2015 NPO JOB LOSSES AND SERVICE CUTS REPORT

September 2015

GreaterCapital | GreaterGood SA
t. 021 685 9780 | **f.** 021 685 9781 | **e.** salma@ggsa.co.za
greatergoodsa.co.za | twitter | news

Contents

Executive Summary

> *"Our sustainability strategy rests on a good track record of successfully implemented projects; a strong culture of monitoring and evaluation; and a sound strategy and business plan."*
>
> – NPO sector respondent, 2015 NPO Job Losses and Service Cuts survey

The results from the 2015 NPO Job Losses and Service Cuts survey paint a picture of a sector that is surviving, yet remains in an extremely vulnerable condition. Many of the findings are consistent with those of the 2013 survey, signalling that changes in the funding environment for NPOs remain a serious threat, but have levelled somewhat after the widespread funding cuts that peaked in 2012. Organisations have shown that they are largely focusing on strategies for improving their resilience and ensuring their financial sustainability into the future.

The survey returned a number of notable findings:

- The survey attracted **292** respondents, the majority of which identified as non-profit trusts (40%), non-profit companies (27%) or voluntary associations (26%).
- Respondents' primary areas of work include education; child and youth development; community development; care for vulnerable children; skills development and social welfare.
- Respondents are largely located in the Western Cape (40%), Gauteng (30%) and KwaZulu Natal (24%), with the rest distributed nationally and within Southern Africa.
- **58%** of organisations reported that they have experienced funding cuts in the last 12 months, similar to the 2013 figure of 54%, but down from 2012 (80%).
- When asked if the funding environment has changed for their organisation over the past year, most believed it has changed for the worse: **47%** said that the environment is worse but that they are surviving, while **12%** stated that they are facing closure.
- The average level of funding cuts is **R 1 523 678**, which for most organisations represents between 20% and 50% of their funding. This represents a third of the 2013 figure; illustrating that while the same percentage of respondents have experienced cuts, the average amount is much less.
- Reductions in funding have mainly been from individual donors, the National Lotteries Board and CSI departments, remaining unchanged from 2012 and 2013.
- Organisations appear to be saving more to provide financial security in lean times. Respondents generally have more in their reserves now than previously; 26% of respondents stated they have more than six months' reserves, compared to 18% in 2012 and 24% in 2013.
- Reductions in services and in staff numbers continue, with **38%** of organisations having reduced their services to beneficiaries in the last year, representing an average of 30 352 affected beneficiaries. **36%** of organisations have retrenched employees in the last year, most of which were part-time staff and volunteers.

- Organisations are using a wide range of strategies to address the funding shortfalls they are experiencing, primarily submitting proposals to corporate funders (77%), approaching individual donors (72%) and engaging in networking (56%).

Introduction

The non-profit sector in South Africa has been facing a serious funding challenge in recent years. In 2012, GreaterGood conducted the first NPO Job Losses and Service Cuts survey in order to understand the extent and nature of funding cuts affecting non-profit organisations, and the consequent impact on the beneficiaries, employees, and provision of services within the sector. To monitor how changes in the funding landscape and the sector's response have developed over time, the survey was conducted subsequently in 2013 and now again in 2015. The findings from this year's survey are mostly consistent with those from 2013, depicting a sector that has stabilised to a certain extent and is re-orienting in the wake of significant changes in its economic base.

Methodology and Sample

Data for this report was collected from an online survey which was conducted in August 2015. The survey was adapted from the two previous NPO Job Losses and Sector Cuts surveys that were conducted in 2012 and 2013. The survey attracted a total of 292 respondents, which is a steady decrease from the previous two surveys which had 695 and 467 respondents, respectively.

The survey was advertised via GreaterGood's networks of individuals and organisations operating in the NPO sector, namely newsletter subscribers and those on internal lists and databases, totalling around 10 666. Two networks in which GreaterGood participates, the NPO Dialogue and Women in Philanthropy, also advertised the survey among their respective contacts. The link was posted on GreaterGood and GreaterCapital's various social media platforms to further promote participation. Many NPO actors on GreaterGood's databases are active across various networks and social media platforms, meaning that they most likely received the survey link via a number of the abovementioned channels.

The findings have been analysed and compared against the results from the previous surveys.

Findings

Overview

A total of 292 respondents took the survey this year, which is a significant decrease from previous years (467 in 2013 and 695 in 2012). While there may be a number of reasons for this, the low response rate together with this year's survey results appears to reflect that there has been a slight shift in the NPO sector's reaction to changes in the funding environment. Dramatic changes in the funding landscape that were signalled in 2012 raised significant concern within the sector and in turn mobilised the sector to call for and participate in the initial survey to understand the extent of the problem and how the sector was responding. While we cannot say for certain, this year's reduced participation may be an indication that there is an increase in apathy towards participating in such surveys as the sector adjusts to a new status quo; it may also be a signal of less capacity to spend time on non-core activities such as surveys. However, while the situation remains critical, it seems that organisations are focusing on practical measures to ensure their sustainability into the future.

Organisations

The large majority of organisations that responded to the survey identified themselves as either non-profit trusts (40%), non-profit companies (27%) or voluntary associations (26%), with the remaining 7% operating as cooperatives, branches of international agencies, informal community based organisations or 'other'. Interestingly, compared to 2013, it seems there has been a shift toward non-profit trusts (30% in 2013) and away from non-profit companies (39% in 2013).

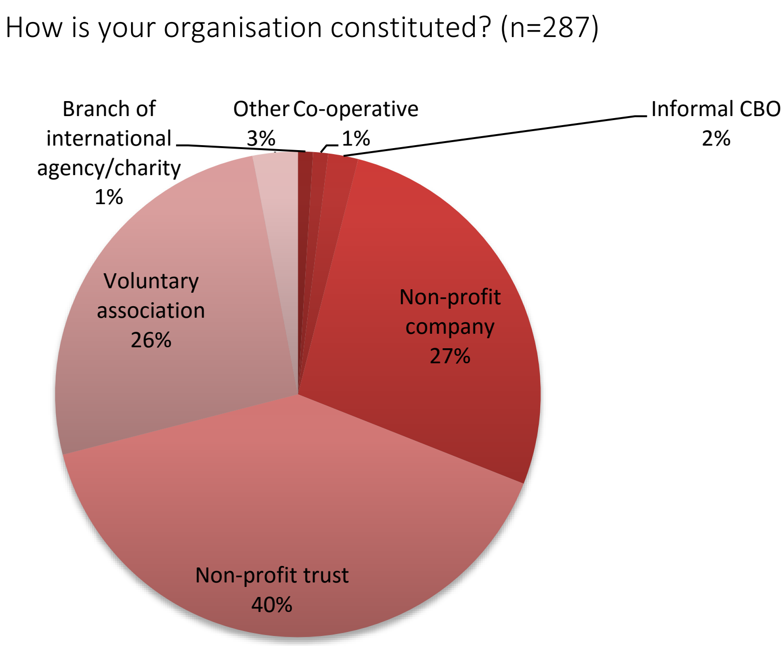

Figure 1: Organisational makeup of survey sample

Organisations were asked to indicate which sectors they primarily worked in, and were able to choose more than one option. The results show that organisations are mainly working in the areas of education (42%); child and youth development (41%); community development (39%); care for vulnerable children (32%); skills development (29%) and social welfare (29%), reflecting a similar sample to the 2013 survey. Geographically, the main areas of operation are the Western Cape (40%); Gauteng (30%); KwaZulu Natal (24%), with the rest distributed across South Africa and Southern Africa.

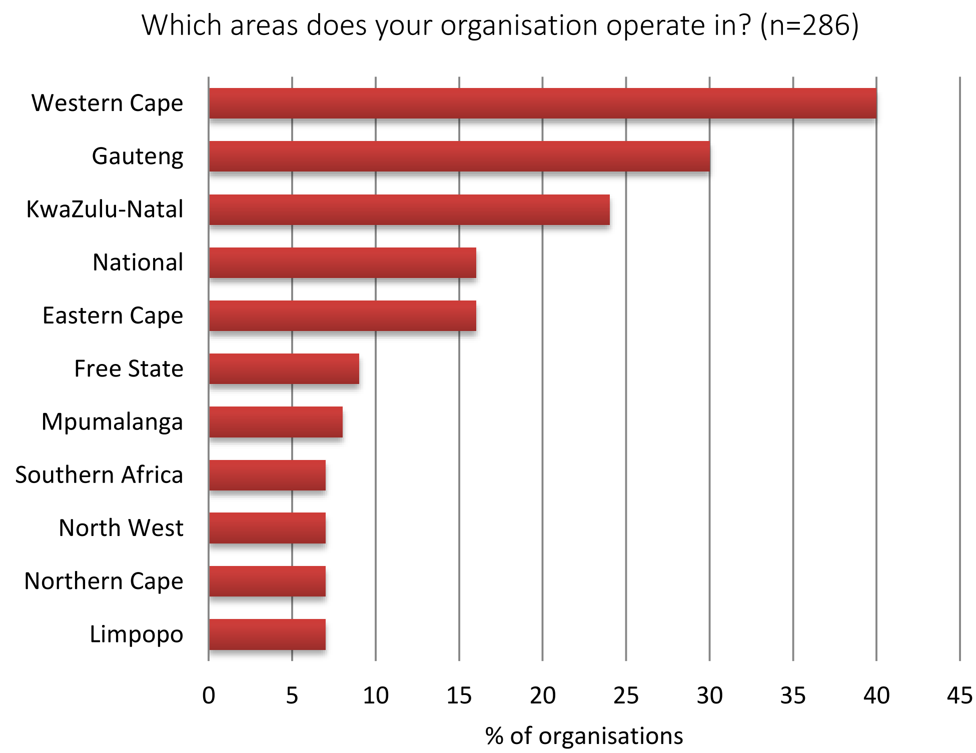

Figure 2: Geographic areas of operation

Funding cuts and changes

It appears that the extent of funding cuts in the NPO sector has somewhat lessened in the last couple of years, with 58% of organisations reporting that they have experienced funding cuts in the last 12 months. This demonstrates a slight increase from the 2013 figure of 54%, which was a significant decrease from the alarming 2012 results that revealed 80% of organisations had experienced funding cuts in the previous year.

Figure 3: Organisations that have experienced funding cuts in the last year, 2012 to 2015

Changes in the funding environment

When asked if the funding environment has changed for their organisation over the past year, the majority of respondents indicated that it has changed for the worse. 47% said that the environment is worse but that they are surviving, while 12% stated that they are facing closure. Overall, only 17% said they felt the funding environment is improving and 24% believe it has stayed the same. These figures are almost identical to the responses from the 2013 survey.

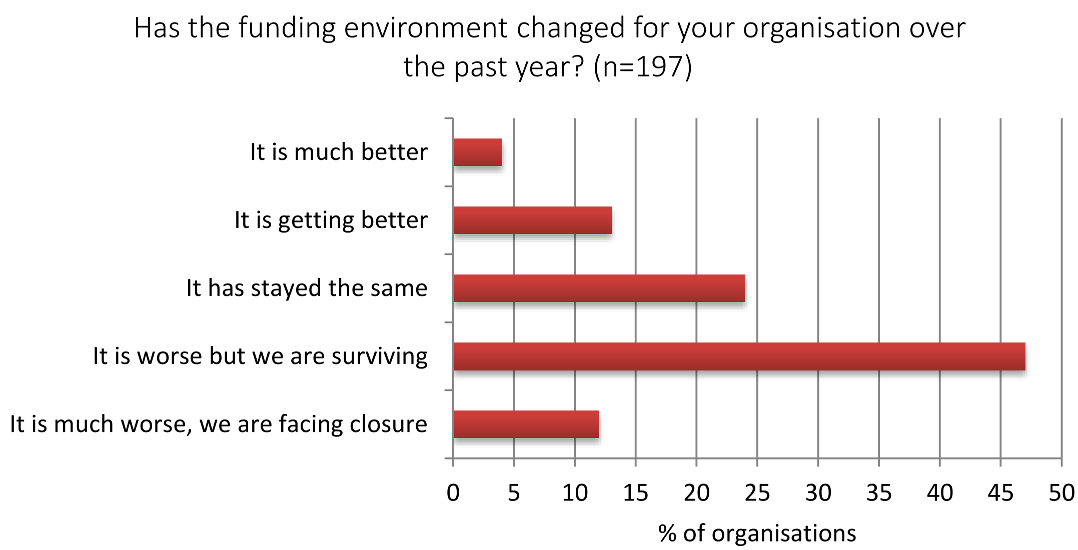

Figure 4: Extent to which the funding environment has changed over the last year

Extent of funding cuts

The extent of cuts reported by organisations is about a third of the amount reported in the last survey. According to the 2015 results, organisations have experienced an average of **R 1 523 678** in funding cuts in the last year. This is a significant decrease from the 2013 figure of R 4 554 377. So, while a similar percentage of respondents as 2013 are experiencing funding cuts, the average amount is much less.

For the majority of respondents, between 20% and 50% of their total funding has been reduced. This has changed only marginally from the 2013 survey, in which a slightly greater number of organisations reported losing between 50% and 80% of funding.

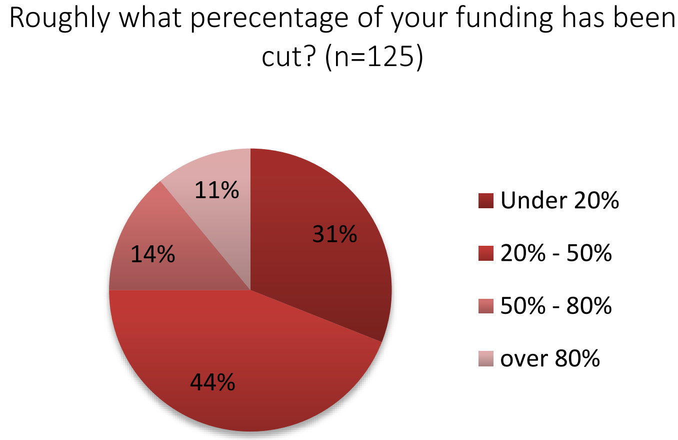

Figure 5: Percentage of funding cut in the last year

Funding sources

While funding appears to have been cut broadly from all sources, organisations have reported that their most significant reductions have come from individual donors (43% of organisations), the National Lotteries Board (38%), and corporates (36%). This is in keeping with the results from the 2012 and 2013 surveys, highlighting a trend in donors who appear to be systematically reducing their funding. It may also reflect the fact that some corporate donors are narrowing their focus to the comprehensive funding of just two or three organisations rather than donating across a wider range of causes.

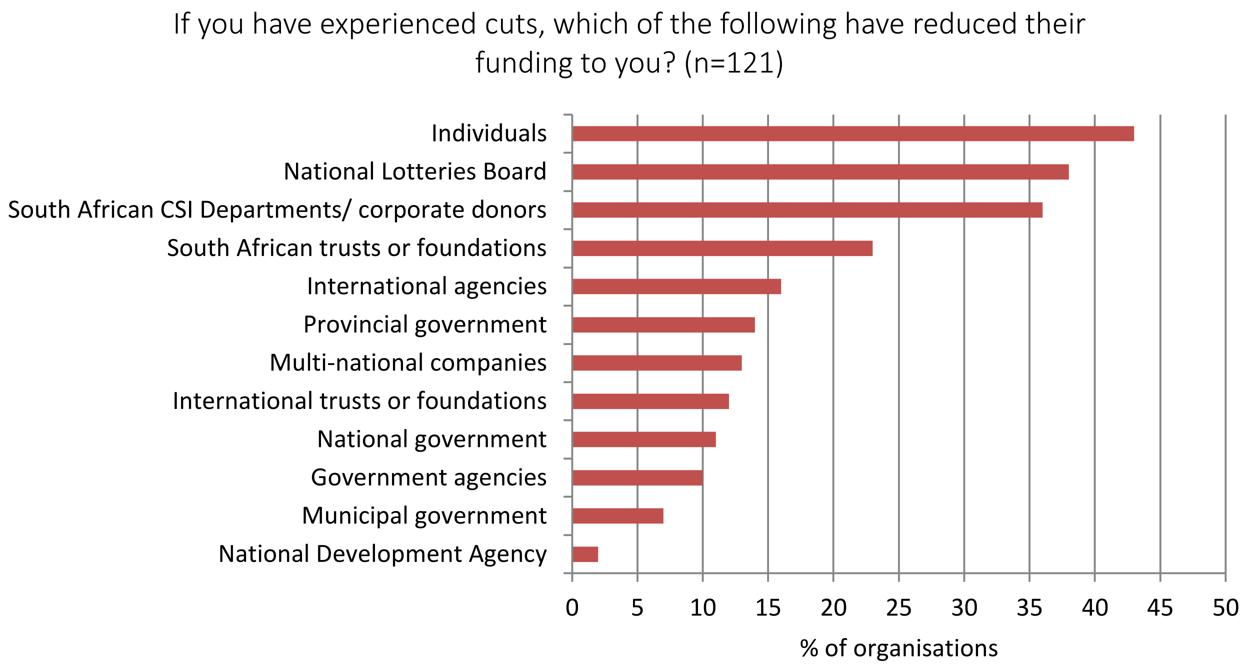

Figure 6: Funding sources reduced in the last year

Respondents highlighted their challenges with large donors in particular:

- *"Our financial situation has deteriorated because we used to receive corporate funding for an important part of our program. Since this funding was lost, we have had to reduce this part of the program substantially."*
- *"Several international funders have suggested that their investment in South Africa is stopping. Plus, some bigger South African trusts are now no longer funding operational costs of individual agencies, but wanting big scale projects which frankly I don't believe necessarily reach the actual beneficiaries who need them the most."*
- *"It has remained stable, but will get worse next year as two big funders complete their funding cycles. Our strategy is to try and get in on new initiatives like BBBEE and offer value for money (measurable impact)".*

Current position

Organisations appear to be saving more, reporting that they have marginally higher levels of cash reserves to cover service-related expenses than in 2013 and 2012. The number of organisations with more than six months' reserves has increased steadily since 2012, with 26% of respondents now falling into this category. In 2012 only 18% of respondents had more than six months' reserves, increasing to 24% in 2013. The number of those with no reserves (14%) has slightly but gradually decreased since 2012 (17% in 2012 and 16% in 2013), as has the number of organisations with only one month of reserves (25%). The number of those with six months' reserves has remained fairly consistent (35%).

The survey results together with respondents' comments overall paint the picture that since the initial crisis in 2012, organisations have focused more on financial management and bolstering their reserves.

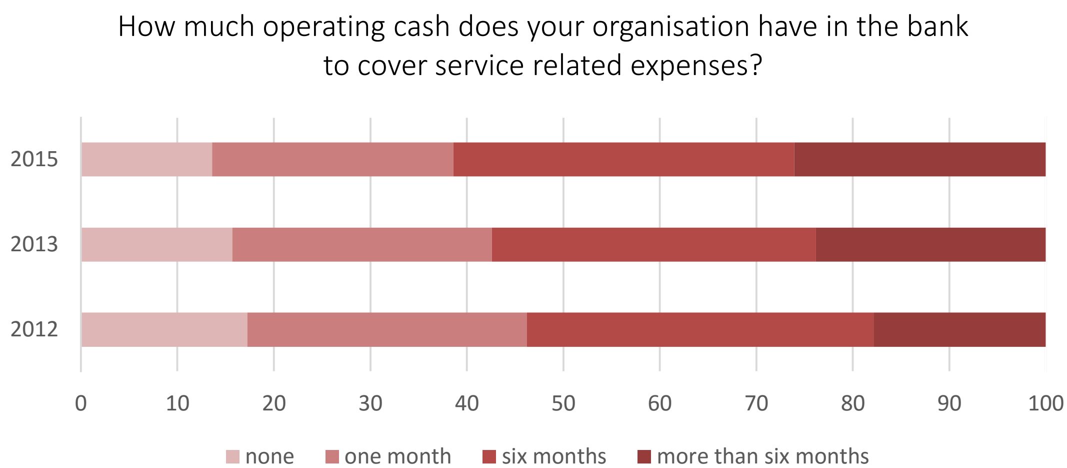

Figure 7: Number of months' cash reserves to cover service-related expenses, 2012 to 2015

Respondents shared the strategies they have used to create financial security for their organisations:

- *"We are lucky enough to have a sustainability fund to cover shortfalls but if we continue dipping into it regularly, it will get exhausted."*
- *"Investment in a trust portfolio and reducing overheads has helped."*
- *"Bequests have helped us to put a small reserve aside. Thankfully this is growing."*
- *"We have a sustainability reserve fund which we established in 2005, which held us over for eight months when we faced no funding, a cash flow crisis and were about to close until we were able to secure some funding for 2015 financial year."*
- *"Anticipating financial tough times and developing sustainable practices that serve the private sector related to our industry really makes a difference."*
- *"Restructuring and cutting running costs by establishing a virtual office (i.e. staff working from home largely)."*
- *"Strict cost control which resulted in savings in budgeted expenditure."*

Staff and services

Reduction in services

Cuts in funding continue to impact the capacity of the NPO sector to deliver services, with 38% of respondents saying they had to reduce or cut their services to beneficiaries in the last year. This is the same percentage as in 2013, which had fortunately decreased from the 2012 result of 64%. For 2015, this represents an average of 30 352 beneficiaries affected, which is a third of the 2013 average (96 976).

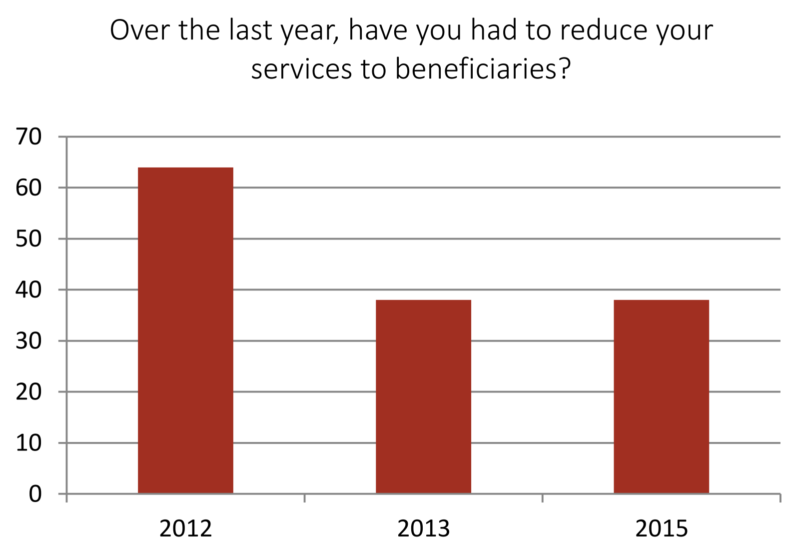

Figure 8: Percentage of organisations that have cut services to beneficiaries in the last year, 2012 to 2015

Reduction in staff numbers

Along with reductions in services, organisations are still needing to further reduce their staff numbers, with 36% indicating that they have retrenched employees in the last year. This is a minor increase from the 2013 figure of 33%, and again has reduced overall from the 2012 result of 47%.

Of the organisations that have reduced their staff, most indicated that they have primarily reduced the number of part-time staff, with an average of 28 part time employees retrenched per organisation. In keeping with both the 2012 and 2013 surveys, organisations showed that they are also reducing their numbers of volunteers; giving an overall indication that they are consolidating and focusing on retaining core staff functions.

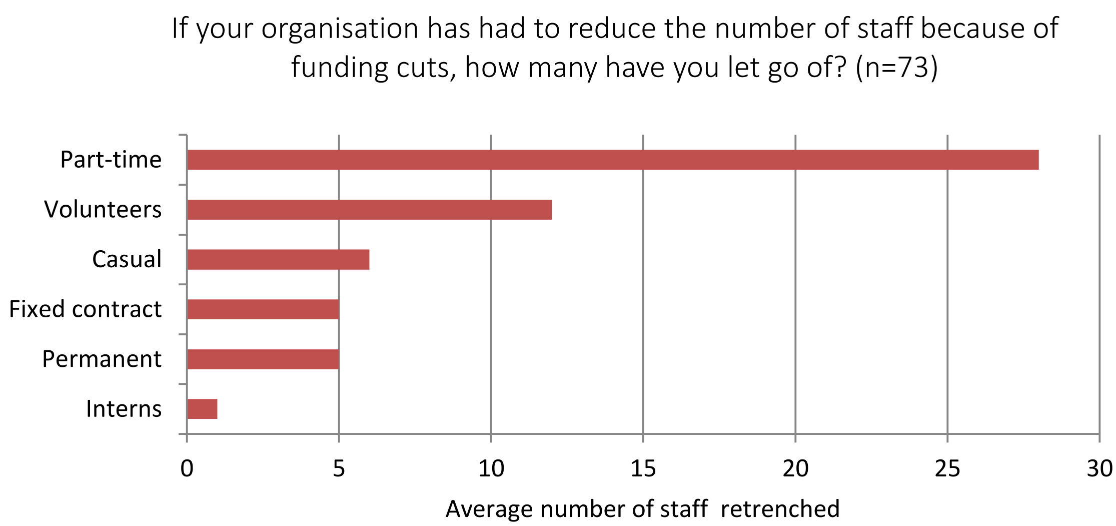

Figure 9: Average number of staff retrenched in the past year

Strategies to address funding shortfalls

Organisations indicated using a number of tools to address the decline in funding. The most common methods cited include: proposals to corporate or other donors (77%), approaching local individual donors (72%) and networking (56%). 40% of organisations have stated they are generating income through engaging in commercial activity. This spread looks very similar to the strategies used in 2013.

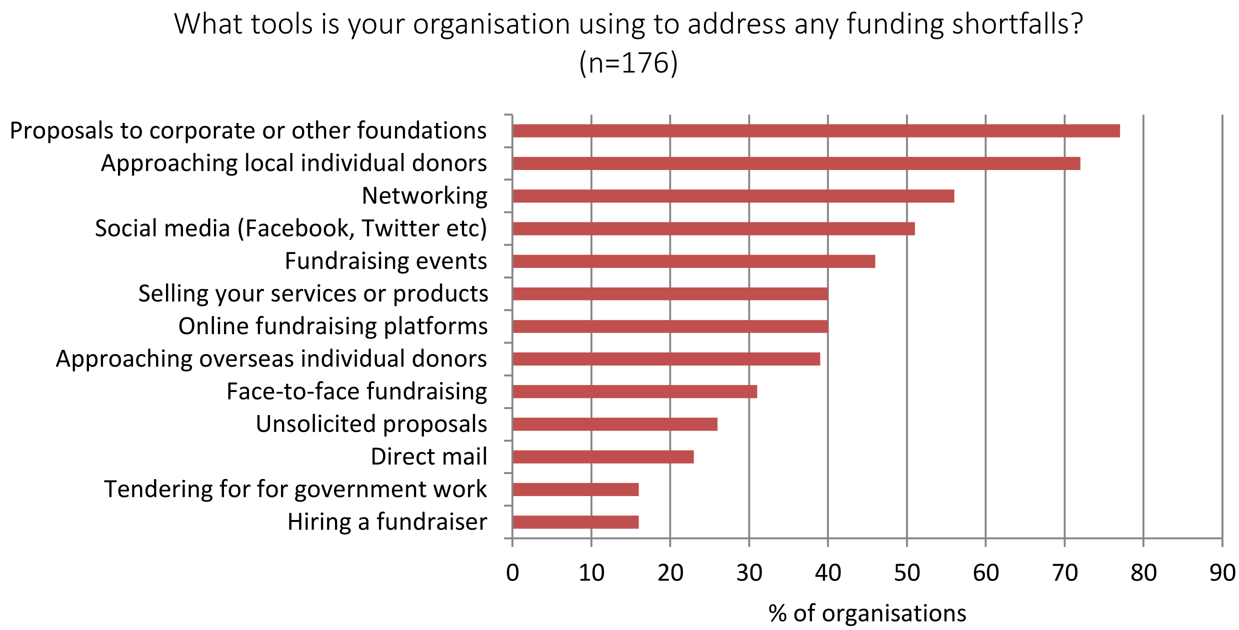

Figure 10: Tools used by organisations to raise additional funds in the last year

Respondents shared a number of strategies and perspectives they have employed to manage the difficult financial times they have faced, and to plan for their sustainability. Again, many of these strategies were similar to those shared in previous surveys.

These strategies broadly fall into 6 themes:

- Strengthening relationships with funders
- Demonstrating and marketing impact
- Exploring income generating activities
- Strategic planning and restructuring
- Revised budgeting and expenditure
- Diversification of funding sources, including international sources

The sustainability strategies that organisations shared are outlined below under each respective theme:

Strengthening relationships with funders

- *"Just good old stable funder relationships and proving our model to be successful."*
- *"Face to Face proposal presentations to corporate CSI's has been phenomenally successful, as has persistent CSI application follow-up. Some organisations are terrible at replying but if you are persistent (emailing every week until you get an answer) and get clarity on why you were refused or how you can improve your application, you tend to be more successful year on year and within the application process."*
- *"Keep close contact with existing long-term partners. Seek small amounts (e.g. R100) from multiple individuals to meet a specific need."*
- *"Strict financial accountability to the donors, and rigorous fundraising and marketing."*
- *"Maintain a close relationship with existing donors. Be honest and 'over-communicate' if anything. Persevere with donors who showed an interest, but did not have the resources to fund first time round."*
- *"Retain large donors and individual donors via personal giving programmes."*
- *"We maintain a good relationship with local government and service community needs to maintain good community support. Innovative operational strategies help attract international support."*
- *"Keep in touch with donors; supply them with proof of where their donation has gone in the form of pictures and how the funds have been spent."*
- *"Document all the work you do. Keep good relationships with past and future funders."*

Demonstrating and marketing impact

- *"Sharing success stories with donors and showing results."*
- *"Earning and keeping the confidence of our supporters through on-going transparency and delivery.*
- *"Quality service provision and accountability."*
- *"Quality reporting to existing donors so that they know that their investment is working."*
- *"Marketing – we constant feedback and good website. Be found."*
- *"Good track record of successfully implemented projects. Strong culture of monitoring and evaluation."*
- *"Keep the community informed and engaged at all times. Be on point and available for services."*

Exploring income generating activities

- *"Less dependence on government agencies and selling of our services has helped keep us afloat."*
- *"We have just been very fortunate this past year. Diversification of income streams has been a positive strategy. Charging for services and training that people need (for those that can afford) has also brought income into the organisation."*
- *"We've increased focus on social enterprises, although it will take a very long time for investments to pay off."*
- *"Introduce cause-related product sales."*
- *"We are funded using structured finance models in the commercial market, so that we are not reliant on donor funding."*
- *"We are covering overheads with income generating projects."*
- *"Offer a distinctive, excellent product."*
- *"We are an accredited NGO, people will start paying for their NQF Level 3 qualifications and the money will go a long way."*

Strategic planning and restructuring

- *"We increased our team from two half-day people to four full-time professionals, and moved from reactive fundraising to pro-active fundraising. We dropped low-value, low-reach activities to focus on high-value or high-reach activities. We have to keep sight of dual bottom line - programmatic sustainability and financial sustainability."*
- *"We requested three full-time staff to become part-time staff and reduced their salaries."*
- *"Keep staff to the minimum for which you can ensure a year's salary; and use volunteers to cover as much work as possible."*
- *"We are working on sustainability through changes in key staff and ensuring that we have systems and processes implemented."*
- *"We have dedicated people who give more of themselves than they have to - they go the extra mile."*
- *"Anticipating financial tough times and developing sustainable practises that serve the private sector related to our industry really makes a difference."*
- *"Keep your staff costs under control. Use retired people. Think small and be good at what you do.*
- *"When you have funding at hand you need not relax - seek other funding or projects that will generate income."*
- *"Strategic planning around sustainability and aligning communications, planning, business development and fundraising."*

Revised budgeting and expenditure

- *"We've cut costs and save on all operational cost, electricity, water, telephone, cleaning materials; and keep a vacant post vacant for a month or longer to save on salaries."*
- *"We developed a strict fiscal policy, keeping our expenses to the bare minimum and increased our fundraising efforts. Most importantly, we developed a better Mission/Vision."*
- *"We had to cut back on our budget reduce our expenditure."*
- *"Strict cost control which resulted in savings in budgeted expenditure."*
- *"Very tight budget control. Sharing stories of hope with our donors has retained our individual donors."*
- *"We have cut down on travelling used communication technology like Skype and conference calling."*
- *"Our strategies are careful budgeting, minimising expenses and continuous monitoring and evaluation."*
- *"Restructuring and cutting running costs by establishing a virtual office (i.e. staff working from home largely)."*

Diversification of funding sources, including international sources

- *"Diversification - no reliance on any one particular donor or donor sector but having a good spread of donors. Ensuring we retain existing donors whilst seeking new sources of funding."*
- *"Diverse funding, including international funders."*
- *"Change things up if they are not working. Diversify."*
- *"Stop depending on Government."*
- *"Diversifying and collaboration."*
- *"Fundraising in new international markets."*
- *"Export, export, export. The money is not in SA; it is overseas."*
- *"Given current exchange rate, international funding is a priority. Setting up networks in other countries is therefore vital."*
- *"Being part of an international organisation has enabled us to grow our international networks and increase our funding base through local-to-local international partnerships."*

Conclusion and Recommendations

The 2015 Job Losses and Service Cuts survey has offered some useful insight into the state of the South African NPO sector in the wake of the serious funding challenges of the last few years. While the funding environment still appears to represent a critical threat for the NPO sector, the survey findings suggest that the funding situation and the sector's response has stabilised in some key areas. Encouragingly, organisations have illustrated that they are learning to adapt and respond to challenges. It appears that NPOs are overall concentrating on the strategies that will help improve their resilience and ensure their financial sustainability; particularly establishing greater levels of reserves; restructuring and careful planning and budgeting; and monitoring and reporting their impact.

Recommendations

- The survey results show that NPOs are clearly beginning to see the **value and necessity of professionalising their activities**, in terms of strategy, communication and impact reporting. Strengthening in this way means that NPOs will be more able to demonstrate their vision and effectiveness, and gain the confidence of potential funders and investors.
- Donors must also do their part by **recognising the capabilities of the NPO sector** and shifting their approach to their role as funder. After a relationship of mutual confidence has been established, NPOs need to be entrusted with autonomy as the experts in their field to utilise the funding responsibly. Stringent donor conditions around staffing and operational expenditure can be unrealistic and serve as barriers for organisations in operating with maximal effectiveness.
- Donors could consider offering **various branches of funding**, ensuring that while funds continue to be dedicated to programme costs, a portion is also dedicated towards sustainability efforts, such as endowments and building reserves.
- NPOs should continue to pursue **diversified funding sources**. Where possible, this could include income generation activities that are aligned with their core purpose and promote self-reliance, in cases where an organisation's skill set and orientation allows for this. The survey reveals that although corporate funders, individual donors and the National Lotteries Board are those who are consistently reducing their funding to the sector, these are the same major sources that NPOs continue to approach for funding. The decline of funding from these sources necessitates that organisations re-think their approaches and strategies.
- **Reserves** are a key strategy for establishing financial security for NPOs in times of financial constraint; organisations should be encouraged and capacitated to continue to save and build reserves.