Research report no 86

Social policy series

Shifting sands:

The relationship between foreign donors and South African civil society during and after apartheid

Caroline Kihato

Senior researcher, CPS

Centre for Policy Studies

Johannesburg

August 2001

This paper forms part of a research project entitled 'The impact of foreign political aid to civil society organisations in South Africa'.

The Centre for Policy Studies is an independent research institution, incorporated as an association not for gain under Section 21 of the Companies Act.

Centre for Policy Studies
Construction House
130 Sivewright Ave
New Doornfontein 2094
Johannesburg, South Africa

P O Box 16488
Doornfontein 2028
Johannesburg, South Africa

Tel (011) 402-4308
Fax (011) 402-7755
admin@cps.org.za

www.cps.org.za

ISBN 1-919708-41-3

ABOUT THIS PROJECT

This report forms part of phase three of a research project entitled 'The impact of foreign political aid on civil society organisations in South Africa', conducted by the Centre for Policy Studies. This, in turn, forms part of a broader study on the impact of foreign political aid on civil society in Africa, co-ordinated by the Institute for Development Studies (IDS) of Sussex University in the United Kingdom. Other country studies are being conducted in Ghana and Uganda by institutional partners based in those countries; they are the Centre for Basic Research in Kampala, Uganda, and the Department of Political Science of the University of Ghana. This phase of the South African country study has been funded by the Royal Danish Embassy and a private donor. Other components of the study have been funded by the British Department for International Development (DFID).

CONTENTS

INTRODUCTION **5**

THE DONOR-CIVIL SOCIETY DYNAMIC PRIOR TO 1994 **5**

Legislative and policy context 5

Tax regime 7

Civil society on the crest of a wave 8

Reaching its peak? 9

DONOR–CSO DYNAMICS POST 1994 **10**

Funding levels 10

The distribution of donor funding 12

Tightening the reins 14

Renewed courtship? 16

BEYOND THE FIGURES: UNPACKING THE DONOR–CSO RELATIONSHIP **17**

The state's response to the CSO crisis 17

Shifting co-ordinates; redefining relationships *17*

CONCLUSION **23**

INTRODUCTION

This paper investigates the dynamics between donors and civil society organisations (CSOs) in South Africa. It provides a background to the papers written for phase three of the project entitled 'The impact of foreign political aid on civil society organisations in South Africa', aimed particularly at investigating the role played by foreign funding in strengthening democracy.

Although most of the literature on CSOs in South Africa identifies two broad funding periods – before and after 1994 – little has been written about the exact nature of donor funding to CSOs in either. This is understandable in respect of the period prior to 1994, during which donor-assisted 'struggle' CSOs were deliberately non-transparent in their donor interactions in order to avoid close scrutiny by the apartheid state. The highly regulatory policy and legislative framework at that time, coupled with the hostile political environment, meant that relationships between donors and CSOs were often covert. For this reason, the extent of donor funding of South African CSOs, the degree to which those funds were efficiently administered and spent, and their impact on those organisations and society at large have not been accurately recorded.

While most of the literature acknowledges that the funding of CSOs has declined dramatically since 1994 – with many donors redirecting funding to the new government – other information on funding CSOs during this period is lacking as well. What are the current trends in CSO funding? To what extent has funding declined, compared to the period prior to 1994? Is it increasing or decreasing? What types of CSOs are donors funding? Which sectors are donors more likely to fund? And who are civil society's major donors? These questions remain largely unanswered, and require empirical research. This paper examines these and related questions surrounding the relationship of civil society with donors. It deals briefly with pre-1994 funding, and, using data released by International Organisation Development South Africa, analyses current patterns in donor funding.

THE DONOR-CIVIL SOCIETY DYNAMIC PRIOR TO 1994

Legislative and policy context

The period prior to 1994 is often regarded as a robust period for civil society[1] in South Africa. Not only did many CSOs, particularly anti-apartheid organisations, have definite direction and purpose (most were formed to fight an oppressive state and create a non-racial South Africa); they also had relatively easy access to funds for carrying out their

---

1 The use of the term 'civil society' in the South African context prior to 1994 is often contested. There are arguments that liberation movements and many CSOs cannot be classified as organs of civil society because they wished to take over the state. This argument is premised on the classic definition of CSOs as organs that wish to interact with the state, but not take it over. See S Friedman, Introductory perspectives, in R Humphries & M Reitzes (eds), *Civil society after apartheid,* Johannesburg: Centre for Policy Studies, 1997.

objectives. Given that the apartheid regime was regarded as undemocratic and illegitimate, foreign donors saw CSOs as legitimate vehicles for channelling funds to apartheid victims. Thus the 1980s saw the mushrooming of a plethora of CSOs that filled the service gap created by the apartheid state's separate development policy, and mobilised against apartheid.

Ironically, the rapid growth of civil society occurred in a highly constrained policy and legal environment, which sought to control activities and funding in the sector. Fund-raising in the sector was strictly controlled, largely by the following four laws:

- the Prohibition of Political Interference Act (Act 51 of 1968), which in 1985 was amended to become the Prohibition of Foreign Financing of Political Parties Act, aimed at preventing any organisation which the minister deemed 'unfit' from receiving foreign funding;
- the Affected Organisations Act (Act 31 of 1974), which prevented any organisation involved in anti-apartheid activities from receiving funds from outside South Africa;
- the Disclosure of Foreign Funding Act (Act 26 of 1989), which required that organisations report all funds received to the government; and
- the Fund-Raising Act (Act 107 of 1978), which prevented organisations from receiving funds from the public, both within and outside South Africa, unless they had a fund-raising number obtained from the government.[2]

These laws were specifically aimed at curtaining the operations of anti-apartheid organisations; they gave the government far-reaching powers to decide which organisations it would allow to exist in the legal framework. The Fund-Raising Act, for instance, gave the minister of social welfare and pensions the power to prohibit the collection of funds by a CSO if s/he deemed that this was in the public interest,[3] thus introducing stringent *political* control over the process of obtaining a fund-raising number. Moreover, the process of procuding a number was very complex; many organisations with relatively lower levels of expertise or resources were unable to comply with all the requirements.[4] However, some organisations – particularly those engaged in welfare activities in white communities – thrived despite these draconian laws, mainly because they tended to avoid engaging in political activities that would provoke the wrath of the state. As Hein Marais has noted: 'Some welfare organisations thrived under apartheid by pursuing "safe", apolitical work, catering to the concerns (and often the needs) of the white community.'[5]

The highly restrictive and exclusive legislative framework was intended not only to allow greater government control over CSOs, but also to stifle them by cutting off the flow of funds from both local and foreign donors. However, evidence shows that many organisations operated – both consciously and unconsciously – outside the law. Some laws were so restrictive that they made it illegal for individuals to receive gifts from family relations overseas. Yet, despite their extreme nature, few of these laws were effective.

---

2 D Reid, Fundraising, volunteering and giving -- The independent study into an enabling environment for NGOS, Development Resource Centre, 1993.

3 Ibid.

4 Ibid.

5 H Marais, The state of the voluntary sector, in *Development Update* 1(3), 1997.

A large number of grass-roots organisations, for instance, had no knowledge of the Fund-Raising Act and operated illegally, oblivious of its requirements.[6] Other CSOs deliberately avoided its provisions:

> A number of significant NGOs established to combat apartheid and its effects, or whose work has taken that direction, have avoided the Act, legally or effectively. Organisations such as these feel that there is no point in applying for a (fund raising) number - often because they believe that the process is so loaded against them that they have no prospect of obtaining a number, and applying for one merely draws unwanted official attention to the organisation.[7]

Tax regime

An attempt has been made to introduce tax reforms that will stimulate the non-profit sector. There are two aspects to this issue: exempting CSOs from paying tax, and allowing institutions that donate funds to CSOs to deduct this from tax.

Previous tax legislation stifled funding of the non-profit sector on both these counts. Firstly, the Income Tax Act (58 of 1962) only exempted two types of CSOs – ecclesiastical charity organisations and educational institutions – from paying tax. In addition, any organisation that donated funds to religious, charitable or educational institutions was allowed to deduct this from tax.[8] Moreover, the act gave the Commissioner of Inland Revenue wide discretionary powers for deciding which donor organisations qualified to deduct donations from tax. Other stringent criteria further narrowed down qualifying institutions.[9] As a result, many developmental CSOs were excluded from tax exemptions.

Similarly, the act stipulated that donations to universities, educational funds, and colleges were tax-deductible provided a) they did not exceed 5 per cent of a company's annual taxable income; or b) did not exceed R500 or 2 per cent of an individual's annual income, whichever is the greater.[10] Again, these low limits did not provide much of an incentive for funding civil society. When compared to other tax regimes,[11] South Africa's was highly restrictive, making it difficult for CSOs to attract local and foreign funding.

---

6 Reid, Fundraising, volunteering and giving.

7 Ibid, p 16.

8 See D Davis & D Mokgatle, *Tax status of NGOS,* report commissioned by the independent study into an enabling environment for NGOS supported by the DRC, 1993; H Cawthra & G Kraak, The voluntary sector and development in South Africa, 1997—8, *Development Update* 2(3), 1999; Legal Resources Centre, *New tax law for South African NPOS,* NPO legal support project, undated.

9 See Davis & Mokgatle, *Tax status of NGOS.* Funds cannot be placed in any speculative investments, or used to operate a business. Moreover, 75 per cent of revenue have to be disbursed to beneficiaries within 12 months.

10 See Davis & Mokgatle, *Tax status of NGOS;* and Legal Resources Centre, *New tax law for South African NPOS.*

11 Ibid. Countries like Canada include municipalities and low-cost non-profit housing corporations as tax-exempt organisations. In the United States, organisations involved in the prevention of cruelty to animals and children qualify for tax exemptions. In Zimbabwe and Malawi, clubs, societies and bodies pursuing

Following the financial crisis that engulfed civil society after 1994, the government was intensively lobbied to amend the income tax laws in respect of non-profit organisations (NPOs), and some changes have eventually been introduced. Although some commentators say they are only minor, others are more appreciative and see the government's response as signalling a shift in mindset: according to them, the amendments to the tax legislation show not only that the government is more willing to create an enabling environment for CSOs, but also that it recognises the importance of civil society.

Passed by parliament in July 2000, the amendments allow the minister of finance to determine a list of public benefit activities that will quality for tax exemption.[12] Once this has been done, NPOs engaged in these activities will be able to apply to the Commissioner of Inland Revenue for tax exemption. Until now, he has extend these activities to include pre-primary schools; primary schools; organisations involved in preventing HIV infection or providing care to HIV/AIDS sufferers; children's homes; and organisations involved in caring for destitute aged persons.

While the full extent of exemption is still unknown, the intervention is significant for civil society sustainability. Although a large number of CSOs involved in developmental activities are still excluded from tax exemptions, the extension is symbolic and, for some, represents a willingness by the government to strengthen civil society. In practice however, given that many activites continue to be excluded from the tax ecemption net, it is unlikely to change donor patterns of giving to CSOs.

Civil society on the crest of a wave

The nature of CSO-donor relations in pre-1994 South Africa was largely shaped by the apartheid government's hostility towards anti-apartheid organisations. Many donors sympathetic to the struggle channelled funding to CSOs that claimed to support marginalised groups and promote democracy. Partly as a result of this hostile environment, the administration and expenditure of funds was not strictly controlled; few recipient organisations were required keep books, undergo independent audits, or report back to donors on how their money had been spent, as it was believed this could expose those organisations to the attentions of the state. Many donors were able to justify their permissive attitude towards recipient organisations on humanitarian grounds — after all, apartheid had been declared an affront against humanity by the United Nations. Therefore, while some conditions were laid down, few donors took steps to ensure that their funds were efficiently used in practice, and had the intended impact.

South African NGOs were certainly more privileged than those in other countries. For instance, in 1986-91 the European Commission (EC) donated R2 billion to South African CSOs – by far the largest amount given to any single country in that period.[13] Moreover, because of the unusual local circumstances, three local organisations – the South African

welfare objectives qualify, while in Kenya any relief, poverty or distress organisation has tax-exempt status.

12 The term 'charity organisation' has been replaced by 'NPO', which is a wider, more encompassing term.

13 K Shubane, *Local content: the politics of European and American donor intervention in South Africa under apartheid,* Johannesburg: Centre for Policy Studies, 1999.

Catholic Bishops Conference, the South African Council of Churches (SACC), and the Kagiso Trust[14] – were given full discretion to decide how the money was to be spent. Funding priorities were therefore determined by local constituencies rather than donors.[15] In addition, the EC's 'easy and flexible' approach to funding South African CSOs meant that the latter were exempted from the cumbersome and time-consuming procedures surrounding funding applications, project proposals, and the monitoring of funded projects applicable in other countries.[16][17]

Thus the relationship between donors and civil society during apartheid was extremely flexible, with donors adopting a highly accommodating attitude to local demands. Local actors certainly had the upper hand in deciding which organisations should be funded, and how funds would be disbursed. This relationship, characterised by high levels of trust, was extremely unusual. Not only was it unique to South Africa; it has also become an aberration in post-apartheid South Africa. Foreign funding before 1994 was therefore anti-state, and couched in an anti-apartheid rubric.[18] Foreign donors preferred to empower CSOs that either cushioned the blow of separate development policies, or mobilised against the apartheid state. Funded activities and organisations varied greatly, from poverty relief through education grants forblack South Africans to direct contributions to liberation movements.[19] Countries such as Denmark and Sweden supported liberation movements drectly, while the United States and Britain preferred to provide education grants.[20]

Reaching its peak?

Although in the period 1990—4 funds continued to flow to civil society, they came with a more specific mandate: to strengthen the capacity of political parties involved in the negotiation process. While there is no quantitative evidence, political commentators believe funding of South African civil society peaked in this period. Firstly, large amounts of money were directed to strengthening political parties in the negotiation process, with donors providing funds for research which would allow parties to articulate their policies, and so on. Secondly, in the build-up to the 1994 elections, funders poured money into CSOs involved in preparing for the first inclusive elections, and in providing civic education. The demise of apartheid and the run-up to the elections provided a key opportunity for donors to contribute to the election of a representative government. Thirdly, it was

14 The SACBC, KT, and SACC were the conduits of EU funds in the 1980s.

15 Shubane, *Local content.*

16 Ibid.

17 Ibid.

18 Z Dangor, *The non-profit sector in South Africa,* Charities Aid Foundation, 1997; P Daya & R Govender, *Database and analysis of ODA to South Africa for the period 1994—9,* Johannesburg: International Organisation Development South Africa, 2000.

19 See Shubane, Local content.

20 International Organisation Development, *Synthesis report: development co-operation report II for South Africa, 1994—9,* Johannesburg, 2000.

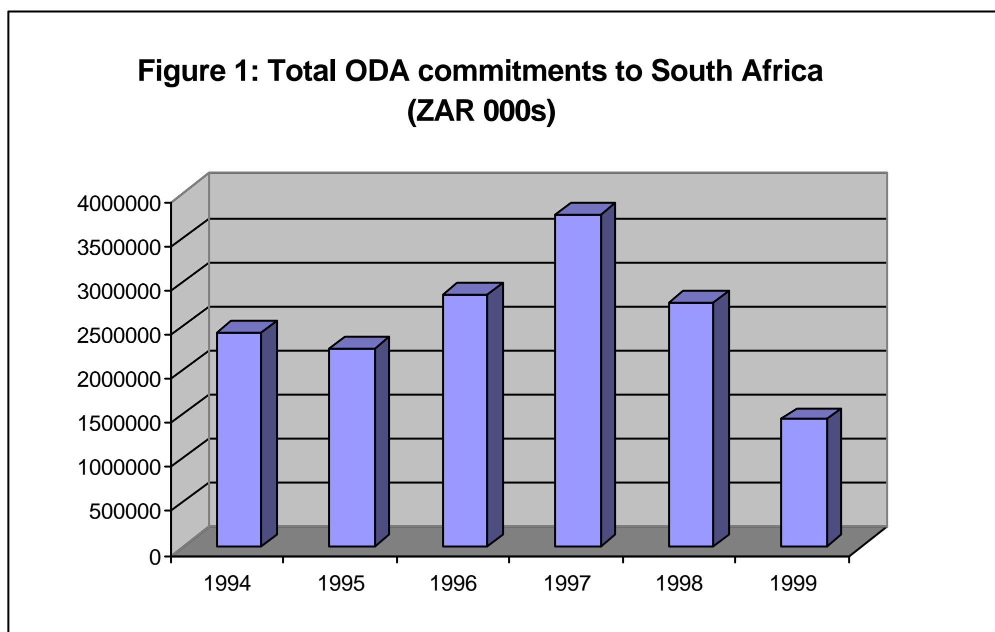
'politically correct' to be seen to be supporting the process of democratisation, and funding aimed at promoting a smooth transition to democracy flowed unabated.

For all its merits, including its contribution to the demise of apartheid, the magnitude of donor funding during the 1980s as well as the lack of donor controls created an enormous dependence on aid within civil society. This helped to escalate the widespread collapse of CSOs in the 1990s, when they failed to cope with funding cut-backs and increasingly stringent donor conditionalities and controls. The 1980s created a complacency within civil society about its sustainability and future survival; as a result, it was inadequately prepared for the shifts in donor strategies that occurred in the mid-1990s.

DONOR–CSO DYNAMICS POST 1994

Funding levels

Following the 1994 elections, donors shifted their focus away from civil society, preferring to formulate bilateral agreements with the new government. The following graph illustrates the trends in overseas development assistance (ODA) to South Africa after 1994.



Source: P Daya & R Govender, *Database and analysis of ODA to South Africa for the period 1994–1999*, International Organisation Development SA, Johannesburg 2000

It shows that ODA increased gradually between 1994 and 1997 (with the exception of 1995, during which it showed a slight drop)[21], peaked in 1997 at R3,8 billion, and then began to decline. The increase between 1994 and 1997 can be attributed to the donors' focus on strengthening government in the precarious transition period. Government policy documents proliferated as the new government tried to articulate its social policies. It also began to implement programmes such as the RDP, aimed at reversing the skewed distribution of resources brought about by apartheid, and these might have attracted donor funding. Finally, the civil service changed significantly as the government amalgamated apartheid administrations with the core administration; in the education sector, for instance, the government had to collapse 19 departments into one.

Therefore, it is not surprising that, during this period, donors focused on providing the government with 'technical assistance' – ie expertise, often provided by consultants from the host countries – aimed at strenhthening its capacity to make and implement policy (or, according to critics, manipulate it to reflect donor methods and priorities). These trends are reflected in agreements with donors: the British Department for International Development (DFID), Sweden's International Development Co-operation Agency (SIDA), Australia's AusAid, and USAID are among donor agencies that provide the government

21 According to P Daya & R Govender, *Database and analysis of ODA to South Africa for the period 1994—9*, this drop is largely artificial.

with some form of some form of technical assistance.[22] In 1995-8 South Africa's largest multilateral donor, the European Union (EU), targeted the Reconstruction and Development Programme (RDP). Key funding priorities included 'health, education, good governance, urban and rural development, trade promotion, and the support of small business'[23]. Thus the increased flow in aid in 1995-7 can be attributed to a concerted attempt to help the new government formulate its new policies, and begin its efforts to implement them. Indeed, USAID South Africa's mission 'to provide sustainable transformation' encapsulates much of the focus on building the new government's capacity;[24] given 'doom and gloom' predictions about the country's future by some commentators, donors invested in strengthening the new government and ensuring that South Africa's peaceful transition to democracy became a showcase for Africa and the rest of the world.

Conversely, the decline in ODA after 1997 can be explained by growing confidence in the government, the reduced threat of political violence, and a demonstrated ability by the government to articulate and implement its policies. Arguably, the government can now stand on its own feet, and does not need the kind of support it required when it first came to power. Moreover, the success of the second round of democratic elections further allayed donors' fears about the political stability of the country. This declining trend in ODA is evident in various bilateral and multilateral agreements; inter alia, USAID South Africa is scaling down its activities,[25] and the Norwegian government, is likely to decrease funding to South Africa and step up aid to the SADC.[26]

The distribution of donor funding

Who receives donor funding in South Africa? What are the sectoral trends in ODA? Analyses of trends in donor funding post 1994 have been limited. It is widely acknowledged that the government receives a significant proportion of foreign aid. This is understandable, given the size of the state and the nature of its reforms, which require a lot more funding than, say, a medium-sized NGO involved in civic education. The scale of financial needs of CSOs pale when compared to the amounts required to fund the amalgamaiton of 19 education departments into a coherent, non-racial, education system, or the transformation of the health system. Using data released by International Organisation Development South Africa, this section attempts to provide a clearer picture of funding trends post 1994.

---

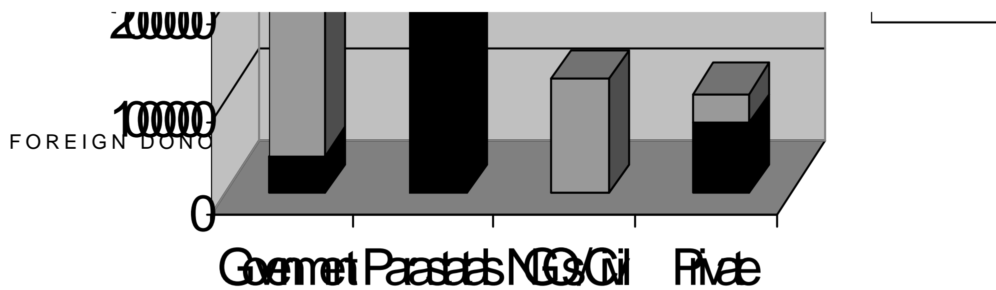
22 See International Organisation Development, *Synthesis report: development co-operation report II for South Africa, 1994—9.;* White et al, *Evaluation of ODA to democracy and good governance,* IOD, 2000; Cawthra with Kraak, The voluntary sector and development in South Africa.

23 Cawthra with Kraak, The voluntary sector and development in South Africa.

24 USAID, USAID--South Africa support for sustainable transformation, http: // www.sn.apc.org / usaidsa / about.html.

25 Ibid.

26 Cawthra with Kraal, The voluntary sector and development in SA.



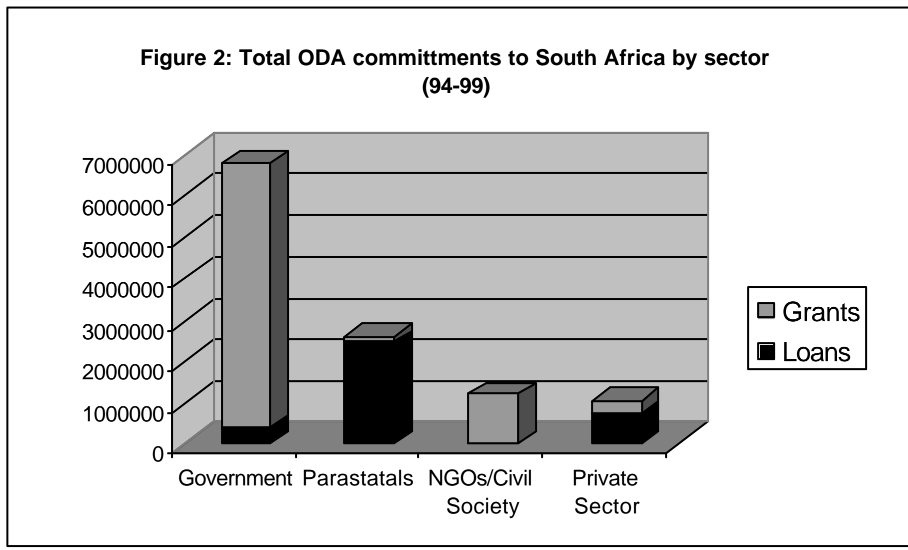


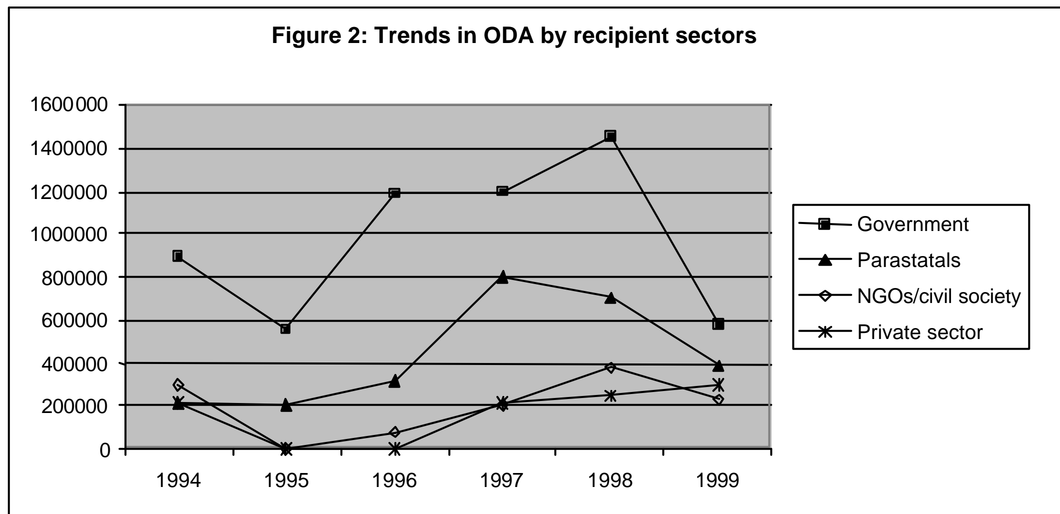
Figure 2: Total ODA committments to South Africa by sector (94-99)

Source: P Daya & R Govender *Database and analysis of ODA to South Africa for the period 1994 - 1999* International Organisation Development SA Johannesburg 2000

Figure 2 shows that the government receives 54,6 per cent (R5,804 million); parastatals 24,4 per cent (R2604 million); NGOs 11 per cent (R1,182 million); and the private sector 10 per cent (R1,182 million).[27] ODA to civil society represents one fifth of donations to the government. Surprisingly, ODA to civil society and the private sector is almost equal, with the difference being the nature of the funding: fully 71 per cent of ODA to the private sector are loans, whereas 100 per cent of ODA to civil society are grants. While CSOs rank second lowest in terms of funding from overseas donors, they are arguably better off than both the private sector and parastatals, whose funding largely consists of loans that have to be paid back. By contrast, funding to CSOs are 100 per cent grants which the sector has no obligation to pay back. Although this benefits the sector, the lack of obligation to pay back does not mean that no obligations exist. Funding often comes with conditions on how, where, and when it may be spent, and what outcomes are expected.

---

27 Daya & Govender, *Database and analysis of ODA to South Africa for the period 1994—9.*



Source: P Daya & R Govender *Database and analysis of ODA to South Africa for the period 1994 - 1999* International Organisation Development SA, Johannesburg 2000

Tightening the reins

After a universal decline in ODA between 1994 and 1995, donor funding rose for a brief period across all sectors, reaching its peak between 1997 and 1998. Since then, with the exception of the private sector, ODA to South Africa has declined. This is explained in part by the phasing out of donor activities, as mentioned earlier. In addition, there is also a growing shift from bilateral to regional funding.[28] This trend has emerged from a growing need to increase the efficacy of ODA to southern Africa. Recognition of the interdependence of southern African countries, coupled with the fact that the problems faced by one country in the region are interlinked with those in others, has compelled donors to focus on region-wide ODA. Thus assistance will increasingly form part of a broader regional programme rather than within discrete country programmes. The decline in ODA to South Africa may in fact be less pronounced than the formal figures show, it will continue to receive funding via the SADC. However, more evidence is needed before more concrete conclusions can be reached on the nature of the decline, and the amounts likely to be channelled to South Africa via the SADC.

Immediately evident from figure 1 is the extremely erratic nature of ODA to South Africa. Although, for obvious reasons, the government receives most of the funding, it has also been subjected to the irregular nature of ODA, particularly in 1995—6 and 1998–9. This may be partly be due to the focus on the transformation of the state – the huge decline in 1998-9 could reflect the end of the transition period and the beginning of a more consolidated phase of government marked by the second democratic elections, and – as mentioned earlier – the shift towards region-wide funding.

While all sectors have experienced erratic funding patterns, CSOs seem to have been the hardest hit – particularly in 1994—5, when foreign aid fell by almost 100 per cent.

28 International Development Organisation, Future flows of ODA: staying, leaving, or going regional? In Synthesis report: development co-operation report II for South Africa, 1994--9.

Following this, according to figure 2, funding increased only marginally in 1996, and dropped again significantly in 1999. As a result, CSOs collapsed in large numbers. In 1995 a survey carried out by the Independent Development Trust (IDT) – an independent body established in 1990 by the previous government to address poverty — found that 128 organisations surveyed had an average shortfall of two thirds of their operating budget for 1995–6, which was equivalent to R210 million.[29] It also found that, in 1992–4, about 1 000 largely welfare organisations were on the brink of financial collapse.[30] Most of the welfare organisations that faced collapse had previously catered for the welfare needs of white communities, and largely depended largely on funding from the department of welfare. After 1994, ODA was not only redirected to the government, but government expenditure also shifted towards disadvantaged communities. This greatly affected those CSOs that had thrived under the apartheid state.[31]

Another survey carried out by Interfund in 1996 corroborates these findings, identifying the largest cause of the collapse of CSOs as the withdrawal of donor funding, particularly EU and USAID support.[32] However, other factors also contributed to the crisis. Civil society analysts acknowledge that the sector was bloated, resulting in duplication and other inefficiencies; they therefore argue that the post-1994 process was a natural process of weaning out inefficiencies in civil society. Moreover, many organisations were unable to undertake even the most basic internal tasks, such as drafting project proposals, budgets, and strategic plans for organisational development. For instance, due to a lack of skills, many local CSOs had to rely on foreign NGOs to write funding proposals. This has been one of the most acute challenges facing CSOs post 1994. In other words, the apartheid funding environment did not help CSOs to develop the skills they needed to survive after 1994. As Shubane notes:

> …domestic funding agencies worked through European counterparts; thus KT sent its project applications to a group of NGOs in Europe, which processed them further before they sent its project application to the EU. Some of the NGOs with which KT worked in Europe included KZA, Novib and Hivos in the Netherlands, Oxfam in the UK, and FOS in Belgium. When the EC opened an office in Pretoria and the rules under which the programme operated began to change, an early change was that KT staff were required to conform to EU regulations on writing project proposals.[33]

Problems such as the mismanagement of funds, poor or non-existent financial record-keeping, a lack of strategic planning and clear and cohesive goals, and the migration of skilled leaders from civil society to government all contributed to the collapse of many

29 Dangor, *The non-profit sector in South Africa.*

30 See NGOS go to the wall, *Finance Week, 17--23 August 1998.*

31 See C Kihato & T Rapoo, *An independent voice: a survey of civil society organisations in South Africa, their funding, and their influence over the policy process,* Johannesburg: Centre for Policy Studies, 1999; Also see Marais, The state of the voluntary sector.

32 Dangor, The non-profit sector in South Africa.

33 Shubane, Local content …, p 19.

CSOs.[34] Foreign funding in the 1980s had therefore served to prop up organisations which would not have survived under normal circumstances.

While the reduction in funding has had a negative effect on both the government and civil society, the former is more likely to survive the volatility of donor funding than civil society, because it depends less on donor funding than civil society does; in 1997, when ODA peaked, it represented only 1,98 per cent of the national budget, and 0,55 per cent of GDP.[35] What this suggests is that the withdrawal of foreign funding should not have as adverse an effect as that experienced by CSOs post 1994 when donor funding declined. The reliance of civil society on foreign funds means that it is more vulnerable than the government to shifts in donor patterns. However, civil society's post-1994 experiences, and the measures it is taking to adapt to the new funding environment, may mean that it is more resilient than it was at the beginning of the decade. The unpredictability of foreign funding raises fundamental questions not only around the sustainability of the sector but also around its efficacy. The unreliability of funding makes it difficult for the sector to plan forward or develop long-term programmes, and this may impact negatively on its ability to achieve its objectives. For instance, the financial insecurity within civil society could affect an organisation's ability to influence the policy process because it lacks the funds to make informed and well-researched decisions, or to effectively articulate its members' interests and lobby the government. Moreover, with CSOs struggling to secure funding, energies that would otherwise be brought to bear on the sector's developmental or democratic functions are expended on fund-raising. Thus a more stable funding environment would create a more effective sector.

Renewed courtship?

After its dramatic drop in 1994–5, donor funding of CSOs has again risen gradually, albeit it unevenly. One possible explanation for this could be that donors are once again beginning to realise that CSOs play an important role in a democratic environment. Another is that ODA is increasingly becoming partnership-oriented; thus the growing realisation of the government's capacity limits has prompted a return to civil society, but increasingly as a partner with the government.[36] CSOs are able to obtain funds from donors when they can demonstrate that they are able to build partnership models with the government. However, funding to CSOs is strongly biased towards urban CSOs, which are easier to locate and communicate with than rural CSO; some of the latter have no fixed addresses, phones, or fax numbers.[37] In addition, CSOs with the skills to write proposals and prepare budgets and strategic plans are more likely to attract donor funding and survive.

The trend towards regional ODA has impacted significantliy on South African CSOs, which further exacerbates the rural–urban divide and the divide between those CSOs that

34 See Kihato & Rapoo, *An independent voice ....*

35 Daya & Govender, *Database and analysis of ODA.*

36 See M Ramphele & J Joseph, in *Strengthening US--Southern Africa Independent Sector Linkages,* SAGA, 1998. See also White et al, *Evaluation of ODA to democracy and good governance.*

37 White et al, *Evaluation of ODA to democracy and good governance.*

are better placed to attract donor funding and those that are not. In essence, the regional focus implies that CSOs that are able to position themselves as 'regional experts' attract donor funds. The Institute for Democrtaic Alternatives for South Africa (IDASA), the Institute for Security Studies (ISS) and the Electoral Institute of Southern Africa (EISA) have managed to obtain donor funding because of their regional focus.[38] Increasingly, donor projects require cross-country comparisons, with a view to engaging countries within and among regions around common issues, and identifying possible common learning experiences. Consequently, an organisation's ability to develop partnerships with institutions from other countries is key to operating in the new funding environment.

BEYOND THE FIGURES: UNPACKING THE DONOR–CSO RELATIONSHIP

The state's response to the CSO crisis

It is difficult to separate donor-CSO relations from the state, as the environment the latter creates influences the way in which the former engage with each other. Moreover, the state is to some extent a key player in funding civil society in South Africa, and this further complicates the relationship. Just as the existence of an illegitimate apartheid government influenced the relationship between civil society and foreign donors, the post-apartheid government and its attitude towards and policies on donors and civil society have had a marked bearing on this relationship. Three watershed events have had a significant impact on the donor-CSO relationship:

- the negotiations around the establishment of the Transitional National Development Trust (TNDT);
- former president Nelson Mandela's speech at the 50th annual ANC meeting in Mafikeng in December 1997; and
- the government's current focus on delivery, and the effect of this on the perceived role of CSOs.

Shifting co-ordinates; redefining relationships

The funding crisis that gripped CSOs in the 1990s raised the alarm both at governmental level and within the sector, and a debate began on how – or whether – the government should intervene to resolve it. Initial negotiations around extending a lifeline to ailing CSOs began in late 1994, when the magnitude of the crisis became evident. At the time, donors such as the EU opted to channel funds through the RDP office, which would then be responsible for allocating the funds to civil society.[39] Proposals to centralise civil society funding at the RDP office created apprehension among civil society actors who saw this as an attempt by the government to control the sector's activities and funding. More-

---

38 White et al, *Evaluation of ODA to democracy and good governance.*

39 CPS, Socio-Political Monitor, Internal Issue 1, May 1995.

over, it caused fears that the system of disbursing funding would be biased against those organisations that the government did not approve of for one reason or another.[40]

The struggle to redefine government-CSO-donor relations at this time was characterised by numerous and complex events: competition between the RDP office and NGOs for foreign funding, with NGOs claiming that they were more efficient conduits of donor funds; apprehension over the 'co-ordinating' role of the RDP office, which was perceived by both CSOs and other government departments as a mechanism of control; the widespread dissatisfaction with the inefficiency of the RDP office in the disbursement of funds to projects;[41] and proposals that the RDP office control funding to civil society.[42] A cursory look at the debates and statements made by officials in the RDP office and members of CSOs reveals a struggle to define the roles of, and relationship between, the new state and civil society. This is perhaps one of the most significant moments of engagement between the post-apartheid government and civil society, because it sought to reconstitute a relationship that had been largely adversarial during apartheid. Both parties seemed to agree that the nature of their relationship had to change, but disagreed on what the new rules of the game were.

Statements made by several government officials make it clear that the government perceived the role of civil society and NGOs as a technical one: to help government implement its Reconstruction and Development Programme (RDP). In fact, the civil society funding crisis became a major concern for government, not necessarily because of civil society's role as an independent voice or political watchdog, but because of the constraints this implied for government's social delivery programme. Kader Asmal, then minister of water affairs and forestry, said a funding crisis could threaten the 'valuable development work' of NGOs, and urged international development funders to support them. But he added that it was imperative for NGOs to work with the government, and indicated that they would be funded through the RDP office.[43] The then minister without portfolio responsible for the RDP, Jay Naidoo, is said to have urged NGOs to establish a body that would co-ordinate the sector's relationship and development activities with those of the government.[44] Gauteng's MEC for finance and then secretary of the South African Communist Party (SACP), Jabu Moleketi, argued that the survival of the sector was essential because NGOs could bolster the government's capacity to deliver. He reportedly stated that NGOs should become 'part and parcel' of the RDP, and integrating their programmes with the latter.[45] The government therefore saw civil society as a developmental partner (although the term 'partnership' had not gained currency at the time) that could bolster the capacity of the state; it therefore saw the sector performing a technical, apolitical role.

---

40 Ibid.

41 Ibid.

42 CPS, NBI Quarterly Review 1, second quarter, 1995.

43 Ibid, p 19.

44 IBID.

45 CPS, Socio-Political Monitor, Internal issue 1, May 1995.

The debate between the government and civil society in late 1994 and 1995 also reveals an underlying bias towards less formal CSOs. Civil society was narrowly conceived as formally established NGOs. It is clear that the kind of engagement that the government was seeking at the time was with formal organisations that had the capacity to design financial mechanisms, write development proposals, help to develop government policy, and so on. These are organisations with skills and administrative capacity, or the potential to acquire it. A number of statements made at the time point to this: Bongi Mkhabela then director of NGO relations in the RDP office, argued that NGOs required effective financial management systems in order to 'fit in' with government programmes,[46] and Naidoo insisted that NGOs form an umbrella body that would co-ordinate the state–CSO relationship. The fact that the debate was around NGOs (and not civil society in broader terms, which would include less formal organisations) also provides an indication of the narrow conception of civil society – as formal organisations with the skills, administrative and technical potential to help the government achieve its RDP goals. While this is understandable, given the new government's need to set up delivery mechanisms, the exclusion of less formal (and formal) organisations involved in 'democracy work' – ie, organisations that play an overt political role – has set the tone for a long struggle to define civil society as a political entity in South Africa.

These early debates with the newly elected government provide an insight into current notions or understandings of state–civil society relations that have been carried through to the post-transition period. Some commentators argue that the government has been uncomfortable with the idea of an independent civil society playing a political 'watchdog' role; indeed, the sector has come under fire on various occasions for being too critical of the government. And while this has raised concern within the sector, it has come as no surprise, given the government's post-1994 conceptions of a 'co-ordinated', 'working', neutral, and apolitical relationship civil society. This, in part, stems from an underlying argument which seems to say: 'We are a democratically elected government that reflects the will of the majority of South Africans. The fight is over, and all sectors of society should join hands and help us overcome the challenges of meeting the delivery backlogs left by the apartheid government.' But it is also intensified by the fact the state also funds civil society. As such it is entitled to define the parameters within which its beneficiaries operate, whereas, as the state, it is expected to respect civil society autonomy. This dual role makes it more difficult to create a structured and clearly defined relationship between the two parties. For instance, if the state plays a significant role in funding this sector, is it not entitled to stipulate the framework within which its beneficiaries should operate? Or, conversely, can CSOs really play an independent political role when they are partly dependent on the state?

These debates and negotiations have led to the establishment of an independent funding agency, the Transitional National Development Trust (TNDT) — a settlement that seems to imply that the government is more willing to recognise the independence of civil society than its critics have acknowledged. Yet, despite this, the function of civil

46 CPS, NBI Quarterly Review 3, fourth quarter, 1995.

society and, by extension, its relationship with the state and donors continue to be contested.

President Nelson Mandela's speech at the ANC conference in Mafikeng in December 1997, in which he sharply attacked some CSOs and foreign donors, points to the amorphous nature of the triangular relationship. He declared:

> We must also refer to sections of the non-governmental sector which seek to assert that the distinguishing feature of a genuine organisation of civil society is to be a critical "watchdog" over our movement, both inside and outside of government ... Some of these NGOs act as instruments of foreign governments and institutions which fund and promote the interests of these external forces.[47]

Whatever side one takes on the issue, Mandela's speech reflects the difficulties being experienced in crystallising the role of and relationships among civil society, donors, and the state in the context of a political transition. Perhaps more importantly, it highlights the dynamic and changing nature of these relationships, and how varying political contexts result in different interactions between the three sectors.

Mandela's Mafikeng speech is also important because it questioned the sincerity of foreign political aid to civil society, implying that the former was undermining the workings of a government that had been democratically elected. But if we look at political funding patterns in South Africa, ie funding that goes into 'democracy and good governance' programmes, the amount pales when compared to total ODA -- and most political funding is received by the government, not civil society. A detailed look at the nature of foreign political funding reveals some interesting trends:[48]

- With the exception of AusAid (which contributes 50 per cent of its total budget to this), donors tend to apportion less than 50 per cent of their total assistance packages to democracy and good governance.
- Most political funding comes in the form of technical assistance, which ranges from study trips for government officials or representatives of CSOs to bringing in overseas specialists to provide intellectual guidance, both to the government and civil society.
- All the recipients of 'political' funding in civil society are formal, well-resourced, urban, highly skilled organisations such as IDASA, the ISS, CPS, the National Land Committee, EISA, and the University of the Western Cape (UWC).
- In the case of the government, political assistance is aimed at strengthening the capacity of departments such as public works, justice, safety and security; provincial and local government; and statutory bodies such as the Truth and Reconciliation Commission (TRC), Human Rights Commission (HRC), and Independent Electoral Commission (IEC).

What do these trends tell us about the nature of foreign political aid to South Africa, and particularly about donor–CSO relations? Firstly, the 'technical' political assistance offered to civil society and indeed the government is significant. It is often implemented

47 http://www.anc.org.za/ancdocs/history/mandela/1997/sp971216.html

48 These findings are drawn from White et al, *Evaluation of ODA to democracy and good governance,* International Organisation Development, 2000.

via 'training'; 'study tours', during which government and CSO representatives learn about 'best practices' in other countries; or the employment of expatriate professionals to 'bring skills' into an organisation or government department. The result has been a transition that has been influenced significantly by western conceptions of democracy, governance, civil society, and so on. Admittedly, the process has been more complex, and this paper is by no means suggesting that there have been no endogenous variables that have influenced the political transition, or contested western political and developmental notions. But the polciiy-amking process was dominated by an elite of foreign and local experts, consultants, senior government officials, and representatives of certain NGOs who were more amenable to western influences.

Given this, foreign political donors tend to relate to 'like-minded' CSOs, which have similar ideologies and understandings of democracy. They also relate specifically to formal organisations, not only because these have the capacity to understand and perform within donor bureaucratic frameworks, but also because they have the ability to influence political outcomes in a certain way. In other words, the methods used to 'strengthen democracy' must comply with the donors' own operating framework – they are likely to be formal and less confrontational methods of engagement with the state. For instance, 'political' funding to EISA by donors such as Denmark's DANIDA, the EU, DFID and USAID focuses on voter education and local government capacity-building.[49] Similarly, the EU has funded a CPS project focusing on strengthening policy-making and implementation within a broad governance and democracy framework. Thus the way in which donors work, and their ideologies, predetermine the organs of civil society they are likely to engage with directly. Invariably, these are formal, high-profile, urban-based, and skilled institutions.

Another, perhaps more obvious, reason why donors choose to engage with 'elitist' institutions is that the latter have the administrative and research capacity to meet donor requirements. Conversely, grass-roots organisations, which have different strengths and skills, do not fit the donor typology of the 'ideal' recipient of political funds. Firstly, their strengths lie in mass action and their ability to mobilise, a mode of operation far removed from the non-confrontational framework donors prefer. Moreover, supporting 'radical' confrontational organisations transgresses diplomatic protocols, even when donor countries do not necessarily approve of the government in power. Secondly, grass-roots organisations often lack the administrative capacity to deal with donor processes, and this limits the extent of the relationship. In addition, their strength and visibility vary over time, and depends on the prevailing socio-political context. They are often less visible, low-profile organisations, without structured permanent administrations or memberships, situated in rural or peri-urban areas. Therefore, their capacity for engaging with donors is low.

The choice of NGOs as the recipients of foreign political aid raises a broader question around the efficacy of such aid. Do donors channel political aid to the most effective organisations? Ottaway notes that '[t]he professional advocacy or civic education NGOs that donors favour are poorly rooted in the society; they are top-down rather than grass roots,

49 Ibid.

they are trustee rather than representative organisations …',[50] and questions whether this is the type of political aid that Africa needs. The same question could be asked about foreign political assistance in South Africa, and, while Ottaway contends that political aid to professional organisations is not in itself ineffective, she argues that getting the timing right is crucial; in other words, different types of political action/aid are effective at different stages of political development. The jury is out on whether the current forms of political aid to South Africa are the most effective – on whether a top-down process dominated by 'free-floating trustee NGOs' is more effective than a bottom-up process with constituency-based social organisations at the forefront. Recent statements by some political commentators that political decision-making is increasingly being centralised, both at the government and party-political level, may provide a case for increasing the efficacy of foreign political funding by strengthening mass movements.

While on the subject of the efficacy of political assistance, it is necessary to unpack CSO perceptions of donor aid. A recent survey of CSOs in South Africa has revealed that CSOs are disappointed about the way in which funding has been disbursed. One respondent claimed that 'funders have their own interests and political agendas, and do not care about the powerless communities'.[51] That donors have their own agendas is understandable, but when, as the statement suggests, foreign assistance fails to reach, or is indifferent to, the needs of those who most need it, then there is a need to rethink donor frameworks. The purpose of political aid should be to expand political space, and when donor assistance fails to increase the political participation of the poor, who are often a significant proportion of the population, then its political impact is minimised. Whether these perceptions reflect the facts or not, allegations that political aid fails to increase democratic space again raises questions about the ability of aid, in its current form, to effectively strengthen democracy in newly democratised states.

The lines of accountability further complicate the nature of political funding. Donor organisations and bilateral agencies in particular are ultimately accountable to legislatures, foreign ministries and taxpayers, not their beneficiaries. Recent debates in the United States senate aimed at blocking USAID from providing aid to pro-abortion organisations reveal the extent to which the rules and regulations of foreign aid are laid down by mother countries. The ideologies governing aid, its nature, and who does or does not receive it is determined largely by donor countries and their taxpayers. This may explain why the proportion of political funding to South Africa compared to total ODA is so small. Political aid tends to have vague objectives and outcomes that are unquantifiable and not immediately visible. Further, achieving any political impact requires a long-term strategy. Many donors are increasingly funding projects with tangible and quantifiable outcomes. Often, these are 'glamorous', highly visible and easily measured[52] programmes that serve the purpose of satisfying domestic taxpayers who increasingly insist on greater accountability in respect of the expenditure of public funds, and on visible and

---

50 M Ottaway, Social movements in Africa, in M Ottaway and T Crothers, *Funding virtue; civil society aid and democracy and promotion,* Carnegie Endowment for International Peace, Washington DC, 2000, p 85.

51 Ibid; Kihato and Rapoo, *An independent voice?,* p 41.

52 Kihato and Rapoo, *An independent voice?,* p 41.

identifiable outcomes. Further, this type of project-based funding strategy tends to focus less on internal organisational capacity needs than on ensuring specific developmental outcomes. In other words, organisational needs to build capacity via human resource development take a back seat over providing development services to other CSOs and government. Thus the emphasis is placed on providing services to third parties rather than long-term internal capacity-building, which is the basis of strengthening CSOs to engage effectively in democracy-enhancing activities. The increasing domestic pressure on funding organisations to spend more efficiently and ensure guaranteed outcomes could explain why political funding is eclipsed by brick and mortar funding, and why, in the event that donors do provide political funding, it is channelled through 'acceptable' organisations willing to operate within donor paradigms.

This raises questions which should be researched further. Are donors who are insulated from country politics more responsive to the democratic needs of a country? Do they provide more effective political aid than funders who are accountable to domestic stakeholders?

CONCLUSION

This paper attempts to analyse donor–civil society relationships in the apartheid and post apartheid era. The relationship is a complex one, dependent on the way in which a number of variables interact with each other. Perhaps one of the most significant variables has been the state, and the way in which donors and civil society interact with it. The nature of donor–CSO relations during the apartheid era was largely defined by the apartheid state; its exclusionary and inhumane politics drew CSOs closer to donors sympathetic to the fight against apartheid. As noted earlier, donors were lax about monitoring recipient organisations, and the expenditure of their funds. Although funding was channelled largely through 'peak' organisations such as Kagiso Trust and the South African Bishops Conference, significant sums of money went to organisations that were not the ideal donor type – they lacked the requisite administrative capacity and the political style preferred by donors. The aid disbursement framework was largely controlled from the bottom up – ie, local actors had a lot of say in determining who received aid. Some commentators argue, though, that this model was ultimately more accountable to beneficiaries than more conventional ones, and that contributed more effectively to installing a democratic government than a more conventional approach would have done.

The election of a democratic government has led to a shift in donor–CSO relationship, with funders not only shifting their focus from civil society to government but also changing the nature of their funding to CSOs. The question of who receives aid and how they use it is determined largely by the aid organisations and their domestic environment rather than the beneficiaries of aid, as was the case during apartheid. Moreover, political funding is now channelled through formal, high-profile, urban-based organisations without a constituency, rather than grass-roots movements. Political aid is disbursed within strictly defined parameters that reflect a bias towards institutional democracy and a 'civilised' notion of civil society – ie, a civil society sector that uses certain 'acceptable' modes of engagement with government. This cannot be blamed on donors alone, as proc-

esses both inside and outside the country have influenced donor aid patterns. While this type of political aid can strengthen democracy, there is a need to question whether its timing is right – that is, whether it is the most effective and relevant way of strengthening South Africa's fledgling democracy.