

NPO NATIONAL FINANCING GUIDELINE

A SECTOR GUIDE FOR THE DEPARTMENT OF SOCIAL DEVELOPMENT

Contents

[SECTION 1. OVERVIEW 4](#_Toc288510399)

[1.1. Introduction 4](#_Toc288510400)

[1.2. Situational Analysis 5](#_Toc288510401)

[1.3. Challenges 7](#_Toc288510402)

[SECTION 2. NPO FINANCING GUIDELINE 8](#_Toc288510403)

[2.1 Purpose of the guideline 8](#_Toc288510404)

[The Purpose of this guideline is to: 8](#_Toc288510405)

[2.2. Objectives of the guideline 8](#_Toc288510406)

[2.3. Who the guidelines is developed for 9](#_Toc288510407)

[2.4. How the guideline must be used 9](#_Toc288510408)

[SECTION 3. UNDERSTANDING AND WORKING WITH NPOS 10](#_Toc288510409)

[3.1. Call for proposals from nonprofit organizations as an approach for NPO financing in the sector 10](#_Toc288510410)

[3.2.1. Definitions 10](#_Toc288510411)

[3.2.2. Advantages and disadvantages of working with NPOs 12](#_Toc288510412)

[3.2.2.1. Potential Advantages of Contracting NPOs 12](#_Toc288510413)

[3.2.2.2..Potential Risks associated with working with NPOs 12](#_Toc288510414)

[SECTION 4. POLICY AND LEGISLATIVE FRAMEWORK 14](#_Toc288510415)

[4.1. Policy on Financial Awards 14](#_Toc288510416)

[4.3. NPO Act No71, 1997 15](#_Toc288510417)

[4.4. The Public Finance Management Act No 1 of 1999 (PFMA) 16](#_Toc288510418)

[SECTION 5. NPO FINANCING PROCESS 18](#_Toc288510419)

[5.1. Identification of the need for financing of NPOs 18](#_Toc288510420)

[5.2. Preparation of NPO call for proposals 19](#_Toc288510421)

[5.3. Establishing NPO Business plan evaluation team 19](#_Toc288510422)

[5.4. NPO financing Process and Transformation 20](#_Toc288510423)

[*5.4.2..Transformation* 21](#_Toc288510424)

[5.5. Steps for NPO financing 22](#_Toc288510425)

[5.6. Time frames for NPO financing 24](#_Toc288510426)

[5.6.1. Yearly timeline in line with MTEF 24](#_Toc288510427)

[5.6.2. Multi-year finding of NPOS 24](#_Toc288510428)

[SECTION 6. NPO COSTING MODELS 25](#_Toc288510429)

[SECTION 7. MANAGEMENT OF NPO financing 25](#_Toc288510430)

[7.1. Institutional arrangements 25](#_Toc288510431)

[7.2.3. Districts 27](#_Toc288510432)

[*7.3.* Promotion of an enabling environment. 28](#_Toc288510433)

[7.4. Monitoring and Evaluation of Funded NPOs 28](#_Toc288510434)

[7.4.3. Performance monitoring should be regarded as an opportunity for problem identification and problem solving. 29](#_Toc288510435)

[7.4.4. Monitoring and evaluation of an SLA must be planned from the outset 30](#_Toc288510436)

[7.5. Reporting 30](#_Toc288510437)

[SECTION 8. TOOLS FOR NPO FINANCING 32](#_Toc288510438)

# SECTION 1. OVERVIEW

# 1.1. Introduction

In line with international practices, the South African Government has acknowledged the need to enter into partnerships with non-profit organisations for the delivery of social services. Such partnerships not only contribute toward the strengthening of democracy but also promote an environment for growth, redistribution and the extension of services to the poor and historically disadvantaged communities. Moreover, the expanding social imperatives, arising to a large extent from the impact of HIV and AIDS, have demanded a multi-sectoral approach to meeting the needs for the citizenry

The revised Policy on Financial Awards to Service Providers for the social development sector promotes the financing of NPOs registered in terms of the Non-Profit Act. The registration status of an NPO is therefore critical to facilitate financing, as it is seen as one of the mechanisms to confirm the existence of a legal persona.

The Department of Social Development is responsible for the administration of the Policy on Financials Awards to service Providers therefore an approach is needed to implement the policy. In view of the broader responsibility of the Department of Social Development, there is a need to develop an NPO financing guideline for establishing a relationship between government and the NPO sector.

National and Provinces ahs role to focus on improving the management and administration of the financing of NPOs in the social development sector,

Given the rapid pace of structural transformation in South Africa and the associated challenges that the Department of Social Development is facing, there is a pressing need to develop an NPO financing guideline that will act as Policy on Financial Awards to service Providers implementing tool. The guideline will ensure uniformity in the management of funded NPOs. In particular, it is necessary to develop ways of improving service delivery that are delivered by nonprofits organisations, sharing good practice, creating an enabling environment and developing relevant skills and capacities of both the nonprofit organisations and provinces especially in :.:

* Understanding the roles pf government and noinprofit organisations in partnerships
* Establishing and managing the cross-sector partnerships;
* Improving social service delivery;
* Developing tools for measuring social service delivery by nonprofit organisations .

At the heart of strategies for developing and strengthening the NPO management and partnership is the need to understand the benefits that the NPO sector brings to government and the department.

This guideline will detail approaches, processes, systems and tools that must be used for call for proposals, management and reporting within the partnerships between government and nonprofits organisations in the DSD sector

This Guideline is a combination of several documents that were developed for the purposes of assisting officials in the financing of NPOs in the DSD sector. It is important to note that this document is a ‘guideline’ to implement Policy on Financial awards to service Providers.

This guideline must be used by all provinces in the implementation of Policy on Financial Award and in financing NPOs at National and in Provinces.

# 

# 1.2. Situational Analysis

The 2005/06 – 2011/12 Provincial Budget and Expenditure Review document that was published by the National Treasury, identifies the expanding of social welfare services, and building of stronger partnerships with nonprofit organizations as one of the priories that inform the provincial share of revenues.

Non-Profit Organizations (NPOs) in view of their ability to identify local needs and resources, their proximity to individuals, families and communities, and their ability to coordinate action at community level, makes them a significant partner in the identification of needs, implementation of policies to address such needs and challenges as well as the monitoring of the impact of service delivery interventions by government.

With reference to the Treasury expenditure review document, NPOs are responsible for running more than 98 per cent of the social welfare facilities and attending to more than 71 per cent of clients. The transfers that the provinces allocate to NPOs vary widely over the 2009 MTEF period. Eastern Cape, Northern Cape and the North West transfer around 25 per cent to NPOs. The provinces with historically strong NPO sectors (Western Cape and Gauteng) transfer over 45 per cent of their budget to NPOs. Other sectors, spheres of government and government departments are also utilizing NPOs as key implementation partners for the delivery of their services to individuals, households and communities

The NPO sector is central to the delivery of community based services in South Africa. It is made up of more than 100 000 organizations which primarily contribute to activities and services required at community level. The beneficiaries of NPO activities are primarily individuals and communities.

In 2000, it was estimated that the NPO sector generated an annual income of approximately R14 billion of which almost R6 billion is funded by government in the form of grants and contracts. Eighty six percent of this financing is channeled to service delivery organizations located in the social services, health, and development and housing sectors. Other financing was derived through private sector donations, membership fees and sales and in some cases investment initiatives

Within the SA context, many people are employed in the civil society sector. It is estimated that approximately 650 000 positions are generated by NGOs*.* These positions vary according to whether they are full-time, part-time or volunteer positions and approximately 300 000 are full time positions.

NPOs are predominantly found in provinces and towns that have notable levels of development. Larger, well established, well resourced and organized NPOs, servicing a wide geographic area, tend to be found in metropolitan areas whilst in rural areas, NPO’s are often much smaller, less structured, poorly resourced and service small local communities.

**Table 1: NPOs are categorized according to the UN classification that the country has adopted.**

|  |  |
| --- | --- |
| **NPO OBJECTIVE CLASSIFICATION** | **Total number** |
| Business and Professional Associations, Unions | 323 |
| Culture and Recreation | 3451 |
| Development and Housing | 13936 |
| Education and Research | 8010 |
| Environment | 797 |
| Health | 7811 |
| International | 47 |
| Law, Advocacy, and Politics | 1385 |
| Not elsewhere classified | 2 |
| Philanthropic Intermediaries and Voluntarism Promotion | 827 |
| Religion | 7408 |
| Social Services | 21636 |
| **OVERALL** | **65633** |

# 1.3. Challenges

The department of Social development and its partners have identified challenges in the financing of nonprofit organizations in the country. Some of thye challenges were identified by the National Treasury as stipulated in Chapter 5 on Social Development of the Provincial Budget Expenditure Review 2005/06–2011/12. Some were identified through desk top reviw done by the department. The treasury document highlighted the need for the social development sector to strengthen its partnership with the NPOs through the review of the existing policy and the development of the financing arrangements. The report also proposed that the department must develop appropriate financing arrangements to enhance the department‘s approach in establishing minimum standards and monitoring compliance against these standards. The broad challenges identified includes amongst others the following:

* Disparities in the subsidization of the same services across the different provinces.
* Different approaches in the management, administration, monitoring and evaluation of financing to and service delivery by NPOs,
* The National and provincial roles in relation to the NPO financing are not clearly defined
* There is lack of uniformity in implementation of the policy across provinces
* Different procurement approaches that is used within the sector
* Inadequate financing of statutory services rendered by nonprofit organisations
* Lack of disclosure of sources of funds by non-profit organisations
* Lack of capacity within the NPOs sector
* Delays in the transfer of funds to NPOs
* Alignment of reporting by nonprofit organization with the NPO Act
* Non-Compliance of NPOs to the NPO Act and other pieces of legislation
* Coordination of the financing of NPOs in the sector
* No adherence to the service delivery norms and standards resulting in low and poor quality of service delivery by funded NPOs
* Lack of capacity by NPOs resulting in poor financial management
* Poor NPO reporting

# SECTION 2. NPO FINANCING GUIDELINE

# 

# 2.1 Purpose of the guideline

# The Purpose of this guideline is to:

** Quick Note**

This guideline is intended to support the development of National, Provincial and NPO partnership agreements and to facilitate Provincial government in the processes of establishing partnerships with nonprofit organizations

* Provide National and Provinces with a guide for the implementation of the Policy on financial awards to services Providers
* Provide a practical tools for National and Provinces to
* identify needs and plan for the financing of nonprofit organizations
* develop nonprofit organizations financing business plan
* assess potential nonprofit organizations partners; that requires financing ;
* Identify key service delivery areas where nonprofit organizations could be financed to render such social services .
* Provide guide for national and provinces to issue call for proposals for the financing of nonprofit organizations
* Standardize NPO financing processes across Provinces

# 2.2. Objectives of the guideline

The main objectives of the guideline are the following:

* To outline challenges affecting NPOs and the Department in relation to financing To develop processes and steps for the financing of nonprofit organizations
* To develop a single DSD sector NPO financing guideline that will streamline and encourage a seamless financing process at all levels of government.
* To develop institutional arrangements at National, Province and Districts that will be responsible for the coordination of NPOI financing in the sector
* To strengthen funded NPO capacity to deliver on the social services
* management in the sector thereby improve the sustainability of NPOs
* To strengthen NPO monitoring and reporting
* To develop and implement NPO monitoring and evaluation system
* To integrate NPO financing into the MTEF cycle

# 2.3. Who the guidelines is developed for

This Guideline is primarily designed for National and Provincial Department of Social department and other officials participating in the non profit organisations financing and call for proposals process. Although the Guideline will focus on creating partnerships as means of working with Non profit organisations for the delivery of social services, many of the principles referred to can be applied to other service partnership agreements where non-profit organisations are in use. At a secondary level, these guidelines will further set clear financing parameters for NPOs who are interested in partnering and providing services to government.

# 2.4. How the guideline must be used

This guide has been developed to provide uniform approach for the implementation of Policy of Financial Award. This Guideline is intended to provide users with a practical guide and processes for financing nonprofits organizations and provide tools that must be used to finance nonprofit organizations. It is also pave way for establishing service-oriented partnership agreements within the Social development sector. It may not provide answers to all questions but it will indicate where to go for more information.

It is important that this Guideline is used in conjunction with all National policy and legislation related to financing, procurement and service delivery partnerships, and in particular the following:

* Policy on Financial Awards to Service Providers
* Public Finance Management Act No 1 of 1999.
* National Treasury Public Private Partnership Regulations -Section 16.
* Supply Chain management

This guideline provides step by step approach of the Department in calling for proposals from non-profit organisations for the delivery of social services.

# SECTION 3. UNDERSTANDING AND WORKING WITH NPOS

# 3.1. Call for proposals from nonprofit organizations as an approach for NPO financing in the sector

In recent years, successive United Nations (UN) summits on population, development, gender and the environment have highlighted partnerships as a key approach for achieving sustainable human development objectives. The South African Government also recognizes the potential of partnerships for strengthening the democratic social contract and creating an enabling environment for growth, redistribution and extension of services to the poor and historically disadvantaged. In particular, the present Government emphasizes the need for close collaboration with civil society organizations. Call for proposals approach is an approach that the department of social development will adopt as the first step in establishing partnership with the nonprofit organizations.

Although there is a growing body of experience relating to partnerships in South Africa, there is relatively little documentation on public-civil society organisations partnerships. Furthermore, whilst much has been written about the need for partnerships, few publications address the process of partnership-building itself.

This Guideline attempts to build on some impressive work already undertaken in South Africa in order to provide a practical guide for establishing partnerships (financing of NPOs) between provincial departments and non-profit organisations in the social sector.

**3.2. Definitions, Concepts and benefits of dealing with NPOs**

This section purpose is twofold. Firstly it defines and explains some key definitions and concepts associated with non-profit organizations which for the purpose of this document can be called Non Profit Organizations (NPOs) in terms of the NPO Act 71 of 1997. Secondly concepts advantages, risks and disadvantages in working with nonprofit organizations are looked at to provide some highlights.

# 3.2.1. Definitions

NPOs are, first and foremost, **civil society organizations**. They are one of the diverse organizational forms that exist outside of the state and the market. NPOs are, by definition, ‘organizations’ that are ‘not for profit’ and are ‘service oriented’:

***An organization*** is an organized body of individuals. An organization must have a set of rules that govern its activities, roles and responsibilities. These rules should be drawn up in the form of a constitution or other legal format.

***Not-for-profit*** means that the members of the organization cannot withdraw financial surpluses from the organization. All surpluses are treated as retained income for the purpose of supporting the activities/services of the organization.

***Service-oriented*** means that the primary focus of the organization is the provision of a service (or services) to a defined community, target group or set of individuals.

An NPSO can be a non-governmental organization (NGO) or a community-based organization (CBO). The precise definitions of NPOs and CBOs continue to be debated; however, for the purposes of this Guideline, the following definitions will be used:

***Non-Governmental Organizations*** are national or international bodies that operate outside of the state and the business sector. They are governed or managed by a group of elected or appointed members and are accountable to this governing body. NPSOs tend to be larger and more developed than CBOs and have a larger proportion of paid, professional staff. Critically, they may or may not be based in the target community,

***Community-Based Organizations*** (CBOs)share many of the characteristics of NPOs but are frequently smaller and more informal. Most importantly, they are based within a defined community. Where a CBO defines itself as a service organization, it must act in the overall interests of the community (rather than its own interests) and have the mandate of the community to provide the service.

NPOs should also be distinguished from ***small, micro and medium enterprises*** (SMMEs). The latter are part of the private sector and operate to create a financial surplus that is distributed to the individual members of the enterprise. Although an SMME may be based in a community, and have the mandate of the community to fulfill a service function, the fact that it operates for profit means that it is not an NPO, or indeed, a CBO.

Finally, it is necessary to distinguish NPOs from ***contracted individuals*** or groups of individuals/contractors. In some cases, provinces may deploy members from the community to fulfill certain service functions (for example peer education, counseling or distribution of condoms). The province may then enter into a contract (for example, an employment contract or service contract/service level agreement (SLA)) with the individuals concerned and pay a wage, salary or service fee for their services. These individuals do not constitute an NPO since there is no organization with a set of rules or a governing body to which they are accountable.

This Guideline assumes that, in the majority of cases, government will finance an organization that are registered in terms of the NPO Act.

# 3.2.2. Advantages and disadvantages of working with NPOs

# 3.2.2.1. Potential Advantages of Contracting NPOs

International and local experience suggests that:

* NPOs can provide services that are strategic, targeted, creative, responsive, sustainable, affordable, locally relevant and not linked to the government.
* NPOs can provide a channel for inputs of external resources such as, technical, human and material resources, as well as donor financing.
* NPOs can contribute positively to policy formulation and programme planning by sharing their practical experience of service provision and interaction with communities.
* NPOs can improve access to goods and services to the poor, under-served and ‘hard to reach’ by working around the constraints of existing systems, structures and infrastructures.
* When an NPO is based in a local community:
  + It may be the only viable option for providing services that are accessible, cost efficient, reliable and sustainable (especially in remote rural areas).
  + It can support participatory approaches to project development and service delivery. There may be a greater sense of community ownership and responsibility for services. This in turn can mean that there is increased accountability and responsiveness.
  + It can harness community capacity and potential to manage its own development processes.
  + Capacity and economic spin-offs remain in the community and community members may develop new skills.

# 3.2.2.2..Potential Risks associated with working with NPOs

Although there are a number of potential risks and disadvantages associated with working with NPOs, most of these can be addressed through appropriate support, capacity building and training interventions. The following are some of thye risks:

* Insufficient capacity of the nonprofit organizations especially the small up coming NPOs
* Small scale nature of up- coming NPOs might become a challenge for service delivery
* Compliance of NPOs to the service norms and standards
* Some NPOs may find it difficult to make the shift to the output orientation required by the SLA agreement.
* NPOs tend to work on a relatively small-scale and these might pose a challenge when large service delivery is required.
* Some have insufficient management and administrative infrastructure to support expanded operations.
* NPOs may have insufficient financial reserves to cover delays in financing flows.
* Where NPOs are small or depend on charismatic individuals, loss of membership over time can result in significant loss of organizational or service capacity. The salaries paid to staff within an NPO are often relatively low. This can impact on staff motivation and performance. In addition, once trained, staff members may seek better employment opportunities elsewhere. Although some of these issues can be addressed through further training and capacity building, they can impact on the effectiveness of the NPO to fulfill its service obligations.

# SECTION 4. POLICY AND LEGISLATIVE FRAMEWORK

This part of the Guideline outlines policies and legislative framework in which the guide is based upon.. Financing of Nonprofit organizations like any other financing it is a financial transaction that is controlled by all financial policies and Regulations.

# 4.1. Policy on Financial Awards

The Policy on Financial Awards for Service Providers is aimed at guiding the country’s response to the financing of service providers in the social development sector, to facilitate transformation and redirection of services and resources, and to ensure effective and efficient services to the poor and vulnerable sectors of society.

The policy strives to facilitate the achievement of the mission of the Department, which is “to enable the poor, the vulnerable and the excluded within the South African society to secure a better life for themselves, in partnership with them and with those who are committed to building a caring society”.

The policy is therefore intended to facilitate the achievement of priorities of the Department through a developmental service to poor and vulnerable groups and those with special needs such as children, youth, older persons, persons with disabilities, women, victims of violence and abuse, persons affected by substance abuse, and those infected and affected by HIV and AIDS.

To achieve this and to deliver on its constitutional mandate, the Department needs to determine what goals it intends achieving, how these goals will be achieved and to measure programme performance towards the achievement of these goals. The policy sets forth challenges and targets for transformation, which will impact on how, where and by whom services that will be supported by government are rendered. It paved way for programme financing of all statutory services , outlining some eligibility criteria, and methods of payment and requirements for financing.

* The policy (PFA) requires that all statutory services be financed using programme financing.

**4.2. The SA constitution (Act No. 108 of 1996).**

The Department of Social Development derives its core mandate from the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996). Section 27 (1) (c) of the Constitution provides for the right of access to appropriate social assistance to those unable to support themselves and their dependants. In addition, Section 28 (1) of the Constitution sets out the rights of children with regard to appropriate care, basic nutrition, shelter, healthcare and social services, and detention.

Schedule 4 of the Constitution further identifies welfare services, population development, and disaster management as functional areas of concurrent national and provincial legislative competence.

The following existing laws constitute the legal framework for the Department of Social Development in South Africa.

# 

# 4.3. NPO Act No71, 1997

The intention of the Non Profit Organizations Act No71, 1997 (hereafter referred to as the Act), is to facilitate nonprofit organizations through the ‘creation of an enabling environment’

The purpose of the Act in recognizing the significant role played by the NPO sector, has been to create an enabling environment for nonprofit organizations in which standards of good practice are facilitated and maintained and where the interests of government are safeguarded in both securing the provision of diverse services across all nine provinces and accounting for the financing of this provision.

The necessity for the Act emerged from the immense changes which occurred post the introduction of the democratic government in 1994. Prior to this time, many NPOs, especially the larger organizations, obtained financing directly from foreign donors. Some organizations participated directly or indirectly in the liberation struggle, with many top staff members leaving organizations and joining government immediately after the elections. Moreover, donor organizations now wanted to deal with government directly as opposed to dealing with individual organizations.

The establishment of the democratic state in 1994 saw the disestablishment of the homelands in South Africa, each of which had its own legislation and or regulations guiding the NPO sector. Many contradictions were found, coupled with inadequacies in South African legislation, namely the Fund Raising Act of 1978.

In essence, post 1994, the policy environment and purpose of many NPOs changed, the financing streams were redirected and the legal framework was inadequate and confusing, leading to an urgent need for legislation which would provide guidance and stability to the sector.

# 4.4. The Public Finance Management Act No 1 of 1999 (PFMA)

The purpose of the Public Management Finance Act (PFMA) is as follows:

* To regulate financial management in the National Government and Provincial Governments;

**Find More Information**

A copy of the Public Finance Management Act No 1 of 1999 can be found on the following website:

<http://www.polity.org.za>

In addition, the Treasury Regulations for departments, trading entities, constitutional institutions and public entities can be found on the following website:

<http://www.finance.gov.za/legislation.htm>

Be careful to access the latest version of the regulations. The most recent are in the schedule published in the Government Gazette No. 27388 – Dated 15 March 2005

* To ensure that all revenue, expenditure, assets and liabilities of those governments are managed efficiently and effectively;
* To provide for the responsibilities of persons entrusted with financial management in those governments, and
* To provide for matters connected to any of the above aspects.

The Department of Treasury has identified five key long term desired outcomes for the PFMA which include:

* Sound financial management systems and processes
* A transparent budgeting process
* Effective management of revenue, expenditure, assets and liabilities
* Unqualified consolidated financial statements, prepared on the accrual basis
* Improved accountability of public entities and external agencies. (Source: Department of Treasury Presentation on the PFMA)

An external agency or a “private party” as referred to in the financial regulations would include an NPO. Section 76(4) (c) makes provision for National Treasury to make regulations and issue instructions applicable to all institutions to which the Act applies. In particular, this includes the determination of a framework for an appropriate procurement and provisioning system that is fair, equitable, transparent, competitive and cost effective. In April 2001, the National Treasury published the “Treasury Regulations” in terms of the Public Finance Management Act, 1999. These regulations have since been revised, and the latest version was published in March 2005.

 **Key Concepts**

**Who is the Accounting Officer?**

An accounting officer is the Head of Department such as a Director General or Superintendant General in a Provincial Department of Social Development

The PFMA is designed to empower responsible managers by providing user-friendly rules to let managers manage while still holding them accountable for their actions. However, the Act outlines severe sanctions for accounting officers who fail to comply with the requirements for sound financial management. According to Section 81 of the PFMA, an accounting officer for a department or

Constitutional institution commits an act of financial misconduct if that accounting officer willfully or negligently:

* Fails to comply with a requirements contained in:
  + Section 38 – General responsibilities of accounting officers
  + Section 39 – Accounting officers responsibilities relating to budgetary control
  + Section 40 – Accounting officers reporting responsibilities
  + Section 41 – Information to be submitted by accounting officers
  + Section 42 – Accounting officers responsibilities when assets and liabilities are transferred, or
* Makes or permits an unauthorized expenditure, an irregular expenditure or a fruitless and wasteful expenditure.

An accounting officer found to have embarked on misconduct would face disciplinary action and possible criminal charges. It is therefore critical that the department preparing the partnership agreement applies to Treasury for exemption from the application of Section 16 of the Financial Regulations.

# SECTION 5. NPO FINANCING PROCESS

The purpose of this section is to provide information on the organizational and project management aspects for implementing the Policy On Financial Awards to Service Providers and in establish partnership agreements with NPOs (NPO Financing process). This process is geared for the arrangements dealing with either “outsourcing” or “purchased services” arrangements. Therefore, this section will mainly be geared toward addressing the processes that must be followed in the call for proposals for NPOs

Guideline provides information on the steps to be followed when calling for proposals for nonprofit organizations at National or Province In all cases, the process that needs to be followed to finance an NPOs at national and in Provinces to secure the partnership agreement must be compliant with the Public Management Finance Act, supply chain management policies and regulations and related government policies. These steps are summarized in the tables below and also in the tools section especially tool 1: Specification for NPO financing.

# 

# 5.1. Identification of the need for financing of NPOs

A departmental Strategic plan is the first tool to be used to plan for the financing of NPOs. This must be used as the basis for planning for NPO financing over the MTEF period. Before commencing with any NPO financing process, provinces must ensure that the financing initiatives considered for implementation are contained within their Annual Performance Plan or Strategic Plan to ensure that NPO financing process is not being established simply because it’s nice to have. Within Districts, integrated development plans (IDP) from the municipalities must be used as means of identifying community’s needs

When considering the need for NPO financing in a Province the following areas must be looked at:

* Problem identification
* Geographic coverage/ target population
* Service configurations
* Expected outputs
* Estimated contract value
* Expertise within the institution to proceed with the preparation of the NPO financing
* Transformation issues
* Duration of the financing

# 5.2. Preparation of NPO call for proposals

The department must take a lead in the financing of NPOs and develop a financing project plan and specifications. In preparation for the NPO financing a project plan to facilitate the implementation of the NPO financing process must be developed. This plan could be in the form of the Departmental strategic plans or operational which stipulates the reasons for financing NPOs and identifying resources available for the purpose. The project plan must form part of the NPO financing specifications must be approved by the Head of the department

The following must be included in the NPO financing project plan:

* Activities to be undertaken;

**!** **Remember**

**Don’t place your Provincial Department of social Development at risk!**

* Follow the process as outlined in the PFMA,SCM regulations
* Ensure you complete each phase adequately with all necessary decisions obtained before moving onto the next phase
* Document process well
* Keep accurate records
* Have your legal department check all reports and supporting documentation before finalizing any phase or documentation
* Keep your labour organisations actively involved throughout the process
* Person/persons responsible for the tasks;
* Commencement and completion date;
* Additional resources required including cost, if applicable, and
* Indicate if a decision is required before moving to the next phase – if yes, and then indicate the estimated time to obtain the approval.
* Establishment of the NPO database if applicable;
* Preparation of the terms of reference or guideline for financing ( shortened version) for the call for proposals; or the use of financing guideline in the tools section in this document
* Preparation of the service level agreement;
* Preparation of the draft contract;
* Establishment of the project team (team to evaluate NPO business plans)

# 5.3. Establishing NPO Business plan evaluation team

Due to the fact that this huge task for the Department at all levels a need exists for the establishment of a small but effective working team to facilitate the process of NPO Business plan evaluation. The team should be comprised by the following members in the Department

* **Quick** **Tip**

The following persons should be considered for inclusion in the team:

* The head of branch or Chief directorate
* A representative from the Districts
* Representative from the legal department
* Representative from the finance or procurement sections
* Representative from civil society organisations
* Any other member who would contribute toward the completion of the process

*NB! Please rope anybody that will add value to the system*

* A representative from Provincial NPO registration unit ( coordinator)
* Representatives from Programmes, HIV/AIDS, welfare, Community development etc
* Representatives from Supply Chain Management, Finance, Internal Audit
* Representative from M&E unit
* Representatives from Districts where services will be rendered

The team must be chaired by the representatives from Procurement or Finance unit deputized by Programme manager that is concerned with the areas in which NPO financing is required. The role of the team will be to evaluate NPO business plan based on the supply chain management principles.

# 5.4. NPO financing Process and Transformation

**5.4.1. NPO Legal Status**

Before engaging with NPOs or entering into a partnership agreement, or contracting an NPO, legal status of the NPO must be checked. In South Africa, an NPO has three options regarding its legal status as follows:., Voluntary Association, Section 21 Company and Trust. Table 1 below, provides a brief description of each legal status and suggests some implications for the establishment of partnership agreements (Contracting NPOs)

#### *Table 2: Possible legal status of NPOS & implications for partnership agreements*

| ***Legal Status*** | ***Description*** | ***Implications for financing*** |
| --- | --- | --- |
| ***1. Voluntary Association*** | These organisations do not have to register under the 1997 Non-profit Organisations Act but they do need a board and a simple constitution, and they must abide by relevant by-laws. | This status best suits organisations that do not deal with a lot of money. They are:   * Easy to establish; * Democratic in nature; * Membership based. |
| ***2. Section 21 Company*** | This refers to a non-profit making company that is registered under the Companies Act. It must have members who elect directors (responsible for governing the organization) and hold annual general meetings. | This status best suits organisations that deal with a significant amount of money and are involved in the buying and selling of services. They can apply for tax exemption. Section 21 companies can be costly and complex to establish and run. Applications to register can take 6-9 months to process. |
| ***3. Trust*** | These organisations are established to receive and allocate financing and they cannot deviate from this role. Trustees are appointed to oversee management and administration. A Trust must be registered with both the Inland Revenue and the Master of the Supreme Court and must abide by the Trust Property Control Act. | This status best suits organisations that channel funds to other organisations. The trustees are then responsible for seeing that funds are properly used. |

# *5.4.2..Transformation*

South Africa has been undergoing transformation at an unprecedented pace. This process of transformation is continuing and will inform how government will expand its resources to achieve equity and to address historical imbalances that still prevail within the social development sector.

The Department of Social Development and the NPO sector must commit to strive for a transformed developmental social services sector. The partnership should seek to achieve the following:

* Transform services in which historical patterns of exclusion may still be evident.
* Promote accessible, equitable, affordable and sustainable quality

social services.

* Encourage good organizational governance that is inclusive, efficient,

Transparent and accountable and promotes community participation

* Create an enabling environment for the new and emerging organizations to

deliver social services in a sustainable manner.

* Ensuring a transfer of skills from established organizations to emerging

organizations

* Provision of an integrated service that responds appropriately to the needs of

the community, recognizing their strengths and capacity for empowerment, and

maximizing utilization of resources available in the community

The transformation of social services necessitates the development of the Policy on Financial Awards to Service Providers. This will require that government intervenes through funding and other measures to ensure that these shifts are made and to build the infrastructure and institutional capacity within disadvantaged organizations and communities, particularly in rural areas.

The Policy on Financial Awards to Service Providers outlines the transformation issues that must be implemented, and this guideline will stipulates how transformation must be implemented

# 5.5. Steps for NPO financing

This part of the Guideline provides information on the steps to be followed when financing an NPO to render social services on behalf of the Department.

**National Nonprofit Organizations financing**

National Department of Social development while being the guide, leader and coordinator of all NPO financing in the sector, can call for proposals to finance a National NPO. National would call for proposals for financing National NPOs that are sometimes called networking organizations. In these instances services could be rendered in Provinces but paid for by National. National will follow all the steps out lined in this document to finance such NPOs.

National NPOs are those NPOs that operate in more than three Provinces and by virtue of them being in many Provinces. National have to take responsibilities for their financing. Monitoring and reporting of these NPO services could be delegated to Provinces by agreement.

In all cases, the process that needs to be followed to finance nonprofit organizations at National and in Provinces must be compliant with the Policy on Financial awards, Public Management Finance Act, supply chain management policies and regulations. **(detail steps are listed in the table 3 below)**

* The steps for NPO financing as follows:
* Call for proposal will be advertised for a period of 30 days.
* Briefing of NPO’s about the financing requirements will be done before the close of the proposals and a date will be provided.
* Submission of proposal before deadline.
* Opening of the proposals will be done and all administrative requirements adhered to before evaluation can take place.
* The Adjudication Committee will assess only proposals that adhered to the administrative compliance requirements.
* Only organizations that passed the Technical Evaluation with 60% or more will be considered for Financial Evaluation.
* In order to technically evaluate the proposal of each NPO the Evaluation panel will use the Evaluation Criteria attached to these guidelines.
* Only after approval from the Head of the Department is received the contract will be awarded and signing of the grant contract can take place.
* Funds will be disbursed to NPOs in two or three tranches, depending on the performance of the NPO and claims submitted.

All Provincial NPOs must be financed using the following steps:

***TABLE 4: THE PROCESS OF CALL FOR PROPOSALS - STEPS TO BE FOLLOWED IN NPO FINANCING Step 1: Preparation for NPO funding***

The department must prepare detailed terms of reference or specifications that details what services to outsource to Nonprofit Organizations. The NPO financing specifications or terms of reference must be approved by the relevant authority within a Province. The specifications must detail the type of services, the place where services must take place, who must deliver the services and the time frames of financing.

***Step 2: Call for proposals and application by NPOs***

The department must advertise call for proposals for 30 days and provide briefings to NPOs as a way of empowering them to be able to apply for funding. The nonprofit organizations must indicate compliance with the specifications in addition to providing a description on how they would manage the contract and provide the service. Call for proposal must be in line with the transformation approaches.

***Step 3: Evaluation of the NPO bids by the department***

Once the call for proposals has closed adjudication or Evaluation of submissions by the technical task team or committee to check for compliance with the terms of reference or specifications and innovation must be done within a month’s immediately after closure of the call for proposals.

***Step 4: Recommendations for funding***

Recommendation made by the selection panel to the Department based on the outcome of the selection process. The recommended tenderer (NPO) by the panel must be informed in writing immediately after the decision has been taken and approved by the Head of the Department..

***Step 5: Signing of SLA by NPO***

Successful nonprofit organizations must signs a contract to which the technical specifications are attached as an annexure. The Service level agreement must contain performance criteria and reporting requirements.

NB!

* While the service required is clearly defined, the NPO is expected to demonstrate innovation, amongst other issues
* Service variations may be allowed based on the information and approach recommended by the tenderer
* Depending on the service level agreement, it may be possible to review the contract at pre-determined intervals
* Contractual accountability is required
* Service is part of the Primary Health Care Package

***Step 6. Training of NPO on the SLA***

All successful NPO especially the upcoming ones must be trained on the content of the contract or SLA to ensure that they are familiar with the content of the contract or SLA. Continuous mentoring must be implemented to foster efficient service delivery. All NPO signing a contract must be trained and mentored. At the level of the District all NPOs must be monitored and reporting must be coordinated. This must be implemented with all NPO preferably per District for manageability

***Step 7: Transfer of funds***

*The Department (National and Provinces) must transfer funds preferably in trenches to NPOs in April or latest in May of each year. Subsequent transfer must be done during specified timeframe frame in the SLA.*

# 5.6. Time frames for NPO financing

As financing is a financial transaction where services are procured for the purposes that would have been defined in the strategic plans, timelines must be established to ensure adherence to the MTEF

## 

## 5.6.1. Yearly timeline in line with MTEF

NPO call for proposals must be done in line with the government planning framework, which begins in June each year. Once a department have finalized its Annual Performance Plan NPo financing must begin with the development of a plan and specifications. The following financing cycle is proposed:

# 5.6.2. Multi-year finding of NPOS

It is proposed that NPO are funded in a cycle of three years period which is in line with the MTEF. A minimum of three years SLA must be signed with NPOs for the delivery of services. Each year of NPO will be evaluated to determine the performance. If an NPO is performing well such NPO will continue, but poor performing NPOs will have their SLA not renewed.

# SECTION 6. NPO COSTING MODELS

The services provided by NGO have a cost which is the driver of the financing required to run an NGO and to provide services on behalf of the Department. Services are made up of a number of activities which are done by individual to provide a service to beneficiaries. A costing model is therefore required to cost the activities making up the services. In knowing the cost of the activities, one will be able to know how to manage them. The proposed activity-based costing model has been developed to assist in the costing of activities taking place to provide a service. It also has the capability to provide the unit cost of a service per beneficiary. A lot of cleaned data has to be collected to give input into the model.

The developed model will assist in giving better insight into the cost of services by understanding the costs of the activities incurred. The purpose of the model is to allocate costs to activities. The model is based on the principle that activities incur costs through the consumption of resources. The structure of the model and the template to be used to collect data are attached for reference.

# SECTION 7. MANAGEMENT OF NPO financing

# 

# 7.1. Institutional arrangements

Studies has shown that many projects fail due to lack of appropriates and dedicated institutional capacity and arrangement. When financing an NPO the department must develop capacity at all three spheres of government to ensure appropriate leadership and management. The state is challenged in terms of the numbers and skills of people it employs but the demand for its services has increased dramatically. In many instances this has led to an increase in the use of outsourced and privatized service providers, which are harder to control or regulate. Based on the above the first line in NPO financing management is the strengthening of capacity to manage NPO financing at all levels

A dedicated structure must be implemented in the sector for these purposes. The organisation of the programme must be in such a way that would improve communication, coordination, reporting and feedback at all level

**7.2. Roles and responsibilities of National, Provinces and Districts**

**7.2.1. National**

The role of National Department is to develop guidelines, provide capacity building to Provinces, facilitate the implementation of policies, and monitor service delivery In this instance National role in the NPO financing include the following:

**7.2.2. Province**

Provinces on the other are responsible for the actual management of NPO financing and include the following:

* Undertaking the Provincial needs identification and analysis;
* Mapping of NPOs core business, geographical location, current level of integration with NPOs;
* Ensuring that programme of NPOs respond to the needs of communities;
* Identifying areas of duplication and gaps in service provision;
* Identifying resources available to NPOs;
* Identifying training courses/institutions and developing a systematic capacity building programme, tailored to the capacity needs of the local organizations;
* Providing quality assurance to ensure that NPOs apply minimum standards of practice subject to annual reviews;
* coordinating NPOs with similar core business/ activities;
* Ensuring alignment with government priorities/policies;
* Co-coordinating financing within a specific municipality/ district and facilitate liaison within a District;
* Regular monitoring and co-ordination of performance among NPOs;
* Facilitating sharing of lessons learnt and best practice among local NPOs, and
* Ensuring NPOs meet legislative requirements and standards for governance and management.
* Coordinate NPO financing
* Provide guidance to Districts

# 7.2.3. Districts

Districts are the coal phase of the service delivery. Districts are responsible for the operation of NPO financing, social mobilisation, reporting and capacity building of all funded NPOs. The districts has the following operational responsibilities

* *To provide leadership of the programme*
* Advocate for the programme in the district
* Ensure adherence to government policies and priorities
* Provision of NPO governance
* *Establish a good NPO management system*
* Develop system for NPO management
* Manage NPOs on the ground
* NPO supervision
* *To integrate of the programme into the Province* social development integrated delivery model
* Integrate and collaborate with Provincial and district social development staff
* Foster improved collaboration and networking of NPOs
* *Capacity building for NPOs*
* Strengthening the capacity of local communities, and the district social development systems and civil society to deliver good quality health care programme at the district level
* *Evaluate the quality of the services delivered by NPOs*
* Conduct visit to NPOs daily weekly, monthly
* Assist NPOs on areas of need to render PHC services
* *To ensure NPO data collection*
* Train NPO in data collection
* Collect data with NPOs
* *Monitor and Evaluate the impact of the programme on the ground*
* Review progress of the programme periodically
* Report on the progress on the ground

# *7.3.* Promotion of an enabling environment.

Partnership agreements are most successful when they operate within a supportive legal, policy and institutional environment. Research by the Municipal Infrastructure Investment Unit (MIIU) suggests that a number of components can contribute to an enabling environment. These are represented in Diagram 1 below.

****

# 7.4. Monitoring and Evaluation of Funded NPOs

Monitoring and Evaluation is a critical component of any programme or project that is funded. An appropriate functional M&E system should be decided on to ensure proper data management for effective monitoring and evaluation of services that are provided NPOs. Such a system should cater for the following, collection and processing of data, storage of data, verification, and ensuring reliable data quality.

**7.4.1. Monitoring**

Monitoring is a process of continuous checking of the development of a project to ensure that it meets its intended objectives. The system should aim at facilitating a clear sequence of monitoring activities based on the National service delivery indicators. It should broadly among others provide the ability to do the following;

* Assess the extent to which the programmes/projects are meeting community needs;
* Ensure that allocated funds are effectively utilized;
* Develop a consistent approach of assessing programmes or projects;
* Assist in making evidence based, informed decisions about financing priorities;
* Allow for comparisons of performance data within the sector for identification and documentation of best practices
* Ensure compliance in respect of financial accountability; and
* Provide evidence to support the advocating of an increase in financing for
* Inform the policy decisions in service delivery programming.

**7.4.2. Evaluation**

Evaluation will help government officials and NPO`s implementing Programmes in the answering of the following questions:

* *What happened and how does this compare with what was expected?* Evaluations should measure and describe what the activity or service has accomplished and compares this to what it was intended to do. (**Description);**
* *Why and how did it happen or not happen?* Evaluations should analyze the reasons for what happened or the changes that occurred. (**Analysis); and,**
* *What should be done about it?* Evaluations should recommend actions for decision-makers to take, based on the answers to these questions (**Prescription)**.

An evaluation may focus on different levels of results of a service/programme or project *inputs, outputs, processes, outcomes or impacts*. Table below presents the issues that a well planned evaluation can address.

# 7.4.3. Performance monitoring should be regarded as an opportunity for problem identification and problem solving.

Holding the contracted organisation accountable should not be regarded as simply ‘policing’ the contract. It is important to remain focused on the fact that partnership agreements are established to meet specific objectives and to provide services to beneficiaries. Similarly, performance monitoring should be regarded as an opportunity to improve the outcome and positive impact of the partnership.

Both monitoring and evaluation are management tools. In the case of monitoring, information for tracking progress according to previously agreed on plans and schedules is *routinely* gathered. Discrepancies between actual and planned implementation are identified and corrective actions taken.

Table below presents the issues that a well planned evaluation can address.

Table 5: Programme Performance Issues that can be addressed by an Evaluation

|  |
| --- |
| ***Effectiveness.*** *Is the project or programme achieving satisfactory progress toward its stated objectives? The objectives describe specifically what the project is intended to accomplish, for example, improving the work of traditional midwives, attaining a certain percentage of children vaccinated or training a specific number of community health workers to use ORS correctly. Accomplishments on this level are sometimes referred to as project outputs (what was done), and are assumed to be linked to provision of inputs (human, financial and material resources contributed to achieve the objectives).*  ***Efficiency.*** *Are the effects being achieved at an acceptable cost, compared with alternative approaches to accomplishing the same objectives? The project may achieve its objectives at lower cost or achieve more At the same cost. This involves considering institutional, technical and other arrangements as well as financial management. What is the cost-effectiveness of the project?*  ***Relevance.*** *Are the project objectives still relevant? What is the value of the project in relation to other priority needs and efforts? Is the problem addressed still a major problem? Are the project activities germane to the country's development strategy and plausibly linked to attainment of the intended effects?*  ***Impact.*** *What are the results of the project? What are the social, economic, technical, environmental, and other effects on individuals, communities, and institutions? Impacts can be immediate and long-range, intended and unintended, positive and negative, macro (sector) and micro (household). Impact studies address the question: what difference has the project made to the beneficiaries? How many have been affected?*  *Some people distinguish between outcomes and impacts, referring to outcomes as short-term results (on the level of purpose) and impacts as long-term results (on the level of broader goals). Outcomes are usually changes in the way people do things as a result of the project (for example, mothers’ properly treating diarrhea at home), while impacts refer to the eventual result of these changes (the lowered death rate from diarrhoeal disease). Demonstrating that a project caused a. particular impact is usually difficult since many factors outside the project influence the results.*  ***Sustainability.*** *Is the activity likely to continue after donor financing, or after a special effort, such as a campaign, ends? Two essential aspects of sustainability for social development programmes are: social-institutional and economic (for economic development projects, environmental sustainability is a third consideration). Do the beneficiaries accept the programme, and is the host-institution developing the capacity and motivation to administer it? Do they "own" the programme? Can the activity become partially self-sustaining financially? How can the host institution meet future expenses, especially recurrent costs?*  *At times, a narrower focus may be appropriate. Process evaluations, which examine how a project functions and is managed, may be used when decision-makers know that implementation is not progressing as it should but are not sure why.* |

## 7.4.4. Monitoring and evaluation of an SLA must be planned from the outset

Monitoring and evaluation is about reflecting upon what has worked, what has not and about proposing solutions for problems. It can also support advocacy, mobilization of resources and the strengthening of future partnership agreements.

## 7.5. Reporting

The NPO must provide the District with a monthly and quarterly activity and financial report by the 15th day of the month following the end of the previous month. All the reports must be compiled using the prescribed format. A quarterly report must be submitted by the 15th day of the month following end of the quarter. An Annual report must be submitted at the end of each year. Audited annual financial statements must be submitted within three months after the end of the year. Feedback and follow up mechanisms will also be put in place to encourage regular dialogue between all role players, programme managers, funders, NPOs and other stakeholders.

The following diagram illustrates how monitoring and evaluation can play a role at various stages of a partnership agreement.

****

# SECTION 8. TOOLS FOR NPO FINANCING

This section provides tools that must be used in NPO financing and management. These tools are the guide for National and Provinces and can be modified to suite the Provinces as longs as principles are adhered to.

8.1. Tool 1: NPO financing specification:

8.2. Tool 2: NPO Business plan evaluation criteria

8.3. Tool 3: NPO financing call for proposal advert

8.4. Tool 4: Checklist for NPO business plan administrative evaluation

8.5. Tool 5: NPO application form (Fill –in Form)

8.6. Tool: 6: NPO Financial application form (Financial breakdown form)

8.7. Tool 7: An example of Service Level Agreement (SLA)

8.8. Tool 8: Reporting form