

THE INFLUENCE OF SOURCE OF FUNDING ON THE FINANCIAL SUSTAINABILITY OF NON-GOVERNMENTAL ORGANIZATIONS IN UASIN GISHU COUNTY, KENYA

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ABSTRACT: *Financial sustainability is the ability of organizations to develop a diverse resource base. In Kenya, the number of NGOs has been increasing yearly; most of them depend on foreign donations. Therefore, the study sought to establish the relationship between donor funding and financial sustainability of non-governmental organizations in Uasin Gishu County, Kenya. Based on the study, this paper explores the influence of sources of funding on the financial sustainability of NGOs. Correlation research design was used as the principal research methodology for the study. The target population was 146 NGOs that were actively engaged in development projects in Uasin Gishu County. The respondents were NGO management and volunteers. Stratified sampling technique was used to identify non-governmental organizations to participate in the study. A sample size of 60 respondents was selected using Nassiuma's 2000 model. Data collected was analysed using descriptive and inferential statistics. Test re-test was done to establish the reliability of instruments results; 95% level of significance was used to test the hypothesis. The findings of the study showed that there was a positive correlation between donor funding and financial sustainability of the NGO's in Uasin Gishu County. Improved financial sustainability could be achieved as a result of diversifying sources of funds, retaining qualified staff and improving governance practices and organizational capacity. Therefore, it was recommended that NGOs should limit over-dependence on donor funds and indeed focus on establishing income generating activities and venture into multiple sources of funds for their projects; this would improve their financial sustainability.*

KEYWORDS: Influence, Source, Funding, Financial Sustainability, Non-Governmental Organizations, Uasin Gishu County, Kenya

INTRODUCTION

Donor funding is aimed at offering technical solutions to social problems without altering basic social structures. The main goal of donor funding is to alleviate poverty in the long term, directly or indirectly. Donor funding can be generated by government or non-government agencies. These funds can be given bilaterally (given from one country directly to another country) or multilaterally (from a donor country to an international organization, who on their part distribute the funds) (OECD, 2011). In developing countries resources are scarce and donor funding is thus a necessity. Instability or a major crisis in a particular country usually results in donor funding being suspended temporarily or indefinitely.

In light of the substantial cutbacks in both US federal and state funds with the recent recession and subsequent declines in philanthropic giving, identifying promising strategies to sustain

NGOs is necessary to avoid cutbacks in community-based services (Besel, Williams & Klak, 2011). Resource scarcity is prevalent aspect when considering the financial management processes of not-for-profit organizations such as non-governmental organizations (Kerine, 2015). As Karanja and Karuti (2014) point out, more often than not, these organizations find themselves with an ever increasing agenda of programs and activities requiring consistent and adequate funding but have to contend with the fact that they have limited opportunities for generating additional income. This may lead to financially unsustainable operations if not checked.

Non-governmental organizations play a vital role in the socio-economic development of Kenya (Karanja & Karuti, 2014). They complement government's efforts in providing sustainable development by filling development gaps where government is short. Despite these important roles NGOs play in the development process they are faced with a number of challenges which raises concern about their sustainability. Non-governmental organizations continue to play an important role in any developed and developing society because they help citizens participate and influence the decision making process as well as the management of public affairs (Brass, 2010).

The Academy for Educational Development (AED) is one of the International NGOs that ceased operation as a result of donor funding being stopped. AED collapsed three months after the United States Agency for International Development (USAID) stopped their funding (Beam, 2011). The fall of AED made waves in part because of its size and history. It collapsed because of overreliance on one donor who eventually pulled out leading to the death of the organization. There is, therefore, a great need to ensure financial sustainability of NGOs.

Sources of Funding for NGOs

Reaching a satisfactory level of financial sustainability necessarily requires more than just securing funds from diversified sources. It requires as much strengthening NGOs organizational and operational capacities (Kerine, 2015). There exists a causal relationship between financial sustainability and certain factors associated with NGOs management, leadership, public image, service provision and community participation. These factors could contribute to, or impede financial viability of given NGO (Bray, 2010). Foundations and other donors increasingly want access to up-to-date information about an organization's operations and finances as a way of ensuring return on their investment (Bray, 2010).

Engaging in evaluation activities that outline financial and programmatic outcomes as a result of funding support demonstrates the value of a non-profit's operations and helps determine mission impact (Kerine, 2015). To appreciate the challenges of financial sustainability, it is necessary to understand the potential sources of revenue for the NGO sector. While there is, of course, tremendous variation in the sources of NGO revenue among countries and NGOs within any sector, there are at the same time identifiable trends of NGO financing.

Karanja (2014) has carried out a study on financial sustainability of non-governmental organizations in Isiolo County, Kenya. The general objective of the study was to determine the factors influencing financial sustainability among Non-Governmental Institutions operating in Isiolo County, Kenya. The study adopted a descriptive research design. The total number of management staff working in those NGOs was 47 employees. Data was analysed using descriptive statistics, percentages, frequency distributions and presented using graphs, charts and tables. The findings showed that one of the major factors impacting the

effective management and sustainability of NGOs is the nature of their dependability on donor funding. It is also concluded that funding in NGOs is a challenge and this has led many projects to end abruptly and therefore the NGOs need to focus on more sources of funding their projects and partnering with more donors rather than concentrating on a single donor.

Tomno (2013) has investigated the influence of funding on the sustainability of local non-governmental organizations' programs in Baringo County, Kenya. The objectives of the study were to establish the sources of funding and its influence on sustainability of local NGOs in Baringo County, to find out reasons limiting local NGOs access to funding, examine the influence of availability of funding on retention of qualified employee and volunteers by local NGOs and finally analyse the influence of governance of local NGOs on their potential to access funding opportunities. The study targeted local NGOs that are actively engaged in development projects in Baringo County, NGO managers and volunteers being the main respondents. Tomno (2013) used purposive sampling technique to identify local non-governmental organizations to participate in the study. A sample size of 130 respondents was selected using sample size formula. Descriptive survey design was used as the research methodology for this study. The findings of the study showed that majority organizations in the area of study receive funding in form of grants and donations from external donors making up most of the funding for local NGOs (Tomno, 2013). These posed threat to their flexibility and independence in terms of programming. Study results also attest to the fact that many local NGOs grapple with governance challenges that not only limit their chances of accessing multiple sources of funding but also weakens sustainability of their development interventions.

Gunderson (2011), in a study on *Best Practices for Not-for-Profit Internal Controls: Enhancing Your Internal Control Environment*, has found that many establishments need to address the structural imbalance between their declining revenues and their operational and capital needs. He recommends that these establishments need to adopt different ways of doing business that will endure beyond the financial crisis. In order to manage effectively during critical times, financial managers should focus on rational, proactive measures to preserve essential services and to ensure fiscal resilience, reviewing financial positions, practices and policies, and taking action to develop appropriate short- and long-term strategies. Gunderson (2011) further established that, for financial sustainability to succeed, effective financial management including funds flow control systems, financial planning, budgeting systems, asset management systems, accounting policies and procedures, internal and external auditing systems, reporting and monitoring systems, information systems, financial analysis and plan implementation, are required.

Gunderson (2011) proposes that the goal should be to manage revenues as carefully as expenditures, and to foster financial stewardship as well as cost containment. He also found that financial managers can use hard times to pursue organizational change or shed out modern business practices. They should also ensure that funds are available when needed and that they are obtained and used in the most efficient and effective way to the benefit of the NGOs, this because financial management plays an important role in supporting new programs to be diffused in practice. Since 2006, the European University Association (EUA) has been conducting ambitious research on the financial sustainability of universities. In 2007, EUA was identifying supplementary revenue streams for universities and promoting modes of governance that support optimal transparency in financial management because sustainability is a process, not an end. An organization does not "become" financially sustainable and then rest on its success.

Sustainability involves all the elements and functions of an organization, and every major decision made within the organization, from human resources to finances to service delivery must be considered through the filter of sustainability. Focusing on the organization's commitment to sustainability helps decision-makers to look towards the future and to consider all relevant factors, instead of making more expedient and short-sighted decisions. The association concluded that financial management tools do help an organization to deliver its mission more effectively and to ensure the best and most beneficial use of resources. This is because sound financial management practices, good governance, and accountability are essential building blocks for stimulating improvement and better value for money with regard to non-governmental organizations.

Statement of the Problem

Financial sustainability is critical to NGOs for stability and enhancement of growth. It may necessitate the development of diverse resource bases for the NGO as it is becoming the case so that it can continue its institutional structure and production of benefits for intended client population after the cessation of donor financial support. However, most NGOs usually end their operations when donor funding stops (Kerine, 2015). The enormous developmental functions undertaken by NGOs demand a continuous availability of funds and effective and efficient mobilization of financial resources. The recognition of the vital role played by NGOs at the grassroots level in the task of providing basic social services, including health, education, water and building organizational structures and development proposals as an instrument to meet community needs, underscores the fact that NGOs require more stable and secure funding (Kangiri, 2015). However, most local NGOs in Kenya continue to lack stable financial base. As a result, many run out of funds after few years of establishment with drastic implications for those closely involved with or employed by such organizations.

Besel, Williams and Klak (2011) have investigated the ability of non-profits in USA to leverage funds from the private sector during the economic downturn for community and economic development. The study found that though most of the organizations were able to maintain and grow a diversified funding base, the agencies still depended mainly on government funding or contracts for long-term financial sustainability. Okorley and Nkrumah (2012) have conducted a study to provide an understanding of the key factors that can influence the sustainability of local NGOs based on a Ghanaian context. Anecdotal evidence from their study suggested that although several NGOs had been registered to operate, only few of them had survived and were functional. The results showed that organizational sustainability is perceived by local NGOs on the availability of funds, availability and quality of material resources, supportive leadership and effective management. The findings also revealed that it is becoming increasingly difficult for local NGOs to attract funding, especially from foreign sources to support their programmes.

Nalubiri (2010) explored how local NGOs and community groups in Uganda acted towards sustaining NGO social interventions at community level. It sought to understand why it is so difficult to sustain benefits accrued from NGO work. Another study by Waiganjo, Ng'ethe and Mugambi (2012) also investigated the factors that NGOs in Kenya adopted to increase financial sustainability owing to the significant decline in donor funding. Both studies revealed that there is still high dependency on donor funding among community groups and NGOs.

Yang, Lee and Chang (2011) observe that international NGOs faced structural challenges because it is difficult for them to devise a series of self-reliance strategies for strengthening their social influence while maintaining the principle of non-profit-making simultaneously.

These limitations seemed more pervasive within the organizations studied by Besel, Williams and Klak (2011), where a strong culture of corporate and small business involvement in sustaining non-profits has never developed. Subsequently, higher levels of community philanthropy were reported within urban areas than rural ones. As witnessed by Waiganjo, Ng'ethe and Mugambi (2012), potential exists for cultivating more local philanthropy among NGOs in rural areas.

The challenge facing NGOs in Kenya and most developing countries is for them to emerge as valuable forces to effect development so as to improve the living conditions of the people in the communities. The search for funding is therefore necessary for the survival and the development of NGOs. This is because NGOs require a substantial amount of funds and other resources to successfully carry out their programs and activities. Availability of funds to NGOs is without doubt one of the factors that determined and led to the growth of the sector (Tomno, 2013). However, most NGOs fail worldwide, even after promising initial periods, owing to problems with financing. The impact of global financial and economic crisis on developing countries was a clear signal of the danger associated with their dependence on foreign resources. The impact of financial dependence on foreign donor funding is that once donors withdraws their financial support, NGOs wind up while projects developed during their period of operation eventually collapse.

According to the NGO coordination board, revenue of about \$285 million was received in 2005, of this amount, close to 90% came from donors. Many Kenyan companies that channelled their corporate social responsibility funds through NGOs have started own foundations like; Safaricom, Equity Bank, EABL and KCB. These Foundations have also diverted funds that were once channelled to NGOs (Rawlings, 2010). With donor funding drying quickly or diverted to other needy disaster prone areas, humanitarian organizations are deepening forays into commerce as they race to reduce reliance on dwindling inflows (Rawlings, 2010). The above phenomenon has seen NGOs sector across the world shift their focus on financial sustainability (Kanyinga & Mitullah, 2006). NGOs tend to rely exclusively on external sources of funding. This funding is mainly provided by the international donor community.

The shifting donor priorities have seen these NGOs device survival strategies. Particularly in the Kenya context, NGOs like Kenya Red Cross Society having started Boma Hotels and Ambulance services are example of alternative ways NGOs are adopting for survival. A number of studies have been undertaken across the world on NGO financial sustainability but not a lot has been written about Kenya. MBA project study undertaken by Rono (2006) and Nkirete (2008) on NGO financial sustainability in Kenya only identified the factors that affect financial sustainability but not the strategies that achieve financial sustainability. A study conducted on the strategies adopted by NGO in to increase financial sustainability only focused on the Meru County (Waiganjo, Ng'ethe & Mugambi, 2012).

Ndegwa (2015) have examined the factors influencing the sustainability of KEMRIHIV/AIDS grants funded projects in Kenya. Similarly, Mmuriungi, Ngugi and Muturi (2015) have conducted a study on influence of donor funded projects on social-economic welfare of the rural communities in Kenya. Most of these research studies on NGOs in Kenya focus on the outcomes of programmes, capacity building and government involvement rather than on organizational processes and factors influencing organizational impact. Little mention is made on financial sustainability. The study therefore sought to find out the relationship between

donor funding and financial sustainability of non-governmental organizations in Uasin Gishu County, Kenya.

MATERIALS AND METHODS

The study was conducted through correlation research design. The main objective of a correlation research design is the discovery of associations among different variables (Cooper & Schindler, 2011). The target populations comprised staff and volunteers of 146 registered NGOs that had been in existence for a period of not less than three years and operate in Uasin Gishu County (NGO Coordinating Board, 2016). The respondents targeted comprised the management team (finance directors, finance officers, project managers, project coordinators, project accountants) and volunteers in non-governmental organizations and their responses was deemed to be representative of their organizations.

Stratified sampling technique was used and in each stratum random sampling was used to select a sample from each stratum through balloting. The sample size in this study was determined using the following formula:

$$n = N (cv^2) / \{cv^2 + (N-1) e^2\}$$

Where n = sample size

N = target population

cv = co-efficient of variation which is taken as 0.5

e = Tolerance at desired level which is taken at 0.05 or at 95% confidence level. Using this formula, the sample size was computed thus:

$$n = 146 * (0.5)^2 / \{(0.5)^2 + (146-1) (0.05)^2\}$$

$$n = 146 * 0.25 / \{0.25 + (145 * 0.0025)\}$$

$$n = 36.5 / \{0.25 + 0.3625\}$$

$$n = 36.5 / 0.6125$$

n = 59.59. This constituted 40.82% of the target population.

The researcher used closed ended questionnaires based on Likert scale as the main mode of primary data collection. Document analysis was used as secondary data collection to obtain unobtrusive information at the pleasure of the researcher and without interrupting the information already collected. The study utilized quantitative techniques to analyse data; data was analysed using statistical methods, statistical tools such as frequency distribution, measures of dispersion such as, central tendency and dispersion such as means and standard deviation was used. Data was analysed using multiple regression and correlation analysis. The significance of each independent variable was tested at a confidence level of 95%.

RESULTS AND DISCUSSION**Sources of Funds for the NGO's in Uasin Gishu County**

The researcher focused on the level of funding, budgets and diversification of funds for the NGOs. The distribution of responses are shown in Table 1.

Table 4.2 Responses on Sources of Funds for NGOs

| Statement | F&% | SD | D | U | A | SA |
|--|--------|----------|------------|------------|------------|------------|
| Foreign donations as sources of funding are on the decline | F % | 1 1.7 | 5 8.3 | 12 20 | 26 43.3 | 16 26.7 |
| Domestic source of funding for NGOs are becoming increasingly reliable | F % | 6 10 | 17 28.3 | 17 28.3 | 15 25 | 5 8.3 |
| Coming up with income generating activities increases the financial sustainability of NGOs | F % | 3 5 | 6 10 | 19 31.7 | 24 40 | 8 13.3 |
| High dependency on donor funding has a tendency to shift interventions to match donor priorities | F % | 2 3.3 | 11 18.3 | 18 30 | 16 26.7 | 13 21.7 |
| Having multiple sources of funds increases the chances of NGOs being financial sustainable | F % | 1 1.7 | 2 3.3 | 2 3.3 | 32 53.3 | 23 38.3 |

When the respondents were asked if foreign donations as sources of funding were on the decline, 43.3% agreed, 26.7% strongly agreed, 20% were undecided, 8.3% disagreed while 1.7% strongly disagreed. Also 28.3% of the respondents were undecided on whether domestic source of funding for NGO's were becoming increasingly unreliable, 28.3% disagreed, 25% agreed, 10% strongly disagreed and 5% strongly agreed.

The researcher sought to find out if coming up with income generating activities increased the financial sustainability of the NGO's and 40% of the respondents agreed, 31.7% were undecided, 13.3% strongly agreed, 10% disagreed while 5% strongly disagreed. On whether high dependency on donor funding had a tendency to shift interventions to match donor priorities, 30% were undecided, 26.7% agreed, 21.7% strongly agreed, 18.3% disagreed and 3.3% strongly disagreed. Regarding if multiple sources of funds increased the chances of NGOs being financial sustainable, majority of the respondents (53.3%) agreed and 38.3% strongly agreed that diversifying sources of income increased the financial sustainability of the NGOs.

Table 2: Relationship between donor funding and financial sustainability of NGOs

| | | Sources of funds | Financial Sustainability |
|---------------------------------|---------------------|------------------|--------------------------|
| Sources of funds | Pearson Correlation | 1 | |
| | Sig. (2-tailed) | | |
| | N | 60 | |
| Financial Sustainability | Pearson Correlation | 0.316 | 1 |
| | Sig. (2-tailed) | 0.034 | |
| | N | 60 | 60 |

At $\alpha = 5\%$ level of significance

The tested hypotheses stated thus: H_{01} : *There is no significant relationship between sources of funding and financial sustainability of NGOs in Uasin Gishu County.* The results in Table 2 above show that the p -value obtained from t-test was 0.034, which was less than 0.05. Therefore, the researcher failed to accept the null hypothesis. The Pearson correlation coefficient of 0.316 showed that there was a positive correlation between the variables; any advancement in the sources of funds would lead to improved financial sustainability of the NGOs in Uasin Gishu County.

The above findings indicate that any advancement in the sources of funds would lead to improved financial sustainability of the NGOs in Uasin Gishu County. The findings are supported by Bray (2010), who also established that there exists a causal relationship between financial sustainability and certain factors associated with NGOs management, leadership, public image, service provision, community participation and sources of funds. These factors could contribute to, or impede, financial viability of any given NGO in a region. The sources of funds include charitable organizations, governments of different countries, individuals and commercial activities. Diversification of the sources, proper budgeting and management of the funds could improve financial sustainability of the NGOs.

CONCLUSION AND RECOMMENDATIONS

From the study findings, it is clear that there is a positive correlation between sources of funding and financial sustainability of NGOs. This means that diversification of the sources, proper budgeting and management of the funds leads to improvement in financial sustainability of the NGOs. Based on these findings, it is recommended that NGOs should limit over-dependence on donor funds and indeed focus on establishing income generating activities and venture into multiple sources of funds for their projects; this would improve their financial sustainability.

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