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## **Not a penny more, always a penny less: Barriers to the distribution of funds to OVC through existing funding channels**

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### **Introduction**

Approximately two decades after it first captured global attention, HIV and AIDS continues to exact a toll on the people of sub-Saharan Africa. In addition to morbidity and mortality effects, HIV and AIDS has had a devastating impact on the social and economic fabric of communities throughout the region. This has all taken place in an environment of deep poverty and impoverishment and has thus served to make already vulnerable populations more so. One of the most vulnerable groups to have experienced the fallout of the epidemic is children. Children are affected by HIV and AIDS in numerous ways. For example, their economic livelihoods are affected through the absence of a caregiver and the burden of care placed on them as parents become ill and die.

In recognition of these multiple effects, the world has responded admirably to the plight of many groups that were made vulnerable by the epidemic. From affected communities themselves to large multilateral donors, the world has witnessed an unprecedented mobilisation of resources to provide for the means to respond to the epidemic.

While efforts are well publicised, there exist a number of gaps in our estimates of funding allocations. Firstly, information on the amount of funding actually committed to respond to HIV and AIDS is sketchy (Alagiri et al., 2001; Attaran and Sachs, 2001) and no firm estimates on the amount of money donated exist. In addition, where information on funding is available, it seems to be limited to funding pledged by large international donors such as developed country governments, multilateral donors etc. (Summers and Kates, 2003; Dunn, 2005). Information on spending patterns within recipient countries is limited as spending within these countries is difficult to track (Alagiri et al., 2001). Furthermore, the support provided by communities and extended family networks is frequently undocumented and is therefore not accounted for (Foster, 2002). It is therefore very difficult to estimate the actual amount of money that is spent on supporting ultimate beneficiaries and determine what has been bought with funding. As is demonstrated in other parts of this project, the lack of good quality data is characteristic of the HIV and AIDS sector in general and not funding mechanisms in particular.

Notwithstanding these data limitations, a number of findings related to spending patterns have been observed and confirmed. The first of these is that, despite significant funding efforts, funding for HIV and AIDS is still considered to fall far short of that required to respond to the epidemic (Macharia, 2005; UNAIDS, 2006). While varying in terms of the size of the increase felt necessary, there is general agreement that funding needs to increase substantially (UNAIDS, 2006). More money needs to be devoted to funding to effectively respond to the HIV and AIDS epidemic.

Secondly, within the funding available for HIV and AIDS, funding earmarked for OVC is believed to be inadequate (Dunn, 2005; Foster, 2006). While subject to the same data limitations above, spending on children has been found to constitute a very small portion of overall spending (Macharia, 2005). Further, it has been argued that consideration of children has only been a later addition to many formalised funding efforts (UNICEF, 2004 cited in Dunn, 2005). Communities and extended families networks have been found to be the primary sources of support for OVC (Williamson, Lorey and Foster, 2001; Foster, 2002) and constitute the primary safety net for children made vulnerable by HIV and AIDS (Foster, 2004). Given the primary role which they occupy, many studies argue that the main role of donor interventions should be to partner with communities and families that are the primary providers of care to OVC (Williamson, Lorey and Foster, 2001; Foster, 2004).

Thirdly, it has been found that not all of the money dedicated to spending on OVC reaches ultimate beneficiaries. In fact, a number of stakeholders hold the opinion that most of the funding dedicated to the support of OVC, or for the provision of HIV and AIDS initiatives on the whole, does not reach intended beneficiaries (Macharia, 2005). Studies have identified several blockages or limitations along funding chains that impede the effective distribution of funds from donors to ultimate beneficiaries. Upon review, there appears to be remarkably high levels of agreement as to what the potential problem areas or blockages in this sector are (Chesnais, Lewis and Helfenbein, 2005; Dunn, 2005; Foster, 2005). This echoes current debates on the distribution of funding in the wider healthcare sector (Levine, 2006).

Some of the more common barriers identified include high administration or overhead costs of organisations (Macharia, 2005), donor agendas or donor driven responses (Williamson, Lorey and Foster, 2001) and lack of networking amongst implementing organisations (Dunn, 2005). In addition, the common theme of lack of information is cited as a limitation (Summers and Kates, 2003).

### **Objectives**

To summarise the current body of empirical work on funding for OVC, it appears as if there are three distinct objectives (not mutually exclusive) for which the results of prior research studies have been used. Results have been used to:

- Call for increased funding for HIV and AIDS in general
- Call for increased funding for OVC
- Identify the barriers to funding and fund distribution

The objective of this study is to contribute to the body of empirical work in the last area. This study is a component of a larger project which investigates the overall response to OVC and their circumstances. It consists of an investigation into examples of successful fund distribution channels that have been found to minimise the pilferage of donated funds that occurs between donation and spending on the intended recipients thereof. It documents practical methods that have been used to improve fund distribution and disbursement. These were gathered by investigating how successful NGO-CBO

partnerships in South Africa have dealt with the barriers to resource distribution that were identified in the literature.

The paper is structured as follows. Section Two describes the methodology that was used in the study. Section Three discusses the findings of the fieldwork, taking care to link findings with the results of prior empirical work. Section Four presents a series of recommendations designed to address the challenges identified in the discussion. It also includes a section which highlights suggestions for possible research areas in future. Section Five concludes.

### **Methodology**

Funding mechanisms in South Africa were investigated by means of interviews with key donors, intermediaries, NGOs and CBOs. Interviews took the form of semi-structured interviews wherein an open-ended questionnaire, developed for the purpose of this project, was administered. Two separate questionnaires were drawn up, one each for NGOs/CBOs and donors. An electronic version of each of these interview schedules that was designed to be self-administered was also developed. This shorter version of the questionnaire was distributed to respondents who, when contacted, indicated that they were unable to grant a face-to-face interview but were prepared to participate nonetheless.

Interviews covered a broad range of topics related to the identification of funding chains, description of challenges associated with funding and, wherever appropriate, the steps taken to address these problems. Further, where such steps had been taken, participants were asked to describe how solutions were arrived at e.g. by mutual agreement, unilateral decision etc.

Organisations contacted for interviews were drawn from a list of organisations active in providing assistance to OVC in South Africa. These identified organisations were then approached with a request for an interview. Study participants were drawn from this sample of national and international donors operating in South Africa, local intermediaries, NGOs and CBOs. Importantly, the sample included examples of donors and related CBO's with whom they had successful partnerships. These were used as examples of efficient funding chains and investigated in greater depth as nested case studies.

In all, twelve organisations were interviewed under this study. Readers are referred to Table 1 for a list of participating organisations. Interviews were carried out during November 2006. Due to budgetary constraints, organisations approached for face-to-face interviews were restricted to organisations that operated within Durban and surrounding areas in the province of KwaZulu-Natal. No restrictions applied to electronic questionnaires.

### **Key findings**

In the following set of analyses, data extracted from the qualitative fieldwork on the experiences, challenges, opportunities and contexts of funding partners are explored and

discussed in terms of the emergent thematic strands from the literature review on funding mechanisms. To reiterate, the aim of the empirical study is to investigate the nature of funding relationships and describe the challenges associated with various funding mechanisms.

#### *Funding partnerships and mechanisms*

An emerging global trend in funding delivery is the outsourcing of some funding functions by larger international donors to locally based national NGOs. International donors do not necessarily have the technical or administrative capacity to assess, fund and monitor the innumerable community-based projects around the world, and a locally based NGO intermediary is usually employed to take on this role. The donor intermediaries (conduits) undertake and perform functions such as the sourcing of suitable beneficiary organisations, sub-grant making, and the monitoring and evaluation of programmes. On the donor side, larger amounts of funds awarded to select intermediary organisations with a proven financial and management track record reduce donor agencies' need to monitor and evaluate the financial flows; expenditure and programme rollout at the level of the implementing agency and beneficiary. The donor intermediary takes on this responsibility and is accountable to the donor for the management, disbursement and tracking of the funds and programmes.

*Donor intermediary 2 explained that, using funding from one of their international donors, they are in the process of developing a monitoring and evaluation system. Currently, they use site visits, progress visits, feedback letters and quarterly meetings with beneficiaries to monitor and report on progress. In turn, they present a summarised report on the progress of the programmes that they are funding to their donors on a quarterly basis.*

Another benefit derived by the donor is the use of available capacity and levels of skilled expertise within intermediary organisations. The three donor intermediaries interviewed in this study have qualified and experienced staff members, including project officers, administrative officers, finance managers, accountants/ bookkeepers and directors. The enabling environment within donor intermediary organisations facilitates the effective management and monitoring of funds allocated by donor agencies but more importantly, rapidly expedites the transfer of funds into programmes at community level. This represents a time, energy, financial and human resource cost saving for donors.

Benefits derived at donor organisation level, however, may not necessarily translate into benefits at the donor intermediary level or lower. For example, introducing another link into the funding chain represents a cost and means that less money is available to be spent on final beneficiaries. Within donor intermediaries, the allocation of labour, capital, equipment etc. to meet the reporting requirements of multiple donors deflects organisational resources away from service provision to implementing organisations. Taken together, this is likely to influence the outputs and outcomes that are achieved with available funding. This suggests that not all of the efficiencies derived by the introduction of a donor intermediary organisation may necessarily trickle down along the funding mechanism pipeline. Benefits trickle down only insofar as the efficiencies (included costs

avoided) introduced by intermediaries outweigh the cost of the resources diverted to them.

The existence of donor intermediaries raises additional issues, such as the changing nature of donor intermediaries' disbursement capacity. It also identifies the need for thinking and moving toward more streamlined and coordinated approaches to multiple donor partnerships and institutional building for donor intermediaries.

#### *Track records, reputations and funding*

Intermediary and implementing organisations with firm track records and reputations are also perceived by donors as being able to mediate between communities, CBOs and donors agencies, as well as facilitate sub-grant making and skills or expertise transfer along the funding chain. Donor intermediaries and implementing organisations' profiles are further elevated if they are perceived as playing a key role in the development and scaling up of community responses or being involved in institution building at grassroots level. As a result, larger, well-established and networked locally based intermediary and implementing organisations' considerable track records and reputations in the sector not only increases their ability to attract more funding but also to attract multiple donors. It also influences the probability of the success of their grant or funding applications. For example, in many cases, actual proposal writing is seen as largely an administrative formality. Thus, a cycle is born whereby increased funding enables organisations to expand operations and strengthen systems which enhance their reputations, increasing their chances of accessing greater funding which allows them to expand operations etc.

*Donor 2: "varies from donor to donor but track record matters. But most [donors] would like a statement on agency capability or track record of the agency applying for money".*

*Donor intermediary 1: "We have a good relationship with donors. Donors are keen to work with us..."*

*Implementing NGOs 1 and 3 note that they have established international and national track records. This opens up avenues for them to seek funds as well as for funders to approach them with funding*

In contrast, CBOs experience greater difficulty attracting diverse and new donors. It was held that this was largely due to the perceptions of such entities as informal, managed by individuals not suitably trained or qualified or who lack foci (Mathambo, forthcoming; Dellis, forthcoming). This has a number of implications for sustainability, governance, and institutional-building of the grassroots level organisation. These issues are elaborated on in subsequent sub-sections.

*CBO 1 has a small number of highly skilled and dedicated professionals. The respondent noted that the negative stereotyping and labelling of CBOs does affect their ability to raise additional funds to support programmes in their community and to attract more funders. CBOs were perceived to be run by unprofessional or uneducated individuals. CBO 1 indicated that they relied on a small group of donors to assist them with funding.*

### *Absorptive capacity*

Emergent in prior work in this area is the issue of absorptive capacity of organisations at the recipient country level (Dymtraczenkzo and De, 2001; UNAIDS, 2006). Absorptive capacity refers to an organisation's, or a sector's, ability to deal effectively with sudden and rapid inflows of capital and the ability to use or disburse these funds to those in most need. While there is considerable debate about the extent to which absorptive capacity contributes to stalling, hampering or inaction in the rapid transfer of funds to beneficiaries (Halmshaw and Hawkins, 2004; Utan, 2005), it is clear that the problems faced by all entities in the funding chain and at programme implementation level cannot be ignored. For example, lack of trained or experienced management, legal and financial (accounting) staff in many of the organisations receiving funds was found to contribute to the hampering or stalling of funding flows.

*The absorptive capacity of primary transfer agents (both governments and NGOs) channeling funds as well as the in-country recipients of funds is being strained by the magnitude of funding, the number of recipients, and the push to disburse funds quickly. Implementing organisations especially are often faced with the choice of whether to concentrate on the services they are to provide or on the mechanics of the resource transfer. Ideally both would be equally addressed, but building organisational capacity to handle both programmatic and funds management cannot happen overnight. (Chesnais, Lewis and Helfenbein, 2005: p6)*

Some of the key areas in which respondents felt that capacity was lacking were:

- Management and organisation structures to effectively deal with
  - the issue of governance,
  - conflict resolution within the CBOs or NGOs, and
  - longer-term strategy (relating to the organisation's clarity on their vision and mission statements)
- Skills
  - skills to raise funds and to understand the funding machinery (proposals and donor criterion)
  - relevant educational skills (in some cases poor literacy levels) and training to undertake communities care programmes
  - Experienced and qualified staff to assist in the various programme and management tasks
- Monitoring and evaluations
  - The development of systems and tools
  - Financial management monitoring and tracking of funding flows and expenditure

*Donor intermediary 1 noted that one of the challenges facing CBOs is that of governance. CBOs were reported to face problems such as fighting amongst members and lack of organisation. Other respondents relate to the difficulty that is experienced with the conditions that we receive from CBOs and the management of records with CBOs. They do have to fill in a specified recording template that we provide. They find it frustrating. Another problem*

*that we have to grapple with is the literacy level. They have difficulty expressing themselves. It is not that they don't know how to fill in the form, they are unable to use the right words."*

*CBO 2 identified the following challenges it experiences:*

- *Don't know how to advocate, or run such a system. Must know more than just from their personal experiences.*
- *Don't know how to approach difficult situations.*
- *The ways in which proposals and other documents have to be written are a problem because most people are illiterate or know very simple English.*

Some organisations have begun to address these areas through learning and sharing networks, peer group training and capacity development. This aspect is dealt with later on in this section.

There seems to be a widespread perception, and in some case evidence to support this view, that less resourced and smaller implementing organisations are unable to apply business, corporate or financial management models to their daily organisational functions and tasks. While this in most instances relates to the ability and capacity to apply financial and organisational management processes, and develop performance based indicators, there is an emergent thinking in the literature that grassroots NGOs and CBOs require a more comprehensive package of assistance ranging from programmatic, financial, political and technical assistance to emotional support (Halmshaw and Hawkins, 2004). Clarity or agreement on what should constitute this package of assistance remains vague.

*Donor intermediary 1 noted that one of the selection criteria for funding CBO programmes is the consideration of the structure of the organisations in terms of their management, financial management and expertise.*

*Donor conduit 2 listed organisation registration, a two-year bank statement and the structure of the organisation as factors for funding consideration.*

Another emergent area in the literature on absorptive capacity is that of staff retention. In the context of HIV and AIDS, this refers to attrition caused through increased mortality and morbidity, as well as higher levels of absenteeism. These effects are exacerbated by the brain-drain experienced by NGOs and CBOs. These twin effects are argued to impact upon the capacity of the organisation to deliver quality services to communities (Halmshaw and Hawkins, 2004; Utan, 2005). It is often the communities hardest hit by the pandemic that face the biggest challenges of mortality and morbidity rates, as well as absenteeism and brain-drain.

*CBO 2 noted that, of the volunteers they had initially trained a number of them had since passed away, or have not come to work because they were ill or caring for family members who were ill. This has had an impact on the organisation's capacity to assist*

*the community. Another issue raised in the interview is that of brain-drain. In this case the social workers employed by the organisation leave for better paying and more secure jobs elsewhere, especially in the state sector.*

#### *Labour costs*

Linked to the issue of absorptive capacity is the discourse on labour costs, volunteerism and payment of stipends. Whilst salaries tend to be classified as overheads, amongst NGOs and CBOs there is an argument for re-classification as programme costs. NGOs and CBOs recognise that donors and donor intermediaries are bound by management or financial models. Nevertheless, donors' inflexibility to negotiate around the issue of funding salaries and stipends or administrative costs was cited as constraining and hampering the NGO or CBOs' ability to deliver programme services at community level.

Moreover, there may exist an argument to regard the stipends that are paid to local community volunteers as part of the intervention in itself as frequently volunteers are experiencing the same circumstances of poverty and high levels vulnerability that the intervention is designed to mitigate.

*CBO 2, a smaller under-resourced organisation, notes "The organisation's main need is money for caregivers to assist OVC."*

*NGO 3 has 106 volunteers. The stipends it provides are seen by donors a salary cost, when in fact the NGO costs it as an actual programme cost.*

*NGO 1 includes a 6 per cent overhead in their funding proposals. However, not all donors accept this practice of supporting administrative costs on projects. The NGO supports its 60 plus volunteers through stipends that a donor agreed could be paid to volunteers and through income-generating projects.*

*NGO 4 has a grant from a corporate donor that is dedicated to administrative-related expenses and is used to support its growth strategy.*

#### *Capacity-building and peer group support*

Intermediary organisations tended to be perceived as closer to implementing organisations and so more responsive to local needs. This is reflected in the large number of training and capacity building initiatives which these organisations tended to provide to the organisations to which they have awarded funding.

*Donor intermediary 1 provides grants to its CBOs for skills building interventions, leadership workshops, learning and sharing workshops. Their donors are made aware of this programme. Proposals received from CBOs requesting for that have to include training and capacity building. The donor intermediary also has a capacity building unit and a coordinator to conduct training. Partners attend training sessions once a month.*

*Donor intermediary 1 assisted CBO 2 to register as an NPO in South Africa.*

*Donor 1 noted that funding to implementing agencies is linked with strategies of the organisation, which includes building capacity.*

These practices indicate that finance is not the only item that is distributed along funding chains. In addition to organisational agendas, it is accompanied by opportunities for capacity-building, learning initiatives and information flows between entities.

#### *Connectivity and networks*

This aspect relates to the sharing of information and networks among NGOs and CBOs. Such networks, although often informal in nature, are characterised by the presence of high levels of collaboration between organisations working in the same area that do not necessarily perform the same activity. The data for this study suggests that NGOs have a higher level or degree of networking and connectivity ability and capacity when compared to CBOs.

Increasing levels of collaboration have a number of benefits, particularly for CBOs. Expanding CBO networks and connectivity enable poorly resourced and smaller CBOs to concentrate and specialise in their core skills areas. Effective networking with other organisations also increases the range of services and programmes a community can access. This allows communities to obtain access to a more comprehensive assistance package. This reduces the pressure on smaller NGOs and CBOs to deliver a diverse set of interventions with the limited human, financial and other resources it has.

*CBO 2 noted that the organisation's primary function is Home-Based Care but that now they have to do other things that don't involve Home-Based Care and which is not their function.*

Communication and network approaches include electronic media (for example e-forums, and newsletters), conferences or seminars as well as informal channels of communication. More established and better-funded NGOs and CBOs have been able to establish a web-based presence and distribute electronic monthly/ quarterly newsletters. A limitation to these efforts, however, is that organisations in more remote areas may not be able to access such networks.

*Donor intermediary 2, through its formal network structure and newsletters, provides a valuable information sharing resource on opportunities for capacity building and training sessions for NGOs/CBOs amongst others.*

*Donor intermediary 1 states: "In terms of networking, we have a website and we have a newsletter but those in the rural areas, 70% of the people, do not have the means to access the website or the newsletters"*

#### *Information flows*

Increasingly, CBOs and NGOs are beginning to share information with each other i.e. information is flowing outwards as well as upwards to donors. The diffusion of knowledge, on models of best practice, lessons learnt, systems development and tools, as

well as funding and donor streams, is believed to foster learning and organisational development. Furthermore, learning and information flows within and between organisations is argued to contribute to the improvement of accountability and the establishment of closer linkages with partner organisations. These types of activities are supported by some donors and donor intermediaries.

*CBO 1 describes themselves as a conduit for capacity building for fledgling or emerging organisations in their community. They organise workshops on human rights issues, issues related to registering as an NPO as well as organisational development.*

*Donor intermediary 1 provides grants for capacity-building programmes for CBOs. These include programmes such as learning and sharing conferences and skill building interventions.*

*Better funded NGOs such as NGO 2 have been granted funds to host learning and sharing conferences.*

#### *Monitoring and reporting conditions*

A thread through all the case studies has been the issue of reporting and monitoring requirements at all levels of the funding chain and its link to issues of compliance, accountability and governance.

*Donor 2: "Donors must attach conditionality because they too are accountable to their taxpayers and must show evidence that money donated has done what it was meant to do." Emphasis is on compliance to help them to objectively report to their funding source, such as government.*

*NGO 4: Advice to other organisations: "Need to show that you have a good management system in place."*

*CBO 2: "Evaluations are of a strict nature. They [organisations] have to fulfil certain criteria such as it must be registered, they must be an audited financial institution."*

Lack, or limited numbers, of skilled and suitably trained staff reduces some NGOs and CBOs' ability to comply with the monitoring and reporting requirements of their multiple donors. This gives the impression that some of the NGOs and CBOs lack accountability, transparency and credibility (Chesnais, Pai & Lewis Elizabeth, 2005) when in reality the administrative burden of catering to multiple donor requirements places undue time and energy pressures on the few and available staff within smaller and less resourced NGO/CBOs. The major dilemma is that, as most NGOs or CBOs have multiple donors, this means accountability to multiple parties, in multiple formats. A consequence is that different performance and outcome related indicators need to be disseminated to different donors simultaneously. Similar capacity issues are also experienced by donor intermediaries. Better resourced NGOs/CBOs are better placed to comply with the

reporting and monitoring requirements of donors and donor intermediaries as they are able to employ specialised personnel to take on this function.

*Donor Intermediary 1 noted that reports to donors are due throughout the year. They have about fifteen books within their finance section with specific reporting requirements for each of their donors. This can be burdensome on the organisation and its staff.*

Similar concerns have been expressed at a global level in other sectors that receive aid or funding (De Waal, 2004).

*Tanzania's government ministerial departments were reportedly producing 2 000 reports for donors each month (De Waal, 2004).*

There is also pressure on NGOs and CBOs, as part of the compliance or funding criteria, to demonstrate the adoption or development of systems and tools for monitoring and reporting. Tools are linked to the assessment of an organisation's performance in terms of impacts, results and outcomes.

*Donor 1 notes*

*Advice to organisations:*

- *Proposals must demonstrate how changes will be met*
- *Must have good monitoring tools*

*Difficulties experienced with funding:*

- *Reporting of outcomes of the funding versus reporting of outputs.*
- *Improving the tools that organisations use, in terms of what works and what doesn't.*
- *Researching systems.*

*Disbursement capacity of governments*

Government's disbursement capacity was also identified as an important issue. In this study, government departments' various roles as donor, donor intermediary and implementing agency were not explored. Although not explored separately, CBO and NGO respondents referred to the ad hoc and erratic funding cycles of government departments. This relates to the slow and untimely disbursement of committed funds and its impact on NGO and CBO rollout of programmes or services to communities. Available literature on this issue suggests that this is a complex global phenomenon that is linked to contextual issues such as governance, financial absorptive capacity, structural bottlenecks and issues of equitable and efficient resource allocation tracking.

*There is an increasing dependence by international donors on governments as intermediaries, and this brings with it a new question of capacity. It is not just the disbursement capacity of donors that is limited, but also the disbursement capacity of southern governments. Few governments have systems in place for large scale funding support to NGOs and community based organisations. All of this makes it more difficult for them to disburse funding for HIV/AIDS (Haimshov and Haimshov, 2004).*

### *Exit strategies*

Ideally, an exit strategy should be a well thought out, time bound strategy developed and implemented to support the long-term sustainability of a programme in the community beyond the phasing out of donor funding or resource allocation cycle. In addition to defining the role of the donor, donor intermediary, NGO and CBO in the process, it should also include the community as a key stakeholder. Community involvement is seen as key to the long-term sustainability of programmes and institutions at grassroots level, as it brings to the fore the principles of ownership and agenda setting which is fundamental to a development-orientated response (Scalway, 2002).

Data from the interviews points to an absence of, or at least a lack of planning around, clear and well-formulated exit strategies at donor, donor intermediary, NGO, and CBO levels. For the organisations in this study, operations are typical of a crisis, emergency or survival response rather than a long-term sustainable development-oriented approach. The lack of exit strategies is likely to have serious outcomes for beneficiaries or communities post-funding or following donor fatigue. All of which are critical to the efficient and sustainable flow of resources to communities affected by HIV and AIDS.

*Donor 1 does not have an exit strategy as such but their partners are made aware of when funding will be phased out.*

*Donor 2 noted that there are contingency plans in the event that an exit strategy is implemented. This entailed seeking alternative funding to continue projects and programmes.*

An exit strategy adopted by one of the CBOs could mirror the situation of numerous poorly resourced NGOs and CBOs (Kelly et al., undated).

*CBO 2 sought assistance from its donor intermediary (Donor Intermediary 1) to raise additional funds to continue programmes for which funding was being phased out. As they were a smaller CBO with limited capacity, they did not approach other donors or donor intermediaries for funding. Instead, they relied on their existing good relationship with one donor intermediary for support with additional funds.*

Their response brings to the fore the issue of aid dependency. In this case, it refers to the dependency on a single donor or donor intermediary for financial resources for sustaining programmes. While the aid dependency relationship between the donor, donor intermediary and fledgling NGO or CBO may be beneficial for institutional building in the earlier stages of the relationship, it could undermine the independence of the donor intermediary, NGO or CBO at a later stage. This may curtail the implementing agency's ability to attract a variety of funders, adopt a variety of strategies or programmes, as well as detract the organisation from its initial vision, mission, and function in the community. The end result of such 'unhealthy' dependence is that the NGO or CBO may engage in acting on behalf of the donor or driving the donor agenda, as opposed to that of the organisation or the community.

Moreover, aid dependency, whether at a donor intermediary level or implementing agency level, could undermine accountability, ownership and institution-building, particularly at community level. Developing a clear exit strategy in this case could be a valuable lever for reducing aid dependency and contribute to the accountability, ownership and institution-building of communities.

*...key argument was that the emphasis on large and quick increases in aid would (a) undermine efforts to improve the effectiveness of aid because quality would suffer and (b) because the resulting additions to already high aid dependency would undermine accountability, ownership and institution-building in African countries (ODI 2004).*

One option taken to minimise the exposure to the dangers of dependency on single donors was the diversification of sources of funding, or spreading the dependence for funding across a range of donors. An NGO or CBO dependent on a single donor source, and lacking other resources such as individual contributions, volunteers or in-kind contributions, is more likely to be constrained, limited, and vulnerable to external pressures and agenda setting by that donor.

*NGO 1 seeks multiple funders for the programmes they develop. In addition, they prefer small amounts from the multiple donors as this is easier to replace if funding stops. In their opinion, this strategy ensures that community programmes are more sustainable.*

Another donor intermediary viewed the transfer of skills on how to seek and apply for funding as part of an exit strategy. Where skills transfer is built into an exit strategy procedure, it can maximise the institutional capacity of locally based organisations. This is also an indication that exit strategies should not only apply to funding but capacity of the organisations to sustain their work in communities or for communities to sustain programmes.

*Donor Intermediary 3 classifies building the capacity of an implementing agency and transfer of skills on fundraising as part of its exit strategy.*

Some donors and donor intermediaries, in recognition of the potential effectiveness of longer-term interventions, have adjusted their funding to cover cycles as opposed to ad hoc time periods (Foster, 2005). As funding is ultimately of limited duration an exit strategy developed at the outset of the funding cycle would contribute to the longer-term sustainability of programmes in the community even in these cases.

*Donor 2 noted that the main challenges around short funding cycle durations is that it compromises the achievement of results.*

*Donor 1 and Donor Intermediary 3 have implemented two to three year funding cycles for programmes or projects they support. Both admit that no formal organisational exit strategy procedures have been developed.*

A significant area that is not addressed in this study is the question of why exit strategies have not been considered by stakeholders and what elements should be contained in an exit strategy to promote ownership, long-term sustainability, and accountability. This study merely sought to determine whether formal exit strategies exist and describe what contingencies different organisations adopted to deal with the phasing out of funding or resource flows. Given the dearth of data available on examples of exit strategies in this sector, it may be of value to look beyond the HIV and AIDS sector for best practices on exit strategies or procedures developed and implemented at all levels of organisations within the broader aid and development sector.

### **Recommendations**

In the fieldwork, it was found that parties within many successful donor-NGO partnerships have recognised the challenges posed by these issues and have devised solutions, either in-house or by adapting current practice to suit individual needs, to address them. These examples of the applications of the principles that inform the solutions that were arrived at have been presented in summary form as a series of recommendations. It should be noted that, given the small sample size and the geographic clustering of the CBO's investigated, a degree of caution should be attached when generalising results. Subject to this proviso, rather than being definitive, the main purpose of these recommendations is to stimulate discussion or at least spur debate on current practices in these key areas.

- 1) Funding cycles should be extended in order to facilitate better planning by NGO's and ensure more stable support for beneficiaries. This, however, may prove more difficult than at first appears and might require significant changes to mindsets regarding funding. In particular, it may require a move away from annual project-specific funding to more general funding models of NGO's by donors. This may prove difficult as, for a host of reasons, there is a certain reluctance on the part of donors to provide funding which has not been earmarked for any specific activities to NGO's. Evidence from the two case studies cited, however, suggests that it is sometimes practical for donors to buy into existing general models of care, especially where a CBO has demonstrated success in that area.
- 2) Networking needs to be fostered amongst, and effective information sharing networks developed between, implementing agencies. This is argued to have several benefits. Firstly, it enables knowledge of best practice to be widely disseminated. Secondly, knowledge of potential service providers may enable CBO's and NGO's to successfully engage in specialisation. The extent to which CBO's are allowed to specialise, however, is limited to a large extent by the availability of funds to finance own activities in current and future years. Whilst in agreement that networking should be fostered, no firm indications have been given as to the most successful forms of information sharing mechanisms. For instance, in some places local community forums are appropriate while in others electronic newsletters or list servers prove sufficient.

- 3) The development of the capacity of CBO staff should be prioritised. Ideally, capacity building should focus on providing a set of basic skills in key areas such as literacy, basic language and accountancy skills, rather than the programme-specific training (e.g. training in completing *our* M & E forms, applying *our* method of service delivery etc.) routinely provided by donors. While responses generally dealt with capacity development of existing staff members, it is pointed out that there may be alternative methods to increase the capacity of organisations. For instance, CBO's could be given larger sums of money in order to recruit specialised personnel or businesses could be given the option of placing staff members in CBO's for limited periods as part of their organisation's community development initiatives.
- 4) Related to personnel, strategies have to be developed to retain key staff as increasing retention rates will maximise the return to capacity development initiatives above. It should be noted that different strategies may need to be developed for different categories of staff in this regard. For instance, in the case of volunteers stipends may need to be paid. As a rule though, systems need to be developed that document staff activities and job descriptions as far as possible to ensure that CBO's move away from the current system of implicit knowledge and ways of doing things to more formalised or codified organisational practices. One benefit of establishing these systems is that an organisation's dependence on the personality or actor-driven type model of leadership and management that seems to proliferate in many smaller organisations is reduced. The pitfalls of following this model are apparent.
- 5) While protagonists for and against the application of more corporate models exist and the debate surrounding the appropriateness of these models in many organisational settings continues, it is argued that certain key business principles need to be adopted immediately by CBO's. Critically, CBO's need to articulate their vision and based on these, develop well-defined mission statements and formulate clear-cut goals and actions in pursuit thereof. Where these already exist, they should be reflected upon as the dynamics of the effects of the epidemic in that community may have shifted. This needs to be emphasised in light of the uncoordinated and often ad hoc responses common amongst many NGO's. These responses, however, have been argued to be symptomatic of larger issues. In particular, there is a growing sense that many of the emerging CBO responses are survivalist strategies being engaged in by community members. These underlying motivations may need to be discerned before engaging in the exercises above.
- 6) Standards or models of best practice, not only in terms of intervention models but general models of operations, need to be developed and disseminated. Importantly, the guiding principle behind these should not be seen to be the imposition of uniformity but the emulation of success. Evidence suggests that developing such a strategy for the CBO sector is possible. In the case studies investigated, adopting this approach was intertwined with the learning ability of the organisation, itself not an entirely technical consideration.

- 7) In order to inform the recommendation above, the practices of successful Donor-NGO-CBO partnerships need to be documented and the factors that make them successful investigated. Following this exercise, findings need to be adapted into a key set of recommendations that are to be disseminated to the wider CBO/NGO community. As solutions are frequently context-specific, they should ideally be set out as principles that need to be adhered to rather than a recipe that needs to be followed.
- 8) There appears to be a growing consensus that the best way to support vulnerable children is through community and extended family networks. While this may be the most suitable form of support, the question of how one ensures that the voice and perspective of the child is not lost in funding remains. Furthermore, even if support is provided to families, there is no guarantee that funding in a home will go to the intended child beneficiaries. Therefore, a recommendation for future direct funding is to design interventions that take both distributional and efficiency concerns into account.
- 9) Exit strategies need to be designed and planned for. Once again, it is important to bear in mind that exit strategies are likely to differ between communities based on the level of effects felt, and the stage of the epidemic, in individual communities. Longer term, for South Africa as a whole attention needs to be directed towards planning for a post-donor environment. In the long term, the challenge is to design national policy interventions that are directed toward achieving long term child development outcomes that build on the outputs of the short term interventions that are supported by donor inputs (largely funding).
- 10) The recommendations above deal mainly with existing funding channels. Many children, however, do not access any donor-provided services and are being cared for largely by family networks and communities. What provisions, if any, are we able to make for these children in current frameworks? One solution might be to call for more funding. An alternative, especially given the generally high levels of poverty and impoverishment in South Africa, might be to strengthen structures surrounding the provision of services to children in general. Ample evidence extracted from prior empirical work and in the larger study suggests that this may indeed be the model to adopt in future. Critically, policymakers and practitioners alike seem to recognise that these larger issues need to be addressed in order to ensure that children are adequately provided for and that the developmental gains made possible by donor-provided resources are maintained and built upon.

#### **Areas for further research**

Based on this limited study, three key areas to which further research efforts need to be directed have been identified. These areas, to be discussed in greater detail below, relate to:

- The investigation of service provision, especially at lower or more direct levels of support,

- The design of exit strategies and
- Adopting an approach that translates research into action.

#### *i) Provision of support*

There is a dearth of studies on funding flows at intermediate and lower levels of funding chains (e.g. from donor intermediaries to implementing organisations, from implementing organisations to beneficiaries). Lack of research in these areas is likely to have a number of negative consequences.

Primarily, there is a danger that many successful interventions will remain undocumented. If undocumented, practitioners will be unable to learn from these interventions. Valuable information in mitigating the impacts of the intervention is thus likely to be overlooked and lost. Given these considerations, an area of possible research will be to devote more attention to documenting examples of successful interventions. Critically, the focus of this research agenda should be multiple-fold and attempt to identify the difficulties experienced by organisations and the solutions to these problems. Where solutions have been offered, whether they are context-specific or able to be applied elsewhere should be investigated.

#### *ii) Exit strategies*

Another area where there is a lack of readily-available information is that of exit strategies. Given the limited scope of this exercise, it is not apparent whether this is evidence that such strategies do not exist or whether they were just not identified by this project. Nevertheless, greater efforts need to be directed towards designing exit strategies and planning for the period when funding dries up or is significantly reduced. Where possible, examples of communities or organisations which have successfully preserved the gains made with the initial inflow of donor support after funding flows have decreased should be investigated with a view to informing the development of exit strategies. Given the stage of the epidemic elsewhere on the continent, it is argued that possible solutions in this regard may need to be based on the experiences of communities in other parts of sub-Saharan Africa.

In this exercise, the absence of explicit exit strategies was argued to flow from the crisis response mindset that seemed to predominate amongst respondents. Admittedly, whilst this might solely reflect the views of this particular group of respondents, it is argued that acting on and changing this mindset may be a prerequisite to developing appropriate exit strategies in future.

#### *iii) Development of a research and advocacy agenda*

The findings of many studies in this area are very similar and have shown great consistency. As such, it is argued that findings do not need to be confirmed or methodologies duplicated but rather that existing knowledge needs to be acted upon.

It is uncertain whether this is cause for concern or reason for hope. On the one hand, it raises the question of why these challenges haven't been addressed in the face of such overwhelming evidence. Even if the confrontational and accusatory tone taken by many

studies militates against the uptake of their findings, why are funding and implementing organisations still grappling with the same issues that were identified as blockages at the earlier stages of the epidemic?

On the other hand, the consistency in research findings could be seen as cause for hope as there is now already a substantial body of literature on which to draw guidance on how to address each of the challenges to funding identified.

Using this latter argument, one critical area for research work in this area is the development of a coordinated research and advocacy agenda. The first item on this agenda is to consolidate the findings of the existing empirical work and harness them to address the challenges identified to funding in this area.

One proposed approach to consolidate and act upon the empirical findings is summarised below. The 3D approach consists of three distinct elements viz:

- 1) Document
- 2) Design
- 3) Disseminate

As a first step, successful interventions and the lessons learnt therefrom need to be documented. This consists of summarising the existing work that identifies challenges and extending it to include the solutions that have been provided to address these issues at local level.

The second step is to design interventions that embody current best practice techniques and are based on the information on successful interventions gathered in the documenting phase. During the design of interventions, it is necessary to distinguish between context specific and generic principles of successful interventions. The emphasis on designing interventions that ensure maximum efficiency has a counterpart at national level. At a macro-level, the consideration becomes one of devising a broad developmental strategy that provides the framework in which funding is spent by identifying the areas in which long term progress is prioritised.

Lastly, findings need to be disseminated. As different messages may need to be related to different stakeholders, it is argued that different stakeholders be targeted differently or that researchers consider targeting stakeholders differently or packaging messages differently to each.

### **Conclusion**

The objective of this component of the study was to track the flow of funds in implementation-level organisations and identify the challenges which impede the efficient use of funds in these organisations.

Based on the responses of a sample of such organisations and their partners in KwaZulu-Natal, it was found that they faced a number of similar challenges and limitations.

Moreover, the set of challenges identified was fairly consistent with the results of prior empirical work.

Using the examples of selected cases of successful CBO-NGO partnerships, a series of recommendations that were based on the solutions designed by these successful partner organisations was tentatively drawn up. Due to the inter-connectedness of other aspects of organisational operations, aspects that are addressed elsewhere in this project, it was argued that these recommendations need to be considered in light of the findings of the other components of the project before being interpreted as definitive recommendations. In addition, areas for future research work were identified and the manner in which they're able to link into existing research themes elaborated upon.

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**Table 1:** Self-description of organisations participating in the study

Organisation	Donor (INGO)	Donor intermediary (NGO)	Implementing Agency	
			NGO	CBO
AIDS Foundation South Africa				
Children in Distress Network (CINDI)				
Children of the Dawn				
Clermont Community Resource Centre				
Hillcrest Aids Trust				
Nurturing Orphans for AIDS for Humanity (NOAH)				
Plan International				
Saint Philomena's Children's Home				
Southern African Catholic Bishops Conference				
Swiss Agency for Development				
Thandanani Children's Home				
Zimisele Health Organisation				
<b>TOTAL</b>	<b>2</b>	<b>3</b>	<b>5</b>	<b>2</b>