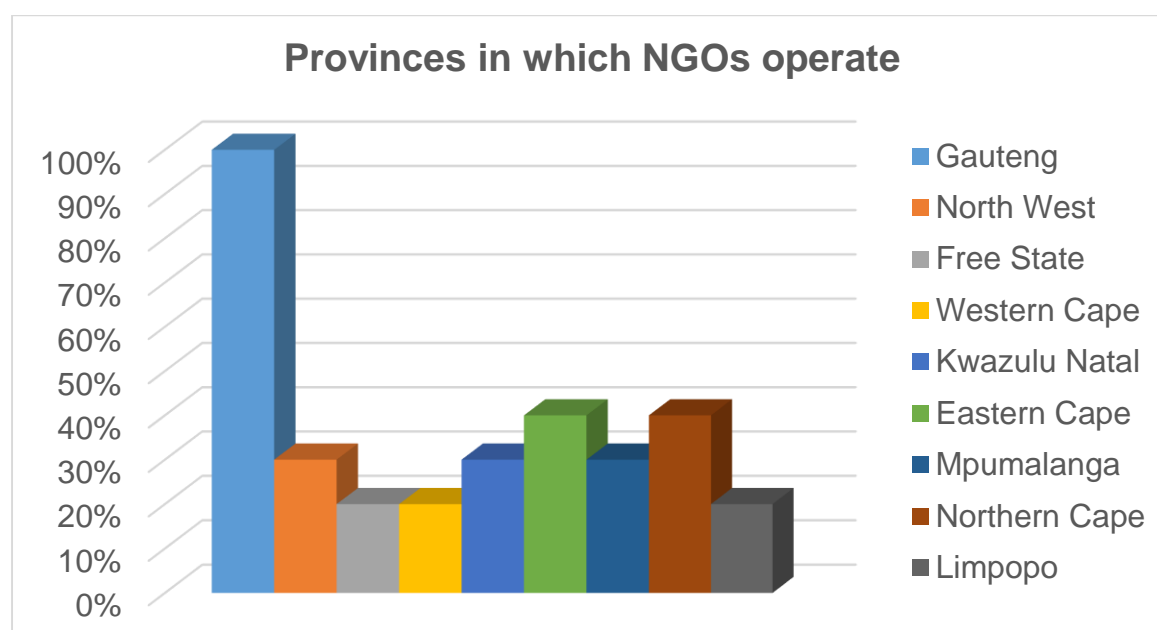
**Table 4.2: Organisational profile**

No.	NGO Name **	Year Established	Registration in terms of legislation			
1	1stNGO	1939	NPO Act 71 of 1997			
2	AlphaNGO	1919	NPO Act 71 of 1997	Companies Act 71 of 2008		
3	ArtNGO	2002	NPO Act 71 of 1997	Companies Act 71 of 2008	Income Tax Act 28 of 1997;	
4	AbcNGO	1958	NPO Act 71 of 1997		Income Tax Act 28 of 1997;	
5	ActiveNGO	1954	NPO Act 71 of 1997			
6	AlINGO	1995	NPO Act 71 of 1997			
7	BestNGO	2000	NPO Act 71 of 1997			
8	BlogNGO	1999	NPO Act 71 of 1997			
9	BrandNGO	1996	NPO Act 71 of 1997			
10	BigNGO	1993	NPO Act 71 of 1997			Trust Property Control Act 57 of 1988

\*\* Not the real name

According to the respondents, all NGOs are registered in terms of legislation to operate legally as NPOs in South Africa. Section 18 and 19 of the NPO Act requires that in order for NPOs to remain legally registered, they must submit annual reports comprising of narrative reports, financial statements and an accounting officer's report. The Act confides that failure to adhere to this requirement will result in de-registration. The responses indicated that they have all complied with this requirement.

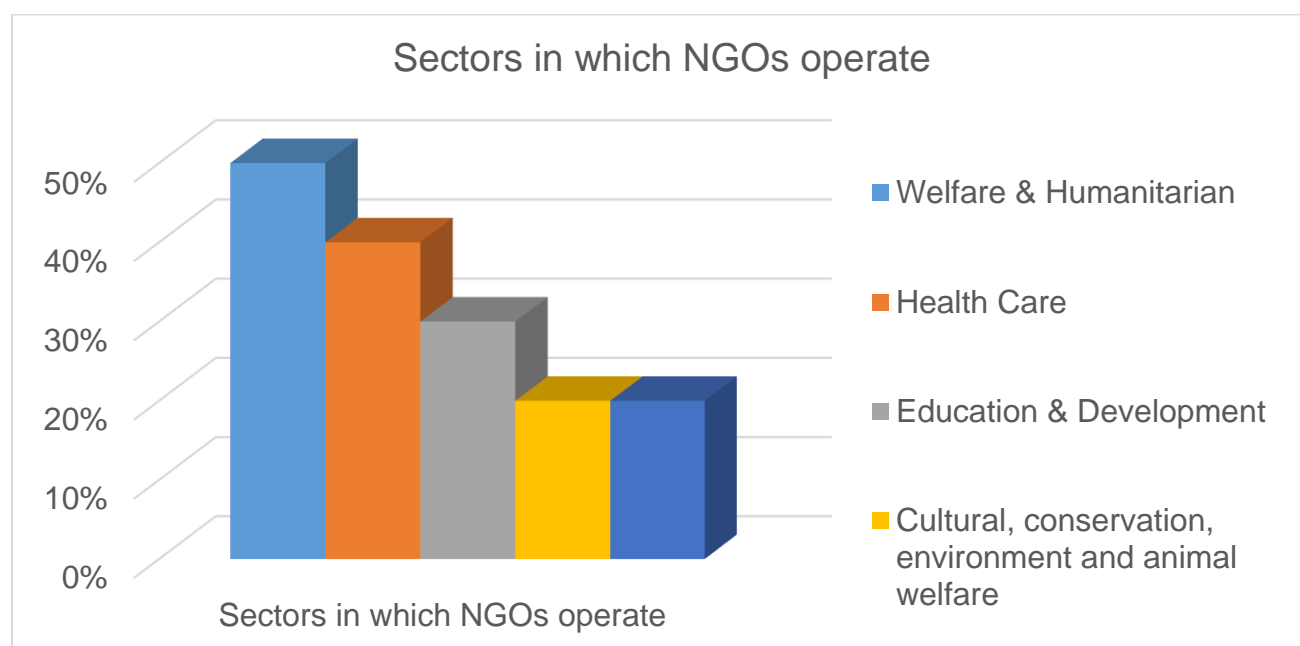
The study focused on local NGOs that are based in the Gauteng Province and also implement their programmes within the province. Nine (9) out of 10 (or 90%) are also operating in other provinces within the country, with the majority operating in the Eastern Cape and Northern Cape. This finding implies that financial sustainability issues within these organisations are also prevalent in other provinces.



**Figure 4.1: Provinces in which NGOs operate**

The researcher also examined which activities these NGOs are implementing in carrying out their missions. The aim was to collect data from at least one NGO under each of the nine categories as defined by the Department of Social Development. However, not all NGOs in these sectors were willing to participate in the study. Those that participated in the study indicated in which organisational activities they were implementing their activities. Out of the 10, only 4 (40%) indicated that they were implementing more than one activity in the areas where they operate. The majority implement activities in the welfare and humanitarian category, followed by the health

care category. This finding suggests that NGOs are, to a certain extent, addressing issues of a welfare and humanitarian nature, health, education and development, cultural, conservation, environment, animal welfare and other challenges faced by society in general. It also suggests that resources have been made available for local NGOs to achieve these objectives.



**Figure 4.2: Sectors in which NGOs operate**

## Theme 2: Financial information

In order to assess organisational financial sustainability and whether current strategies and methods to achieve this goal are effective, the researcher gathered historical financial information from the respondents. In order to make a meaningful deduction, this information was collected for a period of five (5) years between the years 2011 and 2015. All the respondents provided estimates of their annual budgets, with some providing only the information they had available.

According to the findings, the trends for annual expenditure budgets vary from one organisation to another, as indicated in Table 4.3. Between the years 2011 and 2013, the majority of the NGOs (40%) had a higher budget. However, this changed between 2013 and 2015 when more than 60% of the NGOs experienced a decline in their annual budgets. The downward spiral in funding in the recent years may have been

caused by the existence of competition between NGOs for the same funding and the rising number of new NPO registrations, as the literature suggests. As a result, NGOs need to constantly prepare for changes in the funding landscape by ensuring that they have mechanisms in place to identify such trends and make the necessary strategic decisions.

**TABLE 4.3: Comparison of annual expenditure budgets between 2011 and 2015**

Yearly Comparison	Increased	Decreased	Remained the same	No data *	Total
2011 - 2012	40%	40%	-	20%	100%
2012 - 2013	40%	30%	10%	20%	100%
2013 - 2014	20%	70%	10%	-	100%
2014 - 2015	20%	60%	20%	-	100%

\* *No data available*

The researcher also established the organisational sources of funding for the most recent financial year. As illustrated in Table 4.4, the majority of funding was received from government, with 80% of the respondents indicating that they received between 50% and 82% of their income from government. The dependency on government funding will further threaten NGO financial sustainability because, as literature indicated, the government is swiftly shifting its focus from aid to programmes that promote self-development.

National funding agencies contributed between 5% and 10% to NGO revenue, foundations and philanthropies contributed 10% to 11%, corporate social investments contributed 5% to 10%, membership subscriptions contributed 2% to 60%, and others, including individuals, local businesses, bequests, educational tourism, parish pledges and mentorship fees, contributed between 25% and 80% to local NGOs.



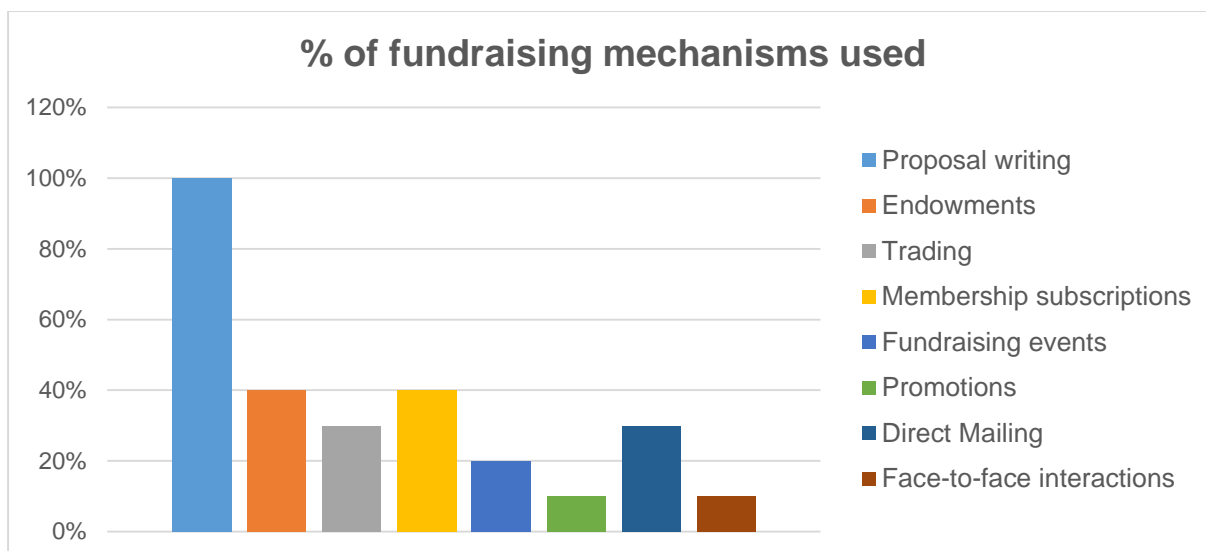
**TABLE 4.4: Sources of funding and percentage contributions received**

Sources of funding	No. of NGOs receiving funding	NGO Revenue contribution received
1. Government funding	8	50% - 82%
2. National funding agencies	4	5% - 10%
3. Foreign donations	0	-
4. Foundations and Philanthropies	6	10% - 11%
5. Corporate Social Investments	10	5% - 10%
6. Membership fees / subscriptions	2	2% - 60%
7. Others	6	25% - 80%

This finding suggests that local NGOs are highly dependent on the government for funding. The relationship with the government must be maintained on an ongoing basis as failure to do so may result in many NGOs closing down. This is evident in the literature whereby the Human Rights Commission was also threatened with budget cuts after making attempts to hold some of the government officials to account. Corporate social investments are also the largest contributors of income to local NGOs, however, their contribution in relation to organisational income is relatively low. Unless NGOs can be self-sustaining, the dependency on external sources of income will always expose them to aligning their mission to those of their contributors.

### **Theme 3: Fundraising mechanisms and challenges**

In order to secure funding, the respondents indicated that they used a variety of mechanisms within their respective organisations. All (100%) of the respondents indicated that they used writing of proposals as one of their core fundraising mechanisms, indicating also that it is an effective mechanism for them to raise funds. As quoted from 1stNGO: *“it is an excellent mechanism for raising funds”*. However, the general concern was that it doesn’t always lead to an effective combination of grant monies due to the restrictions imposed by the donors on the use of funding. The other mechanisms that NGOs used to raise funds were membership subscriptions, endowments, trading, fundraising events, promotions, direct mailing and face-to-face interactions with potential funders.



**Figure 4.3: Fundraising mechanisms used by NGOs**

As NGOs strive to raise funds in order to be financially sustainable, there are often challenges in securing funds. According to the data collected, 80% of the respondents admitted that they had challenges securing funds, as indicated in Figure 4.3. Some of their challenges were caused by their inability to raise funds in the areas in which they work, shortage of staff, lack of skills whereby their funding proposals were not selected, shrinking funding in the NGO space, competition within the NGO sector and a lack of visibility to potential funders. In order to overcome these challenges, the respondents indicated that they often try to limit their programmes, tighten their budget spending, recruit dedicated and passionate volunteers, put more effort into business development or fundraising to achieve income diversification, promote skills development and training programmes. Others are still looking for ways to explore other effective means of fundraising. They also try to optimise all the available opportunities as best as they can, using their extensive experience and leverage in past and current project implementation successes, but also believe that there is room for improvement.

Other respondents (20%) who didn't face any challenges in securing funds emphasised that they either had endowments or secured funding for the next five years.



**Figure 4.4: Challenges in securing funds**

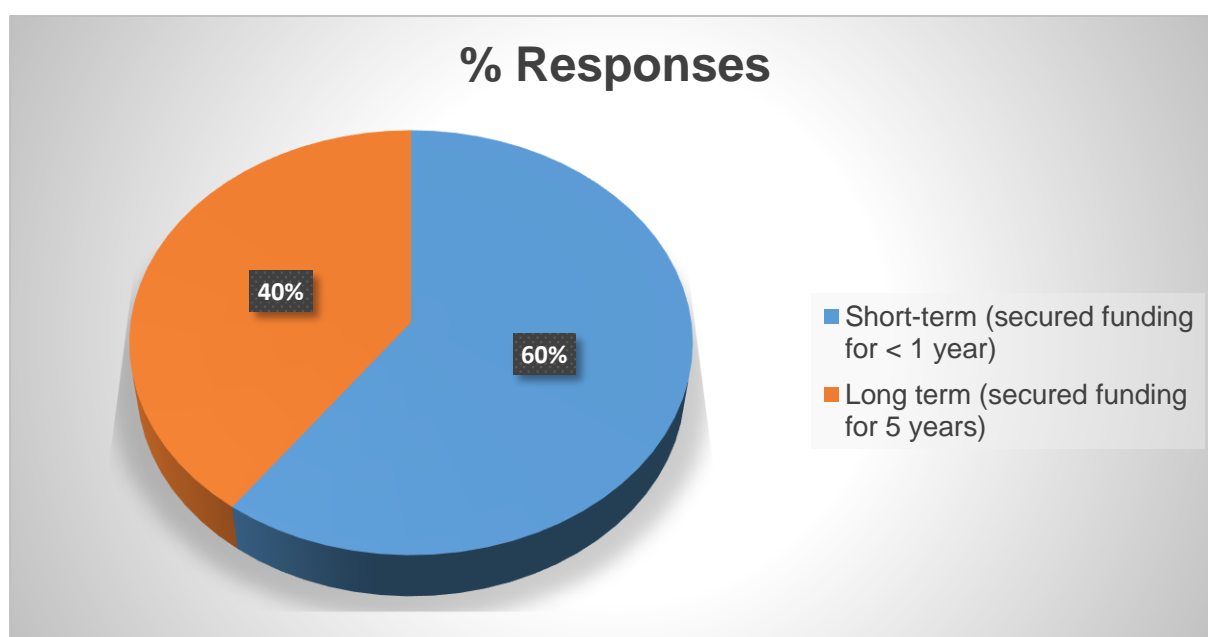
The challenges faced by local NGOs in securing funds are mainly due to internal factors such as staff shortage, area limitations, lack of visibility, lack of fundraising skills and external factors such as competition between NGOs for the same funding and shrinking funding. While it is difficult for them to control external factors, there is potential to overcome internal factors, provided additional resources are available to do so.

The NGOs are increasingly investing in effective fundraising strategies in order to secure long-term funding. Traditional mechanisms, such as writing of proposals, remain relevant and many NGOs continue to utilise this strategy. Its effectiveness, however, is questionable due to the funding restrictions imposed by the donors. The creation of endowments is undoubtedly one of the most effective strategies and 20% of the respondents indicated not having challenges in securing funds. Literature also supports the creation of endowments as a means to ensuring sustainability.

#### **Theme 4: Financial sustainability**

Out of 10, 6 (60%) respondents described their NGOs as having short-term financial sustainability prospects, with funding secured for not more than one year. The other 4

(40%) described their financial sustainability prospects as long-term, with funding secured for the next five years.



**Figure 4.5: Funding prospects for local NGOs**

In addition to the current strategies that NGOs are applying to ensure financial sustainability, the respondents also indicated that there are other possible strategies or methods that can be applied effectively to ensure financial sustainability. These include the formulation of a marketing strategy, establishment of income-generating activities, hosting gala events, doing fun walks, identifying business concerns in their areas of operation and continuing with their fundraising projects. All the respondents are in agreement that funding diversification has a positive impact on financial sustainability. They believe that it reduces or eliminates the financial gaps experienced when other donor funding agreements come to an end, and provides NGOs with the opportunity to accomplish their organisational missions, provided there are no restrictions on the use of the funds.

The majority of the respondents indicated that their financial sustainability prospects are rather short term, with less than a year of secured funding. This leaves many NGOs vulnerable, as their goal of achieving financial sustainability over the long-term might not be achieved. Although many believe that there are other possible strategies they can adopt to improve their chances of raising additional funds, the implementation

of such methods or strategies may require skills development or training on their part. Funding diversification will certainly assist in leveraging current funding, however, NGOs will require both financial and human resources to identify opportunities and build on current business development strategies.

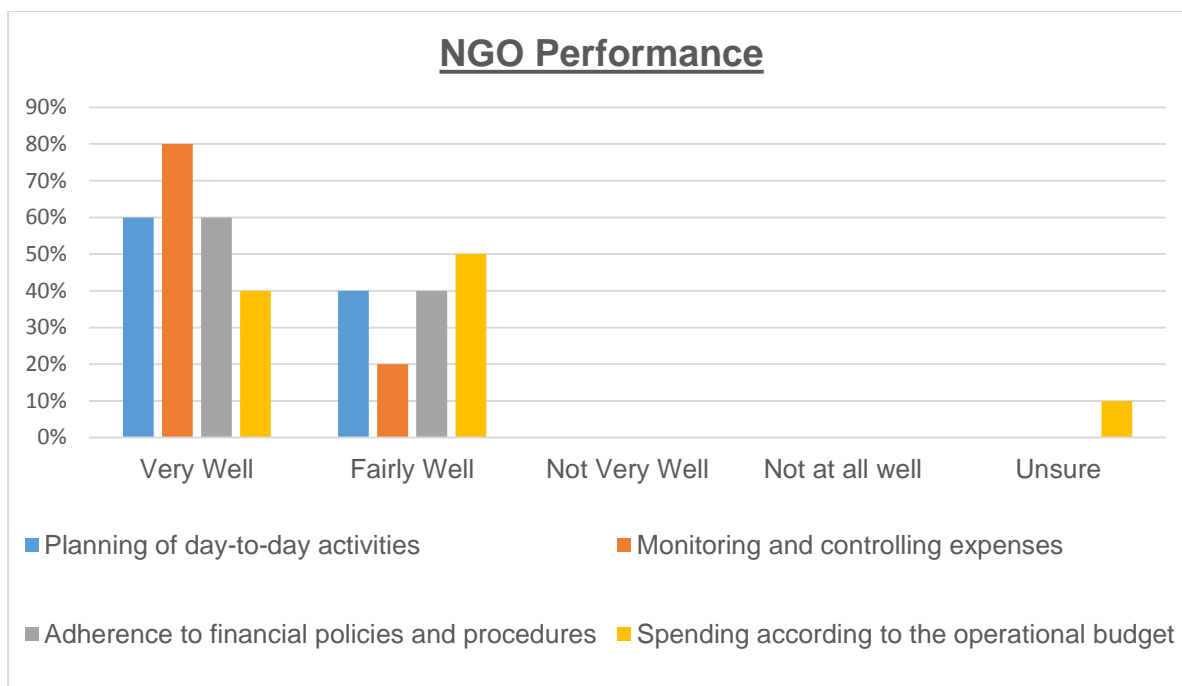
### **Theme 5: Financial management practices**

The financial sustainability of an NGO depends, to a certain degree, on good financial management. Funders hold NGOs to the highest level of accountability and some award grants on condition that NGOs can demonstrate good financial management practices. According to Alin et al. (2006), good practices in financial management will enable NGOs to:

- make effective and efficient use of resources to achieve objectives and fulfil commitments to stakeholders;
- be more accountable to donors and other stakeholders;
- gain the respect and confidence of funding agencies, partners and the communities they serve;
- have the advantage in competition for increasingly scarce resources; and
- prepare themselves for long-term financial sustainability.

All the respondents describe their NGOs as maintaining good financial management practices. The responses indicate that all they keep accurate records of all financial transactions, have internal controls in place to ensure the reliability of financial information, accurately link operational budgets to their organisation's strategic plan, prepare financial reports to management for key decision making, produce annual financial statements through independent auditors and have financial policies and procedures in place to provide the framework for managing financial resources.

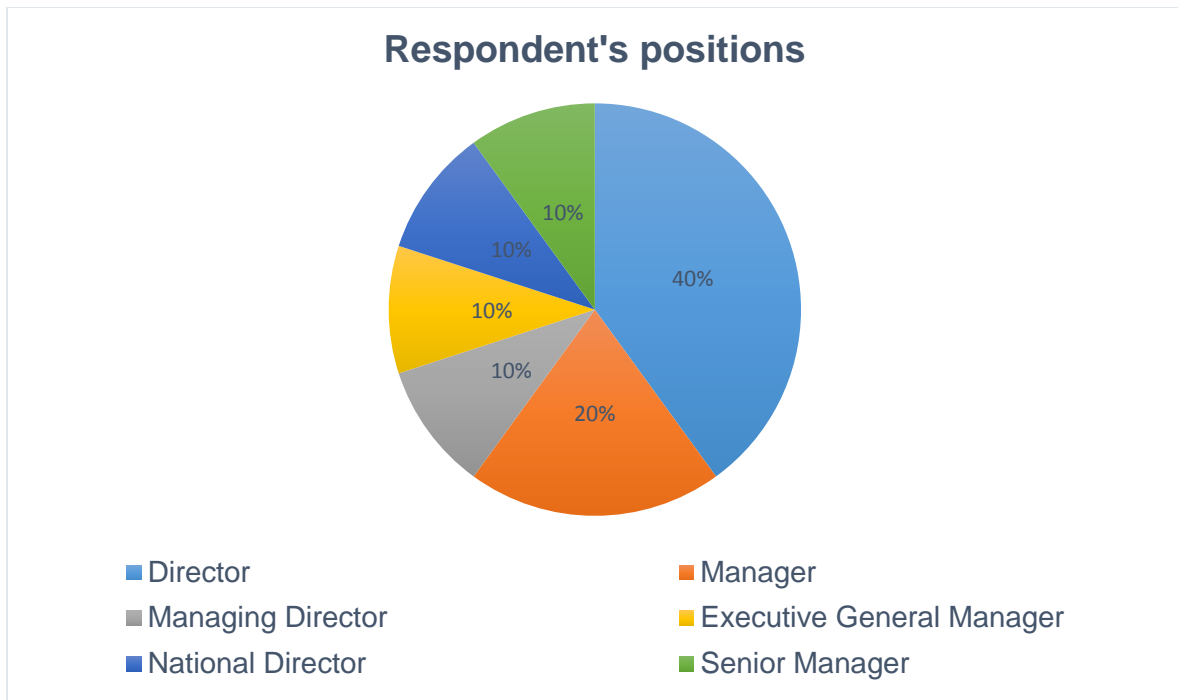
They describe their performance as either very good or fairly good in terms of planning day-to-day activities, monitoring and controlling expenses, adhering to financial policies and procedures, and their spending according to operational budgets, with 10% unsure of how they are spending in accordance with the operational budget.



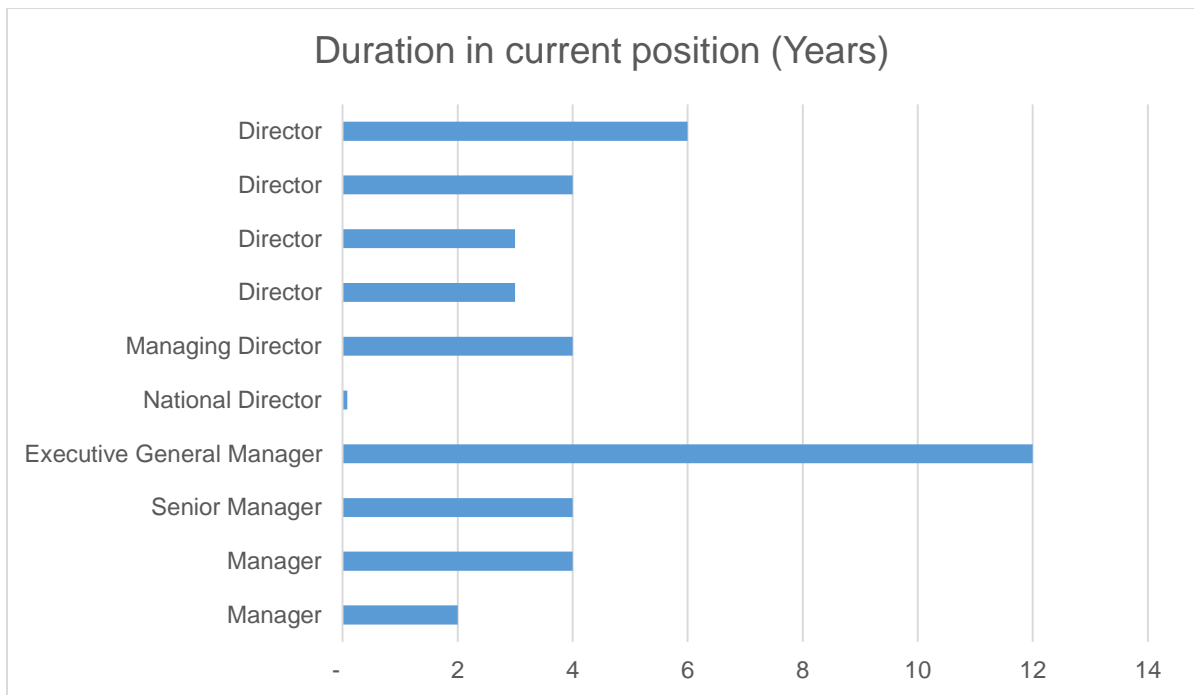
**Figure 4.6: NGO Performance**

### Theme 6: Respondent profile

The research sought to identify the relevant respondents so that the responses would not be compromised in any way. To determine whether the respondents selected for the study were in fact meeting this requirement, the interview questions included providing information regarding their position title and the duration in which they had been in their current position. In addition, the research questions were formulated in such a way that they would provide the researcher with the opportunity to observe the respondent's knowledge on the subject matter. The researcher was satisfied that these requirements were met. The respondents were articulate on the subject, demonstrating that they directly or indirectly had the responsibility for ensuring financial sustainability in their respective NGOs as they held management or leadership positions. The duration in their current positions differed, with the shortest having been employed for 3 weeks and the longest for 12 years. Based on the responses received, they were all able to demonstrate their knowledge regarding the subject matter. They were able to share extensively their views on financial sustainability issues, challenges, possible strategies and methods for ensuring organisational financial sustainability over the long-term.



**Figure 4.7: Position title of respondents**



**Figure 4.8: Duration in current position**

#### **4.4 CHAPTER SUMMARY**

This chapter presented the research findings from the data collected through a key informant interview and self-administered questionnaires. The findings from the data collected were presented in themes and sub-themes devised by adopting the components of thematic analysis. A summary of the key findings will be outlined in the next chapter, on which the conclusions will be drawn and recommendations made.



## **CHAPTER 5**

### **CONCLUSION AND RECOMMENDATIONS**

#### **5.1 INTRODUCTION**

This chapter presents the conclusions of the study and makes recommendations. It starts by summarising the findings presented in the preceding chapter. Attention is also drawn to future research. The aim of this study was to assess issues of financial sustainability for local NGOs in the Gauteng Province, with the goal to build mechanisms that can be put in place to identify and monitor organisational financial sustainability regularly and take appropriate decisions where required.

#### **5.2 SUMMARY OF KEY FINDINGS**

The research established that the majority of the local NGOs are facing difficulty achieving financial sustainability over the long-term. The financial information over the past few years have shown a decline, with only a few organisations having endowments and income-generating activities, such as income from membership subscriptions, to supplement their income. The major source of funding for many NGOs comes mainly from government, corporate social investments, individuals, bequests, educational tourism, mentorship fees, pledges and local businesses. In addition, the study found that the majority of NGOs have short-term financial sustainability prospects, with funding secured for not more than a year.

The NGOs use a variety of strategies to secure funds. According to the results, writing of proposals is the most used and effective method. The concern by many, however, was that this method did not lead to an effective combination of grant monies due to restrictions imposed on funds. Other mechanisms used to raise funds include trading, membership subscriptions, fundraising events, promotions, direct mailing and interactions with potential funders. Some NGOs acknowledge that some of the challenges experienced in fundraising are internal such as lack of skills, lack of visibility and staff shortages. However, there are other challenges such as competition amongst NGOs for the same funding and shrinking funding in the sector. Many optimise all the available opportunities but also acknowledge that there is room for improvement.

In addition to the current strategies employed to achieve financial sustainability, respondents also think that the following strategies could be effective:

- developing an effective marketing strategy;
- other income-generating activities;
- identifying business concerns in their areas of operation; and
- income diversification.

The financial sustainability of an NGO depends to some degree, on good financial management. All the respondents indicated that they met the requirements of good financial management practices including: keeping accurate records of all financial transactions, having internal controls in place to ensure reliability of financial information, accurately linking operational budgets to their organisation's strategic plan, preparing financial reports to management for key decision making, producing annual financial statements through independent auditors and having financial policies and procedures in place.

### **5.3 CONCLUSION**

This study was guided by the objectives of the research, as set out in the first chapter. The research focused on exploring issues of financial sustainability in local NGOs based in the Gauteng Province. The aim of the study was to build financial sustainability mechanisms that can be put in place to monitor organisational financial sustainability on an ongoing basis and make the necessary strategic decisions.

It is evident from the study findings that local NGOs in the Gauteng Province are facing challenges in securing funds that enable them to achieve financial sustainability. There is still a large dependency on government funding, which often results in NGO mission being donor-driven, thereby straining the relationship between the government and NGOs. Furthermore, the reduction in government funding for NGOs due to change in priorities will likely result in many NGOs closing down or not operating. The increasing number of new NGO registrations will continuously result in many NGOs competing for the same funding. The results have indicated that the few that are financially sustainable are surviving through endowments. Although challenges in securing funds are mainly caused by external factors, many NGOs can still identify the internal factors

that they can harness in order to improve their opportunities to achieve financial sustainability over the long term. In the next section, the researcher provides recommendations that NGOs can pursue as they strive to achieve financial sustainability.

Chapter one outlined the background of the study and how it could contribute to the issues of financial sustainability for local NGOs. It also set out the aims and objectives of the study and highlighted the scope and scale of the research.

Chapter two explored the literature review and sought to find similarities, differences and gaps on financial sustainability issues for NGOs.

In chapter three, the methodology, research design and research methods applied in collecting data were discussed.

Chapter four presented the findings and interpretations of data collected through key informant interviews and self-administered questionnaires.

Lastly, chapter five provides a summary of the key findings and makes recommendations on how local NGOs can build mechanisms for financial sustainability.

## **5.4 RECOMMENDATIONS**

This section makes recommendations for consideration by local NGOs in building mechanisms for financial sustainability. Based on the literature review and the findings from the data collected, the researcher makes the following recommendations.

- *Negotiate funding restrictions*

The data collected suggests that most NGOs raise funds through the writing of proposals for donations, and found this fundraising strategy to be most effective. Funds awarded in this manner generally come with funding restrictions which tend to limit NGOs from fulfilling their missions. To overcome this, NGOs must be empowered to negotiate with funders prior to entering into awards or agreements. They need to be in a position to weigh between their organisational priorities and fulfilling donor missions. To achieve this, NGOs must establish the criteria for awards offered and

define the conditions under which awards or agreements will be accepted. In addition, NGOs also need to be aware of the level of detail they provide in the proposals because donors tend to hold them accountable to this information. Proposals should only be limited to information that they can report back on, unless otherwise requested by donors.

- *Raise endowments through income-generating activities*

For NGOs to be financially sustainable, they need endowments that can give them leverage should their current awards or grant agreements come to an end. To raise these endowments, it is recommended that they strategically design programmes, activities or initiatives that would generate income on an ongoing basis. The NGOs that offer goods can trade such goods at a profit, within the parameters of the NPO Act. Such profit may be re-invested into the organisation in order that they can fulfil their missions. Those that offer services can extend their services to the private sector, government and other NGOs. They may opt to provide services in the fields in which they are experts.

- *Manage stakeholder relationships*

Most organisations have established good relationships with their stakeholders. Maintaining and enhancing such relationships, particularly with the funders, may be necessary for NGOs to deduce whether funding would be renewed beyond the funding period. This process should be ongoing as changes in the funding environment adversely affect estimates made by NGOs on future funding prospects. Additionally, NGOs can influence the future direction of capital flows by taking an interest in programmes that donors wish to fund. They may offer their support to donors during the design stage of proposals by offering to conduct research on new projects, undertake feasibility studies or do any ground work that is usually undertaken in the crafting of the proposals. Their involvement at the initial stage may give donors a heightened confidence in their ability to implement such projects successfully. This also communicates that they have the required knowledge and capacity to do the work.

- *Costing of future funding prospects*

The NGOs need to cost their future funding prospects in order to make the necessary strategic decisions regarding the structure and direction of the organisation. This can be done through building scenarios of what the funding is likely to be, based on the following assumptions:

- *Best estimates* where NGOs estimate costs based on future secured funding, such as signed agreements;
- *Management estimates* where NGOs cost both the future secured funding as well as funding in which they have a higher probability (i.e. more than a 50% chance) of securing or being awarded in the near future. This assumption may be best adopted when NGOs have well-established relationships with their stakeholders and have a clear indication as to whether funding will be obtained in the near future.
- *Worst estimates* where NGOs estimate costs for funds that they have a lower probability (i.e. less than 50% chance) of receiving in future.

It is recommended that NGOs adopt the best estimate scenario in making key decisions for the organisation because it provides a realistic and achievable structure and direction. While other NGOs may opt for the management estimate scenario due to their efficient stakeholder relationships, it is critical to monitor and maintain such relationships on an ongoing basis. The worst estimate costing can also be adopted for planning purposes; however it may disadvantage NGOs should they not receive funding. It is critical for NGOs to cost their funding prospects on all three scenarios for planning purposes, but they should also select the best scenario suited for making strategic decisions.

## **5.5 AREAS OF FURTHER STUDY**

It is recommended that further research be conducted to understand how the new policy framework for NPOs will change the perception of donor communities regarding to funding inflows to NGOs. This will assist NGOs in projecting their funding prospects over the long-term.

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## **APPENDIX A: PRELIMINARY EMAIL**

### **RE: REQUEST FOR PERMISSION TO UNDERTAKE RESEARCH**

To: NGOs (selected)

From: B. Manzere

Date: June 2016

Subject: Request for permission to undertake research

**Dear NPO Director, Senior Manager or Board Member**

My name is Bogadi Manzere and I am currently conducting a study on “Financial sustainability mechanisms for local NGOs in the Gauteng Province”. I am conducting this study in partial fulfilment of the requirements of my Master of Philosophy degree in Development Finance at the Nelson Mandela Metropolitan University (NMMU).

This study is influenced by my own working experience in the NGO sector. As a former Finance Manager in the sector, I became increasingly aware of the issues of financial sustainability and the need for NGOs to build mechanisms that would enable them to assess their status of financial sustainability more regularly in order to make the necessary strategic decisions. The findings of this study could be of significant benefit to many NGOs as they continue to strategise on organisational financial sustainability.

Data for the study will be collected ethically through face-to-face interviews with a senior manager or board member who is directly or indirectly responsible for ensuring that organisational financial sustainability is achieved. Should the respondents not be available for the interviews, questionnaires will be administered, which should not take more than half an hour to complete. A summary of the outcomes of this research will be shared with all NGOs participating in the study.

Should you be interested in participating in the study, you are kindly requested to provide contact details (i.e. telephone number and e-mail address) of the person in your organisation who will be the respondent.

Thanking you in anticipation.

Kind regards,

Bogadi Manzere

+27 71 508 1020

NMMU Student #: 215058038

Supervisor: Prof Jonathan Makuwira, PhD, Head of Department, Development Studies Department

## APPENDIX B: FOLLOW-UP E-MAIL TO RESPONDENT

Dear (insert name).

Thank you for participating in the research study titled *“Financial sustainability mechanisms for local NGOs in the Gauteng Province”*.

I would like to schedule an appointment with you for an interview, at the time and place that is convenient for you. It should not take more than thirty (30) minutes to complete if you have all the financial information available. Please take note that should you not be available for an interview, a self-administered questionnaire is available to be completed and returned back by July 22<sup>nd</sup>, 2016.

Your contribution will be greatly appreciated.

Kind regards,

Bogadi Manzere

+27 71 508 1020

NMMU Student #: 215058038

Supervisor: Prof Jonathan Makuwira, PhD, Head of Department, Development Studies Department

## APPENDIX C: INTERVIEW PROTOCOL

Date: \_\_\_\_\_

- ☐ Introduction of the interviewer/researcher
- ☐ Purpose of the interview and research objectives
- ☐ Permission to conduct research
- ☐ Allow the interviewee to ask questions prior to commencing

The interview is expected to take about thirty (30) minutes to complete. Your participation will contribute towards realising the ultimate objectives of this research. The information you provide will remain confidential and will not be used for purposes other than for this academic study.

Please take kind note that probing questions may be asked to guide the discussions.

## **APPENDIX D: PARTICIPANT CONSENT FORM**

Research Project Title: FINANCIAL SUSTAINABILITY MECHANISMS FOR LOCAL NGOS IN THE GAUTENG PROVINCE.

1. I have been invited to participate in this study and the details of the study have been explained to me.
2. My questions about the study have been answered to my satisfaction and I also understand that I may ask further questions at any time.
3. I also understand that I am free to withdraw from the study at any time, or to decline to answer any particular questions in the study.
4. I agree to provide information to the researcher under the conditions of confidentiality and anonymity.
5. I am also aware that the interviewer will be using an audio recorder to record the interview and that the recordings will be used for the sole purpose of this study.
6. I voluntarily consent and offer to take part in this study.
7. I also consent to the information collected for the purposes of this research study to be used for any other research purposes.

Participant's Name: \_\_\_\_\_

Participant's Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Contact Details: \_\_\_\_\_

Researcher's Name: \_\_\_\_\_

Researcher's Signature: \_\_\_\_\_



## APPENDIX E: QUESTIONNAIRE

Welcome to the survey.

Thank you once again for participating in this research. Please read the following instruct.

### How to fill in the questionnaire:

This questionnaire consists of three (3) sections. Please take note that this questionnaire **must** be completed by a senior manager or board member who is directly or indirectly responsible for ensuring that organisational financial sustainability is achieved. Some of the questions require estimates of certain values. If you do not have the precise data, please provide only the data that you have at your disposal and any missing information can be provided at a later stage. For open-ended questions, please elaborate as much as possible to allow the researcher to find meaning. Close-ended questions can be ticked in the applicable boxes. Answer to the best of your ability. Once you have completed the questionnaire, please remember to save it.

### How to submit the questionnaire:

Completed questionnaire must be e-mailed to s215058038@nmmu.ac.za. Should you not have time to complete the survey, you may save it and return to it at a later date. The final timeline for submitting the questionnaire is 22 July 2016.

Thank you and enjoy filling in the questionnaire.

Kind regards,

Bogadi Manzere

+27 71 508 1020

NMMU Student #: 215058038

Supervisor: Prof. Jonathan Makuwira, Head of Department, Development Studies

## Section 1: Biographical Details

1.1. Name of organisation:

---

1.2. Year of establishment

---

1.3. Job title of the respondent

---

1.4. Number of years in the position

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1.5. In terms of legislation, what is your organisation registered under?

( ) Non Profit Organisations Act 71 of 1997

( ) Income Tax Act 28 of 1997 (Public Benefit Organisation)

( ) Companies Act 71 of 2008

( ) Trust Property Control Act 57 of 1988

( ) Other

1.6. In which Province(s) is your organisation offering its services? You may tick more than one.

( ) Gauteng

( ) North West

( ) Free State

( ) Western Cape

☐ Kwazulu Natal

☐ Eastern Cape

☐ Mpumalanga

☐ Northern Cape

☐ Limpopo

1.7. In terms of your organisational activities, indicate which category your organisation falls under:

☐ welfare and humanitarian;

☐ health care;

☐ land and housing;

☐ education and development;

☐ religion, belief or philosophy;

☐ cultural; conservation, environment and animal welfare;

☐ research and consumer rights;

☐ sport;

☐ providing resources for approved PBOs.

☐ Other;

## Section 2: Financial Information

- 2.1. Indicate estimates of your annual expenditure budget for the past 5 years in South African Rands (ZAR).

YEAR	BUDGET
2015	R
2014	R
2013	R
2012	R
2011	R

- 2.2. Indicate your organisational major source of funding and their percentage contribution for the most recent financial year (i.e. 2015).

Source of funding	Tick (with an X)	Estimated % contribution
Government funding		%
National Funding Agencies		%
Foreign donations (International Development Assistance)		%
Foundations and Philanthropies		%
Corporate Social Investment (CSI)		%
Fees (membership subscription / service provision)		%
Other *		%

\*Please specify

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2.3. How does your organisation raise/secure funding?

Mechanism	Tick applicable (mark with an X)
Proposal writing	
Endowments	
Trading (i.e. selling products and/or services)	
Membership fees or subscriptions	
Other *	

\*Please specify:

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2.4. How effective are those mechanisms?

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2.5. Would you say that your organisation has challenges in securing funds?

YES	NO
-----	----

a) If yes, what are those challenges?

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b) How does your organisation overcome those challenges?

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c) How well does your organisation utilise available opportunities?

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2.6. How would you describe your organisation in terms of financial sustainability?

	Mark with an (X)
Permanently sustainable (i.e. with an endowment)	
Long-term sustainability prospects (i.e. with secured funding for the next 5 years)	
Medium-term sustainability prospects (i.e. with secured funding for the next 3 years)	
Short-term sustainability prospects (i.e. with secured funding for not more than 1 year)	
Depended on income-generating activities	
Currently not funded	
Other *	

\*Please specify:

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- 2.7. What other strategies (or methods) can your organisation apply to ensure financial sustainability, and how effective would they be?

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- 2.8. Would you say that diversification of funding has an impact on financial sustainability?

<b>Yes</b>	<b>No</b>
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- a) If yes, please explain how.

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- 2.9. In terms of good financial management, does your organisation

	YES	NO
Keep accurate records of all financial transactions		
Have internal controls in place to ensure reliability of financial information		
Accurately link the operational budget to the organisation's strategic plan		
Prepare financial reports to management for key decision making		
Produce annual financial statements by independent auditors to give stakeholders an opinion of organisational financial performance		
Have financial policies and procedures in place to provide the framework for managing financial resources		

2.10. How well would you say your organisation is performing in terms of the following:

	Very well	Fairly well	Not very well	Not at all well
Planning of day-to-day activities				
Monitoring and controlling expenses				
Adherence to financial policies and procedures				
Spending according to the operational budget				

### Section 3: General

3.1. Is there any other issue you think should be included in the study?

YES	NO
-----	----

a) If yes, please share why you think it should be included.

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3.2. In two sentences, please make a recommendation as to what you think can be done by organisations to achieve financial sustainability in the future.

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**You have reached the end of this survey!**

Thank you for participating in this research. Your time and effort is greatly appreciated. Your organisation will receive the summary findings once the research process has been completed.

Kind regards,

Bogadi Manzere

+27 71 508 1020

NMMU Student #: 215058038

Supervisor: Prof. Jonathan Makuwira, Head of Department, Development Studies

## **APPENDIX F: INFORMATION SHEET**

### **Research Project: Financial Sustainability mechanisms for local NGOs in the Gauteng Province, South Africa**

July 2016

#### Information regarding your participation in the research project

Thank you for your willingness to participate in this research. The purpose of this information sheet is to provide an explanation of the research project. and to outline the impact of your potential involvement.

This research is being conducted by a researcher from the Nelson Mandela Metropolitan University, interested in working with local NGOs in the Gauteng Province to investigate the issues of financial sustainability and recommend mechanisms that they can apply to address them. The objectives of the study are:

- to determine the extent to which local NGOs in the Gauteng Province strive towards achieving financial sustainability;
- to explore other methods and strategies of ensuring organisational financial sustainability;
- to analyse the effectiveness of the methods and strategies NGOs use to achieve financial sustainability;
- to identify common success factors necessary to attain organisational financial sustainability;
- to determine ways which NGOs solve financial challenges, as well as the means of utilising available opportunities;
- to recommend financial sustainability mechanisms that will help NGOs to track financial sustainability issues early and provide necessary feedback for any adjustments;

Information will be collected through interviews, or by administering of questionnaires for participants that cannot be reached.

Your consent to participate in this research is required before completing the questionnaire attached. The participant consent form has been provided for your review and sign-off, should you be interested to participate in the study.

Should you require any further information regarding the research project or your rights as a research participant, please contact:

Mrs. Bogadi Manzere

Student: Nelson Mandela Metropolitan University

Cell: + 27 71 508 1020

E-mail: s215058038@nmmu.ac.za

## **APPENDIX G: LETTER FROM LANGUAGE EDITOR.**

24 Justin Road  
Broadwood  
Port Elizabeth 6070

### **TO WHOM IT MAY CONCERN**

I, Aileen Gail Klopper, declare that I have done language editing on the treatise by Bogadi Patricia Manzere (Student Number: 215058038) with the title "Financial sustainability mechanisms for local NGOs in the Gauteng Province, South Africa".

This treatise is submitted in partial fulfilment of the requirements for the degree of Master of Philosophy in Development Finance in the Department of Development Studies, Faculty of Business and Economic Sciences, Nelson Mandela Metropolitan University

Any queries related to the editing of this treatise can be directed to me at 074 3209463.

Signed at Port Elizabeth on 02 September 2016.



Ms AG Klopper  
Associate: Professional Editors Guild.