FACTORS AFFECTING FINANCIAL SUSTAINABILITY OF LOCAL NGOS IN KENYA, KIAMBU COUNTY.

BY

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DECLARATION

I declare that the work in this dissertation has not been previously submitted in any institution for award of a degree.

Lilian Wangechi Wachira 11/02995

Sign: ___________________ Date: ___________________

I do hereby confirm that I have examined the dissertation of Lilian Wangechi Wachira and approved it for examination

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ABSTRACT

Local NGOs in developing countries experience sustainability challenges that make them close down after few months of operation due to financial challenges. There is need to establish the factors that affect the financial sustainability of these NGOs. The study sought to determine the factors affecting financial sustainability of local NGOs in Kiambu County. The study was based on survey research design. The target population of the study was local NGOs in Kiambu County. The target population was 38 local NGOs in Kiambu County. The study sampled 38 local NGOs. Purposive sampling was used to select 5 employees from each NGO giving a sample of 190 respondents. The study was based on primary data. The data was collected through a structured questionnaire. Content validity index (C.V.I) was used to establish whether the questionnaire measured what it was to measure. Test-retest reliability was done where cronbach's Alpha was used to measure of reliability. Both descriptive and inferential statistics were used in analysis of the data. The data was presented through tables, pie charts and graphs. The study found that the respondents indicated that donor relationship management, income diversification, financial management and management competence affected financial sustainability of their firms. The study concludes that donor relationship management, income diversification, financial management and management competence positively affect financial sustainability of local NGOs in Kiambu County. The study further concludes that local NGOs in Kiambu County are financially unsustainable. The study recommends management training, adoption of proper financial management practices and establishment of income generating projects. The study recommends a study on financial factors affecting sustainability of international NGOs in Kenya.
Key words: Financial sustainability, Non-Governmental Organizations, Income Diversification, Management competence, Financial management, Donor relationship management

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DEDICATION

I dedicate this dissertation to my husband Charles and my daughter Darlene.

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ACRONYMS AND ABBREVIATIONS

AED	-	Academy for Educational Development
C.V.I	-	Content validity index
CDA	-	Childhood Development & Aid
NGO	-	Nongovernmental Organisation
PBO	-	Public Benefit Organizations
RDT	-	Resource dependence theory
REC	-	The Regional Environmental Center
USAID	-	United States Agency for International Development
USA	-	United states of America
CI	-	Counterpart International

OPERATIONAL DEFINITION OF TERMS

Donor relationship management The process of cultivating relationships with new donors and stewarding current donors in order to maximize donor retention, engagement and investment (Alter, 2007).

Financial management Management of money (funds) in such a manner as to accomplish the objectives of the organization (Leon, 2011).

Financial Sustainability Financially sustainability is an NGO's capacity to obtain revenues in order to sustain productive projects at a steady or growing rate in order to produce the expected results (Devkota, 2010).

Income diversification The process in which multiple income sources are created by an NGO (Moore, 2010).

Management competence Ability of the management of NGOs to perform their duties effectively (Okorley & Nkrumah, 2012).

Non-Governmental Organization Non-profit, voluntary citizens' group which is organized on a local, national or international level (Edwards, 2007).

CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Nongovernmental Organisations (NGOs) are intermediary organisations engaged in funding or offering other forms of support to communities and other organisations that seek to promote development and they may either be local, national or international NGOs (Edwards, 2007; Bøås & McNeills, 2009). A Non-Governmental Organization (NGO) is an organization that is neither a part of a government nor a conventional for-profit business. It is usually set up by ordinary citizens; NGOs may be funded by governments, foundations, businesses, or private persons (Holloway, 2003).

NGOs are said to be groups and institutions that are entirely or largely independent of government and that have primarily humanitarian or cooperative rather than commercial objectives (Houghton, 2005). Non-Governmental Organizations (NGOs) are increasingly being recognized by governments as important partners in nation building, national development and valuable forces in promoting the qualitative and quantitative development of democracy.

1.1.1 Financial sustainability of NGOs

Financial sustainability is key to the survival of an organization. Bowman, (2011) defines financial sustainability as the ability of a Non-Governmental Organization (NGO) to maintain financial capacity over a period of time. Renz and David (2010) defines financial sustainability as the ability of an NGO to develop a range of resources so that it could continue with its activities after the withdrawal of donor funding.

Financial sustainability is crucial for the long-term survival and effectiveness of all types of NGOs (Dresner, 2002). The challenge is how to achieve such levels of financial sustainability. The financial sustainability of an NGO depends on its ability to source for funding especially from donor agencies (Guruprasad et al, 2013).

Major NGOs in the world have collapsed due to funding challenges. A major British NGO (Childhood Development & Aid (CDA)) collapsed in 2002 due to poor financial management (The Regional Environmental Center (REC), 2006). The general reserves were negative for five years with the organization relying on restricted grants – which meant that income fluctuated a great deal (falling by almost 50% between 2000 and 2001). Another major NGO that ceased operations was a major American NGO, Academy for Educational Development (AED). The NGO experienced financial issues in December 2010 after USAID suspended its funding to AED because of corporate misconduct, funds mismanagement, and lack of internal controls (Hedgpeth & Boak, 2011). Despite spearheading major projects in the world for over 50 years, AED collapsed in less than three months after the withdrawal of funding by USAID.

Financial sustainability has a major challenge to Non-Governmental Organizations. Alymkulova and Seipulnik (2005) states that Non-Governmental Organizations in Central Asia are unable to sustain and finance their activities. They accrue the financial unsustainability of the NGOs to decreased donor funding, decreased allocations for the region, donor focus on new markets and decreased amounts for the social programs. There is need to diversify income to remain sustainable financially. Renz, (2010) reported that 52% of NGOs in USA experienced cuts in funding due to the economic down turn in the country. NGOs in the country experienced financial woes due to cuts on federal and state funds to the

NGOs. Akingbola (2004) indicated that in Canada the local NGOs face financial challenges which made some of the organizations to cease operation.

In a study on 19 Sub-Saharan African countries, USAID (2010) found that only 6.2% of the NGOs in Africa were financially sustainable. The study concluded that local Non-Governmental Organizations (LNGOs) provided excellent service, but lacked financial sustainability due to overdependence on external donors as the only source of funding. The low financial sustainability of the NGOs in Africa was also attributed to poor performing economies that could not generate donations to the NGOs from local sources like the government, individuals and corporates. Many of the local NGOs in Africa were found to be weak and unable to compete with international NGOs for donor funding.

Okorley and Nkrumah (2012) in their study on the financial sustainability of NGOs found that 26% of the NGOs in Ghana were not sustainable. The study indicated the availability of funds, quality material resources, supportive leadership, development of needs-based and demand-driven programmes, and effective management affected the sustainability of local NGOs. Lack of funds was found to be the major factor that affected the sustainability of NGOs as indicated by 82% of the respondents. In 1995, reports on a survey by the Independent Development Trust appeared in the media, signaling that many NGOs in South Africa were in serious financial difficulty, and that a number had collapsed (Kihato & Rapoo, 1999; Amner & Vergnani, 1995). Many scholars on the sustainability of LNGOs, including concurred that financial sustainability remained one of the major challenges that LNGOs face (Ali, 2012, Manyeruke, 2012, Njoroge, 2013).

Abdelkarim (2012) noted that it is only organisations capable of building sound financial systems and attracting or generating steady income flows that will be able to continue to exist. To be able to generate a positive balance sheet that allows a LNGO to continue in operation and accord itself flexibility to respond to ever-changing environment and needs, sound financial management practices, management competence, good donor relationship management and a diversified funding base are imperative (Leon, 2011).

Kenya has witnessed increased growth of the NGO sector. According to the NGO coordination board (2012) there were approximately 8,374 NGOs operating in Kenya. In 2012, the sector contributed Kshs. 100 billion to the Kenyan economy. Currently there are many national, regional and international NGOs in Kenya. However, the sustainability of NGOs in Kenya has been a challenge. Karanja and Karuti (2014) in their study found that majority of NGOs in Kenya face funding challenges, have an unreliable source of funding and are unable to meet the tough conditions set in accessing the funds. This shows that NGOs face financial sustainability issues.

1.1.2 Kiambu county

Kiambu County in Kenya is home to about thirty-eight (38) local NGOs (NGO Coordination Board, 2015). Some of these NGOs are headquartered there while others have simply set up their branch offices in Kiambu to enable them to maintain proximity to Nairobi. Local NGOs are important to the economic development of Kiambu County.

With declining donor funding, local NGOs in the area are facing closure due to the financial sustainability issues (NGO council, 2015). The NGOs with headquarters in Kiambu face challenges in sourcing income from the area. This has created the need to study the factors affecting the sustainability of the NGOs in Kiambu county in order to understand the causes of the collapse of the NGOs.

1.2 Statement of the problem

Financial sustainability is key to the survival of NGOs (Karanja & Karuti, 2014). Financial sustainability enables NGOs to meet their daily operations and fund their projects after withdrawal of donor financial support (Nelson, 2007). Financially sustainable NGOs provide excellent service to the community through larger and more complex services. Financial viability is one of the key challenges to NGO sustainability in Kenya (Kanyingi & Mitullah, 2006). Ali (2012) noted that majority of the NGOs rely on international donors for funding which has created financial issues when the donors cut or stop the funding to these NGOs. This has made some of the NGOs cease operations and leave pending projects. According to Kisinga (2014) the failure of NGOs is mainly due to inadequacy of funding which makes the NGOs financially unsustainable.

Several studies have been done on the sustainability of NGOs (Alymkulova & Seipulnik, 2005; Turary, 2002; Moore, 2005; USAID, 2010). Many of the scholars concur that financial sustainability remains one of the major challenges that local NGOs face and will continue to face in the next decade. A study by USAID (2010) found that only 6.2% of the NGOs in Kenya were financially sustainable. This creates the need to measure the financial sustainability and enumerate the drivers of sustainability in local NGOs and specifically in Kenya.

Local studies have been done on NGOs in Kenya. Ali (2012) did a study on the factors influencing sustainable funding of Sisters Maternity Home (Simaho) in Garissa, Kenya and found that relationship management, generation of own income and government support affected sustainable funding of Sisters Maternity Home. A study by Waiganjo, Ng'ethe and Mugambi (2012) on the strategies adopted by non-governmental organizations in Kenya to increase financial sustainability found that strategic financial management, internal financial funding, strategic alliances and organization structure contributed towards financial sustainability of NGOs in Kenya.

Karanja and Karuti (2014) did an assessment of factors influencing sustainability of non-governmental organisations in Kenya. He found that government policies, management and sources of finance affected sustainability of NGOs in Kenya. The study differs from the current study in that it was done in Isiolo county while the current study will be done in Kiambu county. The study was also based on both local and international NGOs while the current study focuses on local NGOs only. The analysis tool is different in that Karanja and Karuti used SPSS while the current study will use STATA as the analysis tool. The variables of the study differ from those used by the current study.

Many of the local NGOs in Kenya are new, small and without guaranteed future (Gathee, 2012). This has made them struggle to put effective and efficient managements systems for good governance in place and whose survival largely depends on donor funding. There has been an increase in the number of NGOS registered in Kenya in the recent past. However, seventy percent of the NGOs collapse before six years of operation (NGO Council, 2006). This problem is accrued to inadequate funds to finance their operations. Despite this problem, no study has been done to establish the causes of collapse of the NGOs especially on the issue of funding. This poses a gap that the study sought to fill through a study on the factors affecting financial sustainability of local NGOs in Kenya. The question is what are the factors that have affected the financial sustainability of local NGOs in Kiambu?

1.3 Objective of the Study

1.3.1 General Objective

The general objective of the study was to establish the factors affecting financial sustainability of local NGOs in Kiambu County, Kenya

1.3.2 Specific Objectives

The study was guided by the following specific objectives

i. To establish whether donor relationship management on the financial sustainability of local NGOs in Kiambu County
ii. To determine how income diversification affects the financial sustainability of local NGOs in Kiambu County
iii. To establish the effects of financial management on the financial sustainability of local NGOs in Kiambu County
iv. To determine whether management competence affect the financial sustainability of local NGOs in Kiambu County

1.4 Research Questions

The study sought to answer the following research questions

i. Does donor relationship affect the financial sustainability of local NGOs in Kiambu County?
ii. How does income diversification affect the financial sustainability of local NGOs in Kiambu County?
iii. What are the effects of financial management on the financial sustainability of local NGOs in Kiambu County?

iv. Does management competence affect the financial sustainability of local NGOs in Kiambu County?

1.5 Justification of the study

Local NGOs play a crucial role in the economic development of a country. Financial sustainability is a major challenge facing local NGOs in Kenya (Njoroge, 2013). This has been complicated by the withdrawals of funding by donors to the local NGOs due to failure to meet the conditions set by the donors (Ali, 2012). With limited funding to local NGOs, they may not be sustainable and may cease operations after a few years of operations.

In order to ensure their sustainability, the NGOs have to diversify their funding and ensure proper relationship with the donors (Turary, 2002). Kiambu County has a high number of registered NGOs. This is due to the proximity of the county to Nairobi. The numbers increased in 2015, when the president declared war against illicit brews in Central Kenya. The NGOs have experienced difficulties in their sustainability and that of their projects. With declining donor funding, local NGOs in the county are facing closure which may create a challenge in provision of services provided by such NGOs (NGO Council, 2015).

1.6 Significance of the Study

Management of local NGOs: The findings of this study will be of great benefit to the management of local NGOs in Kenya. The study will create an understanding on the factors affecting financial sustainability of the local NGOs. This will enable the management to design strategies aimed at enhancing financial sustainability of their NGOs.

Policy makers: The study will provide an insight to policy makers in designing policies that would enhance the financial sustainability of local NGOs in Kenya. The policies will be based on the factors that affect the financial of local NGOs provided by this study.

Future scholars and academicians: The study will provide basis for further research as well as provide literature review for existing literature. The study will add to the body of knowledge on factors affecting financial sustainability of local NGOs.

Other NGOs: The findings of this study will be important to international NGOs in Kenya. The NGOs given that they operate in the same environment, their understanding on the factors that affect financial sustainability, they can come up with strategies that would enhance their financial sustainability.

1.7 Scope of the Study

This study sought to establish the factors affecting financial sustainability of local NGOs in Kiambu County, Kenya. The study targeted employees of local NGOs in Kiambu County. The study was based on the variables of donor relationship, income diversification, financial management and management competence and their effect on the sustainability of local NGOs in Kiambu County, Kenya.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section will review the literature on the financial sustainability of local NGOs.

2.2 Theoretical Review

2.2.1 Resource- dependency Theory

The resource dependency theory was advanced by Pfeffer and Salancik (1978). Resource dependence theory (RDT) maintains that organizations are resource-insufficient; they strive to acquire and sustain resources from their external environment. Pfeffer and Salancik (1978) argue that resources are controlled by external actors who exert demands on the organization. These actors perceive certain advantages in their relationship with the organization and exercise power through control over resources. The heavier the dependence on external resources, the more the demands of particular actors controlling these resources are influential. The challenge is for the organization to proactively and effectively manage incompatible and competing demands.

Local NGOs rely more on external funders (donors), face instability in the flow of funding, and deal with volatile demands (Moore, 2010). Accordingly, organizational behaviour is a reflection of the NGO's management of its dependence on an external resource and the ensuing demands of a donor controlling the resources. The magnitude of resource dependence often determines the financial behaviour of an NGO which in turn affect the financial sustainability of the NGOs (Scott, 2004). If an NGO fails to meet the conditions set by the external funders, the donors may withdraw the funding making the NGO face financial sustainability issues. The NGO may not be able to fund the projects due to instability of funding flows.

2.2.2 Institutional theory

Another theory relevant to the study is the institutional theory as explained by Scott in 2004. Institutional theory specifies how society expectations are met and gained by institutionalizing norms and rules. Institutional theory attends to the deeper and more resilient aspects of social structure. It considers the processes by which structures, including schemas, rules, norms, and routines, become established as authoritative guidelines for social behavior. It inquiries into how these elements are created, diffused, adopted, and adapted over space and time; and how they fall into decline and disuse.

Although the ostensible subject is stability and order in social life, organizations must perforce attend not just to consensus and conformity but to conflict and change in social structures (Scott, 2004). This theory provides some code of behaviour to earn, nurture and maintain societal expectations; and thus, create a positive organisation-society interface. The theory is relevant to the study in that for a firm to be funded and trusted by the donors, they have to follow a certain code of conduct that meets the expectations of the society. This ensures that the NGOs are financially sustainable and their projects funded on time.

2.2.3 Power relations theory

The power relations theory was developed by neo-institutional theorists, DiMaggio and Powell in 1983. Power relations theory provides an account for the changes that are occurring in NGOs due to their asymmetrical power relationship with their funding organizations. DiMaggio and Powell (1983) suggest that the more dependent an organization is on its exchange partners, the more this leads to greater similarities between organizations.

Wallace, Bornstein and Chapman (2006) argue that coercion and compliance are important concepts in understanding the relationship between local NGOs and their foreign donors. Donor agencies provide access to funding and therefore are in a position of power. These donors set the agenda and conditions required for receiving a grant and there are real consequences if local NGOs lose this funding (Markowitz & Tice, 2002). Because donors have control over the funding and can decide to withdraw their contribution, coercion may include force (Wallace et al. 2006). This means that the local NGOs in Kenya have to adhere to the conditions set by the donors in order to get the funding. Failure to meet such conditions may lead to the NGOs missing the funding and hence inability to fund their activities and projects. This may make the NGOs financially unsustainable.

2.3 Empirical Review

2.3.1 Donor relationship management

According to Lewis (2011), donor relationship management is the building and nurturing of positive connections with the donors. He states that it requires a clear segmentation and prioritization of donors which leads to the formulation of clear goals and action plans for how the NGOs will interact with a given donor segment to achieve desired results. While all donors are important, their significance to the work of the nonprofit organization can vary greatly, as can their motivations and needs (Boas, 2012). Effective relationship management takes account of these factors and enables the nonprofit to determine what level and type of action and staff investment relating to each will best enable the organization to effectively achieve its funding model. By developing and implementing effective practices and systems that yield strong relationships with donors, nonprofits can generate more sustainable and dependable revenue, strengthen grant effectiveness, and, ultimately, achieve better results (Alter, 2007).

Managing donor relationship also involves accounting for the donor funds' usage based on the agreements (timelines, grant, project scope and budgets). In relationship management LNGOs should be able to understand the needs of the donors, contact person and the requirements of the contact person (Lewis, 2011). This is reflected by the number of return donors, change in the amount of funding from donors and the number of complete projects funded by the donors. If there is a falling number of return donors, fall in the amount of donor funding or stalled donor funded projects then there is poor donor relationship in the NGO. There is need to manage this relationship through regular communication, proper utilization of funds, preparation and presentation of financial reports to donors and the meeting of conditions set by the donors (Moore, 2010).

According to Lewis (2011) there is a strong positive relationship between donor relationship management and financial sustainability of local NGOs. In relationship management, LNGOs should be able to keep track of their donors and their funding priorities while at the same time keeping donors up-to-date on the NGO's activities (CI, 2011).

2.3.2 Income diversification

Lewis (2011) defined income diversification for LNGOs as the sourcing funds from many sources. These include the public, business community, governments, and external donors. Donor funding is restricted with the LNGO using the resources only for the specified purpose

(Lewis, 2011). Leon (2011) noted that at least 60% of an NGO’s income should come from at least five sources. He found that diversification of income sources protects the organisation from external shocks and challenges that come from the volatility of donor funding.

According to Boas (2012) the term ‘diversification of income’ describes a number of activities that strive to reduce the dependence on a specific type of income, specific donor or grant maker, dominating customer, country that is the only or main source of funding and currency in which most or all funds are paid out. The author emphasizes that organizations that focus their activities on donors and grant makers will try to diversify international sources of funding, diversify among national sources of funding, find donors and grant makers that have the reputation to be reliable and find donors and grant makers that contribute to overhead costs and start-up costs.

Alter (2007) points out that, the income diversification advocates for commercial ventures to diversify funding by LNGOs. The income diversification increases the number of NGOs incorporating income-generating activities into their organizations, yet problems arise from disappointing financial returns, complex legal and tax issues, organizational discord and mission dissonance.

Moore (2010) argue that NGOs are expressing difficulty in finding sufficient, appropriate and continuous funding for their work. They find accessing donors as challenging as dealing with their funding conditions. They perceive there to be certain cartels of individuals and NGOs that control access to donor funds. They have limited resource mobilization skills and are often not looking for funds that are available locally, preferring to wait for international donors to approach them. There is a high dependency of donors and a tendency to shift interventions to match donor priorities.

Davis (2013) in his study on financial sustainability and funding diversification as a challenge for Indonesian NGOs found that most of the revenue coming into the NGO sector in Indonesia is from international donor agencies. For LNGOs, government (5%) and international donors (15%) were not the main funding sources. This contrasted with NGOs located in provincial capitals, which relied primarily on international donors (45%) or national NGOs for their funding (15%). He concluded that majority of the LNGOs in Indonesia do not have limited sources of funding. Nuka (2010) concurred by establishing that 75% of the LNGOs in Kosova relied on foreign donors' as their only or main financial sources of their projects and activities.

Saungweme (2014) in his research revealed that most local non-governmental organisations in Zimbabwe were not leveraging their assets to generate income, and most were not engaged in own income generating activities while their funding sources were not diversified enough to be regarded sustainable. They further revealed that most local non-governmental organisations were funded entirely by external donors, had no reserve funds, were not generating own income, and depended on average on about three donors.

2.3.3 Financial management

Lewis (2011) defined sound financial management practices as involving looking at and taking action on, financial issues of an LNGO that will have an effect on the organization's overall direction and impinge on its ability to attain current and future objectives. Practically, good and strategic financial management looks at two main issues: financing the long-term objectives of the LNGO and reducing the impact of threats on the organization's financial resources (Lewis, 2011). A strategic plan and an accompanying financial plan will help in efforts to raise funds from donors as donors will have some impression of the direction the LNGO is taking (Ali, 2012).

Leon (2011) noted that many LNGOs do donor-based accounting, which is risky as it does not give adequate controls for regular automatic reviews and this type of accounting was susceptible to human error. The study suggested that NGOs should pursue cost centre accounting, which allowed for double entry and coding for donor reports as well as tight controls.

A sound financial management system that supports financial sustainability of a LNGO should be able to produce relevant types of financial statements on a regular basis. It should address issues such as the required types of financial statements; set periods for regular reviews of the statements; ease of comprehension of the statements produced; involvement of board members in fiscal oversight; and a dedicated board committee to look into financial issues (Leon, 2011). This research assignment also considered these aspects.

Waiganjo, Ng'ethe and Mugambi (2012) found that there is a strong positive relationship between financial management and financial sustainability of the NGOs. Ali (2012) concurred with Waiganjo et al, (2013) by indicating that financial management is a major factor that affect financial sustainability of the non-governmental organizations.

2.3.4 Management competence

Ansoff and McDonnell (2010) identifies general management competence orientations as integral to the success of the organization. According to Okorley and Nkrumah (2012), good management greatly contributes to local NGOs' sustainability the bias being on the fact that management must have capacity to oversee the implementation of their development programmes. At the same time a good partnership between the management, the staff and the board is required.

Muriithi (2014) stated that sustainability of NGOs is influenced positively by a number of management factors and management capabilities. These included proper governance structures, top management that understands the purpose of the organization and take the lead in its achievement, a leadership with all the required qualification, skills, competence and experience, a management that adopts staff policies that motivate and retains employees within the organization. Leadership approaches adopted also helped the organization to meet its objectives (Muriithi, 2014).

Okorley and Nkrumah (2012) in their study on the organizational factors influencing sustainability of local non-governmental organisations in Ghana found that management competence is a major factor to financial sustainability of local NGOs. Njoroge (2013) did an investigation on the factors influencing sustainability of NGOs in Kenya. The study established a positive relationship between management competence and sustainability of NGOs.

2.3.5 Financial sustainability of NGOs

Financial sustainability is the capacity of an NGO to generate revenues locally and/or ensuring that external donors continue to make funds available at required levels for programmes (Devkota, 2010). Lewis (2011) noted that financial sustainability is gauged by net income (surplus of revenue over expenses), liquidity (cash available to make payments), and solvency (the relationship between assets and debt/liabilities). Financial sustainability also entails the capacity to develop a diverse base of funding so that the institutional structure and benefits production of an organisation continue after external funding ceases (Abdelkarim, 2012).

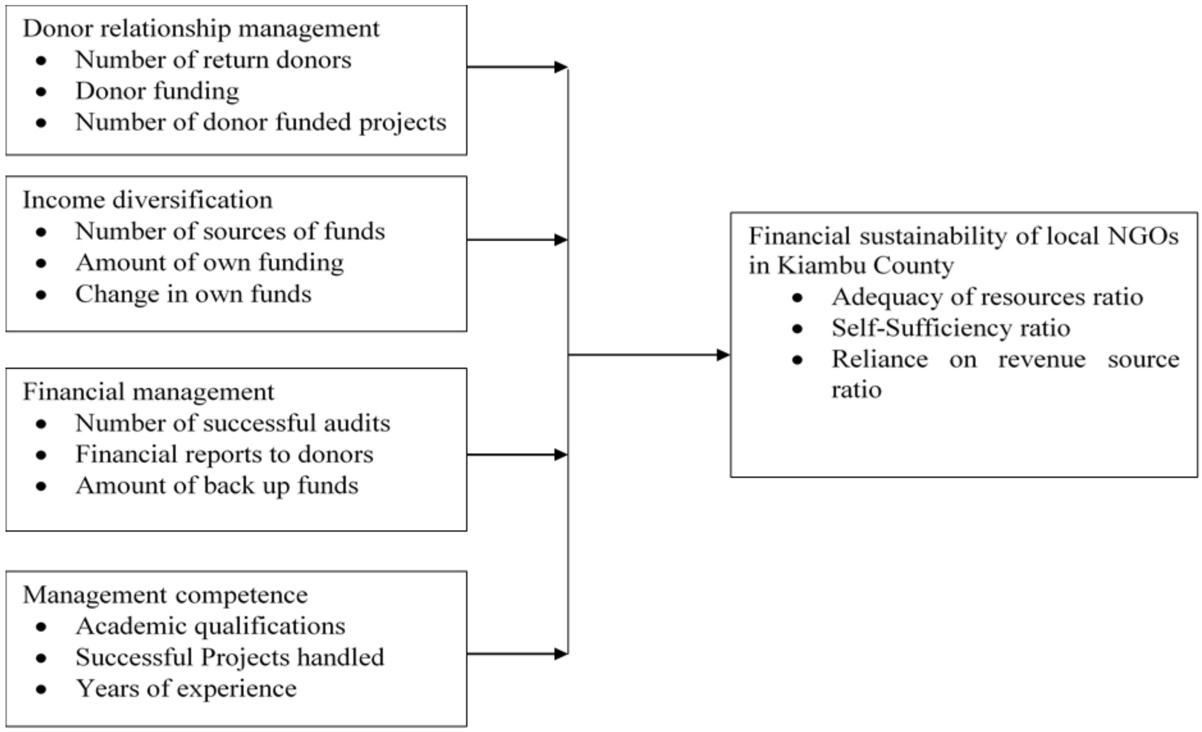
Financial sustainability encompasses sound financial management, resource mobilization and income generation/self-financing (Abdelkarim, 2012). Financial sustainability entails the ability to generate a positive balance sheet so that the NGO can have flexibility to respond to new needs and changes to the operating environment (Leon 2011).

Saungweme (2014) from the regression analysis ascertained that sound financial management practices had the largest influence on financial sustainability of Local Non-Governmental Organisations, followed by income diversification, then own income generation and good donor relationship management. He also found the survival ratios like self-sufficiency to be very low with 22 days being the maximum. Ali (2012) concurs by stating that majority of the NGOs in Kenya are financially unsustainable.

2.4 Conceptual Framework

Figure 2.1: Conceptual Framework

Independent Variable Dependent Variable



Source: Author, 2016

2.5 Operationalization of Variables

Table 2.1: Operational Definition of Variables

Type of variable	**Variable**	**Indicators**	**Scales**	**Question no**	**Collection tool**	**Type of Analysis**
Independent	Donor relationship Management	Number of return donors Donor funding Number of donor funded projects	Ordinal	Q7–8	Questionnaire	Descriptive
	Income Diversification	Number of sources of funds Amount of own funding Change in own funds	Ordinal	Q9-13	Questionnaire	Descriptive
	Financial Management	Number of successful audits	Ordinal	Q14-15	Questionnaire	Descriptive

		Financial reports to donors Amount of back up funds				
	Management Competence	Academic qualifications Number of successful Projects handled Years of experience	Ordinal	Q16-20	Questionnaire	Descriptive
Dependent	Financial Sustainability	Adequacy of resources ratio Self-Sufficiency ratio Reliance on revenue source ratio	Ratio/ordinal	Q21-27	Questionnaire	Descriptive

Source: Author, 2016

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter details the methodological approach used in this study. It will specifically highlight the research design, target population, sampling procedure, data collection, validity, reliability and data analysis and presentation.

3.2 Research Design

The study was based on a descriptive research design. The primary use of descriptive design is to describe information or data through the use of numbers (create number of pictures of the information) (Orodho, 2008). A questionnaire was used in the data collection with the data analyzed using both descriptive and inferential statistics. The research design enabled the researcher to generalize the findings to a larger population (Mugenda & Mugenda, 2003).

The design was deemed relevant in that the study is based on the factors (donor relationship management, income diversification, financial management and management competence) and their relationship to the financial sustainability of local NGOs in Kiambu County. The research design enabled the researcher to utilize part of the population for the study and generalize the findings to the larger population (Mugenda & Mugenda, 2003). Part of the employees in the finance department of local NGOs were involved in the study.

3.3 Target Population

The target population of the study was the local NGOs in Kiambu County. According to the NGO council of Kenya (2015), there are 38 local NGOs in Kiambu County. These NGOs included the NGOs that operate in Kiambu County but owned by Kenyans. The employees of the local NGOs were involved in the study. The study specifically targeted employees in the finance department of the Saccos as they deal with financial matters in their NGOs.

3.4 Sample and Sampling Procedure

Due to the small size of the population, all the 38 local NGOs in Kiambu County were involved in the study. The study used purposive sampling to select 5 employees from each NGO. The unit of analysis was the employees of local NGOs. A sample of 190 respondents was involved in the study.

3.5 Research Instruments

The study was based on primary data. The data was collected through a semi-structured questionnaire. This questionnaire contained both closed and open ended questions. Closed ended questions gives the respondents options to choose from. Open ended questions seek the views, opinions, and attitudes from the respondent which might not have been captured by the researcher.

The justification for using this instrument was that questionnaires are easy to quantify and analyze, ensure confidentiality and keep track on those who may not return the questionnaire on time and need to be reminded (Bryman & Bell, 2007). Questionnaires are also easy to administer compared to other instruments like focus group discussions.

3.6 Validity and Reliability of Research Instrument

3.6.2 Validity

To ensure validity of the collection instrument the supervisor went through the questionnaire and make sure all the respondents can answer these objectives. Opinion of other experts in research was sought about the adequacy and representativeness of the instrument.

Content validity index (C.V.I) was used to establish whether the questionnaire measured what it was to measure. To calculate a CVI, the supervisor and the experts were asked to rate the relevance of each item in the questionnaire on a 4-point scale where 1 = not relevant, 2 = somewhat relevant, 3 = quite relevant, 4 = highly relevant.

The C.V.I was calculated by dividing the number of items declared relevant by the expert divided by total number of items presented in the research instrument. Then, for each item, the CVI was computed as the number of experts indicating a rating of 3 or 4, divided by the number of experts. The questionnaires must have a CVI index of above 0.7 which is acceptable (Amin, 2005).

3.6.1 Reliability

In order to test the reliability of the questionnaire a pilot study of 10 employees in the finance department of local NGOs in Nairobi was done. The local NGOs in Nairobi were preferred since they are similar to the population of the study. Test-retest reliability was done where cronbach's Alpha was used to measure of reliability. This involved administering the questionnaires to the respondents and then re-administering the same questionnaire to the same population after some time.

The study used Cronbach's alpha to measure the internal consistency of the research instrument. Cronbach's alpha measures the average of measurable items and its correlation. In this study a reliability co-efficient (Alpha value) of more than 0.7 was assumed to reflect acceptable reliability as recommended by Revelle & McDonald (2006).

3.7 Data Collection Procedure

The questionnaires were self-administered through the drop and pick method. This involved the researcher giving the respondents the questionnaires to fill by themselves and pick later at an agreed time. This gave the respondent enough time to fill the questionnaire which increased the accuracy of the responses.

3.8 Data Processing and Presentation

STATA was used for analysis of the data. STATA was used to generate descriptive statistics such as mean, standard deviation among others in analyzing the data. Inferential statistics was also used in data analysis. This included multiple regression analysis which was done to determine the relationship between the study variables. The regression equation was;

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon$$

Whereby

Y = Financial sustainability of local NGOs

X_1 = Donor relationship management

X_2 = Income diversification

X_3 = Financial management

X_4 = Management competence

β_1, β_2, β_3, β_4 and β_5 =Coefficients of determination

ε =error term

All the relevant diagnostic tests were performed for the coefficients and overall model.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the findings obtained from the study. The chapter presents the background information of the respondents and the findings of the analysis based on the objectives of the study. The data was analyzed using STATA and presented in frequency tables. Descriptive and inferential statistics have been used to discuss the findings of the study.

4.2 Response Rate

The study targeted a sample size of 190 respondents from which 122 completed and returned the questionnaires making a response rate of 64.2 percent as shown in table 4.2 below. The response rate was representative. According to Mugenda and Mugenda (2003), a response rate of 60 percent is good and a response rate of 70 percent and over is excellent. This response rate was considered satisfactory to make conclusions from the study. Based on the assertion, the response rate was considered to be good.

Table 4.2: Response Rate

Questionnaire	Frequency	Percentage
Filled and Returned	122	64.2
Unreturned	58	35.6
Total Issued	**190**	**100.0**

Source: Author, 2016

4.3 Reliability Analysis

A pilot study was undertaken to pre-test data collection instrument for validity and reliability. The pilot study involved sample 10 employees in finance department of local NGOs in Nairobi County. Reliability of the questionnaire was evaluated through Cronbach's Alpha which measures the internal consistency and establishes if items within a scale measures the same construct. The index alpha was computed using STATA and measured the average of measurable items and its correlation. Cronbach's Alpha was established for every variable which formed a scale as shown below.

Table 4.3: Reliability Analysis

Variable	Cronbach's Alpha	Number of Items
Donor relationship management	0.784	9
Income diversification	0.753	5
Financial management	0.739	8
Management competence	0.829	7
Average	**0.776**	

Source: Author, 2016

The table shows that management competence had the highest reliability (α= 0.829), followed by donor relationship management (α=0.784), income diversification (α=0.753) and financial management (α=0.739). This illustrates that all the four variables were reliable as their reliability values exceeded the prescribed threshold of 0.7 as contended by Field (2009).

The results of the reliability test also revealed that all the four variables were reliable as the average index of 0.776exceeded the adopted threshold of 0.7. This is an indication that donor relationship management, income diversification, management competence and financial management have relatively high internal consistency and measure the same construct.

4.4 Demographic information

The study sought to determine some demographic information about the respondents. The respondents were requested to indicate their gender, age category, level of education and the period their organizations had been in operation.

Table 4.4: Gender of the respondents

Gender	**Frequency**	**Percentage**
Male	79	64.75
Female	43	35.25
Total	**122**	**100**

Source: Author, 2016

The study sought to determine the gender of the respondents. From the study findings, majority of the respondents as shown by 64.75% indicated that they were males whereas 35.25% indicated they were females. These findings indicate that both genders were fairly involved in this study and thus the results did not suffer from gender biasness.

Table 4.5: Age of the respondents

Age bracket	**Frequency**	**Percent**
Below 25 years	7	5.74
25-35 years	29	23.77
36-45 years	40	32.79
46-55 years	37	30.33
56 years and above	9	7.38
Total	**122**	**100.00**

Source: Author, 2016

The respondents were requested to indicate their age category. Most of the respondents as shown by 32.79% indicated that they were aged between 36 and 45 years, 30.33% indicated that they were 46 to 55 years, 23.77% the 25-35 years' category,7.38% indicated 56 years and more while 5.74% indicated that they were aged between below 25 years. These findings depict that the respondents were drawn from all the age categories, with most of them being mature in age and life since they were aged between above 35 years.

Table 4.6: Respondents education level

Education level	**Frequency**	**Percent**
Certificate	4	3.28
Diploma	26	21.31
first degree	71	58.20
Master's degree and above	21	17.21
Total	**122**	**100.00**

Source: Author, 2016

The respondents were requested to indicate their highest level of education that they possess. Majority of the respondents as shown by 58.2% indicated that they had a first degree as the highest education, 21.31% indicated that they had attained a diploma, 17.21% indicated that they had a Master's Degree whereas 3.28% indicated college certificate. These findings show that respondents who participated in this study had attained the basic education to understand the questions and thus would provide credible information.

Table 4.7:Period of operation

Time of operation	**Frequency**	**Percent**
less than 5 years	43	35.25
5-10 years	47	38.52
11-15 years	19	15.57
16 years and above	13	10.66
Total	**122**	**100.00**

Source: Author, 2016

The study sought to determine the length of time the organizations had been in operation. From the study findings, most of the respondents as shown by 38.52% indicated that their organizations had been in operation for a period of between 5 and 10 years, 35.25% indicated less than 5 years, 15.57% indicated between 11 and 15 years, while 10.66% indicated that their organizations had been in operation for between 16 years and above. This is an indication that most of the local NGOs in Kiambu county have been in operation for less than 10 years.

4.5 Factors Influencing Financial Sustainability

4.5.1 Donor relationship management and financial sustainability

Table 4.8: Extent to which donor relationship management affect financial sustainability

Extent	**Frequency**	**Percent**
Very great extent	31	25.41
great extent	63	51.64
Moderate extent	11	9.02
Little extent	14	11.48
No extent	3	2.46
Total	**122**	**100.00**

Source: Author, 2016

The respondents were requested to indicate the extent to which donor relationship management affected financial sustainability of their organizations. From the findings, the respondents as shown by 51.64% indicated that donor relationship management affected financial sustainability of their organizations to a great extent, 25.41% indicated to a very great extent, 11.48% indicated to a little extent, 9.02% indicated to a moderate extent while 2.46% indicated to no extent. These findings show that donor relationship management is perceived to affect financial sustainability of local NGOs to a great extent. According to Lewis (2011) there is a strong positive relationship between donor relationship management and financial sustainability of local NGOs.

Table 4.9: Statements on donor relationship management and financial sustainability

My firm	Strongly disagree	disagree	Neutral	Agree	Strongly agree	Mean	Standard deviation
Has good relations with the donors	20	54	26	22	0	2.4098	.96855
Is unable to meet strict requirements for funding by donors	1	14	13	74	20	3.8033	.87801
Has regular communication with the donors on funding	1	12	17	70	22	3.8197	.87212
Ensures accountability of funds from the donors	16	55	33	16	2	2.4508	.93687
Has a high number of return donors	8	84	10	19	1	2.3525	.85205
Involves donors in project implementation	14	65	24	17	2	2.4098	.92490
Has established networks with donor for funding	11	19	69	23	0	3.8525	.82994
Has a donor tracking system	1	30	22	44	25	3.5082	1.10031
Has a large number of donor funded projects	17	54	30	21	0	2.4508	.93687

Source: Author, 2016

The study sought to determine the respondents' level of agreement with statements relating to donor relationship management. From the study findings, the respondents agreed that their organizations had established networks with donors for funding as shown by a mean of 3.8525; had regular communication with the donors on funding as shown by a mean of 3.8196; were unable to meet strict requirements for funding by donors as shown by a mean of 3.891 and that their organizations had donor tracking systems as shown by a mean of 3.666.

However, the respondents disagreed that their organizations ensured accountability of funds from the donors as shown by a mean of 2.4508; had a large number of donor funded projects as shown by a mean of 2.4508; had good relations with the donors as shown by a mean of 2.4098; involved donors in project implementation as shown by a mean of 2.4098; and that their organizations had high number of return donors as shown by a mean of 2.3525. The findings concur with those of Moore (2010) who indicated that there is need to manage donor relationship through regular communication, proper utilization of funds, preparation and presentation of financial reports to donors and the meeting of conditions set by the donors.

4.5.2 Income diversification and financial sustainability

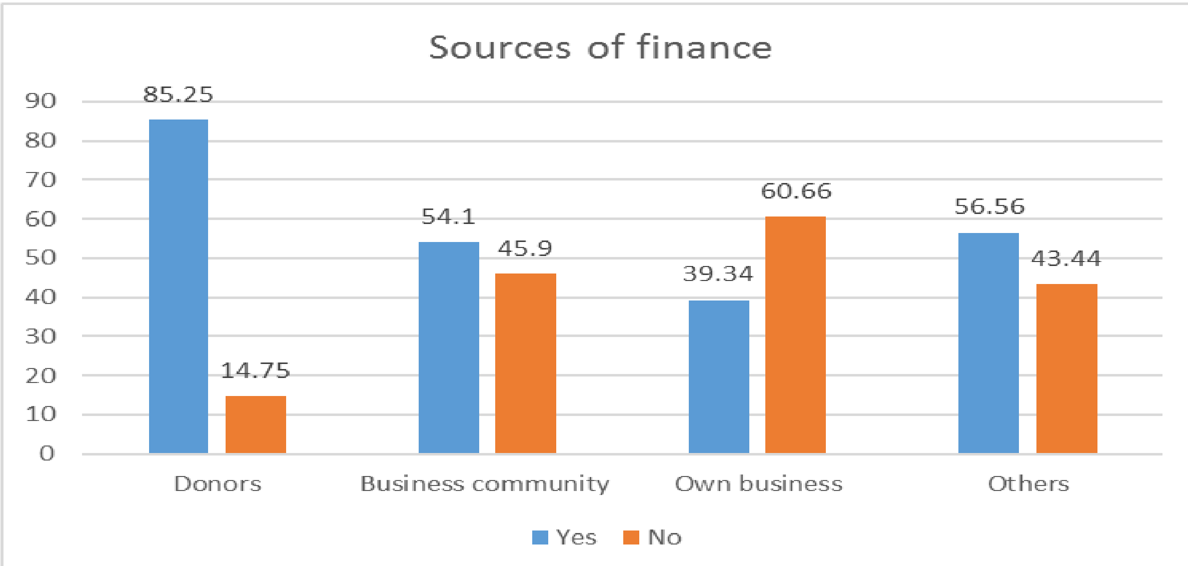
Table 4.10: Extent to which income diversification affect financial sustainability

Extent	**Frequency**	**Percent**
Very great extent	11	9.02
great extent	75	61.48
Moderate extent	16	13.11
Little extent	17	13.93
No extent	3	2.46
Total	**122**	**100.00**

Source: Author, 2016

The respondents were requested to indicate the extent to which income diversification affected financial sustainability of their organizations. From the findings, the respondents as shown by 61.48% indicated that income diversification affected financial sustainability of their organization to a great extent, 13.93% indicated to a little extent, 13.11% indicated to a moderate extent, 9.02% indicated to a very great extent while 2.46% indicated to no extent. These findings show that income diversification is perceived to affect financial sustainability of local NGOs to a great extent.

Figure 4.1: Sources of Finance



Source: Author, 2016

The study sought to determine the sources of funding for local NGOs in Kiambu county. The study found that majority of the respondents as shown by 85.25% indicated that their organizations were funded by donors. 56.56% of the respondents indicated that their organizations were funded by other sources like the government, friends and churches while 54.10% indicated business community and 39.34% indicated that their organizations were funded through own income from business. This shows that despite having various sources of financing/funding majority of the NGOs in Kiambu county are funded through donors. Davis (2013) in his study found that most of the NGOs are funded by donor agencies.

Table 4.11: Agreement on statements relating to income diversification

	Strongly disagree	disagree	Neutral	Agree	Strongly agree	Mean	Standard deviation
My firm highly relies on donors for funding	0	15	18	71	18	3.7541	.85582
My firm is involved in income generating activities	3	11	5	91	12	3.8033	.82961
My firm does fundraising from external donors	0	23	3	74	22	3.7787	.95789
My firm offers consultancies and trainings for a fee	27	55	14	26	0	2.3197	1.04657
Donor funding is the only source of finance for my firm	26	77	11	8	0	2.0082	.75510

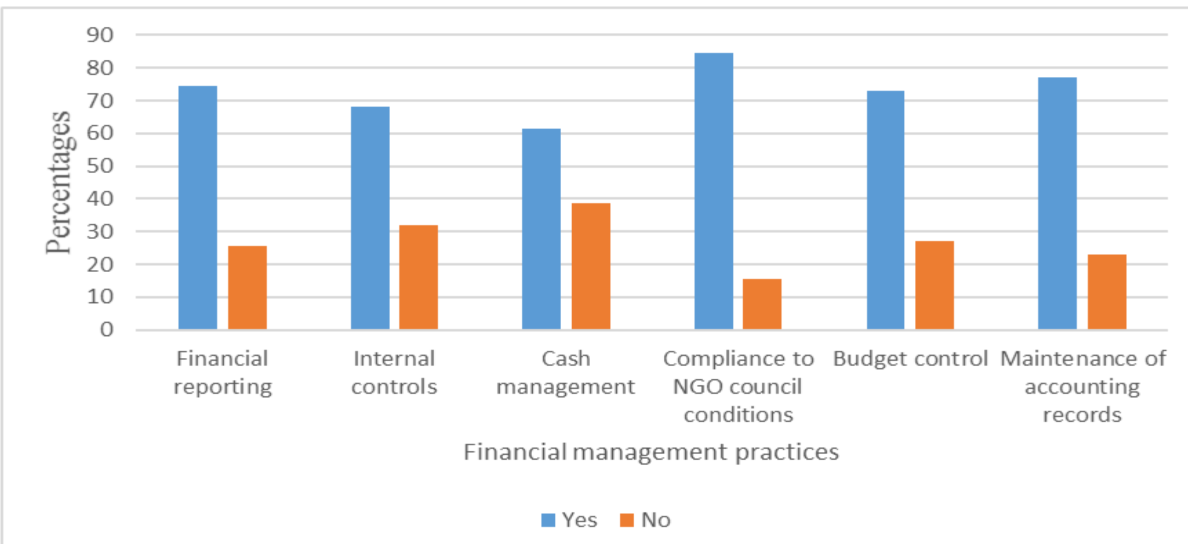
Source: Author, 2016

The study sought to determine the respondents' level of agreement with statements relating to income diversification. In this question a likert scale of 1 to 5 was used to interpret the results of the study. From the study findings, the respondents agreed that their organizations were involved in income generating activities as shown by a mean of 3.8033; did fundraising from external donors as shown by a mean of 3.7787 and highly relied on donors for funding as shown by a mean of 3.7541. However, the respondents disagreed that their organizations offered consultancies and trainings for a fee as shown by a mean of 2.3197 and that donor funding was the only source of finance for their organizations as shown by a mean of 2.0082.

The findings are supported by Nuka (2010) who established that LNGOs rely on donors' as their main financial sources of their projects and activities. Saungweme (2014) in his research revealed that most local non-governmental organisations were not engaged in own income generating activities while their funding sources were not diversified enough to be regarded sustainable.

4.5.3 Financial management and financial sustainability

Figure 4.2: Whether Financial management practices affect financial sustainability



Source: Author, 2016

The study sought to establish the effect of financial management practices on the financial sustainability of local NGOs in Kiambu county. The study found that majority of the respondents as shown by 84.43% indicated that compliance to NGO council conditions affected financial sustainability of their organizations, 77.05% indicated maintenance of accounting records, 74.59% indicated financial reporting, 72.95% indicated budgeting practices, 68.03% indicated internal controls while 61.48% indicated cash management as a practice affecting financial sustainability of their organizations. This shows that financial management affect financial sustainability local NGOs in Kiambu county through various practices with compliance to NGO conditions being the main factor.

Table 4.12: Level of agreement on statements relating to financial management

My firm	Strongly disagree	disagree	Neutral	Agree	Strongly agree	Mean	Standard deviation
Has a high level of cash outflows	0	20	16	60	26	3.6475	.82243
Carries out annual audits	1	14	22	75	10	3.5492	.88236
Has a high value of accounts receivable	1	19	24	68	10	3.7049	.86901
Has a budget on which the activities and projects are based	0	15	24	65	18	3.5656	.88128
Maintains up-to-date accounting records	0	21	22	68	11	3.6721	.77612
Prepares financial statements annually	0	15	18	81	8	2.4426	.90041
Has accounting entries supported by appropriate documentation	14	60	28	20	0	2.3852	.83761
Ensures separation of responsibility in the receipt, payment, and recording of cash	13	63	33	12	1	2.3934	.95828

Source: Author, 2016

The study sought to determine the respondents' level of agreement with statements relating to financial management. In this question a likert scale of 1 to 5 was used to interpret the results of the study. From the study findings, the respondents agreed that their organizations had high levels of cash outflow as shown by a mean of 3.7541; had a budget on which the activities and projects were based as shown by a mean of 3.7049; were unable to meet strict requirements for funding by donors as shown by a mean of 3.6721; carried out annual audits as shown by a mean of 3.6475; maintained up-to-date accounting records as shown by a mean of 3.5656 and at their organizations had high values of accounts receivable as shown by a mean of 3.5492.

However, the respondents disagreed that their organizations had accounting entries supported by appropriate documentation as shown by a mean of 2.4446 and that their organizations ensured separation of responsibility in the receipt, payment, and recording of cash as shown by a mean of 2.3852. Leon (2011) noted that many LNGOs do donor-based accounting, which does not give adequate controls for regular automatic reviews and this type of accounting was susceptible to human error. Ali (2012) found a positive relationship between financial management and financial sustainability of the NGOs.

4.5.4 Management competence and financial sustainability

Table 4.13: Management competence and financial sustainability

Level of agreement	Frequency	Percent
Strongly agree	25	20.49
Agree	71	58.20
Neutral	15	12.30
Disagree	11	9.02
Total	**122**	**100.00**

Source: Author, 2016

The respondents were requested to indicate their level of agreement that management competence affects financial sustainability of their organizations. From the findings, the respondents as shown by 58.20% agreed that management competence affected financial sustainability of their organization, 20.49% strongly agreed, 12.3% were neutral while 9.02% disagreed on the statement. These findings show that management competence is perceived to affect financial sustainability of local NGOs in Kiambu County. Njoroge (2013) established a positive relationship between management competence and sustainability of NGOs.

Table 4.14: Level of agreement on statements relating to management competence

My firm	Strongly disagree	disagree	Neutral	Agree	Strongly agree	Mean	Standard deviation
The management team is qualified enough to hold their positions	21	52	29	20	0	2.3934	.95828
The management of my firm is highly experienced	17	70	19	16	0	2.2787	.86495
My firm has training programmes for both employees and management	10	14	82	16	0	3.8430	.74171
My firm has had more projects implemented under the current management team	9	49	30	34	0	2.7295	.95378
The management in my firm regularly communicates to the employees	20	67	23	12	0	2.2213	.83826
Promotions in my firm are fair	40	59	13	10	0	1.9426	.87480
The management of my firm is well trained	15	87	13	7	0	2.0984	.67309

Source: Author, 2016

The study sought to determine the respondents' level of agreement on statements relating to management competence in local NGOs in Kiambu County. In this question a likert scale of 1 to 5 was used to interpret the results of the study. From the study findings, the respondents agreed that their organizations had training programmes for both employees and management as shown by a mean of 3.8429. The respondents were neutral on the statement that their organizations had more projects implemented under the current management team as shown by mean of 2.7295.

However, the respondents disagreed that the management teams were qualified enough to hold their positions as shown by a mean of 2.3934; the management of their firms were highly experienced as shown by a mean of 2.2787; the management in their firms regularly communicated to the employees as shown by a mean of 2.2213; The management were well trained as shown by a mean of 2.09836 and that promotions in their firms were fair as shown by a mean of 1.9426. The findings concur with those of Okorley and Nkrumah (2012) who found that management competence was a major factor to financial sustainability of local NGOs. According to Okorley and Nkrumah (2012), good management greatly contributes to NGOs' sustainability.

4.6 Financial sustainability

Table 4.15: Financial sustainability of local NGOs

Level of agreement	Frequency	Percent
agree	22	18.03
Neutral	22	18.03
Disagree	73	59.84
strongly disagree	5	4.10
Total	122	100.00

Source: Author, 2016

The respondents were requested to indicate their agreement that their firms were financial sustainable. From the findings, the respondents as shown by 54.92% disagreed that their firms were financial sustainable, 18.03% were neutral and agreed in each case, while 4.1% strongly disagreed on the statement. These findings show that majority of the local NGOs in Kiambu County are financial unsustainable. Ali (2012) concurs by stating that majority of the NGOs in Kenya are financially unsustainable.

Table 4.16: Ratios to measure financial sustainability

Ratio	Frequency	Percent
Adequacy of resources ratio	31	25.41
Self-sufficiency ratio	68	55.74
Reliance of revenue source ratio	23	18.85
Total	122	100.00

Source: Author, 2016

On the ratios used to measure financial sustainability, the study requested the respondents to indicate the main ratio used by their organizations to measure financial sustainability. The findings show that majority of the respondents as shown by 55.74% indicated that their organizations used the self-sufficiency ratio to measure financial sustainability, 25.41% indicated adequacy of resources ration whereas 18.85% indicated Reliance of revenue source ratio. This indicates that the local NGOs in Kiambu county use various measures to financial sustainability. Saungweme (2014) found the survival ratios like self-sufficiency were very low in local NGOs.

Table 4.17: Agreement on statements relating to financial sustainability

My firm	Strongly disagree	disagree	Neutral	Agree	Strongly agree	Mean	Standard deviation
Has inadequate funding to implement their projects	13	16	73	20	0	3.8197	.83336
Has a high level of unpaid debts by customers	14	14	72	22	0	3.8361	.85629
Has a high level of unnecessary expenses which are not provided in the annual budget	1	13	11	82	15	3.7951	.82260
Has a strategic plan on which its activities are based	6	17	81	18	0	3.9098	.69239

Source: Author, 2016

The study sought to determine the respondents' level of agreement with statements relating to financial sustainability. In this question a likert scale of 1 to 5 was used to interpret the results of the study. From the study findings, the respondents agreed that their organizations had strategic plans on which their activities were based as shown by a mean of 3.9098; had a high level of unpaid debts by customers as shown by a mean of 3.8361; had inadequate funding to implement their projects as shown by a mean of 3.8197, and had high level of unnecessary expenses which were not provided in the annual budget as shown by a mean of 3.7950.

4.7 Regression analysis

Table 4.18: Model summary and Anova

Source	SS	df	MS
Model residual	169.073062	4	42.2682656
	435.812184	117	3.72489046
Total		121	

Number of obs	= 122
F (4,117)	= 11.35
Prob>F	= 0.0000
R-squared	= 0.2795
Adjusted R-squared	= 0.2549
Root MSE	= 1.93

Source: Author, 2016

From the ANOVA statistics, the study established the regression model had a significance level of 0.000 which is an indication that the data was ideal for making a conclusion on the population parameters. The calculated value was greater than the critical value (11.35>2.46) an indication that donor relationship management, income diversification, financial management and management competence affect the financial sustainability of local NGOs in Kiambu county. The significance value was less than 0.05 indicating that the combined relationship between the selected factors on the financial sustainability of local NGOs in Kiambu county was significant (Critical value = 2.46).

From the findings, the value of adjusted R squared was 0.2549 an indication that there was variation of 0.2549 on financial sustainability of local NGOs in Kiambu County due to changes in donor relationship management, income diversification, financial management and management competence at 95% confidence interval. This shows that 25.49% changes on financial sustainability of local NGOs in Kiambu County could be accounted for by changes in donor relationship management, income diversification, financial management and management competence. This shows that 74.51% change in financial sustainability of local NGOs in Kiambu County is accounted by other factors other than donor relationship management, income diversification, financial management and management competence.

Table 4.19: Regression coefficients

Variable	Coef.	Std. Err.	t	P>|t
Donor relationship management	.3242655	.068254	4.75	.000
Income diversification	.2328151	.063166	3.69	.000
Financial management	.0297391	.075088	.40	.693
Management competence	.2215553	.073587	3.01	.003
(Constant)	-1.570682	3.111074	-.50	.615

Source: Author, 2016

Assuming a linear relationship between the independent and the dependent variable and guided by OLS estimation methods, the relationship between the independent and dependent variables as presented by the regression model was tested. The multiple regression equation was;

$$Y = \beta_0 + \beta 1X_1 + \beta 2X_2 + \beta 3X_3 + \beta 4X_4 + \varepsilon$$

Where Y is financial sustainability of local NGOs in Kiambu county, X_1= donor relationship management, X_2= income diversification, X_3= financial management and X_4= management competence. From the data in the above table the established regression equation was;

$$Y = -1.5707 + 0.3243\, X_1 + 0.2328X_2 + 0.0297X_3 + 0.2216X_4$$

From the above regression equation, it was revealed that holding donor relationship management, income diversification, financial management and management competence to a constant zero, financial sustainability would be at -1.5707. A unit increase in donor relationship management would lead to increase in financial sustainability of local NGOs by 0.3243, a unit increase in income diversification would lead to increase in financial sustainability of local NGOs by 0.2328, a unit increase in financial management would lead to increase in financial sustainability of local NGOs by 0.0297 and unit increase in management competence would lead to increase in financial sustainability of local NGOs by

0.2216. All the factors except financial management were found to significantly affect financial sustainability as the p-value for the three variables is below 0.05 while that of financial management is above 0.05.

4.8 Diagnostic tests

Table 4.20: Test for normality

Shapiro-Wilk test for normal data					
Variable	Obs	W	V	z	Prob>z
Donor relationship management	122	0.99658	0.334	-2.458	0.99302
Income diversification	122	0.99625	0.365	-2.257	0.98800
Financial management	122	0.94065	0.792	3.939	0.00004
Management competence	122	0.99153	0.826	-0.428	0.66572
Donor relationship management	122	0.99258	0.724	-0.723	0.76514

Source: Author, 2016

The study sought to test for normality of the data used in the research. This was done using Shapiro-Wilk test. The null hypothesis for this test is that the data are normally distributed. The findings show that the p value for financial management (x_3) is less than 0.05, which indicate that the data for the variable were not normally distributed. The p-value for donor relationship management (x_1), income diversification (x_2) and management competence (x_4) is greater than 0.05, hence the null hypothesis is not rejected. This means that the data for the three variables was normally distributed.

Figure 4.3: Heteroscedasticity

```
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of Y

         chi2(1)      =     0.22
         Prob > chi2  =   0.6363
```

Source: Author, 2016

The study sought to establish whether the variance of the error term was constant or not. This was done using Breusch-Pagan test for heteroskedastic. From the findings, the chi-square value was small, indicating heteroscedasticity was not a problem (or at least that if it was a problem, it wasn't a multiplicative function of the predicted values).

Table 4.21: multicollinearity

Variable	VIF	1/VIF
Donor relationship management	1.12	0.896379
Income diversification	1.07	0.936727
Financial management	1.07	0.936727
Management competence	1.04	0.965104
Mean VIF	**1.07**	

Source: Author, 2016

Multicollinearity was tested for the data used in the research. This was done using the variance inflation factor (VIF) which quantifies how much the variance is inflated. The findings indicate that the VIF values were close to 1 indicating that the variance of the variables were inflated at a very low level. The analysis exhibits signs of multicollinearity though low levels.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents and discusses the key data findings from the study, draws conclusion from the findings, and makes appropriate recommendations. The conclusions and recommendations drawn were focused on addressing the major objective of the study. The researcher intended to determine the factors influencing financial sustainability of local NGOs in Kenya with reference to Kiambu County.

5.2 Summary of the Study

5.2.1 Donor relationship management

From the findings, majority of the respondents indicated that donor relationship management affected financial sustainability of their organizations to a great extent. On statements relating to donor relationship in local NGOs in Kiambu county, the respondents agreed that their organizations had established networks with donors for funding and had regular communication with the donors.

They further agreed that their organizations were unable to meet strict requirements for funding by donors despite having donor tracking systems. However, the respondents disagreed that their organizations ensured accountability of funds from the donors; had a large number of donor funded projects; had good relations with the donors; involved donors in project implementation and that their organizations had high number of return donors.

5.2.2 Income diversification

From the findings on the extent to which income diversification affect financial sustainability, the respondents indicated that income diversification affects financial sustainability of their organization to a great extent. On the sources of funding for local NGOs in Kiambu county, the study found that majority of the respondents indicated that their organizations were funded by donors. Other sources indicated by the respondents included other sources like the government, friends and churches followed by business community and lastly own income. This shows that despite having various sources of financing/funding majority of the NGOs in Kiambu county are funded through donors.

From the study findings on the level of agreement with statements relating to income diversification, the respondents agreed that their organizations were involved in income generating activities; did fundraising from external donors and highly relied on donors for funding. However, the respondents disagreed that their organizations offered consultancies and trainings for a fee and that donor funding was the only source of finance for their organizations.

5.2.3 Financial management

The study sought to establish the effect of financial management practices on the financial sustainability local NGOs in Kiambu county. On the effect of financial management practices on the financial sustainability, the study found that majority of the respondents indicated that compliance to NGO council conditions affected financial sustainability of their organizations. This was followed by maintenance of accounting records, financial reporting, budgeting practices, internal controls and cash management in that order.

From the findings on the level of agreement with statements relating to financial management, the respondents agreed that their organizations had high levels of cash outflow and had a budget on which the activities and projects were based. They further agreed that their organizations were unable to meet strict requirements for funding by donors; carried out annual audits; maintained up-to-date accounting records and had high values of accounts receivable. However, the respondents disagreed that their organizations had accounting entries supported by appropriate documentation and that they ensured separation of responsibility in the receipt, payment, and recording of cash.

5.2.4 Management competence

On the level of agreement that management competence affects financial sustainability of their organizations, the study found that the respondents agreed that management competence affected financial sustainability of their organization. From the study findings, the respondents agreed that their organizations had training programmes for both employees and management.

The respondents were neutral on the statement that their organizations had more projects implemented under the current management team. However, the respondents disagreed that the management teams were qualified enough to hold their positions; the management of their firms were highly experienced; the management in their firms regularly communicated to the employees; the management were well trained and that promotions in their firms were fair.

5.2.5 Financial sustainability

On the level of agreement that their firms were financial sustainable, the respondents disagreed that their firms were financial sustainable. On the ratios used to measure financial sustainability, the study found that majority of the respondents indicated that their organizations used the self-sufficiency ratio to measure financial sustainability.

Others indicated adequacy of resources ration and revenue source ratio. From the study findings, the respondents agreed that their organizations had strategic plans on which their activities were based; a high level of unpaid debts by customers; inadequate funding to implement their projects, and high level of unnecessary expenses which were not provided in the annual budget.

5.3 Conclusions

The concludes that donor relationship management affects financial sustainability of local NGOs in Kiambu county. Donor relationship management affects financial sustainability of local NGOs in Kiambu county to a great extent. The local NGOs have established networks with donors and communicate regularly for funding. Despite the NGOs having donor tracking systems they are unable to meet the conditions set by donors for funding like accountability of funding. This has made the NGOs have a low number of return donors and donor funded projects.

The study concludes that income diversification affect financial sustainability of local NGOs to a great extent. Local NGOs in Kiambu county are mainly funded by donors. Despite the NGOs being involved in income generating projects the firms highly rely on donors for funding. The firms also do fundraising from external donors in order to get funds.

The study concludes that financial management affect financial sustainability local NGOs in Kiambu county through various practices with compliance to NGO conditions being the main factor. despite the local NGOs in Kiambu county having budgets and carrying out annual audits there was neither separation of accounting functions nor supporting documents for accounting entries. The NGOs are unable to meet the requirements for funding which has been worsened by high values of accounts receivable.

The study concludes that that management competence is perceived to affect financial sustainability of local NGOs in Kiambu County. the study further concludes that the management of local NGOs in Kiambu County are not experienced enough to hold their positions. The study further concludes that despite the NGOs having training programmes the management is not well trained.

The study concludes that the local NGOs in Kiambu county use various measures to financial sustainability. The study further concludes that despite the local NGOs in Kiambu county having strategic plans they are not financially sustainable due to high level of unnecessary expenses and unpaid debts. From the regression analysis, the study concludes that donor relationship management, income diversification, financial management and management competence positively affect financial sustainability of local NGOs in Kiambu county. The factors except financial management significantly affect financial sustainability.

5.4 Recommendations

NGOs should lay emphasis on hiring management staff who are competent this is because competence of staff significantly affects the financial sustainability of NGOs. Nevertheless, the management should be frequently trained to ensure continued competence level.

Financial strategic planning is a key function. Therefore, NGOs should not only prepare strategic plans but also periodically review the strategic plans. Staff participation and proper communication should be highly encouraged. It is also important to ensure that the budgeting methods used by most of the NGOs for funding of operations and projects are within the specified limits for financial sustainability.

Local NGOs should come up with own income generating projects. This would ensure continuity of the projects in case of withdrawal of donor funding. local NGOs should adopt proper accounting techniques. This would ensure preparation of relevant financial records supported by proper documentation. This would reduce cases of fraud and meet the requirements set by the NGO council and donors for funding.

NGOs should involve the donors in project implementation in order to ensure increased donor funding. They should come up with proper communication channels which would improve the relationship with donors. This would further increase donor funded projects and implementation.

5.5 Recommendations for Future Research

Based on the findings the study recommends a study on financial factors affecting sustainability of international NGOs in Kenya.

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APPENDICES

Appendix I: Questionnaire

Section I: Organization/Respondents' Characteristics

1. What is your gender?

   Male [ ]

   Female [ ]

2. What is your age bracket?

   Below 25 years [ ]

   25-35 years [ ]

   36-45 years [ ]

   46-55 years [ ]

   56 years and above [ ]

3. What is your highest level of education?

   Certificate [ ]

   Diploma [ ]

   First Degree [ ]

   Master's degree and above [ ]

4. How long has your organization been in operation?

   Less than 5 years [ ]

   6-10 years [ ]

   11-15 years [ ]

   16 years and above [ ]

Section II: Donor relationship management

5. To what extent do you think donor relationship management affect financial sustainability of your organization?

   Very great extent [ ] Great extent [ ] Moderate extent [ ]

   Little extent [ ] No extent [ ]

6. What is your level of agreement with the following statements relating to donor relationship management and financial sustainability in NGOs (1- strongly disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree)?

My firm	1	2	3	4	5
Has good relations with the donors					
Is unable to meet strict requirements for funding by donors					
Has regular communication with the donors on funding					
Ensures accountability of funds from the donors					
Has a high number of return donors					
Involves donors in project implementation					
Has established networks with donor for funding					
Has a donor tracking system					
Has a large number of donor funded projects					

Section III: Income diversification

7. To what extent do you think income diversification affect financial sustainability of your organization?

   Very great extent [ ] Great extent [ ]

   Moderate extent [ ] Little extent [ ]

   No extent [ ]

8. Which of the following sources do you get funds from?

   Donors [ ]

   Business community [ ]

   Own business [ ]

Others……………………………………………………………………………

9. What is your level of agreement with the following statements relating to income diversification and financial sustainability in local NGOs (1- strongly disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree)

Statement	1	2	3	4	5
My firm highly relies on donors for funding					
My firm is involved in income generating activities					
My firm does fundraising from external donors					
My firm offers consultancies and trainings for a fee					
Donor funding is the only source of finance for my firm					

Section IV: Financial management

10. Have the following elements of financial management affected financial sustainability of your organization? (tick where appropriate)

Financial reporting [ ] Internal controls [ ]

Cash management [ ] Compliance to NGO council conditions [ ]

Budget control [ ] Maintenance of accounting records [ ]

11. What is your level of agreement with the following statements relating to financial management and financial sustainability in local NGOs? (1- strongly disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly agree)

My Organization	1	2	3	4	5
Has a high level of cash outflows					
Carries out annual audits					
Has a high value of accounts receivable					

Has a budget on which the activities and projects are based					
Maintains up-to-date accounting records					
Prepares financial statements annually					
Has accounting entries supported by appropriate documentation					
Ensures separation of responsibility in the receipt, payment, and recording of cash					

Section V: Management competence

12. To what extent do you agree that 'management competence affect financial sustainability of my organization'

Strongly agree [ ]

Agree [ ]

Neutral [ ]

Disagree [ ]

Strongly disagree [ ]

13. What is your level of agreement with the following statements relating to management competence and financial sustainability in local NGOs (1- strongly disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree)

Statement	1	2	3	4	5
The management team is qualified enough to hold their positions					
The management of my firm is highly experienced					
My firm has training programmes for both employees and management					
My firm has had more projects implemented under the current					

management team					
The management in my firm regularly communicates to the employees					
Promotions in my firm are fair					
The management of my firm is well trained					

Section VI: Financial sustainability

14. What is the level of agreement that 'my firm is financially sustainable'?

    Strongly agree [ ]

    Agree [ ]

    Neutral [ ]

    Disagree [ ]

    Strongly disagree [ ]

15. Which of the following ratios do you mainly use to measure the financial sustainability of your organization?

    Adequacy of resources ratio [ ]

    Self-Sufficiency ratio [ ]

    Revenue Source ratio [ ]

16. What is your level of agreement with the following statements relating to financial sustainability in local NGOs (1- strongly disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly agree)?

My organization	1	2	3	4	5
Has inadequate funding to implement their projects					
Has a high level of unpaid debts by customers					

Has a high level of unnecessary expenses which are not provided in the annual budget					
Has a strategic plan on which its activities are based					

Thank you

Appendix III: List of local NGOs in Kiambu County

No.	Name	Location
1.	CHILDREN'S SPORTS AND LEARNING CENTRE	Karura Market
2.	CITIZENS SMALL SCALE AND MEDIUM ENTERPRISES	Ruiru
3.	CHILD AMBASSADORS ORGANIZATION	Gikuni - Kikuyu
4.	ECO - HUB ORGANIZATION	Kiambu road
5.	EFFICIENT ENVIRONMENTAL MANAGEMENT ORGANIZATION	Githunguri
6.	ENVIRONMENTAL OUTREACH INITIATIVE	Karuri
7.	GLOBAL TECHNO SERVICES	Muthiga
8.	GROW ORGANIC - AFRICA	Kiambu town
9.	HELP MISSION DEVELOPMENT SERVICES	Kiamunyi
10.	HIDDEN TALENTS COMMUNICATIONS	Limuru
11.	JARIBU AGENTS FOR DEVELOPMENT FORUM	Kiambu
12.	JOY VISION FOR YOUTH AND CHILDREN INTERNATIONAL	Thika
13.	KIAMBU COUNTY GIRLS AND WOMEN ORGANIZATION	Kenyatta road
14.	KIAMBU ORPHANS INITIATIVE	Kimende
15.	KING'ARA CHILDREN'S HOMES	Muchatha
16.	MOUNT KENYA GROUPS FOR COMMUNITY DEVELOPMENT EMPOWERMENT	Kiambu road
17.	MOUNT OLIVES LEARNING CENTRES	Kiambu road
18.	NAPASTAA FOUNDATION, KENYA	Ngegu
19.	PAMOJA WOMEN DEVELOPMENT PROGRAMME	Kiambu town
20.	SISTER ARISE PROJECT	Kiambu
21.	SPLENDOUR COMMUNITY DEVELOPMENT AND GENDER CENTRE	Kugugeria
22.	STEP BY STEP YOUTH RESOURCE CENTRE	Kiambu town
23.	STEETS OF HOPE INTERNATIONAL	Thika
24.	SUSTAINABLE HEALTH SOLUTIONS	Kiambu
25.	TEEN CHALLENGE OF KENYA	Ridge ways
26.	THE 410 BRIDGE INTERNATIONAL	Ridge ways
27.	THE DOOR KENYA	Ngegu
28.	THE HEALING TREE INTERNATIONAL	Kiambu
29.	THE HEALING TREE INTERNATIONAL	Thika
30.	THE WORD FOUNDATION (STIFTELSEN ORDET)	Thindigua
31.	TOUCH A LIFE INTERNATIONAL	Thindigua
32.	UNITY FOR WOMEN ECONOMIC AND SOCIAL ORGANIZATION	Kiambu
33.	WAZEE KWA VIJANA COMMUNITY EMPOWERMENT INITIATIVE	Kiambu
34.	WOMEN AGAINST DOMESTIC VIOLENCE	Kiambu road
35.	WOMEN OF TODAY EMPOWERMENT ORGANIZATION	Kiambu
36.	AGAPE CENTRE FOR COMMUNITY DEVELOPMENT	Ruaka
37.	CARE AND SHARE ORGANIZATION	Kirigiti
38.	FAMILY CONCERN INITIATIVES	Thindigua

Source: NGO council of Kenya, 2016