DEPARTMENT OF SOCIAL DEVELOPMENT
POLICY ON FINANCIAL AWARDS TO SERVICE PROVIDERS

1. EXECUTIVE SUMMARY

Government today is still faced with challenges of providing the best possible service to the poorest and most vulnerable sectors of society. Historically, social welfare services have been a joint responsibility of government and civil society, with government providing financial support to organisations through subsidisation. The current realities of the country demand that government review the manner in which it is expending its resources to ensure that there is equitable redistribution to the historically disadvantaged.

Attempts have been made in the past to develop a policy on financial awards to the NPOs. This policy however, did not meet the needs of both the government and the NPO sector. There is now an urgent need to develop a policy that will ensure that the Department is able to deliver on a promise for a better life for all.

The policy on financial awards 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 and legislative framework of the country has created a climate conducive for the Department to achieve its mission, especially with regard to the equitable distribution of resources. The critical role that the NPO sector has played in service provision is acknowledged. Some NPOs have also made major transformation shifts in line with the current realities of the country. However, transformation imperatives remain a major challenge for government.

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 describes financing options, types of financing, eligibility criteria, and methods of payment and requirements for funding.

As is the case all over the world, public and private donors are demanding accountability for the programmes they fund, including measures of efficiency. The Department will therefore enter into contracts with service providers to ensure that expected service outcomes are achieved, that there is customer satisfaction and value for money. These contracts redefine the nature of the relationships between government and service providers. The policy is developmental in nature and the basis of contracting is cooperation rather than conflict, so that long-term relationships can be developed and enhanced through institution building and support, especially for the emerging service providers from the previously disadvantaged communities.

2. INTRODUCTION

The post-1994 era has brought about major changes in South Africa. These changes have had an impact on all aspects of life of the people of the country, including its institutions. The most significant changes were those that were aimed at improving service delivery and making the services more accessible and responsive to the needs of the vast majority of the population.

This transformation process is still in progress and presents numerous challenges to all involved, particularly service providers. Government has been given a mandate to ensure the provision of the best possible services to communities, with a view to pushing back the frontiers of poverty and creating a better life for all.

The White Paper for Social Welfare (1997) commits the Department of Social Development to the transformation of social services by adopting a developmental approach that emphasises the interdependence between social and economic development. Such transformation should amongst others, address race, class, gender and spatial imbalances.

Developmental Social Welfare focuses on the maximisation of human potential and on fostering self-reliance and participation in decision-making. It also stresses services that are family-orientated, community-based and integrated (United Nations: 1987). The developmental approach does not replace or give precedence to any one method of practice, but stresses that regardless of the method of intervention, the outcome must promote social and economic justice.

Historically social welfare services in South Africa have been rendered through both Government and civil society organisations. Government acknowledges that many formal organisations have the skills, expertise, infrastructure and other resources that could contribute to reconstruction, development and the provision of service. Many of these organisations have received financial support through subsidisation. Some of these organisations have made strides in realigning their services with government policies and priorities. However, this has regrettably not been the general trend and the pace of transformation must be accelerated.

This is necessitated by the demand to respond to factors such as poverty, unemployment, as well as the HIV and AIDS pandemic, which is having a severe impact on communities. In addition, social service delivery needs to be redirected to areas of greatest need and highest priority such as rural and marginalised communities that are more adversely affected. Community-based and emerging organisations, which are often best placed and have the potential to render services to the marginalised poor and especially rural communities, are still largely excluded from financing or inadequately financed.

In the past years government has made a huge investment in the social development sector. It has also provided an enabling legal and policy environment, which dictated the imperatives for transformation. However, service delivery has generally not managed to meet the transformation agenda. In order to effectively meet the increasing demands of communities, the transformation mechanisms need to be significantly tightened. In addition, service providers that are largely excluded must be brought into government's funding arena.

3. SCOPE AND PURPOSE OF THE POLICY

3.1 Scope of the policy

The policy on financial awards to service providers in the social development sector is primarily aimed at ensuring that government, together with the non-governmental sector, and where appropriate, private sector organisations, achieve the mission of the Department namely "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 all those who are committed to building a caring society" (Strategic Plan of the Department of Social Development: 2003/4-2005/6).

This policy is intended to facilitate the achievement of strategic priorities of the Department through services that are integrated and developmental in nature, and to ensure the care and support of poor and vulnerable groups, and those with special needs such as children, youth, older persons, persons with disabilities, women, victims and survivors of violence and abuse, persons affected by substance abuse and those infected and affected by HIV and AIDS.

Increasingly the world over, public and private donors are demanding accountability for the programmes they fund, including measures of efficiency. This places pressure on government to evaluate the cost and benefits of its activities and to explain to society as a whole, especially tax payers, how government spending and resource allocation are distributed for the well-being of society. The policy is therefore intended to ensure that there is value for money and that its priorities are being met. This requires accountability from both the government and the non-governmental sector it provides for.

3.2 Aim

The funding policy is therefore 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 is broad in scope to provide for national and provincial governments to develop procedure guidelines according to specific needs and available resources.

3.3 Objectives

The objectives of the policy are to:

- Establish the funding relationship between the Department and service providers that render developmental social welfare services.
- Determine the requirements and mechanisms for making financial awards to service providers rendering developmental social welfare services.
- Provide a tool to facilitate the transformation of social welfare service delivery.
- Develop the capacity of emerging and previously disadvantaged organisations that do not have the resources but understand and could meet the needs of the communities.
- Create an enabling environment for new service providers previously excluded from government funding.
- Provide a basis for the redistribution of resources in a more equitable manner.

4. PRINCIPLES

The following principles underpin the policy on the funding of social development service providers:

Accessibility: Accessibility in terms of physical and geographical conditions, time, language and need.

Accountability: Compliance with all legislative, policy and financial regulations.

Affordability: No one must be excluded on the basis of inability to pay for the service and where fees are charged, a means test should be applied.

Appropriateness: Responsiveness to social, economic, cultural and indigenous and political conditions.

Efficiency and effectiveness: Achievement of objectives in a most cost-effective manner.

Empowerment: To enhance the capacity of emerging organisations to develop so that they can meet the standards set out in this policy.

Equity: Redistribution of resources based on need, priorities and historical discrepancies.

Participation: Active involvement of management, clients, staff, stakeholders and community representatives in organisational programme and policy design.

Partnership: A collective responsibility of government, civil society and the business sector to deliver services.

Social integration: Policies and programmes that promote social justice.

Transparency: Access to information, openness of administrative and management procedures.

5. SITUATIONAL ANALYSIS

5.1 Demographics

The population of South Africa has increased from 40,5 million people in 1996 to 44,8 million people in 2001, which represents a growth of 10%. (Statistics South Africa released a mid-year estimate in 2003, which put the population at 46,3 million people.) Of the total population, 23 million are female and 21 million are male. From the statistics it is evident that the female population in all provinces is the dominant group, except for Gauteng, which has a higher number of men. The racial distribution of the population is 79% African, 9,6% White, 8,9% Coloured and 2,5% Asian/Indian. The age distribution of South Africans shows that the country has a youthful population (even with the margin of error as indicated in the census report: Census in Brief, 2003).

South Africa is rated amongst countries with the highest number of people infected by HIV and dying of AIDS-related illnesses. In 1990, 0,7% of women tested at antenatal clinics were infected with HIV; by 2002 this figure had risen to 26,5%. The people most affected are in the reproductive age group between 15 and 49. This group represents the potential economically active population in society.

South African figures on HIV and AIDS show that the infection rates are higher among women, and nearly half of all those currently infected are women. Several factors give rise to this state of affairs. One of the main contributory factors in this regard is the unequal balance of power between men and women.

Children who are born HIV positive, or who have lost one or both parents due to HIV and AIDS, are amongst the most exposed and vulnerable of all members of society. They are often at greater risk of illness, abuse, and sexual exploitation than children orphaned by other causes.

The Labour Force Survey (September: 2001) shows that the rate of unemployment in the country stands at 41,6%, with the highest unemployment rates being amongst Africans at 50,2% and Coloureds at 27%.

According to Statistics SA, in 1995 approximately 28% of households and 48% of the population were living below the estimated poverty line – calculated on the basis of expenditure, thus excluding access to services and assets. In 1999, 3,7 million out of 11,4 million of such households were living below the poverty line. Of these, most are African. Poverty is therefore the single most profound challenge facing South Africa today. It is coupled with excessive levels of inequality in the conditions of living and access to resources on the one hand, and intense vulnerability within household and communities on the other hand.

The inequalities tend to be defined along gender, age, and racial and spatial dimensions, as was found by many research experts. It is women and households headed by women, the young, the elderly, African and rural people who are at the highest risk of poverty. The post-apartheid government's recognition of poverty as its foremost concern is reflected in budgetary shifts to social spending, in poverty relief programmes and in programmes targeting women.

The South African government acknowledges the social, religious and cultural diversity of families as well as the effects of social change on their nature and structure. Nowadays families are faced with new challenges and demands in their attempt to meet the needs of their members. Many families in South Africa, particularly those from African communities, have been adversely affected and dysfunction sets in when poverty is combined with environmental stress and feelings of powerlessness and frustration.

Social disintegration is evident in the rising incidence of family disorganisation, family violence, mental health problems, crime, abuse of legal and illegal drugs, commercial sexual exploitation, homelessness, and children living and working on the street.

Based on Census 2001, there are 2 255 982 persons with disabilities in South Africa. The most predominant forms of disability are of sight and of a physical nature. The province with the highest population of people with disabilities is KwaZulu-Natal (470 588), followed by the Eastern Cape (372 265) and Gauteng, with 331 611 people with some form of disability. The province with the lowest proportion of disabled people is the Northern Cape.

The above situation provides a partial overview of the socio-economic situation in the country. The government has made major strides in addressing these issues, as reflected in the ten-year review on the implementation of government programmes. The challenges are however daunting, particularly in terms of services rendered by the Department of Social Development throughout the country. These services are at the coalface of delivery to the poor, marginalised and most vulnerable sectors of society.

These challenges and priorities should be addressed in a cost-effective manner, and this policy provides tools for the redirection of services and the allocation of resources by the Department to ensure achievement of these goals.

The expanding effect of social security in some provinces – which is in excess of 90% of the departmental budget, whilst fulfilling a critically important safety net function, has severely curtailed the amount of money allocated to service delivery.

5.2 Profile of the NPO sector in South Africa

Swilling and Russell (2001) maintain, based on a quantitative survey of the South African Non-profit Sector Study, that the non-profit sector is a major force in the economy of South Africa, with a total operating expenditure of R9,3 billion in 1998, representing 1,2% of the gross domestic product. The total number of employees in the non-profit sector in 1999 exceeded the number of employees (including full-time, part-time and volunteer workers) in many major economic sectors, making this sector a major employer in the country. During the same year, 1,5 million volunteers actively contributed their time and energy to South African NPOs. When compared to the volunteers as a percentage of the non-profit workforce in 28 countries, which stands at an average of 35%, South Africa stands at 47%.

When looking at it from a sectoral perspective, it appears that the social services sector has the highest percentage of NPOs, numbering 22 755 (23%) out of a total 98 920 NPOs in 11 different sectors. The following table shows the areas of work of NPOs in the social services sector:

MAJOR AREAS OF WORK	**NUMBER OF NPOs**	**TOTAL NO. OF SUB-GROUP**
1. Social Services	**13 519**	
• Child welfare, child services		4 963
• Youth services, youth welfare		2 291
• Family services		2 385
• Services for the 'handicapped'		1 093
• Services to the elderly		1 242
• Self-help and other services		1 545
2. Emergency and relief	**908**	
• Disaster/Emergency prevention and control		47
• Temporary shelters		861
3. Income support and maintenance	**8 313**	
• Income support and maintenance		53
• Material assistance		8 260
TOTAL	**22 755**	**22 755**

Table 1: Areas of work in the social service sector (Swilling and Russell: 28)
**Information in the table has been quoted directly from the source.

Although the above does not clearly reflect the areas of service integration, it reflects the key service delivery areas that are a priority for government. In terms of funding, it is estimated that the NPO sector had an income of R18 billion in 1998, 42% (R5,8 billion) of which was government's contribution. Of the amount contributed by government, R2,1 billion went into social services, R1,7 billion to health and R1,1 billion to development and housing.

Swilling and Russell (2001:35) state that "the sectors which received most of government's funds were characterised by well-developed, formal NPOs which tended to be more active in established, urban working class and middle class communities than in the poorer communities … 47% of social services NPOs and 42% of the health NPOs were concentrated in the middle-income social-economic categories. This contrasts with the culture and recreation, and the development and housing sectors, in which half the NPOs in both these sectors are concentrated in the poorest socio-economic categories". They then conclude that the social service and health NPO sectors "catered more for the white sector of society, and possibly still do. This does not say that health and social services NPOs do not meet the needs of the poor, but rather suggests a possible trend that may raise concern about who benefits from government funding support for the social service and health sectors" (ibid: 36).

In the abovementioned study, it was found that self-generated income accounted for 34% of total NPO revenue. This was generated from service fees, dues, and other self-generated income. The social services NPOs were found to be the highest generators of fees for services, having raised R1,2 billion in 1998. This represents 32,4% of the total revenues in the sector, with government grants making up 56,5% and private sector 11,1%. The following table shows the financial summary of the non-profit sector:

		R million	**Percentage of total**
Income	Fees, sales and dues	4 029	29
	Investment Income	668	5
	Private sector donor income	3 487	25
	Government grants and contracts	5 827	42
	Total Income	**14 011**	**100**
Expenditure	Salaries and wages	5 313	57
	Other	4 042	43
	Total Expenditure	**9 355**	**100**

Table 2: Financial summary of the non-profit sector (Swilling and Russell, 2001: 39)

The above gives a succinct picture of the NPO sector in South Africa. Even though the study was conducted in 1999, it still has relevance and has confirmed many of the observations of practice experience made by government. The analysis also confirms the critical role played by volunteers in social sector service delivery, as well as the ability of especially well-established NPOs to raise their own revenue through fees and fundraising from other sources. Having said this, it is important to note that new and emerging organisations that are meeting the needs of the communities in which they are located, have been left out in terms of resource allocation.

The above also has far-reaching implications in terms of the relationships that government has with NPOs. It also places an obligation on government to redirect the current and to provide new resources to ensure equity, redress and transformation within the NPO sector, so that institutional capacity is built in areas that are under-resourced. Government also has to explore other avenues to ensure that the services are in line with its objectives and priorities. Service providers on the other hand, should develop sustainable programmes that meet the needs of the vast majority of the poor and vulnerable groups.

5.3 Pressure on Social Welfare Services

The Department has a skewed allocation of resources due to the improvement of the safety net, which is critical in the alleviation of poverty and is seen as the largest direct income transfer to the poor in the country. Whilst this is positive in terms of provision of a safety net for the poor, it has resulted in the Department spending an average of 90% of its budget on social grants, leaving only 10% of the budget to provide a wide range of services, whether rendered by NGOs or by government.

The strategic plan of the Department alludes to the fact that critical poverty relief and community development, child protection services, community services to older persons, people with disabilities, and support services to victims of domestic violence and other services are chronically under-budgeted. Although the conditional grants are able to relieve the problem, provinces have not been able to integrate them in their budgets to ensure sustainability.

The limited capacity to both in terms of numbers, skills and finances has required that certain policy shifts be made to ensure that services go to the neediest. The high exodus of social workers from the profession and from both government and the non-governmental sector for better prospects elsewhere and the impact of globalisation, have exacerbated the capacity problem. This is often felt in service delivery and in the impact of services in communities served. The constraints are not only felt by government, but also by the non-governmental organisations that provide services to communities. There has been an inability, especially at provincial level, to increase the subsidies to the non-governmental sector, particularly to new sectors such as religious organisations, volunteers, and community-based organisations that are willing to provide a service to the under-resourced, historically disadvantaged and the poor.

Thus, whilst this policy seeks to redirect resources and services in situations where there is overprovision, it also acknowledges that developmental social welfare services have historically been underfinanced and achieving equity as well as addressing current challenges will require that additional financial resources be acquired.

Through this policy, the Department will attempt to develop mechanisms and appropriate measures to respond to transformation imperatives as outlined in this policy document.

6. POLICY AND LEGISLATIVE FRAMEWORK

6.1 Framework with direct bearing on the policy

The purpose of this section is to articulate policy considerations that inform the implementation of the relevant provisions of various pieces of national legislation that seek to give effect to government's constitutional mandate and international obligations. The pieces of national legislation referred to herein either relate to or make provision for the awarding of financial assistance to service providers for the delivery of developmental social welfare services.

The relevant policies and legislation include, but are not limited to, the following:

- Social Assistance Act, 59 of 1992
- Welfare Law Amendment Act, 106 of 1996
- Nonprofit Organisations Act, 71 of 1997
- Public Finance Management Act, 1 of 1999
- White Paper for Social Welfare
- Welfare Financing Policy, 1999

6.2 Rules governing policy implementation

In the implementation of the policy, the provisions of the following legislation will be taken into account:

- Promotion of Administrative Justice Act (3 of 2000)
- Promotion of Access to Information Act (2 of 2000)
- All legislation and policy provisions that govern developmental social welfare services in the country. These include, but are not limited to, the following:
- Nonprofit Organisations Act, 1997 (Act 71 of 1997)
- Child Care Act, 1983 (Act 74 of 1983)
- Probation Services Act 1991 (Act 116 of 1991)
- White Paper for Social Welfare (1997)
- The Ten-point Plan of the Minister of Social Development

7. SERVICE SPECIFICATIONS

In line with the policy and legislative framework outlined above, the Department has a major responsibility and mandate to deliver the best possible service to society, particularly to the vulnerable and poor sectors. It is therefore, by virtue of its constitutional mandate that government must:

- develop a clearly articulated vision, goals and objectives;
- define how it intends to achieve its goals;
- demonstrate how it will measure programme performance in achieving its goals.

The above will be applicable to the public service as well as the organs through which it aims to deliver the services and to which funds will be allocated. Specifications will determine priorities for service delivery at either national or provincial level and will be informed by, amongst others, research, statistics, community meetings such as imbizos, presidential and/or ministerial pronouncement, and Integrated Development Plans.

Service specifications will therefore determine where, to whom and for what purpose funding will be allocated. This will ensure that agency strategies and programmes strive to be aligned with a macro strategy of the Department. The Department understands the need of the sector to maintain its independence and autonomy;

however, transformation imperatives compel the Department to respond appropriately to shifts in demographics, fiscal and political trends.

8. TRANSFORMATION

8.1 Challenges of transformation

South Africa has been undergoing transformation at an unprecedented pace. This process of transformation is continuing and will inform how government will expend its resources to achieve equity and to address historical imbalances that still prevail within the social development sector. After the last policy on social welfare transformation, many non-profit organisations tried to transform according to the guidelines prescribed. There are, however, still many challenges facing service delivery. Some of these challenges include:

- Accessibility of services.
- Equitable distribution of services and resources between rural and urban areas.
- Deracialisation of facilities, in particular homes for the elderly.
- Development of more community-based services.
- Management boards and structures which reflect the demographic profile of the region and province that it serves.
- Ensuring the sustainability of emerging and disadvantaged non-profit organisations.
- Building the management and financial capacity of emerging organisations.
- Ensuring a transfer of skills from established organisations to emerging organisations.
- Development of affordable costing models.
- Improving the infrastructure and resource base of historically marginalised non-profit organisations and communities.
- Halting the process of continued fragmentation of social services.
- Moving away from a competitive individualistic service to cooperative and collective approaches that facilitate skills transfer and service integration.
- Provision of an integrated service that responds appropriately to the needs of the community, recognising their strengths and capacity for empowerment, and maximising utilisation of resources available in the community.

These challenges are not only critical to government but should also represent the collective goal of all service providers in ensuring that developmental social services are rendered in a just and fair manner, to those who need the services most.

To ensure that equity takes place, the following shifts have been identified as critical to the transformation process:

- Shifting from supporting organisations on the basis of entitlement, race, gender and geographical location to services that promote equity, diversity and social integration.
- Shifting from over-resourced areas to high priority areas where the needs are greatest.
- Shifting from funding based on input to outcome-based funding.
- Shifting from lack of accountability to accountability for public funds.

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 organisations and communities, particularly in rural areas.

8.2 Criteria for measuring transformation

An organisation and its services are deemed to have transformed or to be in the process of doing so when the principles and shifts are reflected in all aspects of its functioning and when:

- its internal policies and procedures, including its constitution are in line with the principles of the Constitution of the Republic of South Africa, and other national and provincial policies and priorities;
- there is visible evidence that it has redirected its services to include previously marginalised communities and it prioritises the most vulnerable and the poorest of the poor;
- there is visible evidence that the composition or profile of its facilities reflect the demographics of the geographic area and community it serves;
- there is a plan to promote access to services and facilities and this is regularly, clearly and publicly communicated;
- the composition of the facility or organisation's Board of Management, its day-to-day management structures and its staff, reflect the profile of the beneficiaries and communities it serves;

- there is visible evidence of beneficiary, stakeholder and community involvement in the design of the organisation's policies and service delivery programmes;
- there is visible evidence of the service providers' active involvement in community structures and networks;
- there is visible evidence that the more established organisations share resources, knowledge, expertise, and technical support with smaller community-based organisations, so that both benefit in terms of enhanced appropriateness and effectiveness;
- more than one service provider provides similar or identical services in the same geographical area, preference will be given to joint service plans to promote cost-effectiveness and add value;
- there is visible evidence that the same quality and standard of service is provided to all, irrespective of race, gender and ability to pay;
- the organisation makes a concerted effort to implement programmes aimed at early intervention and prevention and uses a range of social service practitioners;
- there is visible evidence that services as a first priority, aim to keep beneficiaries in their homes and communities. Where alternative care is seen through professional assessments to be the best option, it should as far as possible be aimed at promotion and retention of family and community links. In the case of children, the service should aim at family preservation and reunification;
- there is visible evidence of ongoing staff and management training that ensures that they are informed of new developments in service delivery, and which increases their capacity to deal with needs and challenges;
- there is visible evidence of a system of internal controls, monitoring and reviews of organisational functioning;
- there is visible evidence of concerted efforts to make the organisation less dependent on government funding and more financially sustainable.

9. SERVICE PROVIDERS

Service providers refer to an array of legal persona in the form of organisations and bodies that render social welfare services. In order to give a broad picture of all service providers they may be grouped into three categories, namely:

9.1 Organs of civil society

9.1.1 Non-profit organisations

These are independent bodies that operate at national, provincial and local level, and include community-based organisations. They may be established and function as either voluntary associations, trusts, section 21 companies, friendly societies or foundations. The common feature of these organisations is that they are not for gain.

9.1.2 Profit organisations

These organisations provide a variety of developmental social welfare services on a profit basis.

9.1.3 Self-help groups and cooperatives

These are groups of individuals who come together to learn certain skills or address certain needs with the view to improve the quality of their lives. Some groups or cooperatives have income-generation as a goal. Cooperatives are generally registered in terms of legislation {Cooperatives Act, 1981}.

9.1.4 Faith-based and service groups

Groups linked to different religions with service entities also provide valuable services to communities. Some of these groups may be formally organised and registered, thereby covered in paragraph 8.1.1 above. Others are purely voluntary.

9.2 Government sector

National and provincial departments of Social Development and various other departments provide services related to social development (see shared financing 9.2.5). The role played by local government as a service provider is hereby also acknowledged.

9.3 Parastatals

Parastatals are those bodies that are not an integral part of the national and provincial government sector, but function alongside it and are instituted by legislation administered by the government sector. They generally report in accordance with the PFMA Act 1, 1999.

Parastatals may provide a specific service that falls within the scope of this financing policy, such as development and research.

10. FINANCING

The Department recognises that it is not the sole funder of services to the poor and vulnerable sector of the community. It further recognises that in particular, well-established organisations have the capacity and the necessary infrastructure to raise funds. Depending on the funding options as will be outlined below, funding is provided with the understanding that these organisations do and will raise funds from other sources such as other state departments, donor organisations, corporate social responsibility programmes from the private business sector, through trusts and foundations and the proceeds from lotteries.

With the abovementioned in mind, the following section is aimed at providing guidelines regarding the funding of the welfare and social development sector to deliver the services. This section will cover the following areas:

- Financing options
- Types of financing
- Methods of payment
- Eligibility criteria for funding
- Requirements for funding.

10.1 Financing options

The Department plays a major role in organising the supply of services. It does so either by supplying the service itself, or by outsourcing the supply of services to service providers. This policy document concerns itself with the latter. As a contractor of services the Department purchases services by means of three options:

- Purchasing and financing through a process of subsidisation of programmes that meet the Department's basic requirements for financing.
- Purchasing and financing through a process of closed tender. In these situations the Department takes the initiative to identify needs and invite applications from appropriate service providers, to ensure that services are provided where required.
- Purchasing and financing of services through an open tender. In these instances, invitations for the supply of services are done according to tender procedures and policies.

10.2 Types of financing

When purchasing services, there are six possible types of financing that the Department may make available, namely:

10.2.1 Seed financing

In instances where a service is in the early stages of development and is not yet able to qualify for financing according to the set criteria, this type of financing may be considered.

10.2.2 Capital financing

This type of financing may be considered for non-consumable items such as furniture, equipment and maintenance. In very specific instances this type of financing may also be considered for the development of infrastructure, subject to compliance with legislative requirements in terms of ownership.

10.2.3 Venture financing

This is a once-off type of financing and will be applicable to projects that only need start-up financing to become self-sustainable.

10.2.4 Partial financing

This type of financing applies in instances where only part of a broader service is approved for financing.

10.2.5 Shared financing

This financing occurs when different funders decide to jointly fund a service or to fund different parts of a comprehensive service.

10.2.6 Long-term contractual financing

This method of financing applies to services that operate over a longer period of time and have long-term objectives, the achievement of which is reliant on financing from the Department for typical ongoing, recurrent day-to-day operational costs. Financing is continued for as long as the service remains a priority and compliance with contractual conditions are confirmed.

10.3. Methods of payment

This section gives an outline of how the Department will transfer payments to the contracted service provider.

10.3.1 Payment in phases/stages/tranches

This payment method is used where the next payment of an allocation is dependent on results achieved in the previous phase/stage.

10.3.2 Payment through transfer of lump sum

Consideration will be given to the transfer of the entire allocation where service providers have a proven track record of compliance, credibility and accountability. This applies where the other payment methods are inappropriate due to, amongst others, cash flow situations and the relatively low financing level.

10.3.3 Payment at regular predetermined intervals

This payment method means that an annual allocation is divided into monthly/quarterly/six-monthly portions and paid in equal amounts, to assist with cash flow management and expenditure control.

The Department reserves the right to determine which option will be best for a service provider. However, the Department will consider representations by a service provider for an alternative payment option.

10.4. Eligibility for financing

A service provider will only be eligible for a financial award from the Department of Social Development if the service provider meets the following requirements. The service provider must:

- be a legal persona and be registered with the appropriate authority;
- as a non-profit organisation in terms of the Nonprofit Organisations Act, 1997, be affiliated to a non-profit organisation that is so registered or can provide proof that the organisation is in the process of registering under the Nonprofit Organisations Act; unless the service is procured through an open tender process;
- provide services or intend to provide services for the people and specific communities in line with the Department's priorities and objectives;

- have a constitution that embraces the provision of social development services;
- where applicable, demonstrate the ability to provide effective and efficient services;
- promote equitable distribution of services, taking into account historical imbalances, including race, gender and the urban/rural divide;
- promote inclusiveness and representativity in the management and organisation of services, including the establishment of management committees that broadly reflect the communities that they serve;
- be able to account for the utilisation of financial awards made by the Department in an acceptable manner and in terms of the prescripts of the Public Finance Management Act 1 of 1999 (PFMA). This implies that the focus should be on the efficiency, economy and effectiveness of programmes and best practice financial management;
- be legally registered in terms of any other service-specific related legislation (e.g. Child Care Act, Older Persons, etc.) that requires such registration;
- support and commit it to share resources and transfer skills to emerging organisations.

10.5 Requirements for funding

The service providers should submit a business plan as prescribed in the procedure guidelines.

The business plan should contain at least the following information:

- The biographic information of the NPO.
- Information on the management board, staff, volunteers and current beneficiaries (service recipients) of the NPO.
- Objectives, outputs and outcomes.
- Activity-based budgets to show the amount of funds needed and the purpose for which they will be utilised.
- Any other such addenda that are legally or administratively required, including:
- Most recent audited financial statements
- NPO registration or other relevant registration required
- Constitution
- Confirmation of banking details (credit order form)

- Financial assurance declaration

The respective roles and responsibilities of the service provider and the Department will be spelt out in the contract signed between the parties.

11. CONTRACTS

Government's budget is managed on the basis of the medium-term expenditure framework (MTEF), which is a multi-year planner and covers a three-year cycle. The MTEF enables government to plan strategically on the basis of its projected financial resources. To enable the Department to respond appropriately to the developmental social welfare needs of the country, it must be in a position to project the financial implications of service delivery on a multi-year basis.

As far as possible and where appropriate therefore, business plans must reflect multi-year planning and budgeting for a period of up to three years. This will also enable the Department to consider the appropriateness and affordability of long-term developmental initiatives aimed at addressing priorities and giving effect to transformation shifts. Financing levels for the ensuing year as well as in principle approval for longer-term financing will be based on the results of performance evaluation against set objectives and the extent to which the service provider is able to meet transformation challenges.

Mutual expectations concerning financing and service delivery are formalised in written contracts signed by the Department and the service provider. The purpose of entering into contracts is to ensure that mutual roles and responsibilities are clearly spelt out. In addition, the contract also spells out the service provider's obligations in respect of deliverables (outputs), reporting and accounting, and monitoring and evaluation procedures to ensure accountability for public funds received.

The Department may enter into one-year contracts or in some instances multi-year contracts with service providers. The latter will be in instances where the Department is satisfied that a one-year contract will be impractical and undesirable due to the nature of service, the type and level of investment and the extent of planning.

The contract will, among other things, cover the following specifications:

- Service-specific outputs expected in specific areas.
- Financial arrangements.
- Roles and responsibilities of the Department and the service provider.
- The duration of the agreement.
- The reporting and accounting requirements within specific timeframes.
- Monitoring and evaluation arrangements.

12. MONITORING AND EVALUATION

Monitoring and evaluation is an ongoing and developmental process.

The purpose of monitoring and evaluation is to assess compliance with the contract, both in terms of service delivery and financial management. This will particularly include, but will not be limited to, monitoring and evaluation using the balanced scorecard approach, which has the following perspectives:

- **Financial** – the extent to which the service provider complies with financial prescripts and requirement as stipulated in the contract; and whether the service provider's strategy, implementation and execution are contributing to the achievement of goals, and provide return on investment and value for money.

- **Customer** – this perspective focuses on service deliverables as well as customer or stakeholder satisfaction in the service outcomes; it reflects responsiveness, timeliness, reliability, assurance and empathy towards recipients in the delivery of services. It also involves identification and segmentation of service area and measuring organisational performance in those targeted segments.

- **Organisational (internal business) perspective** – this perspective focuses on the critical internal processes in which the service provider must excel to achieve its strategic objectives. Internal business processes must facilitate continuous performance improvement in regard to core competencies of the organisation and its ability to deliver on its goals and achieving customer satisfaction. This further implies that the service provider must organise the environment such that there is compliance with and responsiveness to transformation imperatives.

- **Innovation and learning culture perspective** – the organisation must continually evolve its products and services to the customers to keep pace with the latest developments and the demands for service. This also relates to the continuous improvement of the quality of the service provided to service recipients, so that it is appropriate, effective, and efficient, and that it keeps pace with the changing needs of the communities served. This implies the provision of training and empowerment of staff to be able to perform their assigned tasks, developing best practice and promotion of organisational learning and growth.

An important aspect of monitoring and evaluation will be aimed at corrective measures to be implemented in instances where shortcomings and non-compliance are identified.

The four areas for monitoring and evaluation mentioned above will, amongst others, include the following aspects:

- Compliance with relevant legislation, policies and priorities, norms and standards and procedures.
- Ensure that allocated finances are utilised as per the agreed objectives in the contract.
- Determine whether transformation imperatives are being complied with.
- Promote best practice models.
- Determine whether there is adequate beneficiary, stakeholder and community involvement in the design of the organisation's structure, (governance) policies and service delivery.
- Monitor the implementation of the organisation's diversity management strategy.
- Monitor whether the organisation has a sustainability plan.

The service provider must monitor its own performance, jointly with its own beneficiaries, as well as ensure that it is delivering a quality service. The Department will use this information as part of its monitoring and evaluation process.

13. REDUCTION, SUSPENSION AND TERMINATION OF FUNDING

The Department has the right to reduce, suspend or terminate financing based on an assessment of the extent to which non-compliance with the specifications of the contract occurs. Non-compliance may occur in the following areas:

- Conditions in respect of the transfer of financing or grant have not been complied with.
- Financial assistance is no longer required.
- The agreed upon objectives have not been attained.
- The transfer payment or grant does not provide value for money in relation to its purpose and objectives.

In instances where financing is considered to be reduced, suspended or terminated the Department will as a general rule act in accordance with the requirements of administrative justice. This will include the following:

- Give adequate notice of the nature and purpose of the proposed administrative action.
- Give a reasonable opportunity to the service provider to make representations.
- Give a clear statement of the administrative action.
- Give adequate notice of any right or review or internal appeal, where applicable.
- Give adequate notice of the right to request reasons.

The reduction, suspension or termination will in most instances be preceded by consultation in an effort to enable the service provider to rectify the situation. However, in certain instances the breach may be so serious that financing may be stopped immediately, either permanently or for a period of time. This would apply in situations where -

- funds are being seriously mismanaged;
- the project has ceased completely;
- the beneficiaries are abused, maltreated or their rights are violated;
- the service provider obtained or used the financing in a fraudulent manner;
- the service provider received money from the Department but did not implement the agreed upon service;

- non-compliance with requirements for the submission of prescribed reports, including financial statements.

14. DISPUTES

Disputes may from time to time arise on issues relating to the interpretation and implementation of the policy, including assessment and evaluation of programmes and services, selection and allocation of resources to the service provider; as well as reduction, suspension and termination of a financial award. Written representation may be made to the executing authority. The process in this regard is spelt out in more detail in the procedure guidelines.

15. COMMUNICATION AND CONSULTATION

The Department will set mechanisms and processes in place to strengthen communication and ensure consultation with different spheres of government, community structures and service providers to ensure:

- the assessment of needs and priorities;
- the equitable redistribution of resources to address historic imbalances;
- consultation on the identification of relevant service providers to respond to community needs;
- consultation on the development and implementation of departmental policies and strategies.

Consultation will take place within the framework of the mandate of the Department as indicated in relevant legislation, policy provisions, budget allocations and strategic directives.

16. GENERAL ADMINISTRATION

The administrative processes relating to this policy will be formulated and provided for in detail under separate cover. Provinces may develop procedure guidelines for the implementation of the policy. These should be read in conjunction with and as a part of this policy.

It is noted that currently both provincial and national departments generally lack the capacity to implement and execute this policy. The Department will therefore be required to build the necessary organisational and systemic capacity at both these levels.

Annexure A

GLOSSARY

ACCOUNTABILITY:

The obligation to be answerable to client systems, management bodies, donors and government institutions for the range and quality of services rendered, the allocation and use of resources, and the realisation of objectives.

AUDITED FINANCIAL STATEMENTS:

Financial statements examined by a registered auditor or accountant that reflect the state of finances of an entity in accordance with generally accepted accounting principles.

BENEFICIARY:

Person in receipt of social grant or other material assistance from a project or programme.

BUDGET:

Estimate of the running capital and other expenditure required for services for a certain period, as well as the real and potential sources of income that will be generated during the same time period.

BUSINESS PLAN:

A detailed plan of how service providers intend to provide services to recipients and on how resources are to be utilised.

CENSUS 2001:

Extrapolated data from the official survey of the population of South Africa in 2001 used for planning the administration of the country.

CIVIL SOCIETY:

Organisations initiated by citizens of the country which include self-help groups and cooperatives, faith-based and service groups, and community-based organisations.

CONSTITUTION:

The Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996).

COMMUNITY-BASED ORGANISATION:

An organisation established to meet the specific needs of a community and located within the community it serves.

COMMUNITY DEVELOPMENT:

The process and method that is aimed at enhancing the capacity of communities to respond to their own needs and improving their capacity for development, through community mobilisation, strength-based approaches and empowerment programmes.

CONTRACT:

A legally binding agreement between two or more parties.

CONSTITUTION:

The formal document capturing the founding statement, vision, and broad objectives of an organisation, encompassing all the procedures and disciplines required for the orderly governance and operation of the organisation. In the case of registered trusts or foundations this includes trust deeds in terms of the Trust Property Control Act, 1988 (Act No. 57 of 1988), and in the case of registered section 21 companies, the memorandum and articles of association.

CONSTITUTIONAL MANDATE:

The responsibility of national, provincial and local departments to provide services as required by the Constitution in line with priorities and needs identified by the government.

CREDIBILITY:

The believability of an organisation or institution in the eyes of the public.

DEPARTMENT OF SOCIAL DEVELOPMENT:

The national or provincial department responsible for providing social development and welfare services directly or indirectly. This includes any regional, district or local offices of such departments.

DEVELOPMENTAL SOCIAL WELFARE:

This focuses on social protection, the maximisation of human potential and fostering self-reliance and participation in decision-making. It concentrates on the causes and effects of social vulnerability and marginalisation, and the delivery of integrated services to communities, families and persons affected by these phenomena.

FINANCIAL AWARD:

Allocation of funds for the provision of approved developmental social welfare services.

GDP:

The Gross Domestic Product (GDP) is the total value of goods produced and services provided within a country during one year. [This abbreviation does not appear in the main body of the document.]

GOVERNMENT:

The Government of the Republic of South Africa.

EMERGING ORGANISATIONS:

Those organisations that are new in the field of development and/or that do not yet have the capacity and resources to sustain themselves.

EQUITABLE REDISTRIBUTION:

Sharing of resources between two or more groups in a manner that ensures that the needs of the previously disadvantaged are met in fair manner with the purpose of achieving a common goal.

EVALUATION:

A systematic and independent examination of a project to determine its efficiency, effectiveness, impact, sustainability and relevance in terms of its objectives.

FOUNDING DOCUMENTS:

These includes the memorandum and articles of association or a company, a trust deed, and the constitution of a service provider, voluntary association or national organisation.

GRANT:

An amount of money payable monthly from public funds to a person or organisation that qualifies for assistance in terms of legislation.

HIV AND AIDS:

HIV stands for the Human Immunodeficiency Virus, a virus that affects the body's immune system. Aids stands for Acquired Immune Deficiency Syndrome, a viral illness which affects the body's ability to resist infection and which usually causes death.

HUMAN RIGHTS:

The rights enshrined in the Constitution.

IMBIZO:

A meeting between politicians or heads of government and the community, with the sole aim of sharing and discussing issues that affect the community and/or the country.

IMPACT:

The positive and negative changes produced, directly or indirectly, as result of a project or programme.

INTEGRATED SERVICES:

Services which are coordinated and delivered in a holistic and intersectional manner and have the following characteristics:

- A multidisciplinary rather than a linear approach to service delivery.
- Different departments, organisations, and businesses that contribute collectively towards a holistic service aimed at addressing the needs of the beneficiaries.

LEGAL PERSON:

An organisation or entity that has a constitution or founding documents and is registered with the appropriate authorities.

NGO (NON-GOVERNMENTAL ORGANISATION):

An organisation that is not a government entity and that provides services for the benefit of the public.

NPO (NON-PROFIT ORGANISATION):

Independent organisations, bodies, trusts, companies or other associations of persons operating at national, provincial and/or local level to provide welfare services not for gain, but for a public purpose. The income and assets of the profits are not distributable to its members or office bearers except as reasonable compensation for services rendered. These entities may or may not be registered in terms of the Nonprofit Organisations Act, 1997 (Act No. 71 of 1997), the National Welfare Act, 1978 (Act No. 100 of 1978), or any other welfare legislation regulating the type of service.

MANAGEMENT/EXECUTIVE COMMITTEE:

This is a duly elected body to represent beneficiaries as the legal entity.

MANAGEMENT BOARD:

A group of persons elected or invited to provide leadership and guidance and to manage the affairs of NPOs. These should include persons with the mixture of skills and expertise needed by the organisation.

MONITORING:

The continuous or periodic surveillance of the physical implementation of a project to ensure that inputs, activities, outputs and external factors are proceeding according to plan.

MTEF PERIOD:

A medium-term expenditure framework period is three years.

PARTNERSHIP:

A cooperative effort between government, civil society, and the business sector to deliver services.

POST-1994 ERA:

The period after the abolition of apartheid, when a new order was established in which the democratic principles enshrined in the Constitution became an integral part of government.

POVERTY:

The state of households, individuals and/or groups that are living below the poverty line, and poorer people who lack resources to meet life's challenges and their own basic needs.

PRIVATE DONATION:

A donation received from an individual, entity or organisation operating independently from government.

PROGRAMME:

A group of related projects or services directed toward the attainment of specific (usually similar or related) objectives.

PROJECT:

A planned undertaking designed to achieve certain specific objectives within a given budget and within a specified period of time.

PUBLIC DONATION:

A donation received from the community.

SELF-GENERATED INCOME:

Income that has been raised by individual organisations.

SERVICE PROVIDERS:

Individuals, organisations and structures that provide welfare service at national, provincial and local level to individuals, groups and communities in order to enhance their social functioning. Service providers may include: teachers, social workers, child and youth care workers, nurses, police officers, etc.

SOCIAL DEVELOPMENT APPROACH:

This approach integrates economic and social objectives. It not only recognises the critical importance of economic and social development in raising standards of living, but also actively seeks to harness economic development for social goals.

SOCIAL DEVELOPMENT SECTOR:

This sector comprises personnel who primarily deliver social welfare services which are developmentally oriented to the public.

SOCIAL DISINTEGRATION:

Break up or deterioration of human relations in a community that renders them unable to sustain an acceptable level of social functioning.

SOCIAL SERVICES

These are a broader and comprehensive range of services relating to social welfare services and community development provided in a continuum to ensure the integration and sustainability of intervention efforts.

SUBSIDISATION:

Financial aid furnished by the government as supplementary income to the NPOs in order to purchase their services.

SUSTAINABILITY:

The extent to which the institutions will continue to pursue the objective after project assistance is over.

TARGET GROUP:

The specific group who will benefit from the project or programme that is undertaken.

TENDER:

An act of making a formal offer to the potential service provider for supply or provision of service.

TENDERER:

Prospective supplier of goods and/or service.

TRANSFER OF PAYMENTS:

The transfer of an amount allocated for funding of national bodies to perform a certain functions on behalf of the Department.

TRANSFORMATION:

The process of changing structural arrangements and the manner in which services are delivered in order to comply with legislative and policy mandates related to the funding of service providers.

VOLUNTEER:

An individual who works for a community and its service, administration or fund-raising programmes, usually without remuneration. However, expenses incurred by a volunteer are sometimes reimbursed by NPOs or NGOs, and in some cases an honorarium is offered to the volunteer.

VULNERABLE SECTOR/GROUP:

A group of people who are susceptible to or at risk of experiencing social problems because of their circumstances.

WELL ESTABLISHED ORGANISATIONS:

Organisations that have the capacity and resources to carry out their goals.