

Challenges of Nonprofit Organizations and Start-ups in Developing Countries: A Literature Review

Eyesiere Aniefon Essien

Organizational Communication Department of Communication Wake Forest University

DOI: <https://dx.doi.org/10.47772/IJRISS.2025.90500094>

Received: 28 April 2025; Accepted: 08 May 2025; Published: 31 May 2025

ABSTRACT

New Non-profit Organizations (NPOs) are being registered almost every day, and they are established by passionate individuals committed to providing critical services in support of developing countries' national development agendas and the global Sustainable Development Goals (Schuller, 2021). This literature review highlights the concept of the keywords, which are “nonprofit organization”, “startup”, and “challenge.”

This paper will explore the multifaceted challenges confronting non-profit organizations and startups within developing countries. The study hopes to provide valuable insight for researchers, practitioners, and legislators in the fields of organizational communication, startups, and nonprofit organizations, ultimately contributing to the body of knowledge. This study addresses key areas such as resource limitations, funding, regulatory compliance, and socio-cultural impacts. By synthesizing recent scholarly articles, this review aims to outline the complexities these entities face and suggest potential strategies for overcoming these obstacles to foster sustainable development.

INTRODUCTION

According to Carman and Nesbit (2012), founders create non-profit organizations to address needs in the society that are unserved or underserved by the government. Non-profit Organizations (NPOs) fill a crucial vacuum left by the State. The founding of the organization is therefore based on a moral obligation and consequently, a growing number of developing citizens are relying on NPOs for critical social services which would otherwise be the responsibility of the state - effectively making these NPOs what Nkonyeni and Radebe (2020) refer to as “extension agents for basic services,” Anderson (2018), however rightfully cautions that the motive for starting a NPO is not always based on altruism or some moral obligation as self-employment could well be one of the main drivers. In other words, self-interest rather than the public interest could well be an important consideration (Schuller, 2021). Nonprofit organizations and startups play a critical role in the socio-economic landscape of developing countries. They drive innovation, facilitate social change, and contribute significantly to economic development. However, these entities face challenges that can hinder their growth and effectiveness. This literature review delves into these challenges, such as resource limitations, funding constraints and obstacles, regulatory and political barriers, social demands, and then provides development implications. The study draws insights from current research to offer an overview of the obstacles and the mechanisms through which funding impacts organizational performance and development.

clarification of concepts

For this study, various concepts need to be clarified. These concepts must be kept in mind in reading this study.

Non-Profit Organization

The Non-profit Organizations Act (No. 71 of 1997) defines a non-profit as a trust, company, or other association of people (a) established for a public purpose; (b) the income and property of which are not distributable to its members or office-bearers except as reasonable compensation for services rendered.

Start-up

Fontinelle (2019) describes a start-up company as “an entrepreneurial venture in search of enough financial backing to get off the ground,” as well as “a young company founded by one or more entrepreneurs in order to develop a unique product or service and bring it to market.” Further, Fontinelle writes that start-ups are “risky,” with “no history” and “a high failure rate.” Cailley adds that a start-up is “a young NPO in its initial phases of growth and development, that is yet to achieve operational sustainability” (2019).

Challenge

Swannell (1993) defines “challenge” as “a demand or difficult task.” In this research study, “challenges” will refer to the difficulties that start-up NPOs face in operational survival.

THEORETICAL FRAMEWORK

This section interrogates the theoretical frameworks that form the academic context of the study, which are: The Social Inclusion Theory and The Capability Approach.

The Social Inclusion Theory

Social inclusion is a multidimensional concept based on the principle that every person has the unconditional right to belong, regardless of their status (Mansouri and Lobo, 2011). On the other hand, social exclusion divides “insiders” from “outsiders.” This definition limits access for those who do not “fit” into the shared identity and culture of the group (Crow, 2004). In such a way, resources and opportunities are monopolized by the insiders, and the outsiders are deprived of access (Crow, 2004). This practice is a form of marginalization and social isolation. Inequality can be examined and understood in its different forms and contexts – in terms of social exclusion (Taket et al., 2009). Social exclusion can be (and has been) used as a tool of oppression, to prevent people from participation in the mainstream activities of society and lowering their standards of living (Taket et al., 2009). In countries such as South Africa, in the apartheid system, the white minority socially excluded the disenfranchised black majority (Reiss, 2016). In being excluded, the disadvantaged black majority were unable to benefit from social capital and social networks that white people had access to. This exclusion had implications for their standards of living and access to resources, as well as their identity and citizenship (Reiss, 2016). Despite the abolition of apartheid and the introduction of non-discriminatory and inclusive legislation, racial inequality persists today (Reiss, 2016). The effects of the social exclusion practices of apartheid still underlie South African society and need to be completely uprooted for comprehensive social inclusion to be possible. In reaction to the Social Inclusion Theory, NPOs that adopt this perspective have the potential to build the social capital of individuals to enhance access to social networks for “outsiders” (Crow, 2004). These networks can be a source of social support, enhanced well-being, and social inclusion (Cohen & Syme, 1985; Morrow, 2004). Such expanded and inclusive development is required in the context of developing countries such as in South Africa.

The Capability Approach

Sen’s (2001) capability approach is a comprehensive, normative framework that aims to enhance the wellbeing of people through the expansion of their capabilities. The term “capability” as defined by Sen (2001), refers to what people can do and be. In other words, it is people’s opportunities to live the lives they want to lead (Robeyns, 2005).

The capability approach calls for the removal of major sources of “unfreedom,” including poverty, tyranny, poor economic opportunities, systematic social deprivation, neglect of public facilities, and intolerance or over-activity of oppressive states (Sen, 2001). Development, therefore, ought to work to remove any substantial “unfreedoms” that negatively influence the social, political, and economic lives of people. Conversely, “freedom” refers to structural arrangements that allow for opportunity (Reiss, 2016). Sen (2001) identifies five distinct types of freedom, namely: (1) political freedoms; (2) economic facilities; (3) social opportunities; (4) transparency guarantees; and (5) protective security. In this way, any movement toward development ought to

integrate a range of social, political, and economic freedoms. This approach aims to expand the well-being of people, integrate knowledge, and provide a more enriched and unconstrained life. This framework holds relevance in developing countries, especially in South Africa and in Nigeria, because of the current movement to eradicate poverty and apartheid ideology and the “unfreedoms” it dictated. Thus, according to this approach, any social development effort ought to conceptualize wellbeing and development in terms of promoting people’s capability to function and aim to enhance the lives and freedoms of individuals. Moreover, development ought to allow individuals to grow into more fully social persons and cultivate greater agency to influence the world around them (Sen, 2001; McIntyre, 2021).

Organizational Structure

According to Ahmady et al., (2016), organizational structure is a way or method by which organizational activities are divided, organized, and coordinated. The organizations created the structures to coordinate the activities of work factors and control the workers' performance. Organizational structure is shown in an organizational chart or an organogram. Several studies have focused on the examination of successful entrepreneurs and firms, but very few recent studies have focused on challenges facing start-ups and nonprofits and reasons for start-up business failures (Thompson, 2001). It has been discovered that new businesses fold up a few years after inception, and many start-up businesses by young entrepreneurs are closed every year. This indicates or shows that these businesses were not able to maintain the alignment with their environment. In Finland in 2002, half (50.2%) of the businesses established by young entrepreneurs that closed had survived less than five (5) years (Statistics Finland, 2004).

Resource Limitations and Funding Challenges

It has been argued that the most important and most challenging business goal for young start-up owners is long-term survival (Simon, 1996). Similarly, a fundamental challenge for nonprofits and start-ups in developing regions is the scarcity of resources. Funding and sustainability of Non-profit Organizations (NPOs) programs/activities are some of the challenges confronting NPOs in developing countries like in Nigeria (Markson, 2021). NPOs generally depend on funding from philanthropists, parent organizations, endowments, grants, subsidies, donations, and fees, among others (Ngeh, 2013; Ogunyemi, 2012; Omofonmwan and Odia, 2011; Davis, Jegede, Leurs, Sunmola and Ukiwo, 2011). The NPOs often work with voluntary staff to manage their operations which poses the challenge of staff turnover, especially in developing economies where there is no unemployment benefit and pensioners are poor (Adeyeye, 2013). According to a study by Bruton, Ahlstrom, and Li (2010), start-ups often struggle with accessing financial resources, skilled labor, and essential infrastructure, which are critical for their growth and sustainability. These start-ups face challenges in attracting investment due to the perceived high risks and low returns, particularly in markets that are not well understood by foreign investors (Acs & Amorós, 2008). Nonprofits face similar hurdles, with fluctuating funding streams and limited access to capital markets impacting their operational capabilities (Salamon, 1999).

Nonprofit organization leaders face increased performance and sustainability challenges due to reduced funding. Approximately 72% of nonprofit revenues required for the sustainability of nonprofit organizations come from program services, which are threatened by ineffective improvement strategies and reduced program funding (Mohammed, 2021). Most nonprofit leaders report that raising money continues to be their greatest challenge, especially when factoring the increasing needs in communities (Chandler, 2015). The financial viability of nonprofits and startups is frequently jeopardized by an unstable funding environment. Weisbrod (1998) notes that non-profit organizations often rely on external funding sources, such as grants and donations, which can be highly variable and unreliable. Kreusch (2015: 3) notes that: “The current poor wellbeing of NPOs is largely attributed to a lack of funding... The struggle to raise adequate funds has not only negatively impacted the scope of service delivery but has also contributed to the closure of NPOs throughout the country” (Schuller, 2021). There is a myriad of reasons for the possible closure of NPOs – like business enterprises, NPOs are also, if not more, vulnerable to VUCA (Volatile, Uncertain, Complex, Ambiguous) environments. Thus, we know that economic meltdowns for example have an impact on corporate social investment (CSI) contributions and individual giving. As experienced by the economic recession in 2008, political instability can significantly impact the sustainability of NPOs. Similarly, all indications are that the COVID-19 pandemic has and will continue to negatively impact the financial sustainability of NPOs.

Stakeholders Regulatory and Political Barriers

NPOs also play a role in the policy context by engaging in advocacy and drawing attention to inequalities and social problems (Kendall and Knapp, 1993). In South Africa, De Wet indicates that in addition to service provision, NPOs act as watchdogs over government and public sector administrators (2010). They also promote good governance (Mafunisa, 2004). Thus, Mafunisa (2004) argues that the effectiveness of governmental institutions in addressing development problems such as poverty, crime, disease, and high rates of illiteracy will only be possible if NPOs are allowed to participate in the policy-making process (Nwuache et al, 2022). NPOs find it hard to maintain their autonomy and control over their objectives and programs, while at the same time balancing pressure from their donors, government, and other partners (Dees, 1998). Oster (1998) further posits that NPOs are tied to donors, and each donor will likely come up with terms and conditions, which influence their activities, such as the allocation of funds. Therefore, donors strategically exercise enormous influence on the policies and practices of NPOs. As a result of this over-dependence on these donors, they dictate how the money can be spent, and place specific conditions and limitations. This constraint has made it tremendously difficult for NPOs and small businesses to control or take full charge of projects. The current donor enthusiasm for project-based funding puts the focus on the activities of NPOs rather than on sustaining the organizations themselves (Mukanga, 2011). The small business enterprise is a sector of the economy that needs the attention of the Government due to the role it plays in job creation and economic growth in the nation's economy. Schuller (2021) notes that in many developed countries, such as the United States, the Government assists small businesses with favorable policies, plans, and programs and also gives interest to the big businesses. The regulatory frameworks in many developing countries can be daunting for both non-profits and start-ups. As Mair and Marti (2006) discuss, bureaucratic red tape, corruption, and political instability can severely disrupt the operations of these organizations. The lack of clear legal protections and supportive policies further exacerbates these challenges, often stalling innovation and growth.

Socio-Cultural Challenges

NPOs play a vital role in advancing community development and protecting citizens from dehumanizing cultural experience and circumstances (DSD, Strategic Plan, 2015). NPOs bring solutions to urgent social problems by committing to bringing about innovation for the betterment of the society including the improvement of the quality of life for communities. Even though NPOs are recognized for the benefits and value that they create in the economy and societies they operate in as noted above, there are challenges that are associated with them (Matthews, 2017; Anbazhagan & Surekha, 2017) such as socio-cultural norms and practices to oppose the operation and success of non-profits and start-ups. As Hofstede (2001) elucidates, cultural dimensions such as power distance and uncertainty avoidance influence organizational behavior and management practices. In contexts where traditional norms prevail, issues such as gender inequality can also impede the effectiveness of programs aimed at empowering underrepresented groups (Kabeer, 2001).

Development Implications

The challenges faced by non-profits and startups not only affect their individual operations but also have broader implications for economic and social development in the regions where they operate. As noted by Desa (2012), the successful navigation of these challenges is crucial for driving sustainable development. Innovative approaches to funding, adaptive management structures, and robust engagement with local communities are essential for overcoming these barriers.

CONCLUSION

This review has highlighted the complex array of challenges that non-profit organizations and start-ups face in developing countries like South Africa and Nigeria. Addressing these challenges requires a multi-faceted approach that includes enhancing financial access, streamlining regulatory frameworks, and fostering a supportive socio-cultural environment. Continued research and dialogue on these topics are essential for developing effective strategies that support the growth and sustainability of these vital entities.

REFERENCES

1. Ahmady, G., Mehrpour, M., & Nikooravesh, A. (2016). Organizational Structure. *Procedia - Social and Behavioral Sciences*, 230. <https://doi.org/10.1016/j.sbspro.2016.09.057>
2. Andersson, F. O. (2018). The Bumpy Road of Nonprofit Creation: An Examination of Start-Up Problems Encountered by Nonprofit Entrepreneurs. *Nonprofit and Voluntary Sector Quarterly*. <https://doi.org/10.1177/0899764018785464>
3. Acs, Z. J., & Amorós, J. E. (2008). Entrepreneurship and Competitiveness Dynamics in Latin America. *Small Business Economics*. DOI: 10.1007/s11187-007-9054-1
4. Bruton, G. D., Ahlstrom, D., & Li, H. L. (2010). Institutional theory and entrepreneurship: where are we now and where do we need to move in the future? *Entrepreneurship Theory and Practice*. DOI: 10.1111/j.1540-6520.2010.00390.
5. Carman, J. and Nesbit, R. 2012. Founding New Nonprofit Organizations: Syndrome or Symptom? *Nonprofit and Voluntary Sector Quarterly*. 42 (3)
6. Cohen, S., and Syme, S. 1985. *Social Support and Health*. Florida: Academic Press.
7. Companies Act (No. 71 of 2008). 2008. Government Gazette. South Africa: Cape Town printers.
8. Crow, G. 2004. *Social Networks and Social Exclusion: An Overview of the Debate*, in C.
9. Phillipson, G. Allan, and D. Morgan (eds.). *Social Networks and Social Exclusion: Sociological and Policy Perspectives*. UK: Ashgate. 7-19.
10. Ejegigbe Sheyi, M. (2021). Exploratory study of interventions and challenges faced by indigenous NGOs supporting start-up businesses (established by young entrepreneurs) in Nigeria's Niger-Delta region. - Research Repository. <https://repository.uwtsd.ac.uk/id/eprint/1620/>
11. Hofstede, G. (2001). *Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations Across Nations*. Thousand Oaks, CA: Sage.
- Fontinelle, A. 2019. Startup [Online]. Available: <https://www.investopedia.com/ask/answers/12/what-is-a-startup.asp> (February 25, 2020).
12. Mair, J., & Marti, I. (2006). Social entrepreneurship research: A source of explanation, prediction, and delight. *Journal of World Business*. DOI: 10.1016/j.jwb.2005.10.002
13. Mansouri, F., and Lobo, M. 2011. *Migration, Citizenship, and Intercultural Relations: Looking through the Lens of Social Inclusion: Studies in Migration and Diaspora*. England: Ashgate.
14. McIntyre, C. 2021. Challenges faced by start-up Non-Profit Organizations in South Africa. A Minor Thesis submitted in partial fulfilment of the requirements for the award of the degree of Master of Social Sciences in Social Policy and Management. Department of Social Development. University of Cape Town.
15. Mohammed, K. N. (n.d.). Continuous Improvement Strategies for Nonprofit Organizations. (2017). Walden Dissertations and Doctoral Studies. 4655. <https://scholarworks.waldenu.edu/dissertations/4655>
16. Nwauche, S., & Flanigan, S. T. (2022). Challenges to Nonprofit Organization Participation in Social and Development Policy Planning in South Africa. *Nonprofit Policy Forum*, 13(2),
17. Nkonyeni, N., and Radebe, K. 2020. NGOs today: Competing for resources, power and agency. Article published in the Mail & Guardian online. Available: <https://mg.co.za/analysis/2020-03-05-ngos-today-competing-for-resources-power-and-agency> [28 October 2021]. 119–139. <https://doi.org/10.1515/npf-2021-0049>
18. Ratlabayana, L., Mkohonza, L and Magongo, B. 2016. South African government funding to non-profit organisations: what is the investment value? A research conducted by the National Development Agency – Jessica Fortuin Research Fellowship Programme.
19. Reiss, C. 2016. *Challenges Faced by NPOs Providing Services to Refugees and Asylum Seekers in the Cape Town Metropolitan Area*. South Africa: University of Cape Town
20. Republic of South Africa. 1997. Non-profit Organisations Act. (Act 71 of 1997). Government Gazette, 390 (1627).
21. Swilling, M., and Russell, B. 2002. *The Size and Scope of the Non-profit Sector in South Africa*.
22. Graduate School of Public and Development Management, University of the Witwatersrand and the Centre for Civil Society, University of Natal.
23. Salamon, L. M. (1999). The Nonprofit Sector at a Crossroads: The Case of America. *Voluntas: International Journal of Voluntary and Nonprofit Organizations*. DOI: 10.1023/A:1021658009737

-
24. Schuller, R. (2023). An exploratory study into the experiences and challenges of founders of non-profit organization in the Western Cape with specific reference to fundraising. Faculty of Humanities, Department of Social Development. Retrieved from <http://hdl.handle.net/11427/38140>
 25. Swannell, J. 1993. Oxford modern English dictionary. Oxford: Clarendon Press.
 26. Weisbrod, B. A. (1998). The Nonprofit Mission and its Financing: Growing Links Between Nonprofits and the Rest of the Economy. *Journal of Policy Analysis and Management*. DOI: 10.1002/(SICI)1520-6688(199921)18:2<175: AID-PAM4>3.0.CO;2-3
 27. Wijnberg, C., and Ressel, A. 2021. Should NGOs embrace a more business-like approach? NGO Pulse. Available: <http://www.ngopulse.org> [1 November 2021]