FACTORS AFFECTING FINANCIAL SUSTAINABILITY FOR NON-GOVERNMENTAL ORGANISATIONS IN NAIROBI, KENYA

BY

EZEKIEL MILELU

UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

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A Research Project Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Masters in Business Administration (MBA)

UNITED STATES INTERNATIONAL UNIVERSITY – AFRICA

SPRING 2018
STUDENT’S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed: ___________________________          Date: ___________________________

Ezekiel Kioko Milelu (ID No: 649903)

This project has been presented for examination with my approval as the appointed supervisor.

Signed: ___________________________          Date: ___________________________

Dr. Sammy Lio

Signed: ___________________________          Date: ___________________________

Dean, Chandaria School of Business
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ABSTRACT

This study sought to explore the factors affecting financial sustainability for NGOs located in Nairobi, Kenya and used the below specific objectives to guide the research: to determine the effect of income diversification on NGOs’ financial sustainability in Nairobi, Kenya; to establish the effect of donor relationship management on NGOs’ financial sustainability in Nairobi, Kenya and to determine the effect of financial management systems on NGOs’ financial sustainability in Nairobi, Kenya.

This study adopted a descriptive research design. The research target population was made up of 80,200 staffs of non-governmental organizations in Nairobi, Kenya. The sample size consisted of 100 respondents. Purposive sampling technique was applied in sample selection. The participants were asked to voluntarily be part of the research. Those who agreed were given a questionnaire by the researcher, and the data collected was analyzed. Analysis was done using descriptive statistics using SPSS software. The analyzed data was presented through percentages, frequencies, mean and standard deviation. There was need to determine if there was an existing relationship between the variables of study. For this, the researcher used correlation and regression analysis and the results were shown in pie charts, graphs and tables.

The study results showed that the respondents did agree that income diversification increased their organizations’ ability to fund their projects based on their own priorities, it allowed their organizations to reject funding from sources that were not fit for their organizations’ agenda and values, it enabled their organizations to meet their overhead costs and any other expenses not catered for by the donors funding and it helped reduce the risk of their organizations closing down in case of withdrawal of donors. The respondents also concurred that foreign donations as sources of funding were on the decline in their organization. The study results also showed that there was a significant positive relationship between income diversification and financial sustainability of NGOs in Nairobi Kenya.

The study results showed that the respondents did agree that their organizations had made efforts in establishing constructive networks and alliances with various donor
organizations, accountability in the use of donor funds had helped improve their organization’s donor relations, their organizations maintained regular meaningful communications with its donors, their organizations had to follow the guidelines as well as scope of donor activities or risk getting no funding and that the stronger the relationship the organizations had with their donors the more financially sustainable they were. The study results also revealed that there was a significant positive relationship between donor relationship management and financial sustainability of NGOs in Nairobi Kenya.

In addition, the study also found that the respondents were in agreement that operations of their organizations were done according to budgetary allocations, their organizations’ projects were regularly audited by a qualified external auditor, their organizations had financial reporting structures which facilitated accountability, there existed proper financial policies that guided how their organizations managed their funds and that their organizations had a competent Board that provided oversight for all their financial dealings. The study results further showed that there was a significant positive relationship between financial management systems and financial sustainability of NGOs located in Nairobi Kenya.

The study concluded that income diversification played a significant role in the financial sustainability of non-governmental organizations in Nairobi Kenya as it increased their ability to fund their projects based on their own priorities. The study also concluded that donor relationship management played a significant role in the financial sustainability of non-governmental organizations in Nairobi Kenya as evidenced by the assertions that the NGOs had made efforts in establishing constructive networks and alliances with various donor organizations and that the organizations maintained regular meaningful communications with their donors. The study further concluded that financial management systems played a critical role in the financial sustainability of NGOs located in Nairobi Kenya as evidenced by the assertion that the organizations had proper financial policies that guided how they managed their funds.

One of the recommendations of the research was that the non-governmental organizations should identify and implement various income generating activities with a view of
achieving self-sustenance especially in light of declining donor support. The study recommends that the non-governmental organizations should develop an operating framework that allows frequent meaningful collaborations with the donors in the execution of their activities. Further, the non-governmental organizations should institute adequate internal controls that foster full accountability in the expenditure of funds provided by the donors. The study also recommends that the non-governmental organizations should strengthen their financial reporting structures to ensure effective management of their financial resources.
ACKNOWLEDGEMENT

It is with great pleasure that I acknowledge the people who have made the realization of this research possible. I thank God that he has allowed me to come this far. I cannot forget to pass my gratitude to my immediate supervisor Dr. Sammy Lio for the advice and guidance he has given me. Special thanks to my wife and daughter for the support and understanding they have portrayed. Finally, my appreciation goes to my employer Kenya Diabetes Management and Information Centre for giving me the time to further my studies.
DEDICATION

To my wife and kids for their unconditional love and much-needed support during the entire time I undertook my studies.
### ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>DRM</td>
<td>Donor Relationship Management</td>
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<td>FMS</td>
<td>Financial Management Systems</td>
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<tr>
<td>ID</td>
<td>Income Diversification</td>
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<td>NGOs</td>
<td>Non-Governmental Organizations</td>
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<tr>
<td>SPSS</td>
<td>Statistical Package for Social Services</td>
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<td>UNEP</td>
<td>United Nations Environmental Programme</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Non-Governmental Organizations (NGOs) play a huge part in the social advancement process in the different countries of the world (Lewis & Kanji, 2013). They are most instrumental especially where countries do not have enough money, where the prevailing political circumstances are hostile, avoidable or unavoidable environmental changes have resulted in natural disasters, presence of rampant ethnic strife, where the economic ability of the populace is so low that they are unable to procure basic goods and services be they social, economic and educational (Banks & Hulme, 2012). World over it is increasingly being accepted, and particularly in a majority third world countries, that the state alone cannot eradicate poverty and ensure sustainable human development (Hassan, 2015).

Accordingly, NGOs have actively engaged in complementary roles in helping the people actualize their potentials and use it for developing their countries (Kabdiyeva, 2013). In the last two to three decades, the NGOs have received significant support and have received a growing interest this they have increased in number in a majority of the developing countries. This is attributable to the fact that NGOs are more flexible, adapt quickly and respond swiftly when called upon to attend to needs of the peoples unlike governments (Mitlin, Hickey & Bebbington, 2014). Further, NGOs can bring to people high quality social services and programmes especially the poor communities in way affordable to them thereby realizing sustainable development. This therefore cements the invaluable and unique role that NGOs play in the development of countries and more so the developing ones (Roseland, 2012).

The work of NGOs in protecting the environment, advocating for the poor and marginalized, helping the sick and needy (Banks & Hulme, 2012), promoting education, assisting farmers, providing relief where disaster has hit, preserving arts and culture among other interventions underpins their significant contribution to the wellbeing of societies, world over (Islam & Morgan, 2012). Nevertheless, this growing mandate of the NGO sector has also seen increased expectations of transparency and accountability and a
requirement for self-financial sustainability - an area most of the NGOs have fallen short (Harding, 2014).

When considering the financial management processes of non-governmental organizations, resource scarcity is a recurrent theme (Fowler, 2013). More often than not, and particularly in recent times, most of these organizations find themselves with an ever increasing agenda of programmes and activities requiring consistent and adequate funding but have to contend with the fact that they have limited opportunities for generating additional income (Hendricks, 2012). If due consideration is not given to the question of sustained funding of an NGO’s activities and operations, then the NGO runs the risk of failing in its mandate and worse still could face closure as a result of unsustainability of its operations (Kristin, 2016). This underpins the centrality of financial sustainability in NGOs’ long-term existence and operation. For the non-governmental organizations, financial sustainability entails availability of resources that give them the ability to seize opportunities and react to unexpected challenges while maintaining their general operation for the foreseeable future (Bell, Masaoka & Zimmerman, 2010).

In view of recent happenings, including ‘donor fatigue’ in the rich nations, increasing governments’ scrutiny and regulation on the activities of NGOs and the recent economic recession, financial sustainability has become a buzzword in the NGO sector (Islam, 2016). In a survey conducted by Bond - an International Development Network, among 1,400 NGOs in 2015, 85 percent of the NGOs reported feeling the effects of the economic recession, with 58 percent already experiencing cuts in funding. Further the survey showed that 66 percent of the NGOs reported cuts in government funding while 48 percent of the NGOs that relied on donations from foundations, reported cuts in foundation funding (Kristin, 2016). This clearly illustrates that most of the non-governmental organizations across the world are struggling financially (Bowman, 2011). In light of the aforementioned realities, embarking on financial sustainability efforts has become a necessity if the NGOs are to avoid cutting back the delivery of community-based services (Dardane, 2010).

Financial sustainability is a key consideration for survival and effectiveness of NGOs (Conradie, 2012). In the context of NGOs, financial sustainability is the ability of NGOs
to continue and securely so, in that the NGOs and their core work continues to function effectively even in situations where there is no external funding (Bowman, 2011). Financial sustainability thus is the capacity of a firm to come up with ways of growing and developing which functions indefinitely. Financially sustainable NGOs are those that are able to continue to fulfill their missions over time while meeting the needs of their stakeholders, particularly those who benefit from and those who support them (Elliott, 2012).

According to Pathfinder International, many analysts have identified three major elements as having a major bearing on the financial sustainability of modern day non governmental organizations. These include income diversification - entailing the need for an NGO to create multiple sources of income in order to adequately finance its activities in view of its set objectives; donor relationship management - which entails undertaking deliberate efforts to constructively engage the donors in the activities of the NGO and financial management systems – which entails having in place accounting systems that aid in the effective planning, controlling and administering of the NGO’s funds (Mitlin et al., 2014).

In addition, Roseland (2012) observed that financial sustainability of NGOs depends on the following beliefs among its stakeholders: that the organization is providing beneficial, desired, and high quality services; that financial stability and growth are feasible; that leadership and management are excellent and motivated; and that sustainability initiatives are in harmony with stakeholders’ beliefs.

The financial management processes of NGOs are always faced with resource scarcity that is they are not always able to generate more income while they always want to scale up their programmes and activities which require more funds (Harding, 2014). Over the years NGOs have depended on the goodwill and generosity of donors to foot all their expenses via grants and donations (Gyamfi, 2010). Currently, however, majority of the NGOs find these traditional sources of funding are becoming increasingly not enough to foot their ever increasing need for funding to meet their operational costs, making their financial sustainability concerns become even more important (Sontag-Padilla, Staplefoote & Gonzalez-Morganti, 2012).
Without alternative sources of income to plunge the gaps of ever declining donor funding, the NGOs are usually required to either scale down the magnitude or quality of their work, or cease operations, altogether (Omeri, 2014). In most instances, donor funding comes with stringent restrictions among them - tested systems of managing finances, good leadership with integrity, well-educated and experienced staff with, clear strategic plans of the organization. If an organization is deficient in any of these ingredients, it may find it difficult to attract funding from donors (Fowler, 2013). Further, there are some donors who need to assess the ability (systems and structures) of the NGO to utilize funds before they disburse funds. They also assess if the potential recipient has the requisite knowhow and experience to meet the deliverables. Unfortunately, conventional wisdom, particularly in the developing countries, indicates that most NGOs do not meet these basic thresh holds which further impairs their ability to access existing limited donor funding (Gyamfi, 2010).

In Kenya, NGOs are faced with many problems including poor leadership, lack of strategic planning activities, poor financial management practices, ineffective organizational policies and procedures, high rate of senior staff changing jobs and continued over-reliance on diminishing donor funding (Rono, 2012). Further, majority of the NGOs’ loyalty and accountability is usually directed towards their external donors instead of the beneficiaries of the project at the local level which further reduces their credibility (Islam & Morgan, 2012). Until recently, Kenyan NGOs did not consider donors and supporters locally as a possible source of funding to support their activities. The NGO sector has thus now found itself at crossroads: How to source for funding locally from a society that does not agree with the activities they engage in, poor credibility and accountability (Khisa, 2014).

According to Kameri-Mbote (2012) a major challenge facing NGOs in Kenya today is how to sustain and support their activities financially. Therefore the NGOs must come up with different new strategies to stay ahead of the game in the long run. This has been necessitated by: there is reduced donor funding, the region is continually receiving reduced allocations, the focus of the donor has shifted to new markets and there is generally reduced funding for the social programs (Conradie, 2012). To remain
financially sustainable, NGOs need to invest in building strong relationships of working with key stakeholders especially their donors, supporters, volunteers, staff and the community benefitting from the NGO; diversify their income sources; restructure their governance structures; enhance their financial management practices; enhance their internal capacity to foresee and cut down risks resulting from funding; engage in human capital training and development; build ample cash supply and bring down all organizational costs and overheads (Pratt & Hailey, 2012).

In Kenya, NGOs were introduced as self-help groups during the 1960’s when the first Kenyan president Mzee Jomo Kenyatta encouraged grass root development by the means of communal efforts in line with his philosophy of Harambee. The philosophy was based on the understanding that for the country to develop it required contributions from the members of the Kenyan society working together rather than individually (Omeri, 2014). Over the last several decades, Kenya has registered a high number of NGOs from foreign nation and others which are Kenyan that give various social-development services in the country. NGOs in Kenya have continually grown from lows of 100 in the 1970s to well over 5,000 in 2008 and currently as of end of 2016, there are 8,200 registered NGOs in the country (NGOs Coordination Board, 2016). These NGOs are active across the various sectors of the economy including agriculture, water, education, environment among others (Rono, 2012).

NGOs in Kenya are regulated by the NGOs Co-ordination Board. This is a State Corporation established by the NGOs Act (Cap 19) of Kenya (Kameri-Mbote, 2012). The Board is mandated to regulate and enable the operations of the NGO sector in Kenya. It is currently under the Ministry of Interior and Coordination of National Government (Omeri, 2014). The NGOs Co-ordination Board registers, facilitates and coordinates all the Kenyan and foreign NGOs with operations in the country (NGOs Coordination Board, 2016).

1.2 Statement of the Problem

The attainment of financial sustainability is a key component of NGOs’ long-term survival and operation. Financial sustainability allows the NGOs to provide their services
on a continuous basis to their constituents even in the face of emerging changes in their funding (Bell et al., 2010). Currently in Kenya, NGOs do not have sufficient, appropriate and continuous funding for their projects and which often delays their work. Many local NGOs do not have the capacity to mobilize resources and are often not looking to raise funds locally, preferring to rely on donor aid. This has led to dependency on donors and they often shift interventions to match donor priorities (Nyanje, 2016). The situation is worsened by tough global economic times buoyed by global recession which have shrunk donor funding, stringent donor funding conditions, weak financial management systems and questionable organization/management governance practices which have further dent the NGOs’ ability to access external funding. This clearly illustrates that majority of the NGOs in the country lack financial sustainability (Rono, 2012).

Locally, a number of studies have been done on NGOs. For instance, Rono (2012) studied the factors that affect the sustainability of development projects of NGOs in Kenya focusing on the NGOs located in Nairobi; Khisa (2012) investigated the factors that affect sustainability of donor funded community development projects in Bungoma County; Kagendo (2013) investigated factors that affect the successful implementation of projects in NGOs within slums in the urban areas in Kenya. The case study for this research was Children of Kibera Foundation. Jhuthi (2015) did a study on the determinants of implementation of non-governmental projects in Kenya focusing on World Vision Osiligi Ipa as a case study which is located in Kajiado County. Nyanje (2016) did a study on the factors that affect the implementation of non-governmental organization projects in Nakuru County. In general, these studies established that project finance systems, stakeholder involvement, staff competence and donor policy affected NGOs’ project sustainability to a very great extent.

Majority of these research studies focused on the outcomes of NGOs’ programs and projects instead of the organizational processes and factors influencing the NGOs’ financial sustainability. Within these studies, there was only little mention of the NGOs’ financial sustainability may be because the NGOs have always been seen as receiving unlimited funds from foreign donors. However, given the changing dynamics in the funding of the NGOs in the country as exhibited by declining donor funding, there was
need to investigate the factors affecting their financial sustainability. This study, as a result, sought to get an answer for the question; what are the factors that affect financial sustainability for non-governmental organizations in Nairobi, Kenya?

1.3 General Objective

This study sought to examine the factors affecting financial sustainability for NGOs located in Nairobi, Kenya.

1.4 Specific Objectives

1.4.1 To determine the effect of income diversification on NGOs’ financial sustainability in Nairobi, Kenya

1.4.2 To establish the effect of donor relationship management on NGOs’ financial sustainability in Nairobi, Kenya

1.4.3 To determine the effect of financial management systems on NGOs’ financial sustainability in Nairobi, Kenya

1.5 Significance of the Study

The people and firms that are likely to benefit from this research include:

1.5.1 Management of the individual NGOs

The management of the individual non-governmental organizations in the country will realize the significance of financial sustainability in their organizations’ long-term existence. Further, they may be able to appreciate the role of different factors impacting on their organization’s financial sustainability. This may in turn inform the kind of organizational strategies they would need to institute to secure their organizations’ financial sustainability.

1.5.2 Policy makers

The research findings may benefit the policy makers (that is, the government) by providing insights regarding financial sustainability of the country’s NGO sector. This
may inform the formulation of effective policies and regulations to govern the funding of
the sector.

1.5.3 Donor community

The donor community can use the research findings on the various factors affecting the
financial sustainability of local NGOs in turn informing their decisions on interventions
required to help the local NGOs become financially sustainable.

1.5.4 General Public

The study results will be important to the public, as people will get to learn on the best
methods that can be used to manage the NGO sector to improve on NGOs value creation.
For those who work as volunteers in the community, the study result will show them the
existing gaps where their input is needed.

1.5.5 Scholars and Academicians

The current study adds to the existing field of knowledge of financial sustainability of the
NGO sector and provides other scholars and academicians with a basis for further
research on the subject.

1.6 Scope of the Study

The scope of the research was limited to the investigation of the factors affecting financial
sustainability for non-governmental organizations in Nairobi Kenya. More so the focus of
the research was on the effects of income diversification, donor relationship management
and financial management systems on the financial sustainability of the non-
governmental organizations. The study was based on primary data collected from the
staffs of sampled NGOs in Nairobi between January and February 2018. The limitations
encountered included instances of incomplete or missing data in the research tool which
were resolved through data cleaning before the final analysis, time constraints due to
work commitments which was resolved through the researcher obtaining a study leave
and the fact that the research instrument was a self-reporting questionnaire and hence the
researcher had no control over whether or not the respondents would respond to it. This
was resolved through assurances to the respondents that the information provided would 
be handled confidentially and would only be used for the purpose of the study only. 
Geographically, the study was based on randomly selected NGOs in Nairobi, Kenya.

1.7 Definition of Key Terms

1.7.1 Non-governmental organisations

Those organizations that govern themselves and are privately run and which endeavor to 
better the life quality of those who are disadvantaged (Fowler, 2013).

1.7.2 Financial sustainability

This is the degree to which an organization creates a growth and development strategy 
that functions indefinitely (Elliott, 2012).

1.7.3 Financially sustainable NGOs

These are NGOs that have strategic and effective response to changes outside of them, 
continually adjust their mission and objectives, secure new income sources, and adjust 
themselves accordingly to meet the emerging challenges (Conradie, 2008).

1.7.4 Income diversification

This refers to the process in which an organization creates multiple sources of income in 
order to adequately finance its activities in view of attaining its set objectives (Sontag- 
Padilla et al., 2012).

1.7.5 Financial management system

This is an accounting system that supports an organization in documenting, analyzing and 
reporting its financial activities. These systems are concerned with the planning, raising, 
controlling and administering of an organization’s funds (Harding, 2014).
1.7.6 Donor relationship management

This refers to a comprehensive effort taken by the non-profit making organizations in ensuring that donors engage in interactions with the organization that will ensure long-term engagement and investment (Simone, 2013).

1.8 Chapter Summary

The chapter was made up of the study’s introduction and gave a detailed background of the research, the problem statement, the objectives of the research, significance of the study, the research scope and definitions of the important terms used in the research. The chapter that follows will review the existing literature. The chapter is made up of an extensive review of literature on factors affecting financial sustainability of non-governmental organizations based on the study objectives. Chapter three provides a framework of the methodology that was used to conduct the study and details the research design, population and sampling design, data collection methods and procedures and data analysis methods. Chapter four outlines the findings of the study based on the research objectives while chapter five is made up of summary of key findings, discussions, conclusions and recommendations.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

The current chapter has an extensive literature review on factors affecting financial sustainability of non-governmental organizations.

2.2 Income Diversification and NGOs’ Financial Sustainability

2.2.1 Declining Donor Funding

In a study on the challenges faced by NGOs in mobilizing operation funds in UNEP, Harir (2015) found that UNEP sourced its large portion of finances externally therefore it over relied on voluntary contributions and which have been on the decline in recent years. Based on the study, challenges associated with UNEP funding included competition from other NGOs for donor funding, conditional donor conditions and bureaucracy associated with the policies of the donor. Among the recommendations made was that UNEP should relook at its internal capacity to mobilize resources and thereby avoid relying very heavily on third parties for funding (Harir, 2015).

In a mixed methods study conducted in Zimbabwe, Saungweme (2014) investigated the factors influencing financial sustainability of local NGOs in the country. The study findings revealed that majority of the local NGOs in Zimbabwe were operating on strained budgets owing to reduced donor funding. The study called for the NGOs to develop strategies for income diversification for attainment of long-term financial sustainability. Similar results were reported by Rhoden (2014) who in a study of the capacity of NGOs to become sustainable by creating social enterprises in United Kingdom identified declining funding from donors as the leading challenge facing today’s NGOs in United Kingdom. The study recommended that NGOs should be proactive in creating alternative income streams for them to remain viable in the long run.
Dardane (2010) studied sustainability of NGOs in Kosova focusing on the challenges of the third sector and the ways forward. The study found that most NGOs in the region did not have financial stability and were dependent on donors. The study further noted that depending solely on foreign funding and not having enough and competent workforce were a major hindrance to NGOs activities today. Therefore, there is need for NGOs to explore alternative sources of funding in their effort to be independent in addition to tapping on the goodwill of their members in their areas of operation to provide voluntary services and pay their membership fees. In a study of financing local non-governmental organizations in Ghana, Gyamfi (2010) found income diversification positively affected the financing of the country’s local non-governmental organizations. Similar findings were found by Bowman (2011), Khisa (2012), Harding (2014) and Omeri (2015), all of who established a positive relationship between income diversification and sustainability of non-governmental organizations.

2.2.2 Organization’s Own Priorities and Agenda

According to Mitlin et al. (2014), it is difficult for non-governmental organizations to prioritize their own agenda unless they have own resources to support the same. This is because much of donor funding is tied on certain set priorities dictated upon by the providers of the funds. These sentiments were also shared by Hendricks (2012) who argued that donor funding is restrictive in nature given that recipient organizations are required to use the funds in certain activities as directed by the financier. It is therefore paramount that NGOs diversify their income sources so as to be less reliant on a single source of income which would in turn increase their freedom in deciding the areas of operation to engage in (Simone, 2013). While reviewing the factors influencing financial sustainability of NGOs in Columbia, Moreno (2017) found that funding in Columbia NGOs was a challenge and their over-reliance on external donors for funding meant that the NGOs were highly limited in the scope of decision making as allocated funds had to be expended as instructed by the donors.

In a study on the common challenges of NGOs in developing countries which featured Iranian NGOs, Bromideh (2011) established that NGOs in Iran rarely follow their defined priorities and agendas as their lack a diverse range of funding sources to finance own
programs. The study noted that as is common globally, NGOs in Iran reported a reliance on a single source of funding for their activities which significantly curtailed their operation. Conradie (2012) argued that the ability of NGOs to develop alternative funding sources is a pressing concern for the financial sustainability of the NGOs worldwide. According to Rono (2012), dependence on international funding reduces local NGOs independence and ability to set their own agendas – a common concern for NGOs internationally. NGOs that do nothing to diversify their funding may continue to manage to survive but will often remain small and relatively ineffective (Roseland, 2012).

Islam (2016) observed that in a bid to achieve financial sustainability when faced with declining financial support from external donors, NGOs in Egypt have scaled up their activities aimed at sourcing for funds at community levels and made use of local corporate donors in an effort to raise money and other support as well as seeking local and national government support. Fowler (2013) argues that, in the face of uncertain external donor funding, NGOs have to redesign their strategies of implementing their programs to envisage elements of recovering their costs by having the communities that benefit from these programs foot part, or in some cases all the costs associated with the programs. In addition, NGOs may own and manage commercial entities to increase their income streams. Financial dependence on a single or few donors basically imply that the NGO sacrifices autonomy, credibility, and in some cases their core mission and values leading to a situation in which the donor can easily manipulate the organization to their own desires and agendas. To have full control over their own activities and programs, NGOs should therefore develop alternative funding strategies that would enable them to become less reliant on external funding and the attendant restrictive donor conditions (Mitlin et al., 2014).

2.2.3 Meeting of Operational Costs

According to a study by Despard, Nafziger-Mayegun, Adjabeng and Ansong (2017), the need to be able to cover rising operation costs remains one of the major reasons as to why NGOs should pursue income diversification. Non-governmental organizations, just like other business enterprises have to incur various operational costs in their day to day running and with donor funding being restricted to execution of identified programs, the
need for the NGOs to have other income sources to meet their daily expenses have grown (Lewis & Kanji, 2013). Income diversification provides a viable mechanism through which the NGOs can raise much needed finances, outside their donors, and which can support their daily operational expenditure (Dardane, 2010). According to Bell et al. (2010), the ability to meet one’s operational costs is one of the measures of the viability of an entity and NGOs are no exception. This calls for strategies to raise additional funding given that donor funding may not be adequate to meet all the costs of an NGO.

Moreno (2017) noted that donors are keen to see how an NGO allocates the funds requested for in their budgetary estimates. Where the donors feel a substantial amount of the funds will be directed towards activities that do not directly contribute to the stated program or cause, the donors may withdraw their funding or significantly cut it down. It is therefore important that NGOs clearly classify their costs so as to know in which areas to give priority when doing allocations for funds sought. Chikoto and Neely (2014) observed that local NGOs must discern the various costs that will be incurred in executing a given project for there to be an effective management of available finances. This is the only way that they can achieve their goals efficiently. According to Elliott (2012) the failure by an organization to properly manage its operational costs can lead it to run the risk of managing daily financial pressures in turn losing focus on its long-term financial objectives. Income diversification has therefore become an important mechanism for enabling NGOs to generate additional financial resources that can use to meet their recurrent expenditures and more so where it is not met by the donor funding (Islam, 2016).

2.2.4 Long Term Survival

In a study of the factors that influence the financial sustainability of NGOs in Nakuru County in Kenya, Omeri (2015) established that income diversification and having a financial strategic plan would significantly affect the financial sustainability of NGOs in Nakuru County. The study recommended that NGOs in Nakuru County should consider local sources of funds to reduce their overreliance on donor aid which was increasingly becoming unreliable. Similar view was expressed by Bell et al. (2010) who identified
funds source diversification as the leading strategic decision required to enable NGOs achieve long-term financial viability.

Kabdiyeva (2013) investigated developing sustainable NGOs in Kazakhstan and asserted that for NGOs funding to be sustainable, they must avoid relying on a singular revenue source whether internally or externally. The study noted that establishing a fit between external and internal funding is paramount for only then can an NGO foot its expenses both administrative and operational, while they enjoy their power to decide their own programs without the influence of the donor. As noted by Kameri-Mbote (2012), developing financial sustainability and seeking diversified sources of funding is essential for any NGO as such a strategy ensures that these organizations’ impacts can be sustained in the long-term. Sontag-Padilla et al. (2012) add that seeking alternative funding sources is the only viable way of achieving long term financial sustainability among the NGOs.

In a review on enhancing the financial sustainability of non-governmental organizations, Pratt and Hailey (2012) noted that local resource mobilization provides potential for NGOs to raise funds from local businesses, individuals, government and locally generated income which may help them to reduce over-reliance on external donor funding. To do this, however, NGOs must have strong governance and accountability mechanisms, clear strategies and local credibility (Beyene, 2014). To remain in operation for the foreseeable future, NGOs need to be in-charge of their financial resources as it is only through secure funding that they can be in a position to plan and strategize their future activities. In view of this, income diversification becomes a critical component of modern day NGOs efforts to attain future financial sustainability (Onsongo, 2012).

2.3 Donor Relationship Management and NGOs’ Financial Sustainability

2.3.1 Communication and Collaboration

In a review on nurturing relationships to keep donors, Simone (2013) observed that donors who perceive the communications they receive from the funded organizations as informative, courteous, timely, appealing, and convenient tend to remain loyal for longer in turn guaranteeing continued support. According to Rhoden (2014), the donors should be able to not only select the pattern of communication they wish to receive but also on
the content of such communication. Some NGOs offer donors the opportunity to specify how frequently they would like to hear from the organization and whether they would like news about how their donations have been employed. Such donor relationship management practices are likely to improve perception of the quality of communication received and thereby enhance loyalty (Harir, 2015). Pratt and Hailey (2012) also identified close communication with donor organizations as one of the attributes of donor relations that have a significant influence on the NGOs’ future sustainability.

In a Ghanaian study on organizational factors influencing sustainability of local non-governmental organizations, Okorley and Nkrumah (2012) identified close collaboration with the donor organizations on areas of funds use as one of the aspects that NGOs should pay close attention to. Moreno (2017) carried out a research on factors influencing financial sustainability of NGOs in Columbia and proposed that, clear communication and close collaborations between the NGOs and the donor organizations are critical elements in building strong relationships with the donors and which form the basis for long-term engagements. This sentiment was shared by Iwu, Kapondoro, Twum-Darko and Tengeh (2015) who opined that through meaningful collaborations and constant communications, donor organizations are able to understand the processes and activities of an NGO which increases their sense of ownership of the programs being executed in turn enhancing their desire to continually support the NGO in its endeavours (Banks & Hulme, 2012).

Keeping donors well informed of the progress of sponsored programs is one of the main ways of strengthening donor relations. One way in which the NGOs can achieve this is to ensure that they give ongoing and specific feedback to donors as to how their funds have been put to use, and in particular the benefits that have resulted for the beneficiary group (Harding, 2014). If this feeling of impact on the cause is not strengthened, then there is likelihood that the donors may view other causes as being more deserving and hence curtailing their support of the concerned organization. This can be avoided through regular and effective communication with the donors as to the value of their contribution to the cause for which an NGO pursues (Gyamfi, 2010). According to Besel, Williams and Klak (2011), many NGOs are not able to effectively communicate who they are, what
they do, and their achievements. This inability to communicate means the visibility of the organization is poor and they are not able to effectively market their programs and which eventually affects their capacity to mobilize resources. These sentiments were shared by Conradie (2012) who observed that many at times non-governmental organizations lose the opportunity to get resources as either the donors or stakeholders are not aware of their presence within the area, sector or country or are unaware of the programs and goals they seek to achieve. In light of this, it is evident that clear communication and collaborations should be at the epicenter of NGOs donor relationship management practices.

2.3.2 Accountability and Transparency

In a modern synthesis of not-for-profit organizational effectiveness, Lecy, Schmitz and Swedlund (2012) identified accountability and transparency as the two core values that inform the relationship between NGOs and their donor organizations. Without accountability and transparency, it is almost impossible for an NGO to have a lasting engagement with its donors (Simone, 2013). Donors want an assurance that their funds will be expended to the cause(s) for which they were sought, and this can only be achieved if the NGOs can provide regularly full updates on their activities and expenditures (Bowman, 2011). According to Fowler (2013), an NGO is accountable to its stakeholders when it demonstrates regularly that it uses its resources in a prudent manner and does not take advantage of its privileges to pursue activities contrary to its non-profit status. On their part, Islam and Morgan (2012) argue that an NGO is accountable when it is transparent in its dealings and accepts to readily open its accounts and records to public scrutiny by funders, beneficiaries and others.

Bell et al. (2010) opined that creating a sound and positive donor relationship based on accountability and transparency in utilization of donor funds enables NGOs to benefit from continuous support from their donors. Beyene (2014) evaluated the factors that affected financial sustainability of Ethiopian NGOs referencing AFD in Addis Ababa. He established that accountability and transparency as donor relationship management practices had the most significant effect on financial sustainability of the NGO. As such the study recommended that it is the duty of the management to maintain a good relationship with the donors, mainly through meaningful communication and information.
sharing and to ensure the existence of accountability and transparency. In a review of non-governmental organizations and development, Lewis and Kanji (2013) observed that accountability implies that the managers of an NGO can provide a justification for each coin spent and clearly explain all key expenditures to their sponsors while transparency demands that all the actions of an NGO are done in a forthright manner. Rono (2012) asserted that there is nothing donors’ value more than an NGO being fully accountable in its functioning and doing things in a transparent manner as this shows that it can be trusted in prudent allocation of the donors’ funds to the said cause.

The NGO-donor relationship is usually volatile especially in developing countries where local NGOs heavily rely on foreign donor funding but fail on the accountability test (Weerawardena, McDonald & Mort, 2010). Accountability and transparency are integral in donor relations as they provide mechanisms through donors are able to appraise the activities of the NGOs and to assess the extent to which donor funds have been expended to the right causes (Okorley & Nkrumah, 2012). Due to an increase in competition and lack of enough resources, NGOs are forced to “follow the money”, and being able to demonstrate the highest levels of accountability and transparency, remains one of the ways in which the NGOs can secure the much needed funding (Roseland, 2012). The result is that donor funding is tied to the NGOs’ accountability and transparency values - which underscores the importance of accountability and transparency in maintaining good relationships with the donors (Saungweme, 2014).

2.3.3 Donor Visibility Activities

Rono (2012) argued that the importance of donor visibility programs in donor relationship management cannot be overstated. The principal traits of sustainable non-governmental organizations lie in undertaking programs and activities that its donors can identify with. A sustainable non-governmental organization will strive to engage in those activities that respond to the “felt needs” of the community (Banks & Hulme, 2012). Effective donor visibility initiatives aim to help an organization’s donors better understand the community’s needs, which in turn makes it easy for the donors to associate with the work of the sponsored NGO (Jhuti, 2015). According to a research by Despard et al. (2017), weak donor visibility programs lead to poor fundraising performance while strong donor
visibility programs imply more loyalty, more involvement, and more generosity, owing to the donors feeling connected and integrated into the activities of the NGO. In a review of the financial sustainability of local NGOs in Zimbabwe, Saungweme (2014) argued that NGOs can enhance their relationship with donor organizations by engaging in donor visibility activities and more so those that have meaningful impact on their target groups and that are in line with the goals of the donor organizations. Donor visibility activities imply engaging in those activities for which the donors can truly see that their resources were applied into meaningful and life transforming initiatives. Studies by Hassan (2015) and Kabdiyeva (2013) also cited donor visibility activities as some of the practices that can contribute to a strong relationship between the NGOs and their donors.

Kristin (2016) observed that engaging in donor visibility activities is critical to the relationship between non profits and their donors. Chikoto and Neely (2014) observed that performing nonprofits can attract more funds from the donors if they can communicate and demonstrate their impact to their communities of interest. Making impact information prominent in NGOs communications reinforces the confidence of its existing donors since impact-oriented donors want impact information which has to be clear and accessible. Impact information also plays a role in solidifying NGOs connection to its donors (Nyanje, 2016). Varying the way an NGO communicate its impact so that it appeals to the segments it wants to attract gives it the confidence and trust necessary to attract loyal donors, who then become evangelists who can attract others (Rhoden, 2014). Identifying those projects that have the greatest effect on the target communities and for which donors can identify with is one of the aspects that can spur donors’ core motivations into contributing their resources to the cause. This in turn would mean that the NGO has a reliable income source to finance its activities (Besel et al., 2011).

In a study of the factors that influence financial sustainability of NGOs in Zimbabwe, Saungweme (2014) established that dependency on donors averaged above 93% for local NGOs in Zimbabwe. Further, if external donors were to stop funding them, majority of the NGOs would only operate for less than a month. The study established that there was a significant relationship between effective donor management and Zimbabwean NGO’s financial stability with engagement in donor visibility activities cited as one of the ways
of enhancing the NGO-donor relationship. Okorley and Nkrumah (2012) also noted that engagement in donor visibility programs helped Ghanaian NGOs enhance their association with their donors with donor visibility programs being one of the core elements that donors were keen on in their funding decisions of local NGOs’ projects. Similar findings were found by Mutinda and Ngahu (2016) who evaluated the factors that determine the financial sustainability for NGOs in Nakuru County in Kenya and found that donor visibility activities as donor relationship management aspects had a major influence on the financial sustainability of NGOs operating in the county.

2.4 Financial Management Systems and NGOs’ Financial Sustainability

2.4.1 Financial Planning

According to Lewis and Kanji (2013), financial planning remains one of the core functions of financial management systems in non-profits as is with profit making organizations. Financial planning allows the NGOs to focus on both short and long-term strategic goals, which are usually connected to the availability and timing of funding. Failure to engage in effective financial planning implies that an organization may not be able to reach its highest potential (Harir, 2015). In a Ghanaian study on issues and challenges of financing local non-governmental organizations, Gyamfi (2010) noted that financial planning as an element of financial management systems allows the non-governmental organizations to create financial controls that allow them to set spending limits and bolsters their attempt to keep costs in line with revenues. Creating financial controls and spending limits enables nonprofit organizations not to overspend, and makes sure that the managers are making beneficial decisions for the organization (Fowler, 2013). Outside parties donating money to non-governmental organizations want to see where their money is going, and want to be assured that it is going to a good cause, and the only effective way to do this is through effective financial planning (Roseland, 2012).

Having a financial plan allows the NGOs to show where the money they are receiving is going in the organization. Effective financial planning also allows NGOs to maintain focus on the organization’s mission and grow their organization. Having a well thought out financial plan allows the NGO to keep its financials up to date and stable, by knowing
ahead of time what amount is required for certain things (Sontag-Padilla et al., 2012). According to Elliott (2012), having a financial plan allows an NGO to maximally apply its limited financial resources to the intended cause which may in turn inspire donors to continue offering their support in the knowledge that the funds will be put into optimal use. Financial planning is also critical to the NGOs’ boards as it provides the yard stick with which the boards are able to review the performance of the NGO for a given financial period (Pratt & Hailey, 2012). Dardane (2010) opined that having an up to date, in-depth financial plan increases the chances of an NGO getting the approval of the board for the financial resources requested for which in return enables the NGO to accomplish the goals and objectives it has set for the year. The finance manager given his vantage position of immense knowledge of the day-to-day operations of the organization can play an active role in financial planning with a focus on the organization’s long-term goals and objectives (Simone, 2013). Studies by Rhoden (2014) and Beyene (2014) found a significant positive relationship between financial planning, as a financial management practice, and the financial sustainability of non-governmental organizations – underpinning the significance of financial planning to the future well being of modern day NGOs.

In a study on non-profit financial sustainability, Kristin (2016) observed that often NGOs do not have management or staff with expertise in financial matters, which makes their financial planning more difficult. Thus, the board should try to recruit accounting or financial professionals that can help in this area as paid staff or as volunteers. In addition, executives should try to learn how to read the financial statements, how to set up financial plans and how to manage organizational finances in general (Omeri, 2015). According to Muriithi (2014), managers of non-governmental organizations are usually too busy to stop and plan ahead, especially in light of the fact that many non governmental organizations run with minimum staff and most managers are hands-on, being involved in various areas and tasks, which leaves no time for effective financial planning. Khisa (2014) opined that financial planning and strategy require attention and too often, the management of NGOs make financial plans in too much of a hurry without putting the time and energy required, resulting in substandard financial planning. Given the instability in the revenue cycles of
most NGOS, financial planning provides the key to reacting quickly to any short falls that may arise in an organization’s future funding (Okorley & Nkrumah, 2012).

### 2.4.2 Financial Reporting

Mitlin *et al.* (2014) noted that indicators of a healthy relationship with donors included existence of financial records of all donor funding received, the number of events organized by the donors that local NGOs were provided with an invitation to attend, provision of funding for long term projects by a donor and repeated provision of funding by a donor. Similarly, Onsongo (2012) identified effective financial reporting as one of the important strategies that local NGOs adopted to achieve financial sustainability in Kenya. Harding (2014) noted that financial reporting as an element of positive NGO-donor relationship was crucial for long-term engagement and creation of donor loyalty that would help enhance NGOs’ access to donor funding. Iwu *et al.* (2015) similarly identified effective and constant communication, integrity and accountability as well as detailed financial reporting as some of the key prerequisites to the establishment of a long-term beneficial relationship between NGOs and their donors.

Weerawardena *et al.* (2010) declared that NGOs should use effective practices to manage their finances in both the short term and long term to achieve the mandate and commitments made to individuals and partners and additionally accomplish their objectives. Iwu *et al.* (2015) supports these discoveries in their study and identified a positive connection between effective practices used to manage finances and NGOs financial sustainability. Lewis and Kanji (2013) contended that sound financial management and organizational frameworks aided in persuading donors the NGOs were capable of efficiently using the given money due to the existence of solid financial control. Simone (2013) noticed that NGOs with good financial management frameworks draw in more donors and give benefactors the certainty that resources will be utilized for the planned purposes.

A comprehensive financial management system requires paying attention to the existing and upcoming financial engagements of the non-governmental organization and helping the NGO identify how best its programs and activities can be funded (Bromideh, 2011).
The presence of a good financial reporting system helps an organization get financing from donors who comprehend the current financial situation of the organization (Rono, 2012). Chikoto and Neely (2014) opined that local NGOs must focus on better management of finances so that they can achieve their goals efficiently using the limited funding they acquire. In his part, Elliott (2012) asserted that failure by an organization to properly engage in sound financial management can lead it to run the risk of managing daily financial pressures and losing focus on its long-term financial objectives. Islam (2016) adds that good systems were becoming a necessity in order to access international donor funding. According to Iwu et al. (2015), all donors deserve to know what difference their funding makes and, in this regard, an annual financial report or a regular financial bulletin sent to the donors may help them to keep up to speed on the organization’s activities and progress. Hendricks (2012) avers that donors like to hear how their funds are helping others, so if you an NGO has had a breakthrough or something it thinks the donors should know, the organization should keep in touch with short email updates along with the regularly scheduled financial reports. Keeping donors informed about the financial status of the organization will motivate them to engage further with the organization and help them understand that they are indeed making an impact (Sontag-Padilla et al., 2012).

### 2.4.3 Financial Control

According to Kabdiyeva (2013), an organization exercises good governance when it has an internal system of checks and balances that ensures public interest is served and protected. Financial controls are at the centre of any good financial management system and they ensure that funds are being expended as anticipated within an organization’s financial plans (Hassan, 2015). In the case of non governmental organizations, as is the case with other organizations, where deviations from the financial plans are detected, corrective action is instituted to protect the misappropriation of donor funds (Moreno, 2017). According to Mutinda and Ngahu (2016), the value of the financial controls, as financial management tools, lies in their ability to track every expenditure and revealing areas of weakness in the financial management system which can result into loss of funds. Given the high sensitivity of donor funding especially to misappropriations which could
lead donors to end their contributions to a given NGO, it is incumbent upon the managers of NGOs to ensure that their organizations’ financial management systems incorporate strong financial controls capable of deterring any loss of funds. In a study on sustainability of non-profit organizations, Weerawardena et al. (2010) identified strong financial controls as one of the key elements of a good financial management system in the NGOs.

Financial management in non governmental organizations is concerned with ensuring funds are available when needed and that they are obtained and used in the most efficient and effective way to the benefit of the organization making the place of financial controls in the financial management system even more significant (Islam, 2016). According to Kameri-Mbote (2012), financial managers of NGOs aim to boost the levels of resources at their disposal and application of financial controls is one of mechanisms of ensuring that available NGOs resources are effectively and efficiently utilized while bearing in mind the risks that could certainly be experienced in the future as a result of shortage of such funds. Kristin (2016) performed a research study on non-profit financial sustainability and noted that financial instruments were employed by various NGOs to strategically manage and position their finances to take care of the future unexpected risks such as financial shortage or donor withdrawals. Used appropriately, financial management tools can help an organization to deliver its mission better and to ensure the best and most beneficial use of resources (Lecy et al., 2012).

Onsongo (2012) did a study on the strategies adopted by non-governmental organizations to achieve financial sustainability in Kenya. The study found that sound financial management systems were one of the key strategies that significantly influenced the financial sustainability of local non-governmental organizations. In his study of financing local non-governmental organizations in Ghana, Gyamfi (2010) established that the sustainability of NGOs in the country were influenced positively by sound financial management systems as they promoted accountability and transparency in use of donor funds. Bell et al. (2010) points out that, a sound financial management system provides an opportunity for an NGO to evaluate its expenditure patterns, helping it to control its spending in line with set program targets. Omeri (2015) agreed with the findings by
Okorley and Nkrumah (2012), arguing that financiers today only give funds to those NGOs that demonstrate good financial accounting systems that were backed by effective internal controls as a way of enforcing accountability. Good management processes and accountability are necessary requirements in ensuring there is value for money given by donors while opening the prospects for long-term engagement with the donors (Islam & Morgan, 2012).

In his investigation of factors influencing the implementation of NGO projects in Nakuru County, Nyanje (2016) noticed that numerous local NGOs lacked sound financial management practices and they kept their financial records in a very ad hoc ways which left financiers with a lot of work confronting accounting issues while attempting to settle accounts. He also found that at times local NGOs neglected meeting the statutory prerequisites, and with such poor book-keeping procedures were unlikely to have the capacity to produce their own assets and be viable. Okorley and Nkrumah in their investigation in Ghana, noticed that there were developing calls for accountability among local NGOs originating from past instances of poor financial management frameworks and corruption among the different NGOs. According to the research findings, sound financial management frameworks positively affected the financial sustainability of the local NGOs. Additionally, governments and contributors of the funding were more likely to continue funding NGOs with sound financial management practices as they felt they were more accountable (Okorley & Nkrumah, 2012). Failing to implement effective financial controls adversely affects their ability to access donor funding, particularly from larger donors who emphasize on existence of sound financial management systems (Kabdiyeva, 2013).

2.5 Chapter Summary

The literature review chapter looked at the literature on the factors that affect financial sustainability of NGOs including the effect of income diversification, donor relationship management and financial management. The subsequent chapter presents the methodology adopted by the researcher for data collection, analysis and interpretation of study results.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter presented the research methodology that was used in carrying out the study. It contained the research design, the population and sampling design employed, data collection methods, research procedures and data analysis method used in the study.

3.2 Research Design

This indicates how the research was done. It gives the framework used by the researcher to get data, measure the findings and analyze the data obtained from the respondents (Creswell & Plano, 2011). According to Kothari (2004) definition of research design, it is the structure under which the research is conducted. The descriptive research method presents facts concerning variables under investigation, as they exist at the time of the study as well as trends that are emerging. The design was appropriate for this study in that it describes the situation as it is, while minimizing bias data collection. According to Kothari (2004) the researcher also preferred the design as it can be used to generalize the study findings to a larger population. The dependent variable of the study was financial sustainability of NGOs while the independent variables of the study were income diversification, donor relationship management and financial management systems.

3.3 Population and Sampling Design

3.3.1 Population

The observable trait of a research population assists the researcher make inferences (Mugenda and Mugenda, 2003). The current research target population was made up of the staff non-governmental organizations (NGOs) in Nairobi, Kenya. According to the NGO board there were 5,354 registered NGOs operating in Nairobi and its environs with a staff population of 80,200. This formed the study population.
3.3.2 Sampling Design

3.3.2.1 Sampling Frame

Creswell and Plano (2011) explain that a sampling frame is made up of an objective list of the study’s population that the researcher will get a sample from. Therefore, the sampling frame is made up of all the members of the target population. They emphasize that this list should be complete and have correct names of the members of the population (Creswell & Plano, 2011). The current study’s sampling frame had the staff members of NGOs in Nairobi, Kenya as obtained from the Human Resource Departments of these organizations.

3.3.2.2 Sampling Technique

The researcher used a purposive sampling technique to come up with the respondents for the research. The targeted individuals were the finance managers, grant accountants and finance controllers in the organizations. This allowed the researcher to target those respondents that were well versed with the various factors affecting their organizations’ financial sustainability. According to Denscombe (2014), purposive sampling ensures that the people selected for the study have features that the researcher is interested in.

3.3.2.3 Sample Size

The study sample size was reached upon after the use of the Yamane (1967) formula in line with the recommendations of xxx who found the formula to be appropriate for descriptive studies involving large population sizes due to its simplicity. The formula was as shown below;

\[ n = \frac{N}{1 + N (e^2)} \]

Where;

\[ n = \text{sample size} \]
N = population size

e = the level of precision, set at 10% for this study in line with stipulations by Nsubuga (2006) and Denscombe (2014) and who asserted that 10% was an acceptable error margin in social studies.

After using the formulae, the researcher found out that the study’s sample size was:

\[ n = \frac{80,200}{1 + 80,200(0.1)^2} \]

\[ n = \frac{80,200}{803} \]

\[ n = 100 \]

= 100 staff

Hence, the study sample size was 100 staffs of NGOs in Nairobi, Kenya. The 100 respondents were distributed proportionately to the 5,354 NGOs in Nairobi on the basis of the sectors of the economy that they served. This was as illustrated in Table 3.1.

**Table 3.1: Sample Size Distribution**

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Number of NGOs</th>
<th>Proportion (%)</th>
<th>Sample size distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>2,302</td>
<td>43</td>
<td>43</td>
</tr>
<tr>
<td>Agriculture</td>
<td>696</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Poverty eradication</td>
<td>1,124</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>Human rights</td>
<td>589</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>Others</td>
<td>643</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>5,354</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>
3.4 Data Collection Methods

The primary data used in the current research was collected by the means of questionnaires that were self-administered and structured (Appendix II). The questionnaire contained close ended questions based on the study objectives. The first section of the questionnaire four sections was used to collect the participants’ demographic data. The successive sections sought the opinions of the respondents on the research three study objectives, that is, on income diversification, donor relationship management and financial management systems.

The study objectives were assessed using a five point Likert scale ranging from one to five (where 1= strongly disagree, 2-disagree, 3-neutral, 4-agree and 5= strongly agree) which gave the respondents’ levels of agreement to the statements provided in the questionnaire. Mugenda and Mugenda (2003) coins that, questionnaires can be used in the collection of data from a large number of participants as they can be used to quickly collect data from many people. A questionnaire was chosen as the research instrument since it was considered to be applicable and practical to the problem at hand as well to the population used for the research. The questionnaire was also found to be cheap which allowed the researcher to save on costs (Denscombe, 2014).

3.5 Research Procedures

The researcher undertook the data collection process after seeking due permission from the University and management of the sampled NGOs. Before the actual data collection, the researcher did a pilot study to ensure the questionnaires were complete and could effectively collect accurate data. The pilot test was conducted among 10 employees of local NGOs that did not form part of the main study. Mugenda and Mugenda (2003) assert that pilot tests should use 10% of the sample size to gauge the research instrument. The pilot testing aimed at establishing if the respondents understood the questionnaires questions, how long they would take to completely fill the questionnaires as well as amend any other aspect of the questionnaire that were unclear. Thereafter a refined questionnaire was administered to the study participants. Additionally, a cover letter was
also provided to the respondents that clearly showed the objectives of the research and requested the respondents to agree to be part of the study.

The researcher would drop the questionnaires and later pick them to give the respondents time to fill them. Each respondent was allowed two weeks to complete the questionnaire. This allowed the study participants ample time to respond to the research instrument. The researcher use phone calls to do a follow up ensuring the timely completion of the questionnaires. The researcher made sure to inform respondents that their participation was voluntary. The responses would also be treated with utmost confidentiality and the participants would remain anonymous. The reporting of the findings would be made in such a way that the particular responses would not be traced to a particular respondent.

3.6 Data Analysis Methods

The analysis of data helps to compress data to sizes that are easy to manage. The analysis further summarizes and looks at data patterns using statistical techniques (Creswell & Plano, 2011). The researcher checked the questionnaire for consistency and completeness. The data was also coded. Descriptive statistics including percentages, frequencies, mean and standard deviation were used in analysis using the SPSS software. There was need to determine if there was an existing relationship between the variables of study. For this, the researcher used correlation and regression analysis and the results were shown in pie charts, graphs and tables. The advantage of using the regression model was that the model had the capacity to show whether the independent variables significantly affect the dependent variable. Pearson correlation tested the strength of the study variables relationship.

The regression model was as specified below:

\[ Y = \beta_0 + \beta_1 \text{ID} + \beta_2 \text{DRM} + \beta_3 \text{FMS} + \varepsilon \]

Where;

\[ Y = \text{dependent variable (Financial sustainability of NGOs)}, \]

\[ \beta_0 = \text{Constant}, \]
\[ \beta_1 - \beta_3 = \text{Coefficients of the independent variables}, \]

ID = Income diversification,

DRM = Donor relationship management,

FMS = Financial management systems, and

\( \varepsilon \) represents the Error term

### 3.7 Chapter Summary

The current chapter gives a detailed overview of the methodology used to conduct the study. The researcher used a descriptive research design was used to collect data while the population of the research was made up of 80,200 employees of NGOs in Kenya. The study had a sample of 100 respondents, selected using purposive sampling technique. The researcher administered the questionnaires that were the data collection instrument. The researcher in a bid to conform the research instrument reliability and also used to point out the purpose of the research to the respondents conducted a pilot study. Analysis of research data was done using quantitative techniques aided by SPSS (Version 23.0) and regression and correlation analysis was used to test the study variables relationship. The following chapter will give the results and the findings of the research.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

First, the demographic information and the response rate of the respondents is provided. Later, the research findings based on the specify objectives are given. The results were presented on the factors affecting financial sustainability for non-governmental organizations in Nairobi, Kenya.

The research sample was made up of 100 staff working for NGOs in Nairobi Kenya. These were the respondents. Out of the 100 questionnaires given to them, 70 were filled completely and returned as shown by Table 4.2. The response rate was both representative and sufficient meeting to the target pointed out by Mugenda and Mugenda (2003) who explains that a 50% response rate is adequate for analysis, 60% is good while 70% and above is excellent.

Table 4.1: Response Rate

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Responses received</td>
<td>70</td>
<td>70.0</td>
</tr>
<tr>
<td>Responses not received</td>
<td>30</td>
<td>30.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

4.2 Demographic Information

The research established the participants’ demographic profile. The demographic attributes considered included: the respondents’ gender, age, education level and period of time that they were employees of the firm as well as the NGO’s location and how long it had been in existence. The results are as presented in the subsequent subsections.
4.2.1 Gender Distribution of the Respondents

The research participants indicated their gender on the questionnaire. The results indicate that majority (64.3%) of the respondents were male while 35.7% were female implying that more males took part in the study than the females.

![Respondents' gender distribution](image)

**Figure 4.1: Respondents’ Gender Distribution**

4.2.2 Age Distribution of the Respondents

The study participants were requested to indicate their age. The results indicate that 40% had 40 to 49 years, 27.1% had 30 to 39 years, 21.4% were 50 years and above and 11.4% had not attained 30 years of age. This showed that the study respondents were spread within different age brackets. However, most of the respondents were aged 30 years and above.

![Respondents' age distribution](image)

**Figure 4.2: Respondents’ Age Distribution**
4.2.3 Education Level of the Respondents

The education level of the respondents was sought and the findings were as indicated in Figure 4.3. According to the results majority of the study participants represented by 54.3% were Graduates, 22.9% were Diploma holders, 18.6% were Masters Holders while only 4.3% were PhD holders. This indicated that the respondents had a sound academic background.

![Bar chart showing education levels of respondents]

**Figure 4.3: Respondents’ Education Level**

4.2.4 Years Worked in the Organization

The study participants were requested to indicate the period they had been employed at their organization. Figure 4.4 shows the results whereby 45.7% of the respondents had been employed in their places of work for 1-5 years. The other group represented by 24.3% had worked at their current form for 10 years.
4.2.5 Location of the NGOs

The research wanted to know where the respondent’s place of work was situated. The results in table 4.3 indicate that 18.6% were in Ruaraka, 14.3% were in Kasarani, 12.9% were in Starehe, 11.4% were in Langata, 10% each in Embakasi, Makadara and Kamukunji, 7.1% were in Dagoretti while 5.7% were in Westlands. This showed that respondents came from NGOs spread out across Nairobi County.

Table 4.2: The NGOs’ Location in Nairobi

<table>
<thead>
<tr>
<th>Location</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ruaraka</td>
<td>13</td>
<td>18.6</td>
</tr>
<tr>
<td>Embakasi</td>
<td>7</td>
<td>10.0</td>
</tr>
<tr>
<td>Kasarani</td>
<td>10</td>
<td>14.3</td>
</tr>
<tr>
<td>Westlands</td>
<td>4</td>
<td>5.7</td>
</tr>
<tr>
<td>Starehe</td>
<td>9</td>
<td>12.9</td>
</tr>
<tr>
<td>Makadara</td>
<td>7</td>
<td>10.0</td>
</tr>
<tr>
<td>Langata</td>
<td>8</td>
<td>11.4</td>
</tr>
<tr>
<td>Kamukunji</td>
<td>7</td>
<td>10.0</td>
</tr>
<tr>
<td>Dagoretti</td>
<td>5</td>
<td>7.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
4.2.6 Period of Time That the Respondent’s Organization Had Been in Existence

The respondents were requested to specify the period of time for which their organization had been in existence. The results in figure 4.5 indicate that, majority (68.6%) of the respondents’ organizations had been in existence for over 10 years, 27.1% had existed for 6-10 years, while 4.3% had existed for 1-5 years.

![Respondents' organizations length of existence in years](image)

**Figure 4.5:** Respondent’s Organization Duration of Existence in Years

4.3 Descriptive Statistics of Study Variables

4.3.1 Income Diversification and Financial Sustainability of NGOs

One of the study’s objectives was to investigate the effect of income diversification on NGOs’ financial sustainability in Nairobi, Kenya. The researcher requested the respondents to show their level of agreement with the statements given on income diversification in their organization. Table 4.4 shows the results that indicate that the respondents did agree that income diversification increases their organization’s ability to fund their projects based on their own priorities (mean = 4.329); income diversification allows their firms to reject funding that are from sources that are not fit for the organization agenda and values (mean = 4.314); income diversification enables their organization to meet its overhead costs and any other expense that is not catered for by the donors funding (mean = 4.229); income diversification reduces the risk of their organization closing down in case of withdrawal of donors (mean = 4.086); reliance on
donor funding forces their organization to align its plans with donor priorities (mean = 4.000); creating other income generating activities increases their organization’s financial sustainability (mean = 4.300) and that foreign donations as sources of funding were on the decline in their organization (mean = 4.186). In addition, all the responses yielded standard deviation values of less than 1 indicating that there was little variation in the responses given.

Table 4.3: Respondents’ Level of Agreement with Statements on Income Diversification

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign donations as sources of funding are on the decline in my organization</td>
<td>4.186</td>
<td>0.6437</td>
</tr>
<tr>
<td>Creating other income generating activities increases my organization’s financial sustainability</td>
<td>4.300</td>
<td>0.6221</td>
</tr>
<tr>
<td>Reliance on donor funding forces my organization to align its plans with donor priorities</td>
<td>4.000</td>
<td>0.8165</td>
</tr>
<tr>
<td>Income diversification increases my organization’s ability to fund its projects based on its own priorities</td>
<td>4.329</td>
<td>0.7167</td>
</tr>
<tr>
<td>Income diversification reduces the risk of my organization closing down in case of withdrawal of donors</td>
<td>4.086</td>
<td>0.7754</td>
</tr>
<tr>
<td>Income diversification enables my organization to be able to reject funding whose sources do not fit into its agenda and values</td>
<td>4.314</td>
<td>0.6712</td>
</tr>
<tr>
<td>Income diversification enables my organization to meet its overhead costs and other expenses not met by the donors</td>
<td>4.229</td>
<td>0.6631</td>
</tr>
</tbody>
</table>

4.3.2 Donor Relationship Management and Financial Sustainability of NGOs

The second objective of the study sought to establish the effect of donor relationship management on NGOs’ financial sustainability in Nairobi, Kenya. The respondents were provided with different statements on donor relationship management in their organization and told to indicate their level of agreement with the statements. Table 4.5 indicates the findings showing that the respondents were in agreement that their organizations had made efforts in establishing constructive networks and alliances with various donor
organizations (mean = 4.457); accountability in the use of donor funds had helped improve their organization’s donor relations (mean = 4.343); their organizations maintained regular meaningful communications with its donors (mean = 4.257); their organizations had to follow the guidelines as well as scope of donor activities or risk getting no funding (mean = 4.200); their organizations provided regular reporting on their expenditure to foster accountability for funds given (mean = 4.171); their organizations actively implemented donor visibility/recognition activities (mean = 4.143) and that the stronger the relationship the organizations had with their donors the more financially sustainable they were (mean = 4.071). In addition, all the responses yielded standard deviation values of less than 1 indicating that there was little variation in the responses given.

Table 4.4: Respondents’ Level of Agreement with Statements on Donor Relationship Management

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>My organization maintains regular meaningful communications with its donors</td>
<td>4.257</td>
<td>0.7928</td>
</tr>
<tr>
<td>My organization actively implements donor visibility/recognition activities</td>
<td>4.143</td>
<td>0.7280</td>
</tr>
<tr>
<td>My organization provides regular reporting on its expenditure to foster accountability for funds given</td>
<td>4.171</td>
<td>0.6364</td>
</tr>
<tr>
<td>My organization has to follow the guidelines as well as scope of donor activities or risk getting no funding</td>
<td>4.200</td>
<td>0.6505</td>
</tr>
<tr>
<td>The stronger the relationship my organization has with its donors the more financially sustainable it is</td>
<td>4.071</td>
<td>0.7287</td>
</tr>
<tr>
<td>Accountability in the use of donor funds has helped improve my organization’s donor relations</td>
<td>4.343</td>
<td>0.6569</td>
</tr>
<tr>
<td>My organization has made efforts in establishing constructive networks and alliances with various donor organizations</td>
<td>4.457</td>
<td>0.5565</td>
</tr>
</tbody>
</table>
4.3.3 Financial Management Systems and Financial Sustainability of NGOs

The last objective of the study sought to find out the effect of financial management systems on NGOs’ financial sustainability in Nairobi, Kenya. The participants of the study were given various financial management systems statements about their firm and were requested to show their agreement levels with each of the statements. Table 4.6 indicates that the respondents were in agreement that there existed proper financial policies that guided how their organizations managed their funds (mean = 4.329); operations of their organizations were done according to budgetary allocations (mean = 4.286); their organizations periodically reviews their budgets and other financial plans to see if they agree with their mission (mean = 4.243); their organizations had financial reporting structures which facilitated accountability (mean = 4.214); their organizations maintained an updated assets list (mean = 4.043); their organizations’ projects were audited every year by a qualified external auditor (mean = 4.014); financial reporting in their organizations was effective (mean = 3.943) and that their organizations had a competent Board that provided oversight for all their financial dealings (mean = 3.943). In addition, all the responses yielded standard deviation values of less than 1 indicating that there was little variation in the responses given.

**Table 4.5: Respondents’ Level of Agreement with Statements on Financial Management Systems**

<table>
<thead>
<tr>
<th>Statement</th>
<th>Mean</th>
<th>Std. Dev</th>
</tr>
</thead>
<tbody>
<tr>
<td>My organization periodically reviews its budgets and other financial plans to see if they agree with its mission</td>
<td>4.243</td>
<td>0.6004</td>
</tr>
<tr>
<td>My organization has financial reporting structures which facilitate accountability</td>
<td>4.214</td>
<td>0.5355</td>
</tr>
<tr>
<td>Financial reporting in my organization is effective</td>
<td>3.943</td>
<td>0.7965</td>
</tr>
<tr>
<td>Operations of my organization are done according to budgetary allocations</td>
<td>4.286</td>
<td>0.6625</td>
</tr>
<tr>
<td>My organization maintains an updated assets list</td>
<td>4.043</td>
<td>0.8064</td>
</tr>
<tr>
<td>There are good financial policies that guide the way the firm manages its financial resources</td>
<td>4.329</td>
<td>0.6532</td>
</tr>
</tbody>
</table>
My organization has a competent Board that provides oversight for all its financial dealings

My organization’s projects are audited every year by a qualified external auditor

4.4 Inferential Statistics

Inferential statistics use probability theory to determine population properties after analysing the data sample properties obtained from the population. They allow one to predict or generalize about a population based on analysis of data of a sample derived from the population. This study applied Pearson correlation analysis and multiple regression analysis to analyze the relationship between the study variables. The study findings are described in the following subsections.

4.4.1 Correlation Analysis

The study did an analysis using Pearson correlation to assess the nature of the relationship existing between the study variables. According to the results indicated by Table 4.7, there was a positive and significant correlation between income diversification and financial sustainability of NGOs (r=0.636, p value <0.05); further there was a positive and significant correlation between donor relationship management and financial sustainability of NGOs (r=0.729, p value <0.05) additionally, there was a positive and significant correlation between financial management systems and financial sustainability of NGOs (r=0.651, p value <0.05). This indicates that income diversification, donor relationship management and financial management systems were determinants that positively correlated with the financial sustainability of NGOs in Nairobi, Kenya.
Table 4.6: Correlation Matrix

<table>
<thead>
<tr>
<th></th>
<th>Financial sustainability of NGOs</th>
<th>Income diversification</th>
<th>Donor relationship management</th>
<th>Financial management systems</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial sustainability</td>
<td>(r) 1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>of NGOs</td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>70</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(r)</td>
<td>.636*</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income</td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>diversification</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>70</td>
<td>70</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(r)</td>
<td>.729*</td>
<td>.092</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Donor</td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>relationship</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td></td>
</tr>
<tr>
<td>(r)</td>
<td>.651*</td>
<td>.128</td>
<td>.117</td>
<td>1</td>
</tr>
<tr>
<td>Financial</td>
<td>Sig. (2-tailed)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>management</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>systems</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>70</td>
<td>70</td>
<td>70</td>
<td>70</td>
</tr>
</tbody>
</table>

*Correlation is 2-tailed and significant at 0.05 level

4.4.2 Regression Analysis

The researcher regressed the independent variables (income diversification, donor relationship management and financial management systems) against the dependent variable (financial sustainability of NGOs) to determine the relationship existing between the variables.

4.4.2.1 Model Summary

The coefficient of determination or R square shows the change in the outcome variable due to a change in the predictor variable. Based on Table 4.8, the value of R square was 0.719 meaning that 71.9% variation in the dependent variable (financial sustainability of NGOs) was due to variations in the independent variables (income diversification, donor relationship management, and financial management systems).
relationship management and financial management systems). Hence, 28.1% of variation in the financial sustainability of NGOs was due to other factors that were not part of the model and those that were not focused on in the current research.

Table 4.7: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.848a</td>
<td>0.719</td>
<td>0.707</td>
<td>.8849</td>
</tr>
</tbody>
</table>

Predictors: (Constant), income diversification, donor relationship management and financial management systems

4.4.2.2 Analysis of Variance [ANOVA]

Analysis of Variance (ANOVA) is made up of calculations that give important details on the variability levels within the regression model and form the tests of significance. The column marked "F" gives the statistic for testing the hypothesis that all $\beta \neq 0$ against the null hypothesis that $\beta = 0$ (Weisberg, 2005). The results indicated that the model is statistically significant in showing how income diversification, donor relationship management and financial management systems affect the financial sustainability of NGOs in Nairobi, Kenya.

Table 4.8: ANOVA

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>138.315</td>
<td>3</td>
<td>46.105</td>
<td>57.167</td>
<td>.0000a</td>
</tr>
<tr>
<td>Residual</td>
<td>54.035</td>
<td>67</td>
<td>0.8065</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>192.350</td>
<td>70</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), income diversification, donor relationship management and financial management systems

b. Dependent variable: Financial sustainability of NGOs
4.4.2.3 Results of the Regression Model

\[ Y = \beta_0 + \beta_1 ID + \beta_2 DRM + \beta_3 FMS + \varepsilon \]

was the regression model specification

Where; \( Y \) = dependent variable (Financial sustainability of NGOs), \( \beta_0 \) = Constant, \( \beta_1 - \beta_3 \) = Coefficients of the independent variables, \( ID \) = Income diversification, \( DRM \) = Donor relationship management, \( FMS \) = Financial management systems, and \( \varepsilon \) = Error term.

Based on the regression analysis results shown in Table 4.10, the regression model became;

\[ Y = 4.901 + 0.661ID + 0.782DRM + 0.704FMS \]

From the regression equation above, considering the study factors (income diversification, donor relationship management and financial management systems) constant at zero, financial sustainability of NGOs in Nairobi Kenya would be 4.901. The results also indicate that if income diversification increases by one unit, financial sustainability of NGOs in Nairobi Kenya would increase by 0.661; a unit increase in donor relationship management would lead to a 0.782 increase in the financial sustainability of NGOs in Nairobi Kenya while a unit increase in financial management systems would lead to a 0.704 increase in the financial sustainability of NGOs in Nairobi Kenya. At 5% significance level [or 95% level of confidence], income diversification had a 0.0234 level of significance; donor relationship management had a 0.0000 level of significance while financial management systems had a 0.0051 level of significance. All the variables were significant (\( p<0.05 \)) with the most significant factor being donor relationship management followed by financial management systems and income diversification, respectively. The results indicate a strong positive relationship between income diversification, donor relationship management and financial management systems and financial sustainability of NGOs in Nairobi Kenya.
Table 4.9: Results of the Regression Model

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>4.901</td>
<td>.512</td>
<td>9.572</td>
<td>.0000</td>
</tr>
<tr>
<td>Income diversification [ID]</td>
<td>0.661</td>
<td>.285</td>
<td>.627</td>
<td>2.319</td>
</tr>
<tr>
<td>Donor relationship management [DRM]</td>
<td>0.782</td>
<td>.176</td>
<td>.763</td>
<td>4.443</td>
</tr>
<tr>
<td>Financial management systems [FMS]</td>
<td>0.704</td>
<td>.243</td>
<td>.646</td>
<td>2.897</td>
</tr>
</tbody>
</table>

4.5 Chapter Summary

The current chapter shows the study’s findings and results. An analysis of the participants’ demographic information is provided. Another section provides descriptive statistics of the study variables while the last section analyzed the relationship between the study variables using multiple regression analysis and Pearson correlation analysis. The chapter that follows gives a discussion of the results, recommendations and conclusions.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The chapter consists of four sections which include summary, discussions, conclusions, and recommendations. The summary section provides a highlight of the objectives of the study, the methodology of the study and the key findings of the study. The discussions section relates the findings of the current study to existing empirical studies. The conclusions section outlines the deductions of the researcher based on the study results while the recommendations section provides the suggestions for improvement and future studies.

5.2 Summary

The key objective of the study was the examination of the factors that affects financial sustainability for NGOs located in Nairobi, Kenya with the specific objectives of the study being: to determine the effect of income diversification on NGOs’ financial sustainability in Nairobi, Kenya; to establish the effect of donor relationship management on NGOs’ financial sustainability in Nairobi, Kenya and to find out the effect of financial management systems on NGOs’ financial sustainability in Nairobi, Kenya.

The target population for this study was 80,200 staffs of non-governmental organizations in Nairobi, Kenya. The sample size consisted of 100 respondents. Purposive sampling technique was applied in sample selection. Research tool was a self-administered questionnaire. Descriptives including frequencies and percents and mean and standard deviation were used in analysis. Both regression and correlation analysis were used to analyze the existing relationship between the study and the results were shown in form of graphs, tables and pie charts.

The study results showed that the staff of the NGOs in Nairobi did agree with the various statements on income diversification in their organization such as income diversification increased their organization’s ability to fund their projects based on their own priorities;
income diversification enabled their organization to be able to reject funding sources that were not in line with organization’s agenda and values; income diversification enabled their organizations to meet their overhead costs plus expenses that donors could not meet; income diversification reduced the risk of their organizations closing down in case of withdrawal of donors; creating other income generating activities increased their organization’s financial sustainability and that foreign donations as sources of funding were declining.

The study results showed that the staff of the NGOs in Nairobi did agree with the various statements on donor relationship management in their organization such as their organizations had made efforts in establishing constructive networks and alliances with various donor organizations; accountability in the use of donor funds had helped improve their organization’s donor relations; their organizations maintained regular meaningful communications with its donors; their organizations had to follow the guidelines as well as scope of donor activities or risk getting no funding; their organizations provided regular reporting on their expenditure to foster accountability for funds given; their organizations actively implemented donor visibility/recognition activities and that the stronger the relationship the organizations had with their donors the more financially sustainable they were.

The study results further showed that the staff of the NGOs in Nairobi agreed with the various statements on financial management systems in their organization such as there existed proper financial policies that guided how their organizations managed their funds; operations of their organizations were done according to budgetary allocations; their organizations did periodic reviews on financial plans and budgets to see if they were in agreement with their mission; their organizations had financial reporting structures which facilitated accountability; their organizations maintained an updated assets list; their organizations’ projects were audited every year by a qualified external auditor; financial reporting in their organizations was effective and that their organizations had a competent Board that provided oversight for all their financial dealings.
5.3 Discussions

5.3.1 Income Diversification and Financial Sustainability of NGOs

The study established that the staffs of the NGOs in Nairobi Kenya were in agreement that income diversification increased their organizations ability to fund their projects based on their own priorities and that it also enabled their organizations to be able to reject funding whose sources did not fit into their agenda and values. This agreed with Kabdiyeva (2013), who in a study of developing sustainable NGOs in Kazakhstan, asserted that for NGOs funding to be sustainable, they must avoid relying on a singular revenue source whether internally or externally. He further noted that establishing a fit between external and internal funding is paramount for only then can an NGO foot its expenses both administrative and operational, while they enjoy their power to decide their own programs without the influence of the donor. This was also in line with Rono (2012) who opined that dependence on international funding reduces local NGOs independence and ability to set their own agendas and which is a common concern for NGOs internationally.

The study found that the staffs of the NGOs in Nairobi Kenya did agree that income diversification enabled their organizations to meet their overhead costs and other expenses not met by the donors. In addition, income diversification helped reduce the risk of the organizations closing down in case of withdrawal of donors. This concurred with Fowler (2013) who argued that, in the face of uncertain external donor funding, NGOs have to redesign their strategies of implementing their programs to envisage elements of recovering their costs by having the communities that benefit from these programs foot part, or in some cases all the costs associated with the programs. This also agreed with Mitlin et al. (2014) who observed that financial dependence on a single or few donors basically imply that the NGO sacrifices autonomy, credibility, and in some cases their core mission and values leading to a situation in which the donor can easily manipulate the organization to their own desires and agendas. To have full control over their own activities and programs, NGOs should therefore develop alternative funding strategies that would enable them to become less reliant on external funding and the attendant restrictive donor conditions. Similar sentiments were shared by Dardane (2010) who
found that most NGOs in Kosova region could not financially sustain themselves and were dependent on donors. The study further noted that depending solely on foreign funding and not having enough and competent workforce were a major hindrance to NGOs activities today.

The study also established that the staffs of the NGOs in Nairobi Kenya agreed with the assertion that creating other income generating activities increased the organization’s financial sustainability. The research findings further pointed out that there was a positive and significant relationship existed between income diversification and the NGOs’ financial sustainability. This agreed with Kameri-Mbote (2012), developing financial sustainability and diversifying the source of funding is essential for NGOs to allow them to sustain their impacts in the long run. Similar view was expressed by Sontag-Padilla et al. (2012) who added that seeking alternative funding sources is the only viable way of achieving financial sustainability among the NGOs. Similarly; Saungweme (2014) identified income diversification as one of the emerging factors that had a significant impact on the financial sustainability of non-governmental organizations in Zimbabwe. Funds source diversification was cited as the leading strategic decision required to enable NGOs achieve long-term financial viability (Bell et al., 2010). Similar findings were found by Gyamfi (2010), Bowman (2011), Khisa (2012), Harding (2014) and Omeri (2015), all of who established a positive relationship between income diversification and sustainability of non-governmental organizations.

5.3.2 Donor Relationship Management and Financial Sustainability of NGOs

The study established that the staffs of the NGOs in Nairobi Kenya were in agreement that their organizations had made efforts in establishing constructive networks and alliances with various donor organizations and that the organizations maintained regular meaningful communications with their donors. This was in line with the findings of Beyene (2014), did a research on factors that affected the financial sustainability of NGOs in Ethiopia using a case of AFD in Addis Ababa, asserted that, in view of the significant effect that donor relationship management have on the financial sustainability of an NGO, it is the duty of the NGO’s management to maintain a good relationship with the donors mainly through managing information and to ensure the existence of accountability and

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meaningful communication. This also concurred with Bell et al. (2010) who opined that creating a sound and positive donor relationship based on mutual understanding and respect of the donor enables NGOs to benefit from continuous support from their donors. Similarly, Onsongo (2012) identified establishment of strong donor relations as one of the important strategies that local NGOs adopted to achieve financial sustainability in Kenya.

The study found that the staffs of the NGOs in Nairobi Kenya did agree that accountability in the use of donor funds had helped improve their organization’s donor relations and that their organizations provided regular reporting on their expenditure to foster accountability for funds given. Mitlin et al. (2014) observed that NGOs’ strategic alignment of programmes and processes to donor priorities and able to attain donor loyalty through creation of strong, positive relationships were more financially sustainable. This was also in line with Harding (2014) who noted that positive NGO-donor relationship was crucial for long-term engagement and creation of donor loyalty that would help enhance NGOs’ access to donor funding. Iwu et al. (2015) identified effective and constant communication, integrity and accountability as the prerequisites to the establishment of a long-term beneficial relationship between NGOs and their donors.

The study also established that the staffs of the NGOs in Nairobi Kenya agreed with the assertion that the stronger the relationship the organizations had with their donors the more financially sustainable they were. In addition, the research found that there was a positive and significant relationship between donor relationship management and financial sustainability of the NGOs. This was in agreement with Saungweme (2014) who established a significant relationship between good donor relationship management and the financial sustainability of NGOs in Zimbabwe. Bell et al. (2010) opined that the NGOs that had a stronger relationship with their donors enjoy better financial sustainability. Studies by Khisa (2012), Beyene (2014), Okorley, and Nkumah (2012) also established a strong positive relationship between the nature of relationship NGOs had with their donors and the sustainability of their projects.

The study also found that the staffs of the NGOs in Nairobi Kenya did agree that their organizations had to follow the guidelines as well as scope of donor activities or risk not getting the funding and that their organizations actively implemented donor
visibility/recognition activities. This implied that donor regulations on use of funds and implementing donor visibility activities were some of the donor relationship practices that had an influence on the financial sustainability of the non-governmental organizations in Nairobi Kenya. This agreed with Rono (2012) who argued that the principal traits of sustainable non-governmental organizations lie in undertaking programs and activities that its donors can identify with. Similarly, in a review of the financial sustainability of NGOs in Zimbabwe, Saungweme (2014) concurred by asserting that NGOs can enhance their relationship with donor organizations by engaging in donor visibility activities and more so those that have meaningful impact on their target groups and that are in line with the goals of the donor organizations. Studies by Hassan (2015) and Kabdiyeva (2013) also cited donor visibility activities and compliance with donor regulations as some of the practices that can contribute to a strong relationship between the NGOs and their donors. The sentiments were also shared by Okorley and Nkrumah (2012) who noted that engagement in donor visibility programs and strict compliance with donor requirements helped Ghanaian NGOs enhance their association with their donors with donor visibility programs and adherence to grant regulations being some of the core elements that donors were keen on in their funding decisions of local NGOs’ projects in the country.

5.3.3 Financial Management Systems and Financial Sustainability of NGOs

The study found that the staffs of the NGOs in Nairobi Kenya agreed that there existed proper financial policies that guided how their organizations managed their funds; operations of their organizations were done according to budgetary allocations and that their organizations periodically reviewed their budgets and other financial plans to see if they agreed with their mission. This agreed with Elliott (2012) who asserted that failure by an organization to properly engage in sound financial management can lead it to run the risk of focusing on the daily financial challenges and this can lead on loss of focus on its long-term financial goals. This was also consistent with Rono (2012) who opined that dependence on international funding reduces local NGOs independence and ability to set own agendas and which is a common concern for NGOs internationally.

The study also found that the staffs of the NGOs in Nairobi Kenya agreed that their organizations had financial reporting structures which facilitated accountability; their
organizations’ projects were audited every year by a qualified external auditor and that their organizations had a competent Board that provided oversight for all their financial dealings. This was consistent with Weerawardena et al. (2010) who declared that sound financial management practices were vital to NGOs for both short-and long-haul plans in addition to moral reasons, so the associations could satisfy their mandate and commitments to individuals and partners and additionally accomplish their objectives. On their part, Lewis and Kanji (2013) argued contended that sound financial management and organizational frameworks aided in persuading donors that the local NGOs had solid financial controls that would guarantee that money given would be utilized for the planned ends. Similarly, Simone (2013) noted that NGOs with good financial management frameworks draw in more donors and give benefactors the certainty that resources will be utilized for the planned purposes. Islam and Morgan (2012) argued that efficient financial management practices plus accountability are important elements that can drive and demonstrate to the donors the value for money of their donations.

The study further found that the staffs of the NGOs in Nairobi Kenya did agree that their organizations maintained an updated assets list and that financial reporting in their organizations was effective. This agreed with Conradie (2012) who in a review of non-governmental organizations and financial sustainability opined that financial reporting was one of the key areas that donors consider when evaluating the merit of non-profit organizations to access funding. On their part, Weerawardena et al. (2010) expressed the view that NGO’s sustainability is affected by their financial reporting mechanisms given that financial reporting enhances accountability within the non-governmental organizations in turn improving their appeal to potential donors. Similar view was shared by Omeri (2015) who pointed that donors nowadays give funds to NGOs that demonstrate good financial accounting systems with strong internal controls as a way of enforcing accountability.

The study also established that there was a significant positive relationship between financial management systems and financial sustainability of the NGOs. This agreed with Onsongo (2012) who found that sound financial management systems were one of the key strategies that significantly influenced the financial sustainability of local non-
governmental organizations. Similar findings were reported by Gyamfi (2010), Iwu et al. (2015) and Islam (2016).

5.4 Conclusions

5.4.1 Income Diversification and Financial Sustainability of NGOs

The study concluded that income diversification played a significant role in the financial sustainability of non-governmental organizations in Nairobi, Kenya as it increased their ability to fund their projects based on their own priorities; it enabled the NGOs to reject funding sources that were not a good fit into the organizations' values and agendas; it also enabled the organizations to meet overhead costs and expenses that could not be met by the donor funding and it helps the NGOs reduce the risk of closing down in case of withdrawal of donors.

5.4.2 Donor Relationship Management and Financial Sustainability of NGOs

The study concluded that donor relationship management played a significant role in the financial sustainability of non-governmental organizations in Nairobi, Kenya as evidenced by the assertions that the NGOs had made efforts in establishing constructive networks and alliances with various donor organizations; accountability in the use of donor funds had helped improve the NGOs donor relations; the organizations maintained regular meaningful communications with their donors; the organizations provided regular reporting on their expenditure to foster accountability for funds given; the organizations actively implemented donor visibility/recognition activities and that stronger relationships with the donors made the NGOs to be more financially sustainable.

5.4.3 Financial Management Systems and Financial Sustainability of NGOs

The study concluded that financial management systems played a critical role in the financial sustainability of NGOs located in Nairobi, Kenya as evidenced by the assertions that there existed proper financial policies that guided how the organizations managed their funds; operations of the organizations were done according to budgetary allocations; the organizations periodically review their budgets and other financial plans to see if they
are in agreement with their mission; financial reporting structures existed that allowed for accountability to take place; the organizations maintain an updated assets list; the organizations’ projects were audited every year by a qualified external auditor and that the organizations had a competent Board that provided oversight for all their financial dealings.

5.5 Recommendations

5.5.1 Recommendations for Improvement

5.5.1.1 Income Diversification and Financial Sustainability of NGOs

As observed, effective management of donor relationship positively affects NGOs financial sustainability in Nairobi Kenya, the study recommends that the non-governmental organizations should identify and implement various income generating activities with a view of achieving self-sustenance especially in light of declining donor support. Through income diversification, the non-governmental organizations would also be able to increase the scope of their functions/activities and thereby being able to meet the needs of their target groups and stakeholders.

5.5.1.2 Donor Relationship Management and Financial Sustainability of NGOs

Given that donor relationship management positively relates to the financial sustainability of NGOs in Nairobi Kenya and donor support remains an important source of funding for the NGOs, the study recommends that the non-governmental organizations should develop an operating framework that allow frequent meaningful collaborations with the donors in the execution of their activities. Further, the non-governmental organizations should institute adequate internal controls that foster full accountability in the expenditure of funds provided by the donors.

5.5.1.3 Financial Management Systems and Financial Sustainability of NGOs

Given that financial management systems positively relate to the financial sustainability of NGOs in Nairobi Kenya, the study recommends that the non-governmental organizations should strengthen their financial reporting structures to ensure effective
management of their financial resources. The financial reporting structures should provide for the oversight role of auditors and Boards in all financial dealings of the organizations as an accountability measure. In addition, the financial reporting structures should provide for adequate financial planning in order to ensure that the financial needs of the organizations for a particular period are identified beforehand and ways of raising the required funds are hence identified.

5.5.2 Recommendations for Further Studies

Since this study explored the factors affecting financial sustainability for non-governmental organizations in Nairobi Kenya, the study recommends that a research should be conducted to investigate the methods used by non-governmental organizations to achieve financial sustainability in the country. In addition, further research should be done on factors affecting NGOs financial sustainability apart from the three factors that the researcher focused in this research.
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Islam, C. (2016). *Non-governmental organization vulnerabilities: Donors and resource dependence*. CMC Senior Theses, Claremont McKenna College, USA.


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APPENDICES

Appendix I: Letter of Introduction

Ezekiel Milelu

0724 096 644

emilelue@gmail.com

Dear respondent,

RE: ACADEMIC RESEARCH

Kindly refer to the subject above:

I am an MBA student at United States International University-Africa. Currently I am doing a study on factors affecting financial sustainability for Non-governmental Organisations (NGOs) in Kenya.

In this regard, you have been selected as one of the participants in the research. I am requesting that you provide us with the required information on the attached questionnaire.

The use of the information you give us will be for the research purpose only. We will also ensure utmost confidentiality of the information you give us. we will also share with you the findings of the research and hope that they will be useful to you.

Sincerely,

Ezekiel Milelu
Appendix II: Questionnaire

Demographic information

1. What is your gender?

(1) Male [ ] (2) Female [ ]

2. Kindly indicate your age

Less than 30 years [ ] 30-39 years [ ]

40-49 years [ ] 50 years and above [ ]

3. Kindly indicate your highest level of education

Diploma [ ] Graduate [ ] Masters [ ] PhD [ ]

Other professional qualifications (specify) ………………………………..

4. Kindly indicate how long have you worked in your current workplace

Less than 1 year [ ] 1-5 years [ ]

6-10 years [ ] Over 10 years [ ]

5. Indicate the location of your workplace

Ruaraka [ ] Embakasi [ ] Kasarani [ ] Westlands [ ] Starehe [ ]

Makadara [ ] Langata [ ] Kamukunji [ ] Dagoretti [ ]

6. Kindly indicate the duration your firm has been in existence

Less than 1 year [ ] 1-5 years [ ]

6-10 years [ ] Over 10 years [ ]
### Section B: Income diversification

8. Kindly express your opinion regarding the following statements on income diversification in your organization. Use a scale of 1-5 where 1 - strongly disagree, 2 - disagree, 3 - neutral, 4 - agree and 5 - strongly agree.

<table>
<thead>
<tr>
<th>Statement</th>
<th>1</th>
<th>2</th>
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<tbody>
<tr>
<td>Foreign donations as sources of funding are on the decline in my organization</td>
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<td>Creating other income generating activities increases my organization’s financial sustainability</td>
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<td>Reliance on donor funding forces my organization to align its plans with donor priorities</td>
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<td>Income diversification increases my organization’s ability to fund its projects based on its own priorities</td>
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<td>Income diversification reduces the risk of my organization closing down in case of withdrawal of donors</td>
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<td>Income diversification enables my organization to be able to reject funding whose sources do not fit into its agenda and values</td>
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<td>Income diversification enables my organization meet its overhead costs and other expenses not met by the donors</td>
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Section C: Donor relationship management

9. Kindly express your opinion regarding the following statements on donor relationship management in your organization. Use a scale of 1-5 where 1 - strongly disagree, 2 - disagree, 3 - neutral, 4 - agree and 5 - strongly agree.

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<th>2</th>
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<tr>
<td>My NGO maintains regular meaningful communications with its donors</td>
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<td>My NGO actively implements donor visibility/recognition activities</td>
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<td>My NGO provides regular reporting on its expenditure to foster accountability for funds given</td>
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<td>My NGO has to follow the guidelines as well as scope of donor activities or risk getting no funding</td>
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<td>The stronger the relationship my NGO has with its donors the more financially sustainable it is</td>
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<td>Accountability in the use of donor funds has helped improve my NGO donor relations</td>
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<td>My NGO has made efforts in establishing constructive networks and alliances with various donor organizations</td>
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**Section D: Financial management systems**

10. Kindly express your opinion regarding the following statements on financial management systems in your organization. Use a scale of 1-5 where 1 - strongly disagree, 2 - disagree, 3 - neutral, 4 - agree and 5 - strongly agree.

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<tr>
<td><strong>Strongly disagree</strong></td>
<td><strong>disagree</strong></td>
<td><strong>Neutral</strong></td>
<td><strong>Agree</strong></td>
<td><strong>Strongly agree</strong></td>
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<tr>
<td>My NGO periodically reviews the budgets and other financial plans to see if they agree with its mission</td>
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<td>My NGO has put up structures for financial reporting that allow for accountability</td>
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<td>Financial reporting in my NGO is effective and efficient</td>
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<td>Operations of my NGO are done according to budgetary allocations</td>
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<td>My NGO maintains an updated assets list</td>
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<td>My organization has financial policies to check on the spending of financial resources</td>
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<td>My NGO has a competent Board that provides oversight for all its financial dealings</td>
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<td>My NGO’s projects are audited every year by a qualified external auditor</td>
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End