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FACTORS INFLUENCING FINANCIAL SUSTAINABILITY OF NON-GOVERNMENTAL ORGANIZATIONS: A SURVEY OF NGOs IN NAKURU COUNTY, KENYA

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Abstract

Many Non-Governmental Organizations (NGOs) in Kenya largely depend on foreign funding. The declining state of foreign funding coupled with the Miscellaneous Amendment Bill of 2013 imposes a strain to an already constraining situation. The purpose of this study was to find out the factors influencing financial sustainability of NGOs in Nakuru County, Kenya. Descriptive survey research design was used targeting 249 registered and active NGOs in Nakuru County. A sample size of 154 obtained using simple random sampling was used and data collected using questionnaires. Data was analyzed using both descriptive and inferential statistics with the aid of Statistical Package for Social Sciences (SPSS). The findings revealed that diversifying sources of funds ($r = 0.787$, $\alpha = 0.05$); Competence levels of the staff ($r = 0.478$, $\alpha = 0.05$) and Strategic financial planning ($r = 0.435$, $\alpha = 0.05$) had significant effects on financial sustainability of NGOs. The results indicated that the competence level of the NGOs' personnel in charge of the projects was the most important factor. The study recommended that NGOs' staff should be frequently trained to ensure continued competence level. Staff participation and proper communication of strategic plans should be highly encouraged.

Key words: Financial Sustainability, Non-Governmental Organizations, Diversification of Funds, Staff Competence, Financial Strategic Plans

INTRODUCTION

Resource scarcity is prevalent aspect when considering the financial management processes of not-for- profit organizations such as non-governmental organizations (NGOs). As Drucker, (1990) pointed out, more often than not, these organizations find themselves with an ever increasing agenda of programmes and activities requiring consistent and adequate funding but have to contend with the fact that they have limited opportunities for generating additional income. This may lead to financially unsustainable operations if not checked. Sustainability refers to the ability of administrators to maintain an organization over the long term. However, the definition of financial sustainability may vary widely between for-profit organizations and nonprofits, depending on the business structure, revenue structure, and overarching goal of the organization. For both for-profit and nonprofit organizations, financial capacity consists of resources that give an organization the ability to seize opportunities and react to unexpected challenges while maintaining general operations of the organization (Bowman, 2011). It reflects the degree of managerial flexibility to reallocate assets in response to opportunities and threats. Financial sustainability refers to the ability to maintain financial capacity over time (Bowman, 2011). Financial sustainability also refers to the ability of a Non-Governmental Organization (NGO) to develop a diverse resources base so that it could continue its institutional structure and production of benefits for intended client population after the cessation of donor financial support (Renz, David and associates, 2010). This definition encompasses three areas described as follows: Developing financial management which involves financial management systems that provide the information which enables managers to make sound financial and programmatic decisions, and thereby improves the efficiency of the organization; analyzing costs to identify potential cost savings and developing policies and strategies for reducing costs and improving financial projections/budgeting and; resource mobilization through designing a comprehensive resource mobilization strategy, Building capacity to develop and market successful project projects to attract new donors.

Financial sustainability has become something of a buzzword in the NGO sector given ‘donor fatigue’ in rich nations. For example, the recent economic recession has dramatically influenced trends in donations, particularly from individuals, as Americans have less disposable income to continue giving to nonprofit organizations at the levels they had in previous years. In a survey of 800 nonprofits at the end of 2008, 75 percent of nonprofits reported feeling the effects of the downturn, with 52 percent already experiencing cuts in funding (Renz, 2010). Nonprofit organizations are struggling financially, particularly those that rely on government funding-with 61 percent of nonprofits reporting cuts in government funding- as well those that rely on foundations for monetary contributions with 48 percent of nonprofits reporting cuts in foundation funding (Renz et al., 2010). In light of the substantial cutbacks in both federal and state funds with the recent recession and subsequent declines in philanthropic giving, identifying promising strategies to sustain nonprofits is necessary to avoid cutbacks in community-based services (Besel, Williams, and Klak, 2011).

Nonprofit leaders perceive government and foundation support as essential for their organization's financial viability, but recognize that there are challenges associated with reliance on grants, contracts, and other sources of government or foundation funding. In a study of 26 health, human services, and community and economic development organizations in Mississippi, Besel, *et al* (2011) found that study participants expressed reservations about their organizations' reliance on government funding for their operations, due to considerable restrictions on how public funds can be utilized and the relatively large amount of time and resources consumed in complying with state and federal requirements. Additionally, overreliance on government-contract funding may lead to the hiring of temporary staff, which may have negative implications for staffing patterns and delivery of quality services. In a case study of the Canadian Red Cross in the Toronto region, reliance on contract-based funding led to challenges with employee retention (Akingbola, 2004). Although contract funding has some benefits (e.g., providing opportunities for new programs), temporary staffing may be detrimental to a nonprofit's delivery of services and mission impact, as it may not only affect employee recruitment and retention but also negatively influence employee morale and training practices (Akingbola, 2004). Constant turnover or continually shifting staff responsibilities to align with short-term contract requirements may prove to be expensive to maintain in the long term, and ultimately reduces the effectiveness of the services nonprofits provide to their communities.

In Kenya, NGOs began as self-help groups in the years of 1960s when the first president of Kenya, Mzee Jomo Kenyatta began to encourage grassroots growth through coming together in the spirit of what was referred to as Harambee. This spirit was based on the understanding that one could not be able to carry out plans or actions by him/herself but would require a certain contribution from the other members of the society. The Harambee spirit kept most of the self-help groups growing (Wanjohi, 2010). In the past two decades, governments throughout the developing world have seen an explosion in the number of both foreign and local non-governmental actors providing social services in their territory. According to one estimate, the number of development NGOs in rich countries grew from 6000 to 26000 between 1990 and 1999 alone (Brass, 2010). In Kenya, NGO growth has truly been staggering; in 1974, there were only 125 NGOs in Kenya, by 1990 there were over 400 registered with the government, soaring nearly to 3000 in 2004 and well over 4200 by 2007 (Brass 2010 citing National Council of NGOs, NGO Coordination Board, 2006). The current number of registered NGOs is 7082 (NGO

Coordination Board, 2014). Most of the NGO funding is derived from foreign sources, indeed most NGOs in Kenya- whether established within the country by Kenyan citizens or abroad are funded via international sources or local private sources. Of the 4211 organizations listed in the Kenya's government NGO Board database in December 2006, only 663 (about 16%) submitted a return with funding source information in the most recent return year, 2005. In these return figures 91% of funds were listed as coming from international sources. Of the other 9% of funds, 8% came from local private sources, with only 1% of the NGO funds being derived from the Government of Kenya at the national or local level. Over 35% of the organizations received funding entirely from abroad, with organizations receiving funds from a mix of local and international sources (an additional 25% of organizations) getting 71% of their funds from abroad on average (Brass,2010).

Non-Governmental Organizations (NGOs) are registered by the NGO Coordination Board and governed by the NGO Coordination Act of 1990 (Act No. 19, Laws of Kenya) and its Regulations of 1992. The Act will be effectively replaced by the Public Benefit Organizations (PBO) Act, 2013, as soon as the Cabinet Secretary for Devolution officially announces the PBO Act's commencement date (Kisinga, 2014). The Miscellaneous Amendment Bill of 2013, published on October 30, 2013, included, among several problematic provisions, an amendment to the Public Benefit Organization Act of 2012 that sought to cap the amount of foreign funding NGOs could receive at 15% of their budget (Kenya Gazette Supplement Number 146, 2013). NGOs would only be able to receive more than the 15% of their budget from foreign sources if they demonstrate that they require the funds due to extraordinary circumstances, yet one of the problems usually faced by non-governmental agencies in Kenya is financial constraints (Kameri-Mbote, 2000). However, Members of Parliament (MPs) voted to reject the Bill in its second reading in December 2013, it is uncertain as to whether the bill will come back to parliament (Kisinga, 2014).

According to Gathara, (2013) 53% of health care is delivered through private sector including PBOs and Faith Based Organizations (churches). The national health budget is 55% funded by donors through PBOs while 89% of the Human immunodeficiency virus infection / acquired immunodeficiency syndrome (HIV/AIDS) budget (including lifesaving antiretroviral, ARV for over one million HIV-positive Kenyans) is funded by external donors through NGOs. Most of the NGOs are involved in works relating to development, relief and advocacy, which are of direct and visible benefit to the people; they have achieved a high degree of goodwill. Consequently, the influence of Non-governmental organizations in augmenting the work done by government and international agencies is gaining recognition by the day. Their roles are more prominent in the traditionally marginalized areas like the Arid and Semi-Arid Lands

(ASALs) where basic government services are not readily accessible (Poverty Eradication Network, 2002). Essentially, their mission is to provide interventions to local communities through carefully designed projects meant to empower them so as to ensure sustainability of the initiatives. This obviously entails a lot of decision making at different levels so as to ensure that the available resources are meted out in such a way as to ensure maximum efficacy. Moreover, most of the projects are expected to be sustainable in the long run meaning that they need to be capable of going on even after the withdrawal of the donor.

The Academy for Educational Development (AED) is one of the International NGOs that ceased operation as a result of donor funding being stopped. AED collapsed three months after the United States Agency for International Development (USAID) stopped their funding (Beam, 2011). The fall of AED made waves in part because of its size and history. It collapsed because of overreliance on one donor who eventually pulled out leading to the death of the organization. In addition, more than fifty NGOs and community-based organizations operating in the Rift Valley and Western Kenya have collapsed due to lack of funds (Ndanyi, 2014). There is great need to ensure financial sustainability of NGOs. This research therefore sought to establish factors that influence financial sustainability of NGOs.

Nakuru County in Kenya is home to about 249 duly registered and active NGOs (NGO Coordination Board, 2014). Some of these NGOs are headquartered there while others have simply set up their branch offices in Nakuru to enable them to access the western parts of the country while maintaining proximity to Nairobi. Logistically, Nakuru County is convenient in resupplying the western and mostly arid and semi-arid lands (ASAL) in the north. However, with declining donor funding, some NGOs branches in the area are facing closure due to the financial sustainability imperative. In the same vein, the NGOs headquartered in the area may also face challenges in diversifying sources of funds through investment due to the existing opportunities in the area.

Statement of the Problem

Financial sustainability is critical to NGOs for stability and enhancement of growth. It may necessitate the development of diverse resource bases for the NGO as its becoming the case so that it can continue its institutional structure and production of benefits for intended client population after the cessation of donor financial support. However, NGOs usually end their operations when funding stops. An example of an international NGO that ceased operation as a result of the donor funding being stopped is the Academy for Educational Development (AED) (Beam, 2011). AED collapsed three months after the United States Agency for International Development (USAID) stopped their funding in 2010 because it could not sustain its operations financially as it did not have other sources of funds. The fall of AED made waves in part because of its size and history. In the Kenyan scenario, the number of NGOs has been steadily increasing yearly to the current 7082 registered NGOs with most of them depending on foreign donations. However, the declining state of foreign donation coupled with the Miscellaneous Amendment Bill of 2013 that sought to cap the amount of foreign funding to NGOs at 15% of their budget. This legislation further imposes a strain to an already constraining situation, hence, leading to a situation whereby the demand for foreign funding exceeds the supply of foreign funding and consequently affecting the financial sustainability of the NGOs. Logically, some NGOs will collapse as a result of little or no funding. This will occur at the expense of the socio-economic mission that the NGOs are premised on, thus underscoring the need of NGOs to become financially sustainable. Most research studies on NGOs in Kenya focus on the outcomes of programs, capacity building and government involvement rather than on organizational processes and factors influencing organizational impact. Little mention is made on financial sustainability perhaps because the NGOs have been traditionally associated with seemingly unlimited funding from foreign donors. This study therefore sought to answer the question; what are the factors that influence financial sustainability of NGOs?

Objectives of the Study

The general objective of this study was to establish the Factors Influencing Financial sustainability of NGOs.

The specific objectives of the study were:

i) To determine whether diversifying sources of funds for the NGOs projects influences financial sustainability of NGOs.

ii) To examine the influence of the competence of personnel managing the NGOs projects on the financial sustainability of NGOs.

iii) To determine the influence of strategic financial planning on the financial sustainability of NGOs.

Hypothesis

$H0_{1:}$ Diversification of sources of funds for the NGOs projects has no significant effects on financial sustainability of NGOs

$H0_{2:}$ The competence of personnel managing the NGOs projects has no significant effect on financial sustainability of NGOs

$H0_{3:}$ Strategic financial planning has no significant effects on financial sustainability of NGOs

Limitations of the study

The researcher was likely to encounter minor limitations which included accessibility problems to some projects (due to remoteness) location. There would also be logical problems like transport to visit far offices in the county as well as suspicion by the NGO management as to the true use of information. However, the researcher adhered to ethical standards to get the needed information.

Delimitations of study

The study was carried in Nakuru County and the researcher overcame the limitations through proper planning and budgeting. The study was limited to the selected area and also it was done within the study period, guided by achievable target population. There was an advance visit to all NGO offices within the county and the involvement of the project managers of NGOs so as to get their co-operation as well as getting permission from the entire management team.

Significance of the study

Study findings would be of great value to the Government as it would assist in formulating effective policies on issues appertaining to the NGOs finances, this will enable the realization of the millennium development goals and vision 2030 with its objectives of alleviating poverty and enhancing equitable economic development. Through the study findings, the stakeholders such as the community and other management committees would be enlightened on how to ensure financial sustainability of NGOs, so as to make it effective and efficient towards reaching their objectives. Finally, the study findings would be of value to the academicians and other researchers as it would provide the base for further research in the financial sustainability of NGOs.

The scope of the study

The study covered active and registered NGOs in Nakuru County. The target population of the study was 249 NGOs. A sample of 154 NGOs was derived. The study was carried out in June 2014. The study investigated the factors influencing financial sustainability of NGOs.

Assumptions of the study

It was assumed that the researcher would receive full cooperation from the respondents. It was also assumed that the research tools were ideal for data collection. Furthermore, it was assumed that the selected population size was representative of the entire population of study and that study would be completed in time as scheduled.

Definitions of operational terms

Competence- This indicated the sufficiency of knowledge and skills that enable someone to act a person effectively in a job this can be acquired through studies or working experience or both (Barney, 1995).

Financial Strategic Plans- These includes integrated set of actions or strategies aimed at increasing the long term wellbeing and strengths of an Organization (Bray, 2010).

Financial Sustainability- This is the ability of an NGO to develop a diverse resources base so that it could continue its institutional structure and production of benefits for intended client population after the cessation of donor financial support (Renz, David and associates, 2010).

Funds- These are all the financial resources of a firm, such as cash in hand, bank balance, accounts receivable. Any change in these resources is reflected in the firm's financial position (Boas, 2012).

Non-Governmental Organizations (NGO) - a private voluntary grouping of individuals or associations not operated for profit or for other commercial purposes but which have organized themselves nationally or internationally for the benefit of the public at large and for the promotion of industry and supply of amenities and services (NGO Coordination Act of 1990, Laws of Kenya).

LITERATURE REVIEW

Theoretical Framework

Resource Based View

The resource-based view (RBV) provides valuable insights into why firms with valuable, rare, inimitable, and well organized resources at their disposal may have a competitive edge over the others and enjoy superior performance. Resources are either tangible or intangible in nature. Barney (1995) observes that the RBV formulates the firm to be a bundle of resources, in other words, it is these resources and the way that they are combined that distinguishes firms from each other. It is essentially an inside-out approach of analyzing the firm implying that the starting point of the analysis is the internal environment of the organization.

The RBV theory relies on the firms' internal attributes to explain firms' heterogeneity in strategy and performance. Based on this view, a firm can be taken as an organized, unique set of factors known as resources and capabilities which are related sources of advantages to the firm. Resources are a firm's accumulated assets, including anything the firm can use to create, produce, and/or offer its products to a market. As pointed out by Amit and Schoemaker, (1993), resources are eligible for legal protection (as such, firms can exercise property rights over them); can operate independently of firm members; and can intervene as factors in the production process to convert input into output that satisfies needs (Grant, 1991). As Barney (1995) contends, resources such as capital, equipment, and the skills of individual employees, patents, finance, and talented managers form the necessary inputs into a firm's production process.

Moreover, the resource-based view is grounded in the perspective that a firm's internal environment, in terms of its resources and capabilities, is more critical to the determination of strategic action than is the external environment (Camisón, 2005). Instead of focusing on the accumulation of resources necessary to implement the strategy dictated by conditions and constraints in the external environment the resource-based view suggests that a firm's unique resources and capabilities provide the basis for a strategy. The business strategy chosen should allow the firms to best exploit its core competencies relative to opportunities in the external environment (Robert, 2008). This theory is suitable for examining the financial sustainability of the NGOs and will, therefore, be adopted in this research since it focuses on the firms' internal environment. The environment in this case is the ability of NGOs to have diverse sources of funds, have competent staff and prepare financial strategic plans.

Non-Governmental Organizations are considered as economic institutions in spite of the fact that they are nominally non-profit making institutions. This view is supported by the fact that they extract capital to pursue their objectives from scarce resources owned by the society such as land, labour and human resources. Given their costs of operation versus the scarce resources at their disposal, the NGOs often engage the communities in the areas they are working to volunteer their services and other contributions as they see fitting in achieving their mission. In many NGOs, the revenue structure has been unilateral in a traditional aspect; however, there is a growing need to diversify the revenue base to sustain their operations (Barney, 1991). Presently, the concept of economic rent and the view of the company as a collection of capabilities dominates the business strategy resource-based theory or resource-based view (RBV) of firms. Kay (2005) points out that this approach to competitive strategy has a coherence and integrative role that places it well ahead of other mechanisms of strategic decision making.

Empirical literature

Diversification of source of funding and Financial Sustainability of NGOs

According to Boas (2012) the term 'diversification of sources of funding' 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. Boas (2012) continues to say that, NGOs that want to diversify their sources of funding and make their funding more reliable have to make a decision as to whether they want achieve this long-term goal only through; actions focused on donors and grant makers, potentially with minor self-financing activities or will also be open to consider, starting significant for-profit activities, possibly organized in form of a social enterprise. The author also emphasizes that organization that focuses 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. Alymkulova and Seipulnik (2005) agree with Boas (2012) that the most sustainable financing strategy is to diversify income sources. Alymkulova and Seipulnik (2005) also point out that a sustainable approach to NGO financing is one that avoids dependency on any single source of revenue, external or internal. There is difficulty in determining a formula for the percentages that need to be derived from various sources in order to come up with the optimum mix. However, maintaining a balance between externally and internally generated resources is necessary to allow an organization to meet its operating and administrative expenses while maintaining the freedom to determine its program priorities and projects, irrespective of donor preferences (Alymkulova and Seipulnik, 2005)

Rasler (2007), argues that building a truly "sustainable" NGO is a multidimensional challenge entailing both internal factors of strengthening organizational capacity, as well as external factors of establishing a more supportive regulatory environment and secure resources for NGO initiative. In fact, Irish and Simon (1999) stressed that an NGO must achieve organizational, self-governing capacity before it can attempt to achieve financial sustainability, and that a good legal framework for the NGO sector is a perquisite condition for both. However, while ensuring organizational sustainability requires for more than simple ensuring financial sustainability, the question of how to generate a stable source of financing is indeed one of the most universally recurrent and confounding obstacles for NGO professionals, fund-raisers, and policy analyst in almost all regions of the world. Generally, Mulroy (2003) is also in agreement that NGOs can obtain funds to run their programs through three channels: - Interest third parties, who give to the NGOs in return, primarily for the personal satisfaction from doing good (grants and donations); Beneficiaries of the NGOs programs, who value their participation more than the cost (cost recovery); and Unrelated third parties, who will pay the NGO in return for objects of value that can make or do for them (commercial ventures). All forms of grants and donations are categorized as "External" funding sources, while cost recovery methods and commercial ventures are categorized as "internal" funding sources. Similarly, evidence was also given by Bennett & Savani (2011) that feasibility analysis of potential funding sources using these critical factors varies from one NGO to another depending on NGO's legal, organizational and operational characteristics. Yet, Moore (2000) said that experiences of NGOs in many countries around the world suggest that international funding is in decline and therefore cannot be relied upon for long-term financial sustainability. On the other hand, levels of domestic resources and self-financing appear to be increasing and are therefore more reliable components in long-term sustainability strategy.

As Cannon (1999) put it: "The process of moving an organization towards greater financial sustainability is not an easy one there are no magic solutions and it takes hard work which will not bear fruit overnight. But continuing to depend on foreign donors is no alternative." Self-financing activities, also referred to as "Earned income" or "non-profit enterprise", are a number of "entrepreneurial" strategies for cost recovery or surplus revenue generation to create NGO own new resources to support programmatic or operational expenses. Under prevailing conditions, however, where very few NGOs can achieve 100% self-financing, more organizations are trying to gain control over at least portion of their funds by generating income themselves. In this contest, a rule of thumb is that NGOs raise sufficient funds from internal sources to cover their basic operating costs but approach external donors for their program costs. On the Contrary, Alter (2007) points out that, the "funding approach" advocates that nonprofits start commercial ventures to diversify their funding. Typically, the venture is structured as an auxiliary project of the organization. The funding approach has increased the number of nonprofits incorporating income-generating activities into their organizations, yet problems arise from disappointing financial returns, complex legal and tax issues, organizational discord and mission dissonance. Mulroy & Achie (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.

A promising method for nonprofit organizations to overcome reliance on limited external funding sources is to think more creatively about their fundraising strategies and consider the role of nontraditional philanthropic organizations or individuals. One such approach is the role of giving circles in the financial viability of nonprofit organizations: Giving circles involve groups of individuals pooling their resources and then deciding together where to give them away. They also frequently include social, educational, and volunteer engagement components that seem to increase members' awareness about community issues and philanthropic processes

(Eikenberry, 2008). Giving circles can also be identity-based (for example, an African American or women's giving circle) (Eikenberry, 2008). Data suggest that giving circles have been successful at engaging younger and female participants in philanthropic roles and that they are growing in popularity among various racial, ethnic tribal, and other identity groups (Eikenberry, 2008).

Hodge & Piccolo (2005) puts it that, NGOs and CBOs often operate within the communities that they serve, creating a unique challenge of promoting ownership and collaboration among community members while maintaining programmatic and mission integrity. Establishing and engaging community board leadership and a system of community volunteers provides NGOs and CBOs a resource of varied experiences and expertise while bringing a sense of ownership to the communities that they serve. Sustainability is a challenge that most NGOs and CBOs must address; managing financial viability in an evolving funding landscape, contending with "competing" NGOs and CBOs while establishing collaborative partnerships, demonstrating value and accountability to funders and supporters, and maximizing the contribution of leadership within the community. However, Oliver (1990) argues that, these challenges become exacerbated, if not overshadowed by other factors for nonprofits serving those communities that are most in need. NGOs and CBOs serving high-need or low-income, and sometimes minority, populations are faced with balancing multiple community challenges that reach far beyond the mission of the organization (that is economic challenges, poor education, poor health, crime or safety issues, housing concerns, lack of business or community development). Basel, Williams & Klark (2011) stressed that, understanding the interaction between the economic and cultural contexts of low-income communities and the sustainability challenges that NGOs and CBOs face is necessary to maximize strategies to address financial sustainability challenges and ultimately improve nonprofit services for communities of the greatest need. Most nonprofits receive funds from multiple sources (that is government, foundations, private donors) and streams (that is grants, contracts, membership fees). Substantial cutbacks in both government and foundational funds suggest that NGOs and CBOs should develop or revisit their fundraising plans to support financial sustainability.

Additionally, nonprofits may wish to consider innovative fundraising techniques, such as giving circles and fostering relationships with investors, to address financial challenges. Due to changes in the funding climate and the financial challenges faced by many nonprofit organizations during these turbulent economic times, nonprofits have begun to consider formalized collaborations as a way to respond to the changing resource environment and minimize competition for funding sources (Connolly & York, 2002; Renz *et al*., 2010). This is occurring as nonprofit leaders are seeking each other out to explore potential partnerships, and also through funders themselves that are trying to maximize impact with limited resources (Renz *et al*., 2010). On the other hand Kirk & Nolan (2010) suggests that, risks of reliance on external funding sources and streams contends that in contrast to for-profit consistent participation and commitment, developing and communicating a strategic plan to outline the role of community advisors and how best to incorporate their guidance may build trust and a sense ownership of ownership among board members and, in turn, the community at-large.

Promoting community engagement and leadership

Bray (2010) suggests that, one of the primary challenges faced by nonprofit organizations serving low-income communities is the struggle to raise funds for operations, as few community members have the Means to contribute financial support to nonprofits. Fostering a culture of giving by encouraging community members to donate, even if it is a small amount, and involving community members in fundraising efforts can help address the “Willingness to give” gap and may address fundraising challenges in communities where many residents have very limited resources to source. Nonprofits in low-income communities are also tasked with striking a balance between meeting the expectations of mainstream funders and/or governing bodies and staying connected to the local community and being perceived as genuine. Utilization technology and developing a marketing strategy that clearly defines the nonprofit’s social mission will help reach new audiences and build a reputation within the community. NGOs and CBOs can address financial constraints to operations and limit completion by establishing high impact partnerships with organizations that have similar strategic goals. Collaborations may also benefit nonprofits in low-resourced areas by building capacity to perform formal evaluations and demonstrate the value of their operations. Finally, strategically engaging volunteers through community outreach can help promote the sustainability of nonprofits and foster support from the community. Establishing financial sustainability should be viewed by nonprofits as a dynamic and continual process. Creating a clear strategic plan that closely aligns with the mission may help nonprofits overcome the challenge of establishing sustainability.

Foster Relationships with Investors

Once the initial relationship with donors or investors has been established, there remain challenges associated with continuing the relationship. Community foundations and investors can play key roles in community development and promoting the mission of the nonprofit organization by identifying the niche opportunities in their communities and acting as conveners (Carman, 2001). However, investors expect to see returns on their investments (Rasler, 2007). In the nonprofit sector, this return on investment does not come in the form of shares of stock or legal claims on assets, but rather through a demonstration that the money invested has made an impact on the social mission of the organization. Therefore, nonprofits are charged with identifying what investors expect to see from nonprofits and communicating this information in a clear and consistent manner. When fostering a relationship with investors, it is important to recognize that the way nonprofits communicate value to investors is just as important as what is communicated (Rasler, 2007).

The Collapse of AED

In a 2009 USAID report, USAID's inspector general urged USAID to make more use of its powers to suspend (cut off funds to an organization temporarily) and debar (cut them off permanently).While there has been a major uptick in the quantity of work that USAID is doing in the suspension and debarment arena, the most notable sign of progress over the last year relates to a single case. In December 2010, following months of consultation, USAID took the extraordinary step of suspending one of its largest funding recipients, the Academy for Educational Development (AED). USAID’s suspension decision underscored the seriousness of its commitment to responding to mismanagement of U.S. Government funds and established that no implementing partner was too large to escape accountability. Indeed, at the time USAID took this extraordinary step, it had 65 active awards valued at approximately $640 million dollars with AED and work underway in countries like Afghanistan and Pakistan (Beam, 2011) that meant AED could not receive new funds from the federal government. Less than three months later, in March 2011 after 50 years of spearheading thousands of development projects around the world AED announced that it would sell its assets and dissolve itself. The sudden collapse of AED startled the development community. AED collapsed because it was a low-margin nonprofit that relies overwhelmingly on government funds. AED received 90 percent of its funding from USAID and other federal agencies, according to Galley (2010), and many of those contracts required annual renewal. The suspension effectively dried up AED's revenues. According to USAID, the suspension of AED was evidence of the government's careful stewardship of taxpayer dollars. The fall of AED made waves in part because of its size and history. The fall of AED justifies the need of NGOs having diverse sources of fund. It collapsed because of overreliance on one donor who eventually pulled out leading to organization’s death.

Competencies of Personnel managing the fund projects & Financial Sustainability of NGOs

Reaching a satisfactory level of financial sustainability necessarily requires more than just securing funds from diversified sources. It requires as much strengthening NGO organizational and operational capacities. There exists a causal relationship between financial sustainability and certain factors associated with NGO management, leadership, public image, service provision and community participation. These factors could contribute to, or impede financial viability of given NGO (Bray, 2010). Foundations and other donors increasingly want access to up-to-date information about an organization's operations and finances as a way of ensuring return on their investment (Bray, 2010). Engaging in evaluation activities that outline financial and programmatic outcomes as a result of funding support demonstrates the value of a nonprofit's operations and helps determine mission impact. Additionally, clearly and consistently communicating evaluation efforts and findings to funders and investors demonstrates accountability. According to Barney (1995), the Resource Based View (RBV) theory formulates the firm to be a bundle of resources. It is these resources and the way that they are combined, which make firms different from one another. It is considered as taking an inside-out approach while analyzing the firm. This means that the starting point of the analysis is the internal environment of the organization. Barney (1995) further contends that resources include the skills of individual employees this therefore brings to light the need of staff competence.

Cultural differences between the leadership and staff of the NGOs and CBOs and the communities they serve may pose additional challenges for sustainability. Being perceived as an outsider in low-income neighborhoods can strain community buy-in and trust. Having a physical presence in the community as well as a consistent track record of service accountability to area residents establishes trust in a community wary of outsiders' motives for engaging with the community. However, the pressure to adhere to funders' priorities and ways of operating business (without the input of the community) may threaten this relationship (Mulory, 2003). Furthermore, when nonprofit organizations are established in low-income areas, tensions can rise between "outsider experts" and the nonprofit staff and community members. This can cause a strain on the partnering relationship (Bray, 2010).

Develop a marketing strategy that clearly defines the social mission. When marketing services to high need populations, it is important to clearly and consistently communicate that the mission and services provided by the organization specifically cater to the unique needs of the population. By doing so, nonprofits in low-resourced areas can better establish their niche and increase their competitiveness within the larger market. Communicating this niche also serves a purpose in gaining the support of funders by communicating that an unmet need is being addressed through its services (Kirk and Nolan, 2010; Renz *et al*, 2010). Poor Communications is also a major challenge (Carman, 2001). NGOs also recognize that there is very poor communication within the sector.

The majority of NGOs have little or no access to reliable email and internet connections; they receive almost no literature on development issues and are generally out of touch with issues of global, regional and national importance. Their lack of understanding of the difference between the Board and Council is just one example of the knowledge gaps that exist. Moore (2000) says; NGOs recognize that many of them have limited technical and organizational capacity. Few NGOs are able or willing to pay for such capacity building. Weak capacity was identified in fundraising, governance, technical areas of development, and leadership and management. The other challenges as highlighted by Basel, Williams & Klak (2011) are the Political Interference. In some regions, in particular South Rift and North Eastern parts of Kenya, NGO leaders identified the interference of local politicians and civic leaders as a major hindrance to their work. Where NGOs are involved in sensitive issues, such as land disputes, local leaders can threaten NGOs with de-registration. NGOs are not aware that the Board - and potentially the Council are there to protect them from such intimidation. Program evaluation or outcome assessment data is one tool that can speak to important questions of whether progress is being made on key agency objectives. In outcome assessment, the goal is often to determine whether a program or service has made a difference or whether observed results are linked to specific program objectives, with the long-term goal of organizational development or program improvement, rather than simply measuring outcomes (Bozzo, 2000). Annual reports are one important communication device through which nonprofit entities can satisfy their duty to be accountable to donors and the public at large (Gordon et al., 2010).

Evidence from academic studies suggests that donors respond to accounting information in making their giving decisions (Parsons, 2007; Buchheit & Parsons, 2006). In 2010, Gordon and colleagues outlined five best practice recommendations for annual reports in the nonprofit sector: Completeness: Include the complete audited or reviewed financial statements in the annual report, Accessibility: Make annual reports readily available to investors and other parties of interest. Ostensibly, annual reports, no matter how complete, will not be used if not easily obtained, Transparency in Financial Reporting: Provide reports of voluntary and required financial information that allow the user to "see through" the numbers and understand the underlying activities and events portrayed, Full Disclosure: Present enough information in annual reports to ensure that a reasonably informed and prudent financial statement user will not be misled. Relevance: Provide information outlining the achievements related to organizational mission. All these can be achieved by having competent personnel managing the fund projects. According to Garner (1998), active board officials can be the most important resource in the long-term financial health of non-profit organisation. Non-profit organizations must get accounting expertise somehow, if they don’t have strong skills in this area. Organizations should get someone on board with accounting skills to be the treasurer. An accountant should help set up the bookkeeping system, generate financial statements and do some financial analysis. The knowledge and understanding of basic accounting processes is required for the effectiveness of accounting to be guaranteed.

Using the AED case, one of the major reason for suspension by USAID was lack of proper internal controls (Beam, 2011). According to the NGO financial Newsletter, October 2011,One aspect of the overall control environment NGOs have to take into consideration is the lack of financial or control acumen of their country representatives or chiefs of party. Usually, field managers are hired almost exclusively for their program or technical know-how, and not their business or financial sense. In turn, these people often hire the field office finance manager whose loyalty is to, and continued employment depends on, the field manager. Some field managers, claiming ignorance, even go so far as to entirely delegate all financial matters to their “loyal, trusted” finance staff. It has been reported that 70% of all scams have been perpetrated by finance people (NGO financial Newsletter, October 2011). Lacking a direct or broken-line reporting relationship to the organization’s Chief Finance Officer this is a recipe for failure. NGOs need to institute the traditional internal controls, such as, “no one person should have control over the entire accounting cycle to authorize, approve and execute transactions,” NGOs need to direct their controls to the kinds of “windows of opportunity” for fraud and embezzlement found in the many high-risk settings in which NGOs are now operating.

Strategic financial planning and financial sustainability of NGOs

According to Bray (2010), Absence of Strategic Planning is one of the challenges encountered in the NGO sector. Few NGOs have strategic plans which would enable them to have ownership over their mission, values and activities. This leaves them vulnerable to the whims of donors and makes it difficult to measure their impact over time. Many nonprofit organizations in low-resourced areas have limited capacity to do formal evaluations within such a complex environment. In many cases, small nonprofits cannot afford adequate technology to track services, maintain financial data, and maximize other information technology services. Because information systems are secondary to mission, small nonprofits do not give them the priority needed to effectively develop tools that can aid agency activities (Schneider, 2003) and often choose limited computerized systems to fit budgets and agency knowledge, and they need training to use systems effectively (Stoecker & Stuber, 1997; Fasano and Shapiro, 1991; Berlinger and Te'eni, 1999). Although this digital divide, which by definition limits the ability of many nonprofit organizations to conduct formal evaluations, causes concern for people focusing on organization management, it becomes even more critical in low-income minority communities because it is further exacerbated by longstanding inequities of education, income, and opportunity that community members already face (Schneider, 2003).

In these situations, nonprofit organizations should select and optimize resources and approaches that work around capacity challenges. For instance, collaborating with university-based researchers to develop evaluation efforts can help in measuring outcomes (Mulroy, 2003). In one case study of a nonprofit organization serving a low-income community, the project manager developed relationships with university-based researchers who helped design and implement a baseline study, designed new neighborhood-level instruments, and planned a four-wave quantitative study with the goal of publishing preliminary results (Mulroy, 2003). Build capacity to conduct evaluations through collaborations. For nonprofits that mainly focus on providing goods and services, allocating limited resources toward evaluation efforts can cause a significant strain on general operations and the ability to provide services. Despite this limitation, understanding and communicating outcomes is vital in strategic planning and reporting to funders and governing bodies. Nonprofits in low-resourced areas could consider developing collaborative partnerships that leverage the systems and expertise of entities that have the skill sets, knowledge, and resources to conduct quality evaluation efforts (Zimmerman& Stevens, 2006; Mulroy, 2003).

On the other hand Kirk & Nolan (2010) suggests that, risks of reliance on external funding sources and streams contends that in contrast to for-profit consistent participation and commitment, developing and communicating a strategic plan to outline the role of community advisors and how best to incorporate their guidance may build trust and a sense ownership of ownership among board members and, in turn, the community at-large. However, nonprofits are negatively influenced by tough economic times, perhaps more so than for-profit organizations, because of their dependence on fundraising and philanthropic giving (Besel, *et al* 2011). The relative absence of donations made to local nonprofits has been found to be more of a matter of "willingness to give" than "ability to give" (Besel, *et al* 2011), although this may be less of the case in communities experiencing economic challenges. Additionally, there is a significant relationship between the percentage of budgetary funds from individuals within an agency's service area and fundraising requirements for board members (Besel, *et al* 2011)

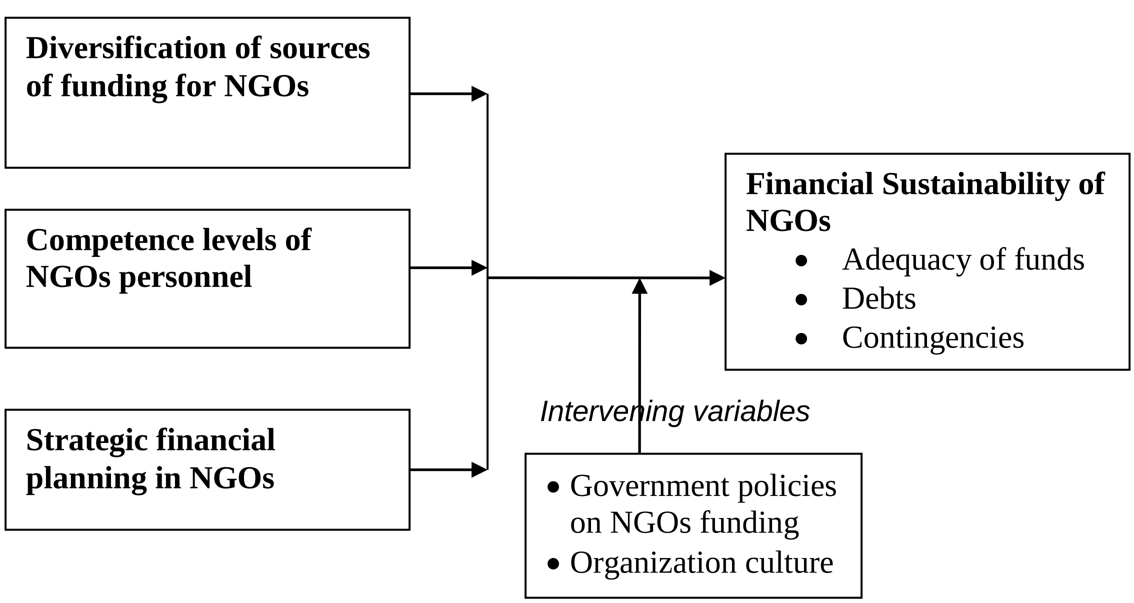
Developing a coherent fundraising plan to address the challenges and best promote the mission of the organization is imperative. A strategic fundraising plan provides an opportunity to examine what is working well and where there are opportunities for improvement, encourages nonprofits to set specific goals, and motivates nonprofits to make a commitment to focus on the big picture. Developing the fundraising plan should be integrated into other planning efforts, such as strategic planning, program planning, and budgeting (Bray, 2010). Bray (2010) suggest the following tasks in developing a fundraising plan: “Determine a reasonable dollar goal to work toward, Evaluate your organization's greatest fundraising assets, Create a strategy that uses these assets to most effectively reach potential funding sources and Write down your strategy in a short, easy-to-understand document to keep everyone on plan. “In some cases, nonprofit organizations have found success in starting small, particularly in communities where residents may be less familiar with the mission of the organization or where residents may have less to give on a consistent basis. In these cases, the notion of "all donations count" is important (Bray, 2010).

Conceptual Framework

From the conceptual frame work below, financial sustainability is the dependent variable, while sources of funds for projects, competence level of personnel and preparation of financial strategic plans are the independent variables. The intervening variables of the conceptual framework may include Government policies and organization culture which may have an impact in the project funding and financial sustainability in NGOs. The said variables are shown in Figure 1.

Figure 1: Conceptual framework

Independent variables *Dependent variable*



Research Gaps

The review of the existing literature reveals that there was limited literature on financial sustainability both in the low and high need for funds NGOs. Most research studies on nonprofit organizations focus on the outcomes of programs (that is, whether they are operating or working), capacity building and government involvements rather than on organizational processes and factors influencing organizational impact. Most of the researches conducted on financial sustainability of NGOs have been conducted in India, South Africa and United States of America. The conditions in those areas may not be the same as in Kenya. Studies on Governance and Financial sustainability have been conducted in South Africa and India. The conditions in these countries vary and are not the same, ranging from differences in economic conditions to political stability. This research therefore sought to determine the factors influencing financial sustainability of NGOs. This was achieved by examining the various sources of funds for NGOs, availability and competence of the staff managing these funds and the preparations and implementation NGOs strategic plans. However, there are numerous variations and not all of these ways represent the same risk level. Furthermore, the NGOs stray from its core activities, depending on the difficulties they are likely to face. Becoming more self-financed has its pitfalls and gaps. But it is still worthwhile to consider some of the real strategies that some NGOs have used. Davis (1999) traced the ways that different sizes and types of real NGOs around the world were able to reach greater level of financial self-sustainability. In summary, as Gordon et al., 2010, puts it, the reality is that foreign funding can never be sustainable and, therefore, NGOs are increasingly beginning to accept the need to consider local and self-financing alternatives as a basis for future financial sustainability/viability.

RESEARCH METHODOLOGY

Research Design

The research design that the researcher adopted in this study was the survey research design. A survey may focus on opinions or factual information depending on its purpose, but all surveys involve administering questions to individuals. Survey research design is an efficient method for systematically collecting data from a broad spectrum of individuals and educational settings.

Population of Study

The target population of this study comprised of 249 NGOs that are duly registered and active in Nakuru County. This population was chosen because it was highly accessible given that most had their offices in within Nakuru Municipality and its suburbs.

Sampling Design

The purpose of sampling is to secure a representative group which will enable the researcher to gain information about an entire population when faced with limitations of time, funds and energy. Since the target population of this study of comprised of active and registered NGOs in the area simple random sampling was used. Information therefore was collected from the NGOs management. The the NGOs in the area are given in the sampling frame in Appendix III. The sample size was computed using the simplified formula delivered by Yamane (1967) for proportions where confidence level is 95% and P ≥ 0.5 are assumed.

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

Where *N* is the population and e is the level of precision

A sample size of 154 resulted from the use of the above formula. Out of these, 133 NGOs participated in the study.

Data collection instrument

The researcher used a self-designed closed ended questionnaires based on Likert scale as the main mode of data collection. The use of questionnaires was justified because it was affordable and effective way of collecting information from a population in a short period of time and at a reduced cost. The questionnaires also facilitated easier coding and analysis of data collected. The closed ended questions ensured that the respondents were restricted to certain categories in their responses.

Data collection procedures

The researcher used questionnaires in the data collection. The questionnaires were personally administered by the researcher based on a drop and pick after one day basis. This method of administration was preferred because it had a higher response rate.

Validity and reliability of the instruments

Before administering the questionnaires in bulk, pre - testing (piloting) of the questionnaire was done prior to giving out the other questionnaires. The instrument was pre-tested (pilot study) on a population that has similar homogeneous characteristics; the pilot study included NGOs in Aphia plus Rift Valley Region. The pilot study helped in modifying various items in order to rephrase, clarify and clear up any ambiguities in the questionnaire. Reliability is the measure of the consistency of the results from the tests of the instruments. It is a measure of the degree to which a research instrument yields consistent results or data after repeated trials. It is influenced by random error. Reliability of the research instrument was calculated using Cronbach's coefficient alpha for either even or uneven items based on the order of number arrangement of the questionnaire items. According to Fraenkel & Wallen (2000), as a rule of thumb, a proposed psychometric instrument should only be used if the alpha value, α, obtained is 0.70 or higher on a substantial sample. The following is the Cronbach's coefficient alpha formular which was used:

$$\alpha = \frac{N \cdot \bar{c}}{\bar{v} + (N-1) \cdot \bar{c}}$$

N is equal to the number of items, c-bar is the average inter-item covariance among the items and v-bar equals the average variance. The study obtained a Cronbach's Alpha value of 0.7913 from the pre-test prior to administration of the questionnaires which was above the recommended value of 0.70 implying that the accuracy level of the questionnaires was up to 79%. After ascertaining that the instrument was giving consistent results, it was adopted as the main tool used for data collection. Validity is the accuracy and meaningfulness of inferences, which are based on the results. It is a measure of how well a test measures what it is supposed to measure. It is concerned with the accurate representation of the variables under study. It is influenced by systematic error in data. This was addressed in this study by good instrument design to reflect the research objectives and pre-testing the instruments (Borg & Gall, 1997).

Data Analysis Approach

Before the actual data analysis, data obtained through questionnaires was validated, edited and then coded. The returned instruments were scrutinized to determine correctness and accuracy. Data was analyzed using descriptive and inferential statistics with the aid of Statistical Package for Social Sciences (SPSS). Correlation analyses were used to measure the relationship between variables. Regression model was used to make predictions or inferences about the population. The importance of this is that the results of the analysis can be generalized to the larger population. More specifically, the researcher used multiple regression model to establish if the relationship between the independent variables and the dependent variables were statistically significant.

The model is shown below:

$Y_i = \alpha + \beta_1 (X_1) + \beta_2 (X_2) + \beta_3 (X_3) + \acute{\varepsilon}$

Where,

Y_i = Financial sustainability

X_1= Diversification of sources of funding

X_2= Competence level of personnel

X_3= Strategic Financial planning

$\acute{\varepsilon}$ = representing the error term

β1, β2, and β3 are the net change in Y

The term ''independent'' variables and ''dependent'' variables were derived from the mathematical expression, when X_i (i = 1, 3) are generally independent variables and the dependent variable, Y is said to be the function of X_i (i = 1, 2, 3) that is Y = f (X_i). This means that the variation of Y depends on X_i. The regression coefficient 'α' is the Y intercept: while β_1, β_2, and β_3 are the net change in Y for each change of X_1, X_2 and X_3. The error term (ἑ) is a random variable with a mean of zero.

Ethical Considerations

The researcher first sought consent from the authorities in the area and the overall management of the NGOs to carry out the study. The authorities and the respondents were given the understanding that the findings were to be used to improve or strengthen the existing financial sustainability measures and add to the body of knowledge for further research by academicians. The identity of respondents giving information was made private and confidential to prevent any victimization.

ANALYSIS AND DISCUSSIONS

Response Rate

Table 1: Response Rate

Number of questionnaires Returned	Target Number of respondents	Response Rate (%)
133	154	86.4

There was a high questionnaire response rate (86.4%) shown in Table 4.1 above resulting from the method of administration of the instrument, which was in this case the researcher administered. This method also ensured that the respondents' queries concerning clarity were addressed at the point of data collection; however, caution was exercised so as not to introduce bias in the process. This response rate was deemed sufficient for the study analysis as indicated by Mugenda and Mugenda (2003) who said that a response rate of over 50% is sufficient for analysis.

Descriptive Statistics

This section presents the results of the descriptive statistical analyses of the data, their interpretations and implications. The descriptive statistics used were the frequencies, percentages and chi-squares. These were used to develop the basic features of the study and form the basis of virtually every quantitative analysis of the data. The results were presented in terms of the study objectives.

Diversification of Sources of Funding and the Financial Sustainability of NGOs

The first objective of the study was to determine whether having diverse sources of funds for NGOs projects influenced financial sustainability of NGOs. This objective was realized by asking the respondents to respond to statements pertaining to the sources of funds for their NGOs. Specifically they were asked whether; foreign donations as sources of funding were on the decline; domestic sources of funding were increasingly reliable; coming up with income generating activities increased the financial sustainability of NGOs; high dependency on donor funding has a tendency to shift interventions to match donor priorities and; having multiple sources of funds increases the chances of NGOs being financial sustainable. Diversification of funding was described in terms of donor types and origin and the NGOs own initiatives to increase their funding base through income generating projects. A 5 point Likert scale ranging from; 5 = Strongly Agree (SD), 4= Agree (A), 3=Neutral (N) 2= Disagree (D) to 1 = Strongly Disagree (SD) was used to rate the responses and the results summarized as shown in Table 2;

Table 2: Diversification of Sources of Funding and the Financial Sustainability of NGOs

Statements	SA freq (%)	A freq (%)	N freq (%)	D freq (%)	SD freq (%)	$\chi 2$	P-Value
Foreign donations as sources of funding are on the decline	13(9.7)	45(33.8)	35(26.3)	24(18.1)	16(12.0)	26.812	0.0001
Domestic source of funding for NGOs are becoming increasingly reliable	27(20)	74(55.6)	26(19.6)	6(4.5)	0	75.0301	0.0001
Coming up with income generating activities increases the financial sustainability of NGOs	92(69.2)	38(28.6)	2(1.5)	0	1(.75)	165.1353	0.0001

High dependency on donor funding has a tendency to shift interventions to match donor priorities	84(63.2)	46(34.6)	3(2.3)	0	0	74.0902	0.0001
Having multiple sources of funds increases the chances of NGOs being financial sustainable	38(28.6)	65(48.9)	23(17.3)	5(3.8)	2(1.5)	101.0977	0.0001

The results in Table 2 suggest that foreign donations as sources of funding for NGOs in the area were on the decline according to most of the respondents (33.8%). This finding is largely consistent with the views of Moore (2000) who said that experiences of NGOs in many countries around the world suggest that international funding is in decline and therefore cannot be relied upon for long-term financial sustainability. In Kenya this situation was further exacerbated by the recent amendment bill that sought to cap foreign funding to within 15% of their budgets. The dwindling funding from foreign donors had led to the NGOs seeking alternative funding from the locals and this was proving to be reliable (55.6 %). According to the observations of Bennett & Savani (2011) that levels of domestic resources and self-financing appear to be increasing and are therefore more reliable components in long-term sustainability strategy.

As a measure of financial diversification, the respondents agreed with the statement that coming up within come generating activities were likely to make the NGOs financially stable (69.2%). Alter (2007) pointed out that declining funding had increased the number of nonprofits incorporating income-generating activities into their organizations. The findings also indicate that high dependency on donor funding has a tendency to shift interventions to match donor priorities (63.2%) implying that the nature and scope of the NGOs activities in the area was limited to the donors decisions. Most of the respondents also felt that having multiple sources of funds could increase the chances of NGOs being financial sustainable in the future (48.9%). However, Mulroy & Achie (2010) had observed that problems in multiple funding sources in NGOs arose from disappointing financial returns, complex legal and tax issues, organizational discord and mission dissonance. They further argued that NGOs are expressing difficulty in finding sufficient, appropriate and continuous funding for their work. The Chi-square values for all the indicators of this variable were as statistically significant.

Personnel Competence in managing projects and Financial Sustainability of NGOs

The study next sought to examine the influence of the competence of personnel managing the NGOs projects on the financial sustainability of NGOs. This objective was realized by asking the respondents to react to various statements describing the competence level of personnel. In particular statements were meant to establish whether; all NGOs staff had knowledge in cost analysis and identification of cost saving techniques; all NGOs staff had attended training on new technology and emerging issues in the NGO sector in the past one year; the NGOs had fully operational finance departments; the NGOs had experienced personnel and; the NGOs often found themselves compelled to employ members of the community. The status of personnel competence was determined by their ability to anticipate and solve problems and overcome challenges, the regularity of their training and their neutrality in service delivery. The responses on these statements were rated on a 5 point Likert scale ranging from; 5 = Strongly Agree (SD), 4= Agree (A), 3=Neutral (N) 2= Disagree (D) to 1 = Strongly Disagree (SD). The results were then summarized as shown in Table 3.

Table 3: Personnel Competence in managing projects and Financial Sustainability of NGOs

	S A	A	N	D	SD		
Statements	freq (%)	freq (%)	freq (%)	freq (%)	freq (%)	χ2	P-Value
All staff have knowledge in cost analysis and identification of cost saving techniques	22(16.5)	73(54.9)	20(15.04)	14(10.5)	4(3)	108.5414	0.0001
All staff have attended training on new technology and emerging issues in the NGO sector in the past one year	12(9)	46(34.6)	27(20)	37(27.8)	11(8.3)	35.3835	0.0001
The training facilitators are knowledgeable in the field of study	33(24.8)	68(51.1)	12(9)	13(9.8)	7(5.3)	95.384	0.0001
My NGO has a fully operational finance department	15(11.3)	68(51.1)	24(18)	19(14.3)	7(5.3)	86.3609	0.0001
My NGO has experienced finance personnel	13(9.8)	52(39.1)	33(24.8)	24(18)	11(8.3)	42.1504	0.0001

The results in Table 3 above indicate that majority of the NGOs staff had some basic knowledge of cost analysis and were able to identify cost saving techniques (54.9%). This was probably communicated to them during induction training so as to enable them to objectively manage the resources under their care. Barney (1995) further contends that resources include the skills of individual employees this therefore brings to light the need of staff competence. Most of the NGOs had also taken their staffs for training on new technology and emerging issues in the NGO sector in the past one year (34.6%) where the training facilitators conducting training were knowledgeable in these areas (51.1%). These findings, however, disagree with Moore (2000) who says NGOs recognize that many of them have limited technical and organizational capacity. Few NGOs are able or willing to pay for such capacity building. The findings also indicate that most NGOs had fully operational finance departments (51.1%) and experienced finance personnel (39.1%) and this was critical to their sustainability. These findings underscore the importance of having trained and experienced personnel in the NGOs as they could competently manage the NGOs projects. Garner (1998) noted that active board officials can be the most important resource in the long-term financial health of non-profit organisation. Non-profit organizations must get accounting expertise somehow, if they don't have strong skills in this area. Organizations should get someone on board with accounting skills to be the treasurer. An accountant should help set up the bookkeeping system, generate financial statements and do some financial analysis. The knowledge and understanding of basic accounting processes is required for the effectiveness of accounting to be guaranteed. Beam (2011) also observed that usually, field managers are hired almost exclusively for their program or technical know-how, and not their business or financial sense. The Chi-square values for all the indicators of this variable were as statistically significant.

Strategic Financial Planning and Financial Sustainability of NGOs

The study also sought to determine the influence of preparing financial strategic plans for fund projects on the financial sustainability of NGOs. In order to achieve this objective, the respondents were requested to respond to certain statements describing the approach to strategic financial planning in their NGOs. The statements were; my NGO prepares periodic budgets consistent with its long term plans; my NGO periodically reviews the budgets and other financial plans to see if they agree with its mission; the budgeting methods used in our NGO ensure that all funding of operations and projects are within the specified limits; all staff participate in the developing of budgets and other financial strategic planning tools and; there was effective communication of the budgets and other financial strategic plans. These was rated on a 5 point Likert scale ranging from; 5 = Strongly Agree (SD), 4= Agree (A), 3=Neutral (N) 2= Disagree (D) to 1 = Strongly Disagree (SD). The results on this are as summarized in Table 4;

Table 4: Strategic financial planning and financial sustainability of NGOs

Statements	SA freq (%)	A freq (%)	N freq (%)	D freq (%)	SD freq (%)	χ2	P-Value
My NGO prepares periodic budgets consistent with its long term plans	20(15.0)	59(44.4)	21(15.8)	27(20.3)	6(4.5)	58.2406	0.0001
My NGO periodically reviews the budgets and other financial plans to see if they agree with its mission	18(13.5)	58(43.6)	24(18.1)	27(20.3)	6(4.5)	56.0602	0.0001
The budgeting methods used in our NGO ensure that all funding of operations and projects are within the specified limits	21(15.8)	46(34.6)	42(31.6)	21(15.8)	3(2.3)	46.3609	0.0001
All staff participate in the developing of budgets and other strategic financial planning tools	22(16.5)	53(39.8)	32(24.1)	23(17.3)	3(2.3)	49.5188	0.0001
There is effective communication of the budgets and other strategic financial plans in the NGO	52(39.1)	47(36.3)	17(12.8)	16(12.0)	1(0.7)	72.2256	0.0001

The findings in Table 4 above indicate that most of the NGOs in the area often prepared periodic budgets consistent with their long term plans (44.4%). This was realized by the NGOs periodically reviewing the budgets and other financial plans to see if they agreed with their mission (43.6%). According to Bray (2010), absence of Strategic Planning was one of the challenges encountered in the NGO sector. Few NGOs have strategic plans which would enable them to have ownership over their mission, values and activities. The budgeting methods used by most of the NGOs ensure that all funding of operations and projects are within the specified limits (34.6%). The findings also indicate that majority of the NGOs also encouraged all their staff to participate in the developing of budgets and other strategic financial planning tools (39.8%). Schneider (2003) observed that small nonprofits do not give them the priority needed to effectively develop tools that can aid agency activities and often choose limited computerized systems to fit budgets and agency knowledge, and they need training to use systems effectively (Stoecker & Stuber, 1997). The budgets and plans were then communicated effectively within them (36.3%). This means that the NGOs management had high regard for strategic planning although there were notable weaknesses in budget implementation probably arising from the communications and this needed to be addressed. The Chi-square values for all the indicators of this variable were as statistically significant.

Financial Sustainability of the NGOs in Nakuru County

It was also important for the study sought to determine the Financial Sustainability of the NGOs in Nakuru County. This was the dependent variable and was measured by asking the respondents to respond to various statements describing the nature of financial control practices in their NGOs. In particular, the statements sought to ascertain whether; there was adequate allocation of resources for all activities in our NGO; projects were completed in time according to the planned budget and schedule; the NGOs always has enough money for all contingencies and if the NGOs had accrued less debts in the last 2 years compared to the past. The status of this variable was rated on a 5 point Likert scale ranging from; 5 = Strongly Agree (SD), 4= Agree (A), 3=Neutral (N) 2= Disagree (D) to 1 = Strongly Disagree (SD). These results are presented in Table 5.

Table 5: Financial Sustainability of the NGOs

Statements	SD freq (%)	A freq (%)	N freq (%)	D freq (%)	SD freq (%)	$\chi 2$	P-Value
There is adequate allocation of resources for all Projects in our NGO	10(7.5)	38(28.6)	35(26.3)	29(21.8)	21(15.8)	19.2932	0.0001
Projects are completed in time according to the planned budget	13(9.8)	68(52.8)	29(21.8)	20(16.0)	3(2.7)	94.1805	0.0001
Our NGO has accrued less debts in the last 2 years compared to the past	25(18.8)	59(42.4)	22(17.5)	16(13.0)	11(8.3)	53.7293	0.0001
My NGO always has enough money for all contingencies	42(31.6)	62(46.6)	6(4.5)	13(9.8)	10(7.5)	89.2932	0.0001

The findings in Table 5 above suggest that most of the NGOs in the area were able to allocate enough funds for all their projects (28.6 %). This finding supports the view of Drucker (1990) who says that financial management processes of not-for-profit organizations are generally dominated by conditions of resource scarcity. Such organizations have limited opportunities for generating additional income, but are faced with an ever increasing agenda of programme and activities on which such funds could be spent. However, the findings also indicate that most of the projects were completed in time according to the planned budget (52.8%) implying that the NGOs had good financial control practices (Bowman, 2011). This was supported by findings that most of NGOs in the area had accrued less debt in the last two years compared to the past (42.4%). The findings also indicate that the NGOs always have enough money for all contingencies (46.6%). According to Renz *et al.,* (2010), non-Governmental Organizations (NGOs) needed to develop diverse resources bases so that they could continue its institutional structure and production of benefits for intended client population after the cessation of donor financial support. In this sense, they would be able to have enough funds for contingencies in the often vagrant economic climate in most of the countries they are operating in. These findings imply that the financial sustainability of most of the NGOs in the area was assured in many aspects although the effects of the diminishing income streams from the donors were noticeable. The Chi-square values for all the indicators of this variable were as statistically significant.

Inferential Statistics

To evaluate the relationships between the dependent and independent variables, correlation and multiple regression analysis was done and the findings are discussed as follows.

Correlation Analysis

In this subsection a summary of the correlation and regression analyses is presented. It sought to first determine the degree of interdependence of the independent variables and also show the degree of their association with the dependent variable separately. These results are summarized in Table 6.

Table 6: Summary of Correlations

	Diversification of sources of funds	Competence Level of Personnel	Strategic Financial Planning	Financial sustainability of NGOs
Diversification of sources of funds	1			
Competence Level of Personnel	0.159	1		
Strategic Financial Planning	0.278	0.113	1	
Financial sustainability of NGOs	0.787	0.478	0.435	1

Correlation significant at the 0.05 level (2-tailed)

The correlation summary shown in Table 6 above indicates that the associations between the independent variables were significant at the 95% confidence level. This means that the inter-variable correlations between the independent variables were not strong enough to affect the relationship with the dependent variable. It also reveals that there was indeed a very strong positive relationship between diversification of funding sources and the financial sustainability of NGOs while competence levels of staff and strategic financial planning also had strong relationships with the financial sustainability of the NGOs.

The correlation between diversification of the sources of funding for the NGOs and their financial sustainability indicated that a very strong positive relationship existed between them ($r = 0.787$, $\alpha = 0.05$). This suggests that diversifying the funding sources was an important aspect in improving financial sustainability of the NGOs in the wake of diminishing funding from foreign sources. The means that the NGOs needed to become more innovative and aggressive in seeking funding to run their projects.

The correlation analysis results in Table 6 also indicate that the levels of staff competence had a significant influence on financial sustainability of NGOs in Nakuru County. The Karl Pearson's product moment coefficient of correlation ($r = 0.478$, $\alpha = 0.05$) suggests a strong relationship existed between the two variables. This sends a strong message that a lot needs to be done to improve the staff level of competence in handling financial matters.

Finally, there was need to determine whether there existed a significant relationship between strategic financial planning and financial sustainability of NGOs in Nakuru County. The correlation analysis shows that a strong positive relationship exists (r = 0.435, α = 0.05). This implies that the NGOs were positioned to for better financial prospects in the future by practicing strategic financial planning. Therefore, it can be concluded that all the variables were significant to the study problem although the degrees of influence varied.

Regression Analysis

Multivariate regression analysis was used to determine the significance of the relationship between the dependent variable and all the independent variables pooled together. The value obtained for R, which is the model correlation coefficient = 0.549 which was higher than any zero order value in Table 7. This indicates that the model improved when more variables were incorporated when trying to analyze the factors that influenced financial sustainability of NGOs in Nakuru County. The adjusted R-square value 0.286 also indicated that all the independent variables combined accounted for up to 29% of the changes in financial stability in the regression model. A summary of the multiple linear regression analysis correlation coefficients is given in Table 7.

Table 7: Multiple Linear Regression Analysis Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate			
1	0.549[a]	0.302	0.286	1.05594			
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	4.611	0.925		4.983	0		
Diversification of sources of funds	-0.104	0.109	-0.115	-0.957	0.34	0.378	2.469
Competence Level of Personnel	0.386	0.108	0.453	3.584	0	0.339	2.948
Strategic Financial Planning	0.189	0.055	0.28	3.457	0.001	0.823	1.214
Source of difference		Sum of squares	Df	Mean square	F_o	Sig.	
Between groups		313.168	3	104.389	18.591	0.000[b]	
Within groups		724.351	129	5.615			
Total		1037.52	132				

a. Predictors: (Constant), Financial Sustainability of NGOs

b. Predictors: (Constant), Diversification of funding sources, competence levels of staff and strategic financial planning

The beta value was used to determine which independent variable was more important in the financial sustainability of NGOs in the study area. It can be deduced from the findings in Table 4.7 above that the most important factor in the financial sustainability of the NGOs was the levels of staff competence ($\beta = 0.453$), Strategic financial planning ($\beta = 0.280$) and diversification of the sources of funding ($\beta = -0.115$) in that order respectively indicate that the dependent variable, financial sustainability of the NGOs in the area, would change by a corresponding number of standard deviations when the respective independent variables change by one standard deviation. However, the results also indicate that diversification of funds had an inverse though significant relationship with financial sustainability of the NGOs. This indicates that the NGOs were likely to be less sustainable when the sources of funding were diversified.

The results of Table 7 above also indicate that there was a significant difference between means of factors affecting the financial sustainability in NGOs in Nakuru County. ($F_{o'} = 18.591 > F_c = 2.37$; $\alpha < 0.05$; df = 3, 129; $p = 0.000$). This finding confirms the finding suggested by Table 4.7. The study therefore establishes that diversification of funding sources, levels of personnel competence and strategic financial planning were all factors affecting the financial sustainability of the NGOs in the area.

Regression analysis of factors influencing financial sustainability of non-governmental organizations

Regression analysis was utilized to investigate the relationship between the variables. These included an error term, whereby a dependent variable was expressed as a combination of independent variables. The unknown parameters in the model were estimated, using observed values of the dependent and independent variables. The following model represents the regression equation representing the relationship between the financial sustainability of non-governmental organizations as a linear function of the independent variables (determining whether having various sources of funds for the NGOs projects influences financial sustainability of NGOs, examining the influence of the competence of personnel managing the NGOs projects on the financial sustainability of NGOs and to determine the influence of preparing financial strategic plans for fund projects on the financial sustainability of NGOs), with $\acute{\varepsilon}$ representing the error term.

$Y_i = \alpha + \beta_1 (X_1) + \beta_2 (X_2) + \beta_3 (X_3) + \acute{\varepsilon}$. When $\beta 4=0$…………………………Equation 1

Where,

Y_i = Financial sustainability

X_1= Diversification of sources of funding

X_2= Competence level of personnel

X_3= Strategic Financial planning

 έ = representing the error term

β1, β2, and β3 are the net change in Y

The resulting financial sustainability model function is therefore:

Y_i = 4.611 – 0.115(X_1) + 0.453 (X_2) + 0.280 (X_3) + έ…………………………...Equation 2

(Equation 2: Regression Equation with Beta Values)

According to the regression equation established, taking all factors into account (Diversification of sources of funding, Competence of personnel managing the NGOs projects and strategic financial planning, financial sustainability of NGOs will be 4.611. The Standardized Beta Coefficients give a measure of the contribution of each variable to the model. A large value indicates that a unit change in this predictor variable has a large effect on the criterion variable. The t and Sig (p) values give a rough indication of the impact of each predictor variable – a big absolute t value and small p value suggests that a predictor variable is having a large impact on the criterion variable. At 5% level of significance and 95% level of confidence, Diversification of sources of funding had a -0.115 level of significance, competence of personnel managing the NGOs projects had a 0.453 level of significance and strategic financial planning had a 0.280 level of significance. In the resulting financial sustainability model function above, diversification of funding sources is seen to negatively affect the financial sustainability of the NGOs.

Hypotheses testing

Test of hypothesis $H0_1$: Diversification of funding sources for projects have no significant effects on financial sustainability of NGOs in Nakuru County

The multiple regression analysis shows that no significant relationship existed between the two variables (β = - 0.115, α = 0.05; p = 0.340). This led to the acceptance of the null hypothesis and implies that the financial sustainability of the NGOs was dependent on the approach the NGOs took in diversification of funds.

Test of hypothesis $H0_2$: The competence of personnel managing the projects has no significant effect on financial sustainability of NGOs in Nakuru County

A multiple regression analysis shows a significant relationship exists between levels of competence of personnel managing projects and the financial sustainability of the NGOs. The beta value, β = 0.453 is, significantly greater than zero at the 95% confidence level and hence cannot be ignored. This led to the rejection of the null hypothesis. This finding underscores the importance of staff training and also recruitment of competent individuals on the financial sustainability of the NGOs.

Test of hypothesis $H0_3$: Strategic Financial planning has no significant effects on financial sustainability of NGOs in Nakuru County

The result on the multiple regression analysis shows that relationship between strategic financial planning and financial sustainability of the NGOs in the area is significant. Testing the model coefficients gave, $\beta = 0.280$, showing that the beta value is significantly higher at the 5% significance level. This led to the rejection of the null hypothesis and implied that a lot still needs to be done in terms of strategic financial planning in the NGOs to improve their financial sustainability as the limiting of foreign donor funding necessitated that the NGOs develop their own alternative financial plans.

In Summary $H0_1$ was accepted while $H0_2$ and $H0_3$ were rejected. This means that all these factors made a notable difference in the financial sustainability of the NGOs in the area and could not be ignored.

Summary of the Findings

The influence of diversification of funding sources for projects on financial sustainability of NGOs

These findings on the influence of diversification of funding suggested that the decrease of foreign funding is a reality. This is agreement with the findings of a survey of 800 nonprofits at the end of 2008, 75 percent of nonprofits reported feeling the effects of the downturn, with 52 percent already experiencing cuts in funding (Renz et al., 2010). NGOs have to look for alternative sources of funding, that is, diversify their funding base in order to remain financial sustainable or otherwise risk collapse of their projects or the organizations in entirety in the wake of this development. The high dependence on donor funding was inclining interventions to match donor priorities, meaning that if NGOs have to be ‘independent’ and achieve their specific objective and not that of their donor they have to develop a diverse resource base. However, domestic source of funding were found to be promising as local charities were beginning to see the merit of NGO activities in mitigating challenges in the society. This meant that there was need NGOs need to come up with strategies that encourage the public to step in and fill the funding gap left by the foreign donors. In addition, it was imperative that they strive to ensure that the projects were sustainable, that is, that they be able to carry on even after the withdrawal of the donors. Moreover, for NGOs to be more financially sustainable, they need to come up with income generating activities and also have a multiple sources of funds. The multiple sources of funds need to come from diverse sources as they are minimally affected by the same conditions at the same time. However, the results also indicate that diversification of funds had an inverse though significant relationship with financial sustainability of NGOs. This indicates that the NGOs were less likely to be sustainable when the sources of funding were diversified. This finding agree with Alter (2007) who pointed out that, the "funding approach" advocates that nonprofits start commercial ventures to diversify their funding. Typically, the venture is structured as an auxiliary project of the organization. The funding approach has increased the number of nonprofits incorporating income-generating activities into their organizations, yet problems arise from disappointing financial returns, complex legal and tax issues, organizational discord and mission dissonance.

The influence of personnel competence in managing projects on the financial sustainability of NGOs

Financial sustainability can not only be achieved through having diverse sources of funds but also through having competent staff as the findings on this variable revealed. The NGO staff needs to have cost analysis and identification of cost saving techniques, so that indirect project costs are not more than the direct project costs. There is need for all NGO staff to have this knowledge irrespective of their area of specialization. Majority of the NGOs staff had attended trainings on new technology and emerging issues in NGO sector in the past one year suggesting that the NGOs were keen on building capacity the capacity of their staff. However, the actual numbers per NGO attending these trainings were small. Most NGOs in the area had fully operational finance departments and experienced finance personnel and this was critical to their sustainability. These findings are consistent with those of Bray (2010) who observed that foundations and other donors increasingly demanded access to up-to-date information about an organization's operations and finances as a way of ensuring favorable returns on their investment. Engaging in evaluation activities that outline financial and programmatic outcomes as a result of funding support demonstrates the value of a nonprofit's operations and helps determine mission impact. Additionally, clearly and consistently communicating evaluation efforts and findings to funders and investors demonstrates accountability.

The influence of preparing strategic financial plans for funding projects on the financial sustainability of NGOs

Most of the NGOs in the area often prepared periodic budgets consistent with their long term plans according to the findings of this variable. This was realized by the NGOs periodically reviewing the budgets and other financial plans to see if they agreed with their mission and other long term objectives. The results also revealed that the budgeting methods used by most of the NGOs ensured that all funding of operations and projects are within the specified limits. This was especially helpful in the present time when caps were being put on foreign donor funding. These findings support the views of Bray (2010) who suggested that developing the fundraising plan should be integrated into other planning efforts, such as strategic planning, program planning, and budgeting. In essence, when developing a fundraising plan: “Determine a reasonable dollar goal to work toward, Evaluate your organization's greatest fundraising assets, Create a strategy that uses these assets to most effectively reach potential funding sources and Write down your strategy in a short, easy-to-understand document to keep everyone on plan.

CONCLUSIONS

Based on the results of the study, it was observed that dwindling foreign donor funding was having a significant effect on the financial position of the NGOs. As a result the NGOs in the area were taking initiative to explore non-traditional sources of funding for their projects. This included appealing to the locals to support their projects and also engaging in income generating projects. As much as the NGOs were recruiting well educated staff, there was need to expose them to further training on staff with the required skills. Finally, most of the NGOs under study prepared strategic plans and also periodically reviewed the strategic plans. However, staff participation in the planning process was still low and needed to be encouraged to facilitate better implementation. Thus, it can be concluded that diversification of funding sources, personnel competence and strategic financial planning were all significant factors of financial sustainability of the NGOs in the area.

RECOMMENDATIONS

NGOs should lay emphasis on hiring staff who are competent this is because competence of staff significantly affects the financial sustainability of NGOs. Nevertheless, the staff should be frequently trained to ensure continued competence level. In addition, the NGO staff needs to have cost analysis and identification of cost saving techniques, so that indirect project costs are not more than the direct project costs. There is need for all NGO staff to have this knowledge irrespective of their area of specialization.

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 of strategic plans 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.

SCOPE FOR FURTHER STUDY

The following areas are recommended for further research; the effects of regulations governing funding on financial sustainability of NGOs, a study involving a different population. This will enable more generalized conclusions on the factors influencing financial sustainability of NGOs.

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