ASSESSMENT OF FACTORS INFLUENCING
FINANCIAL SUSTAINABILITY OF NON-GOVERNMENTAL
ORGANISATIONS IN ISIOLO COUNTY, KENYA

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Abstract

Financial sustainability is a measure of an organization’s ability to meet all its resource and
financing obligations, whether these funds come from user charges or budget sources and fulfill
its mission and serve its stakeholders over time. 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 was carried out in Isiolo town located in Isiolo
County. It covered all NGO’s in Isiolo County. The study adopted a descriptive research design.
The total number of management staff working in those NGO’s is 47 employees. This
constitutes the target population of the study. The researcher used conducted census method.
Data was analyzed using descriptive statistics, percentages, frequency distributions, by help of
SPSS version 20 and presented using graphs, charts and tables. It is also concluded that
funding in NGO’s is a challenge and that there are government policies that interfere with
smooth running of NGO’s. It is therefore recommended that as a matter of urgency government
should put in place policies that will ensure financial sustainability of the NGO’s and ensure
participation of NGO’s management when making policies that will affect their financial
sustainability in Kenya.

Keywords: Financial Sustainability, Non-Governmental Organization, Government policies,
Source of finance, Management
INTRODUCTION

Sustainability is a measure of an organization’s ability to fulfil its mission and serve its stakeholders over time. There is a wealth of knowledge about the process of improving organizations’ sustainability, built by the experiences of many people who have worked over many years to improve the sustainability of many different organizations. The main insight from this collective experience is that an organization’s level of commitment to sustainability is the most important factor in its success. There must be full commitment to the process throughout the organization, from the board of directors through senior management and the entire staff (Johnson, G & Scholes K. 2007). This is because sustainability is a process, not an end. An organization does not “become” 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 look toward the future and consider all relevant factors, instead of making more expedient and short sighted decisions. This document helps people improve service delivery organizations by targeting three types of sustainability: organizational sustainability, the sustainability of services, and financial sustainability (Johnson, G & Scholes K. 2007).

It is prudent to note that financial sustainability, while critical, is only one aspect of an organization’s overall sustainability; organizations must also build a broad range of organizational, technical, and human capacities. Financial sustainability is promoted through a broad-based, interdisciplinary approach. Many people equate an organization’s sustainability with its financial strength, but financial sustainability alone is insufficient over time. If an organization does not also develop its overall capacities, ultimately the lack of good management or technical capacity prevents the organization from generating revenue or attracting donor funding. Financial sustainability can be gauged by an organization’s net income (the surplus of revenues over expenses); liquidity (the cash available to pay bills); and solvency (the relationship of assets and debt or liabilities). Again, this manual promotes a broad, interdisciplinary role for financial management, as one component of overall sustainability (Kamau, 2006). Most efforts to improve sustainability in health care delivery focus first on organizational sustainability. Organizational sustainability is the ability of the organization to secure and manage sufficient resources to enable it to fulfill its mission effectively and consistently over time without excessive dependence on any single funding source. The objective is to maintain and build the capacity of an organization that is providing a beneficial service in a community. The benefits of improving the organizational sustainability of health care organizations can be far-reaching because, in most cases, such organizations play a vital role in
delivering services that would otherwise be unavailable or reaching people that would otherwise be unserved (Mbue, 2006).

**Statement of the Problem**

The attainment of financial sustainability is a key component of any institution financial viability. Attainment of financial sustainability will allow the NGO’s to graduate towards providing larger and more complex services. There is no doubt that with increasing demands on the state by the citizens, the state can no longer be the sole provider of goods and services. It is also true that the support and interest in NGOs has grown as a result of the failure by state agencies to deliver services. It is clear that the government relationships with NGO is complex and diverse and are likely to affect the financial sustainability of NGO and its activities. In order for NGOs to realize their potential contribution and to efficiently manage their activities, and maintain financial sustainability a healthy relationship between them and the government is essential. In their role of complementing the state, they act as the implementers of development activities NGOs fill the gaps left by the public service.

The role of the state becomes more of an enabler rather than a provider of services. In their reforming role NGOs are seen as agents of advocacy and contribute immensely to policy dialogue. NGOs are able to represent the interests of the people they work with and in this case can ensure that policies are adaptable to real life situations. Isiolo County has experienced massive expansion of NGOs in the aftermath of the PEV of 2007 which was largely fueled by an increased presence of international donors and involvement by international NGOs with civil society concerns. A substantial infusion of money combined with the desire to change Isiolo County, led to the financing of organizations that were committed to reconciliation. Therefore, for several years, the position of most international organizations was viewed skeptically by the majority of the population residing in Isiolo County. Overall, Kenya NGOs have been characterized as having weak relationships with citizens because of historical, cultural and political reasons; in some cases this has led to a tendency for NGOs to be run as elite organization with the sole purpose of meeting the whims of their masters or persons.

However, international involvement and levels of donor contributions to Isiolo County has steadily declined where donors have withdrawn their programs and the focus has generally shifted from humanitarian relief and recovery, and this has affected the operations of NGO’s in Isiolo County. The withdrawal of NGO’s in Isiolo County has been attributed to Financial Sustainability which is one of the most crucial factors for the operation of NGO’s in Kenya.
Objectives of the Study

The general objective of the study was to determine the factors influencing financial sustainability among Non Governmental Institutions operating in Isiolo County. More specifically, the objectives of the study were to:

1) To establish whether government policies influences financial sustainability among NGOs operating in Isiolo County.
2) To find out whether management influences financial sustainability among NGOs operating in Isiolo County.
3) To determine whether sources of finance is a factor influencing financial sustainability among NGOs operating in Isiolo County.

Scope of the Study

The study was carried out in Isiolo town located in Isiolo County. It covered all NGO’s Isiolo town. There are 10 registered NGO’s institutions registered as at January 2014. The study targeted all management members working for those NGO’s in Isiolo County. There are 66 management employees.

LITERATURE REVIEW

Theoretical Review

NGO’s governance is based on agency theory, which is the relationship between agents and principals. Agency theory explains how best the relationship between agents and principals can be tapped for purposes of governing a corporation to realize its goals. Interest on agency relationships became more prominent with the emergence of the large corporation. There are organisations who have a knack for accumulation of capital, and managers who had a surplus of ideas to effectively use that capital. Since the owners of capital (principals) have neither the requisite expertise nor time to effectively run their enterprises, they hand them over to agents (managers) for control and day-to-day operations, hence, the separation of ownership from control, and the attendant agency problems. In an agency relationship, principals and agents have clearly defined responsibilities: Principals are select and put in place governors, directors and auditors to ensure effective governance system is implemented, while agents are responsible for the day-to-day operations of the enterprise (Leblanc & Gillies, 2005). Historically, definitions of corporate governance also took into consideration the relationship between the shareholder and the company, as per “agency theory”, i.e. director-agents acting on behalf of shareholder-principles in overseeing self-serving behaviors of management. However, broader definitions of corporate governance are now attracting greater attention. Indeed, effective
corporate governance is currently understood as involving a wide number of participants. The primary participants are management, shareholders and the boards of directors, but other key players whose interests are affected by the corporation are employees, suppliers, customers, partners and the general community (Solomon & Solomon, 2004).

Therefore, corporate governance, understood in these broadening social contexts, ensures that the board of directors is accountable not only to shareholders but also to non-shareholder stakeholders, including those who have a vested interest in seeing that the corporation is well governed. Some corporate governance scholars also argue that at the heart of good corporate governance is not board structure which receives a lot of attention in the current regulations, but instead board process especially consideration of how board members work together as a group and the competencies and behaviors both at the board level and the level of individual directors (Carter & Lorsch, 2004). This separation is however, linked and governed through proper “agency relationship” at various levels, among others “between shareholders and boards of directors, between boards and senior management, between senior and subordinate levels of management” (ISDA, 2002). In such a principal-agent relationship, there is always “inherent potential for conflicts within a firm because the economic incentives faced by the agents are often different from those faced by the principals” (ISDA, 2002). According to ISDA (2002), all companies are exposed to agency problems, and to some extent develop action plans to deal with them. These include establishing such measures as: “controls on the actions of agents, monitoring the actions of agents, financial incentives to encourage agents to act in the interest of the principals, and separation of risk taking functions from control functions” (ISDA, 2002).

There are a mix of forces which have fuelled the rapid rise and prominence of NGOs. The prevalence of weak states and declining markets in Africa has led to the proliferation of NGOs as the only alternative to promote grassroots development. Thus, the development oriented NGOs are not only located between the state and the market, in terms of institutional space, but are also emerging as, what Levy calls, a critical ‘third sector’ that fosters the development of the marginalized groups. The received wisdom is that NGOs are more flexible and adaptive than governments, are quick to respond to people’s needs and are also cost effective. According to Salamon, (2007), the ascendancy of neo-liberalism in the late twentieth century also created a global environment for this third sector. The poor performance of the public sector in developing countries has led to a search for more effective and efficient organizational forms of the delivery of public services.

There are certain features which differentiate NGOs from government agencies, even when they are performing similar roles. NGOs have the capacity to experiment and learn from
experience, linking processes to outcomes and are also able to enlist the energies and commitment of intended beneficiaries. Fowler (1988) has identified two key distinctive characteristics of NGOs. The relationship of the NGO with intended beneficiaries is based upon principles of voluntarism rather than those of control which is typical of government. This means that intended beneficiaries are involved in program design and management and if this happens, the programs stand a better chance of success as they are more likely to be relevant and attractive. (Korten, 1980; Oakley and Marsden, 1984). Secondly, it is argued that NGOs have a task oriented approach that permits them to achieve appropriate organizational development, which encourages change and diversity rather than control and uniformity, which may hamper progress.

Empirical Review

Management Practices

According to Noebere (2000) all studies of business failure points to poor management as the main cause. The success of a firm is measured by its profitability which depends on the efficiency of its management. Management can be defined as a set of activities directed at the efficient and effective utilization of resources in pursuit of one or more objectives. The resources are usually people, machines, materials, time and managerial know-how. A need to embrace good corporate governance and the by-laws need to be reviewed to provide for minimum qualification standards for both the board members and delegates for efficient and sound management. The management of NGO’s comprises of the CEO and the same management team with the primary responsibility of ensuring performance. The major challenge addressed by corporate governance is how to grant managers discretionary power over the conduct of business while at the same time holding them accountable for the use of that power. Balancing of the two is essential to ensure that decisions made by the management are in long term interests of the shareholders. Specific management practices have been found to improve corporate performance; three dimensional strategy comprise exploration of new horizons, selectivity and drive, making wisdom contagious by empowering independence, interaction and communication among employees, focusing on group performance rather than individual performance, external processes which include benchmarking, systems for feedback both from suppliers and customers and continuous innovation based on internal and external evaluation.

The issue this creates is to whom are NGOs accountable to. At first this question may appear to have an easy answer. Obviously they are expected to account for the use of resources to the funders. However, the ability to ensure that accountability exists, among the NGOs and to all those concerned, remains debatable. NGO staff members are not elected and
ordinary people have no mechanisms for bringing them to account for their actions. Unlike governments, who have to get elected and can only avoid accountability through violence or coercion and in business where consumers can decide where to spend their money, NGOs have no obvious accountability structures. NGOs themselves see the need to take this issue seriously as there is a growing emphasis on the need for proper monitoring. There are a number of ways in which NGOs can improve on their governance and management operations. These includes stating their mission, values and objectives clearly and ensuring that these strategies are followed, better human resources development and training for their managers and staff including board members and volunteers, better management processes as well as financial management, accounting, and budget systems (Mwaura, 2005).

Nevertheless, in order for these systems to be implemented, committed staff and leadership within the NGOs themselves are required. The expanded role of NGOs in the delivery of public services is likely to affect the potential of these organizations. The work of NGOs is much more difficult and demanding now as they are expected to deliver quality with such limited resources. Problems arise where governments shift major responsibilities to the NGO sector. According to Schiavo-Campo (2001), some NGOs do not have the time and expertise to manage all of the funded programs, or even to ensure full involvement by all of the communities, as is normally claimed. In some cases, where there are many departments trying to deal with the NGOs, the problems may be created by the governments themselves. Also, staff at the local level may not be familiar with government policies and this affects efficiency of the NGOs because of tensions which may arise (Sambu 2006).

**Sources of Finances**

One of the major factors impacting the effective management and sustainability of NGOs is the nature of their dependability on donor funding. A majority of civil society organizations in developed and developing countries were established in order to complement and supplement governments’ developmental and service delivery efforts. Multilateral organizations such as the United Nations, World Bank, Commonwealth Secretariat, as well as regional organizations such as the European Union, African Union and SADC have funded NGOs’ programs and activities. Funds were channeled through the civil society organizations to foster development and improve service delivery at the grassroots level. In Kenya, donor agencies have reduced their funding of NGOs once the country was elevated to an upper-mid income status. This has led to some the closing down of some NGOs due to a lack of funding and insufficient staffing levels (Pandley, 2005). The common impact of financial dependence on donor funding is that once donors pull their financial support, NGOs collapse. As pointed out by Ditshwanelo (2004), one of
the major threats to their existence and the carrying out of their mandates is the reduced funding which may force them to scale down their activities. Most NGOs in Africa and Kenya in particular, lack clearly defined structures in terms of organizational charts, buildings, facilities, equipment and human resources. The major contributory factor to this is the constraint that limited financial resources places on the ability of NGOs to enable, plan, organize, and design clearly defined structures as well as equip their offices with adequate equipment and facilities. As noted by Molomo and Somolekae (1999), the key weakness of NGOs in Africa is the inappropriate organizational structures which impact the manner in which NGOs carry out their core business (Ditshwanelo, 2004).

**Government Policies**

There is no doubt that with increasing demands on the state by the citizens, the state can no longer be the sole provider of goods and services. It is also true that the support and interest in NGOs has grown as a result of the failure by state agencies to deliver services. Thus, the state and NGOs need each other. In terms of their relation with the state, Clark (2003) provides a liberalist view in terms of three options; they can complement, reform, and/or oppose the state. In their role of complementing the state, they act as the implementers of development activities. In this case as argued by Thomas, (1992) NGOs fill the gaps left by the public service. The role of the state becomes more of an enabler rather than a provider of services. In their reforming role NGOs are seen as agents of advocacy and contribute immensely to policy dialogue. NGOs are able to represent the interests of the people they work with and in this case can ensure that policies are adaptable to real life situations. Finally, NGOs can oppose the state. They can do this by acting as watchdogs and holding the state accountable. This can be achieved through several methods including lobbying or even overtly supporting groups which are adversely affected by the policies of the government (Thomas, 2004).

An example is the Survival International (SI) which is an international NGO based in the United Kingdom that supports the Basarwa in Botswana in their refusal of relocation from the Central Kgalagadi Game Reserve (CKGR). From the foregoing, it is clear that NGO-government relationships are complex and diverse and are likely to affect the management of NGO activities. The relationships are affected by the specific contextual factors which may include the nature of NGOs objectives and strategies, the area of operation of an NGO, the behavior of the donor and the nature and character of the regime (Turner & Hulme, 1997). These relations also differ from country to country. In some countries certain regimes are favourable to NGOs while in others the relations are antagonistic. In order for NGOs to realize their potential contribution and to efficiently manage their activities, a healthy relationship between them and the
government is essential. This healthy relationship can be conceivable only if both parties share the same objectives. If the government’s commitment to poverty reduction is weak, then NGOs are likely to view collaborating with government as counter-productive. In the same vein, dictatorial governments will be wary of NGOs which tend to be sympathetic to the poor. In this case NGOs will not value a positive relationship with government and may choose to go their own way and attempt to make life difficult for government agencies.

However, in cases where the government has a positive social agenda which resonates with the NGOs, there is potential for a strong, collaborative relationship. However, even where there is room for cooperation, jealousies and mistrust between NGOs and governments are deep rooted. Governments always have the fear that NGOs will erode their political power and NGOs also mistrust the motivations of government officials (Pandley, I.M. 2005). The legal environment for NGOs and civil society in Kenya may be described as a generally enabling one, however, with serious challenges confronting stakeholders in the implementation of the laws. Until November 1999, NGOs operated in a legal vacuum, which presented considerable obstacles to their development. On 15 November 1999, NGO bureau issued Regulation 1999/22 on Registration and Operation of the Non-Governmental Organisations in Kenya, which was the first step towards setting up an institutional and legal status for the NGO sector. NGO Registration and Coordination Unit were established as an implementing mechanism for this regulation. Two years later, in September 2001, NGO bureau issued Regulation No 2001/19 on the Executive Branch of the Provisional Institutions of Self Government, which presented the legal basis for the establishing and functioning of the country’s governmental institutions. As per this regulation, the Ministry of Public Services was responsible to “assist in the administration of policies related to civil documents, vehicle registration, and NGO registration”.

Currently, the NGO Law is undergoing an amendment procedure and the main focus is on the following issues: limiting registration of NGOs to those which pursue a public benefit purpose, the scope of the law, property and resources of NGOs, grounds for termination of NGOs, public benefit status and supervising and monitoring of NGOs. Although there is a general understanding that the legislation concerning NGOs in Kenya is moderately enabling and reflects European standards, according to a recent organizational survey conducted by an international organization with a number of active and consolidated NGOs, around 77% of respondents reported that their organizations faced illegitimate restriction or attack by local and/or central government (GoK 2004).
METHODOLOGY

Research Design
The study adopted a descriptive research design. A descriptive research design portrays an accurate profile of persons, events or situations (Chandran, 2004). According to Mugenda & Mugenda (2006), descriptive research determines and reports the way things are. It portrays the facts as they really are.

Target Population
The subjects of the study were drawn from all the registered NGO’s within Isiolo County in the year 2014. The records with NGO registration board indicates that there are 10 registered NGO’s operating in Isiolo County. The total number of management staff working in those NGO’s is 47. These are the employees that run the management of NGO’s on permanent basis without including those who are hired on contract of casuals. This constitutes the target population of the study.

Sample Size and Design
The researcher used census method. This is because the target population is very small and manageable. A sample size of 47 members of management staff were used for the purpose of this study.

Data Collection Instruments & Procedure
The researcher used a structured questionnaire to collect the data. The questions were designed in such a way as to elicit answers to all pertinent issues in order to provide solution to the research problem.

The questionnaires were self-administered to all respondents. The researcher adopted drop and pick method where the respondents were given questionnaires and after 2 days the researcher personally collected them back; so as to check for completeness of responses.
Reliability and Validity of Data Collection Instruments
The researcher used the pilot study method to ensure the validity of the data collection instrument. The test-retest method was applied where a part of the population was used to test reliability. This was done by issuing a questionnaire to the management of NGO’s in Marsabit County. The questionnaire was found to be both reliable and valid.

Data Analysis and Presentation.
The collected data was analyzed quantitatively using statistical application methods in the social sciences research. Data was analyzed using descriptive statistics, percentages, frequency distributions, and presented using graphs, charts and tables.

ANALYSIS.
The study conducted an assessment of the factors that factors influencing financial sustainability among Non-Governmental Institutions operating in Isiolo County.

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<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Male</td>
<td>28</td>
<td>60%</td>
</tr>
<tr>
<td>Female</td>
<td>19</td>
<td>40%</td>
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<tr>
<td>Total</td>
<td>47</td>
<td>100%</td>
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The table above indicates that 45% of respondents were male which 55% of the respondents were female. The responses rate was 100 % since all the respondents responded to the questionnaires issued.

Summary of Findings
Majority (43.3%) of the respondents indicated that their source of funding was not reliable. Majority of the respondents (67.5%) described that there are tough conditions in accessing the funds. Majority of the respondents (79.6%) described funding as challenging. Data obtained revealed that majorities (70.7%) of the respondents were highly dissatisfied with their sources of funds and conditions in accessing funds.

Data collected revealed with a majority of respondents at (73%) that managements needs to be updated with managerial skills and financial management skills for proper planning and budgeting process.
Majority (86%) of the respondents indicated that they could not describe the some government policies are not attractive. Data collected from the respondents indicated that majority (50.3%) of the respondents were slightly satisfied with the government policy governing the NGO’s but more needs to be done in terms of policies.

CONCLUSION
Most efforts to improve financial sustainability in NGO delivery focused on how the organizational stable it is. Non-Governmental Organizational financial sustainability is the ability to secure and manage sufficient resources to enable it to fulfill its mission effectively and consistently over time without excessive dependence on any single funding source. The objective is to maintain and build the capacity of an organization that is providing a beneficial service in a community. It is also concluded that funding in NGO’s is a challenge and this has led many projects to end an abruptly and therefore the NGO’s need to focus on more sources of funding their projects and partnering with more donors rather than concentrating on a single donors.

It is also concluded that the government has put in place policies that interfere with smooth running of NGO’s. The study concludes that NGO’s management leaders are up dated in financial management but there is a need for the management to adopt the new financial strategies which can improve the situations. It is also concluded that managers of NGO’s are skilled with management skills which shows that the there is need to equip the management of NGO’s with the monitoring and evaluation skills.

RECOMMENDATIONS
1) The management of the NGO’s should refocus their attention on the effective management practice which is a backbone for the success of their investment performances. It is therefore recommended that proper management should be considered and implemented to improve the financial sustainability of the NGO’s.

2) The NGO’s need to have more sources of financing their projects so as to be able to ensure their financial sustainability.

As a matter of urgency government should put in place policies that will ensure financial sustainability of the NGO’s and ensure participation of NGO’s management when making policies that will affect their financial sustainability in Kenya.
LIMITATION OF THE STUDY

The study encountered limitations since respondents were dispersed in Isiolo County but the researcher had to look for them. The respondents hesitated to give information since they did not understand why the information was required but the researcher assured them that it was purely for academic purposes and ensured anonymity of individuals.

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