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Funding Challenges of Voluntary Welfare Organizations in Singapore's Disability Sector

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Abstract

The Singapore government has spent considerable amount of resources in recent years to build new social service capabilities. This exploratory study examines the funding challenges faced by Voluntary Welfare Organizations (VWOs) operating in the disability sector. An analysis of the financial statements of 39 VWOs shows that large-sized VWOs receive the highest proportion of government support as compared to medium- and small-sized VWOs. The latter being more dependent on corporate and donations. Interviews were conducted with two funders and five VWOs to gather their views on developing a sustainable funding model. While the government provides a high level of financial support, it employs a standardized funding model to compute grant amounts that does not, however, differentiate the varying disability types. As a consequence, some VWOs could be underfunded, and may have difficulties in sustaining their programs and capacity building.

Keywords: Capacity building, funding, voluntary welfare organizations, non-profit, disability

Introduction

The social spending of charities in Singapore has grown by about 10% every year since 2007 to more than S$700 million (Singapore dollar) by 2012 (Channel NewsAsia, 2014). As part of the government's effort to remold the economy and adjust to changing social demands by promoting a "compassionate meritocracy", Singapore's projections for social spending and welfare provisions would be further boosted. To provide for greater welfare spending, the government has recently started introducing higher taxes on the wealthy. Additionally, as the 2015 Budget indicates, investment returns from government-linked companies will play an increasingly important role in expanded social redistribution. While social spending must be monitored carefully, it is also important to bear in mind that "to build a strong, thriving voluntary sector, it cannot be living from hand to mouth" (Mactaggart, 2004).

Against a dynamic socio-economic landscape such as changing family structures and aging demographics, the Ministry for Social and Family Development (MSF) has stated that there is "much to do" in building new social service capabilities and deepening competencies to better serve the needs of the various groups (Ministry of Social and Family Development, 2014, Jul). The social service sector can "do better" through widening opportunities for professionals in the sector, grooming organizational capabilities and seeking greater support from other spectrums of civil society. External support includes communities coming together to seek out local solutions, businesses sharing management capabilities, and greater funding provided by various public and private sources (Chia, 2014). An obvious challenge to capacity building is funding (Cairns et al., 2005).

Research on the funding issues confronting Voluntary Welfare Organizations (VWOs) in Singapore is very limited. This exploratory study aims to provide some insights on how the different stakeholders, more specifically VWOs in the disability sector, could work together to do more and do well. It contributes to the literature by highlighting the underlying challenges and issues that confront VWOs and funders. A better understanding of the funding relationships could facilitate the development of effective funding models for capacity building.

Capacity Building

There is a growing interest around the world in the organization and management of the non-profit sectors, particularly, in the area of capacity building. In the United Kingdom, Cairns et al. (2005) mention that there is heavy public policy pressure on the VWOs to "build their capacity" and become "better" providers of public services. Hailey & James (2007) refer to capacity building in broader terms with an emphasis on building a civil society. This implies that capacity building should be viewed as more than just building individual capacity but also on the institutional and community level. However, De Vita & Fleming (2001) note that the term, "capacity building", is too expansive to be meaningful to individuals making specific decisions about programs and grant strategies.

Cairns et al. (2005) suggest that that capacity building seems to be associated with familiar management concepts at an organizational level such as training, performance and strategic planning. They argue that capacity building is intended to "help organization deliver high quality programs and services efficiently, and adjust to internal and external threats and opportunities". Capacity embodies individual competencies and organizational capabilities that work synergistically to advance an organization to achieve its main goals. Similarly, Letts et al. (1999) describe capacity as the means through which organizations are able to develop, sustain and improve the delivery of their mission optimally. Studies by Cassidy and Leviton (2006), and Hunter and Koopmans (2006) suggest that capacity should be referred to both programs and organization. Hence, capacity building could be assumed to be the process by which programs and organization use these inputs in optimal ways.

Undoubtedly, the means through which organizations are able to develop, sustain and improve the delivery of its mission optimally would depend, to a large extent, on the types of financial resources that are available and how they are used. Instead of perceiving capacity building that encompasses "stability", an alternative is to view it as "bold change" that entails the ideas of organizational resilience (Salamon, 2003) and adaptive capacity (Light, 2005; Sussman, 2004). Organizational resilience is suggested as "the ability to bounce forward [and] the capacity to make good decisions in the midst of chaos and change" (Alliance for Nonprofit Management, 2003). Under this view, further "reflection, experimentation, and vision" is being encouraged in order to build "financial vibrancy" and "financial capacity" (Struthers, 2009).

Funding

Cairns et al. (2005) note that while government funding plays an important supporting role to "enable" VWOs in becoming more effective and efficient to deliver good quality public services, they are progressively becoming the instruments of government policy implementation in building a stronger civic society, as the level of government and funder intervention increased. This development gives rise to a deeper challenge for VWOs to maintain organizational distinctiveness and institutional independence-in deciding their core mission, goals, priorities and operating methods. Indeed, they observe that there is rising recognition that receipt of any government funding "can itself create a new management challenge" for these organisations. This scenario may well apply in the Singapore context, where the level of government funding has been increasing in recent years.

Funders may specify funding support towards certain types of programs and services, depending on their objectives, and attach restrictions on its grants to ensure accountability. However, Brick et al. (2006) note that VWOs might sometimes find these conditions to be burdensome and counterproductive, especially when a high frequency of reporting is stipulated. Additionally, such restrictions may also undermine the autonomy and distinctiveness of the VWOs, and may cause them to become less innovative in their implementation of new initiatives to meet emerging needs of more beneficiaries (Cairns et al., 2005).

Cassidy & Leviton (2006) suggest that the factors that affect organizational and program sustainability and capacity could be classified into upstream, midstream, and downstream factors. The upstream factors are essentially those associated with funding, which include priorities and resources of funders such as government, private foundations and the public. These factors also include the ability and willingness of beneficiaries to pay for the program or service. While funding is fundamental to the capacity building and survival of VWOs, excessive intervention from funders, on the other hand, may also diminish organization distinctiveness, independence and autonomy.

The income sources of VWOs can be classified along two broad spectrums: the level of restriction imposed and the tenor of the funding (Mango, 2010). The former is an indicator of flexibility and autonomy, while the latter, continuity and reliability. Within this spectrum, a two by two matrix for funding emerges, that is, core financing, project funding, program funding and general fundraising. Core financing is arguably the most important type of funding. It ensures that the organization and its core work will not collapse if external funding is withdrawn as it provides reliable and flexible financing. Core financing need not stem from external donors. For example, charging program fees is a useful way to partially recover costs and create a sustainable self-financing model, as the income collected will be proportional to the level of activity. Project funding is the commonest form and is usually characterized by its short-term and restrictive nature that is limited to financing projects over the first three years. On the other hand, program funding tends to be provided by long-term funding partners who have a history of close working relationships with VWOs. General fundraising enjoys the greatest flexibility in usage but tends to be the most short-term and volatile in nature, being largely dependent on, for example, the outcome of a fundraising effort or the continued support from the public. These funds are usually given as form of cause support and are not closely monitored by donors.

Singapore's Disability Sector

The past decade has seen greater calls by the Singapore government for "participatory citizenry" in shaping the social service sector under the "many helping hands" approach with "families as the first line of helping hands". Underpinning this is the idea of building a self-reliant community which is still very much the principle guiding the development of the sector to this day. The sector is no longer one that is driven by individual philanthropy - as was in the distant past - but rather one in which the government is becoming increasingly more proactive. The government rather than VWOs has become the key initiator of social program offerings, approaching relevant VWOs with funding and leaving them to execute and deliver the program or service (Maisharah, 2008).

The government has established strong support structures for the disability social sector that comprise, notably, MSF, Ministry of Health (MOH), and the National Council of Social Service (NCSS). Besides formulating, coordinating and reviewing national policies facing the disability sector, as well as administering various grants and schemes, MSF also oversees the implementation of the Enabling Masterplan 2012-16, which involves, inter alia, reviewing programmes and strategies to enhance the potential of persons with disability. MOH is indirectly involved in the formulation of national policies regarding nursing care and other services administered within the sector. NCSS, established under an Act of Parliament, serves as a membership organization for local VWOs and administers various community-based funding schemes, principally from the Community Chest of Singapore (National Council of Social Service, 2013). The funding caters to a spectrum of disabilities covering developmental, sensory and physical that require very different standards of care, attention and treatment.

The government is adopting greater welfare spending, financed through higher taxes on the wealthier segment, and with investment returns from government-linked companies in expanding the redistribution of wealth to the needy. Nevertheless, the capacity of the government in funding the sector is determinate, as succinctly encapsulated by Braema and Sharifah (2011): “It must be said that it is also a given that no government can meet the needs of its entire people all the time to the level that people want. Meeting needs is a shared responsibility between the people and their government - a social contract”. Hence, VWOs still need to seek their own additional sources of revenue such as corporate sponsorships or program fees to sustain capacity building needs.

Funding Model

Under the “many helping hands” approach to encourage greater community involvement in sustaining and preserving the independence of the VWOs, the government does not fund 100% of operational costs. VWOs would need to turn to public donors, corporates and private foundations to fill up any funding gaps. Compared to government funds, external donations, typically, have a shorter tenor and less restrictions on its use.

MSF and NCSS typically engage in a 3-year funding model to help eliminate the high levels of uncertainty that VWOs may experience if funds are provided on a yearly basis. However, government grants are restricted to the operational costs of approved programs, and key performance indicators (KPIs) are set for each service model. For a VWO that runs multiple programs, the government’s approval is required to use these restricted funds for other programs. The government typically limits funding overhead costs to those that can be directly traced to the approved programs as non-program overhead funding are less easily tracked and assessed.

The approval for program funding takes into account several key considerations such as whether there is a public need for the program’s services, scalability and sustainability of the program and current financial health of the VWO. The amount of funding is computed using either the program costing or norm costing method. In the case where a program covers only a small number of beneficiaries, program costing is adopted to compute a lump sum amount that takes into account operational costs. Where a program covers a larger number of beneficiaries, funding is primarily determined using the norm costing method, with the norm cost being computed on a per capita basis.

In terms of manpower costs, the increases in basic wages in the social service sector from 2012 to 2013 was below the national average (MOM, 2013). This may explain, in part, for the high labour turnover of 0.57 in 2014 (MOM 2015).

Methodology and Sample

The financial statements for a sample of 39 VWOs from FY2010-2011 to FY2012-2013 were analyzed to gain insights on their funding sources. The sample is taken from 72 of such VWOs affiliated with SG Enable, NCSS and/or the Charity Portal that either provide disability services only or a range of other services. In addition, only those with Institution of Public Character (IPC) status, that is, qualifies to receive tax-deductible donations because they but must comply with stringent reporting standards were selected.

Interviews were also conducted with the management team of five medium to large VWOs that provide services for different types of disabilities and representatives from MSF and NCSS to gather their views on developing a sustainable funding model.

Findings

The first part of the section relates to the composition of income sources to the VWOs' size. The two main income sources of the VWOs are government funding and external donations. The second part of the section relates to salaries which constitute a significant part of the total operating expenditure (TOE). For purpose of size comparison, the VWOs were segmented into small (<S$1m) - 7, medium ($1m to S$10m) - 18 and large sized categories (>S$10m) - 14, based on their TOE. The service type consist of cross-sector services – 15 and disability services only – 24. The last part relates to salient points highlighted by the VWOs and funders during the interviews.

Total government funding for the sector has been steadily increasing across all three financial years, that is, FY2010-2011 – S$143m, FY2011-2012 – S$174m and FY2012-2013 – S$231m, with growth at 21.2% and 33.0% in the last two years. It accounts for more than half of the total income in the sector i.e. FY2010-2011 – 53.8%, FY2011-2012 – 56.1% and FY2012-2013 – 59.5%, increasing from 53.8% to 59.5% over the three financial years. Large VWOs have the highest proportion of government funding, ranging from 56% to 63% of total income, in contrast to 21% to 28% for the small VWOs. Please refer to Table 1 - Government funding as a percentage of total operating income by size.

Table 1 - Government funding as a percentage of total operating income by size.

	FY2010-2011	FY2011-2012	FY2012-2013
>S$10m	56%	56%	65%
S$1m to S$10m	42%	38%	43%
<S$ 1m	21%	24%	28%

The total external donations for the sector have been increasing across all three financial year i.e. FY2010-2011 – S$52m, FY2011-2012 – S$57m and FY2012-2013 – S$65m. However, the annual growth is between 11.0% and 13.8% in the last two years, much lower than the growth in government funding (21.2% and 33.0%). Small VWOs have the highest proportion of donations of their total income, ranging from 64% to 69% over the three financial years. Please refer to Table 2 - External donations as a percentage of total operating income for VWOs by size. Conversely, large VWOs are significantly less reliant on donations – constituting only 18% to 22% of total income over the same period.

Table 2 - External donations as a percentage of total operating income for VWOs by size

	FY2010-2011	FY2011-2012	FY2012-2013
>S$10m	22%	18%	18%
S$1m to S$10m	36%	39%	37%
<S$ 1m	69%	70%	64%

Total operating expenditure has been steadily increasing over the three financial years i.e. FY2010-2011 - S$240m, FY2011-2012 –S$283m and FY2012-2013 – S$347m. Specifically, the annual growth of TOE has increased from 18.0% to 22.5% in the last two years, indicating a rapid expansion of the sector. On average, more than 50% of total annual expenditure is on salary, across the three financial years, highlighting the significance of manpower costs as a component of fund allocation. Please refer to Table 3 - Salary expenditure as a percentage of TOE for VWOs by size. However, small VWOs consistently have the lowest percentage component of manpower costs.

Table 3 - Salary expenditure as a percentage of TOE for VWOs by size

	FY2010-2011	FY2011-2012	FY2012-2013
>S$10m	58%	55%	61%
S$1m to S$10m	58%	57%	58%
<S$ 1m	52%	44%	50%

Interviews with VWOs suggest that the norm cost model is based on a ‘one size fits all’ approach that does not take into account the differential needs of beneficiaries. The lack of differentiation in funding model has led to an underfunding of the VWOs catering to disability groups that require intensive manpower resourcing and operational needs. As pointed out by VWOs, another manpower resourcing issue relates to the failure to account for experience of staff when computing norm cost, although government guidelines provide for salary costs to be estimated based on an industry salary scale, and to take into account job scope and experience.

VWOs also reveal that the restrictions imposed on government grants is an issue. The two funders acknowledge the benefits associated with lower levels of restrictions and have provided VWOs with an additional source of unrestricted funds through one-for-one matching grants such as the Care-and-Share and the Community Silver Trust Program.

VWOs interviewed indicated that it is very time-consuming task to prepare multiple reports for a large base of funders on a frequent basis, taking away resources that could have been utilised for providing core social services. Additionally, there is often great difficulty in ensuring that both parties agree to these KPIs as they could be onerous to measure. One VWO points out that the grant restrictions may also reduce the innovativeness of VWOs in implementing new initiatives that may better serve their beneficiaries.

Both MSF and NCSS have a common centralized IT platform for their associated VWOs to upload data and report their respective program KPIs, and provide training for their staffs who are involved in generating these reports. However, many VWOs seem to prefer to rely on their own in-house system.

Discussion

Government grants and donations are two of the largest sources of income for VWOs. There are many funding challenges associated with raising such incomes faced by the smaller VWOs. The findings reveal that smaller VWOs are more reliance on external donations and hence are exposed to higher funding uncertainty and vulnerability, given that external donations are short-term and unpredictable in nature. Small VWOs have the highest proportion of donations of their total income. Given that smaller VWOs tend to receive lesser governmental funding. This would indicate their need to tap on alternative sources to sustain their programs.

A possible explanation that large VWOs have the highest proportion of government funding is that the scale of services provided by larger VWOs gives them an advantage in securing government funding, being better equipped to meet the stipulated outcomes of the grants. Furthermore, the government may also be more supportive of core services provided by some VWOs that meet the larger social needs, and provide higher amounts of funding for them, hence resulting in them to be perceived as 'large' VWOs. It may also be possible that the smaller VWOs do not have the fundraising expertise to tap onto government grants.

The high proportion of manpower costs in the findings reflects the labour intensive nature of the disability sector, in which beneficiaries require a high degree of personalized attention. Given the importance of manpower, the support of funders will play a key role in ensuring that pay is competitive with the private sector to attract the best talents in building capacity and sustainability. The observation that small VWOs consistently have the lowest percentage component of manpower costs could be indicative of their inability to pay competitive wages, and this may have implication on their service delivery. As such, VWOs may find it a challenge to raise the wages of their experienced staff and may end up losing their senior staff.

In relation to the funding model, to enable VWOs to survive in the long run, funders could consider ensuring that grants reflect the full cost of service and program delivery, including the legitimate portion of overhead costs. Also, the further reduction of funding restrictions to provide greater flexibility to VWOs. Funders should also attempt to look beyond numerical results and examine the end impact to the beneficiaries. Each individual program has KPIs that, depending on the nature of the program, either standard or pilot, are reviewed once a year or once every three years. There should be greater flexibility in adjusting the program indicators to ensure the practicality in achieving them and avoid withdrawing funding as much as possible. KPI setting should be viewed as a learning and collaborative exercise.

The government-linked funders could also devote more resources and dedicated teams to provide technical assistance and support to help VWOs redefine their service models to cater to the changing needs of the community, share learning points and regularly update and educate the members about the different funding schemes available, and operate their own training institutes for customized training. Doing so would help VWOs to build the capacity over time leading to increased probability of obtaining more funding. Conversely, the overall effect of lower funding for the smaller VWOs is it lowers their capacity building capability which, ultimately limits their ability to serve the needs of the disability sector.

Limitations of the Study and Future Research

There are some limitations associated with this exploratory study. The interviews were conducted with medium- and large-sized VWOs and, thus, may not necessarily reflect the perspective of some of the smaller VWOs. Also, from a funders' perspective, the findings may not provide the full picture as the responses were gathered only from government-linked funders and excludes private foundations. Future research could focus on smaller VWOs to better understand their funding concerns and challenges and include private foundations in order to add to the knowledge of funding motivations. The scope could also be extended to cover other sectors such as elderly and children services to gain insights of the funding issues.

Conclusion

The study finds that the VWOs are heavily funded by the government through grants. Specifically, large-sized VWOs receive the highest proportion of government support, as compared to medium-sized and small-sized VWOs, with the latter being more dependent on corporate and public donations. Government grants are preferred for their longer tenor, although the conditions attached to such restricted grants may also reduce the amount of autonomy and flexibility of the grant recipients. While the government seems to be providing a high level of financial support, it employs a standardized funding model to compute grant amounts that do not differentiate the varying disability types. As a consequence, some VWOs could be underfunded, and may have difficulties sustaining their programs.

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