Determinants of Financial Sustainability of Non-Governmental Organizations (NGOs) in Ghana

Adjei Andy Ebenezer[1], Alhassan Musah[2], Ibrahim Anyass Ahmed[3]

Abstract: Financial sustainability of NGOs has become a global concern in the wake of global financial crisis which has reduced donor funds from developed economies to developing countries. NGOs play an important role in developing countries like Ghana and as such their financial sustainability is very important not only for the NGOs but the Ghanaian economy. The study examined the factors that determine financial sustainability of NGOs in Ghana based on the following variables; sound financial management practices, income diversification, own income generation, good donor relationship and the use of ERPs and Cloud Accounting by NGOs. The study sampled 56 NGO where data was collected through the administration of questionnaires. Data was analysed using various statistical tools such as frequencies, graphs, tables, Kruskal Wallis Test and regression analysis. The results of the study showed that NGOS in Ghana are donor dependent and have little diversification of income as well as less own income generation measures in place. This results show that NGOs in Ghana are not financially sustainable and as such need income generating income measures that will help them to be financially reliable. The results show that sound financial management practices, own income generation by NGOs, diversification of income and good donor relationship are the key determinants of financial sustainability of NGOs in Ghana. The use of ERP systems and cloud accounting had positive effect on NGO financial sustainability but statistically insignificant. The results call for NGOs to take steps to improve these factors in their respective organization if they want to improve their financial sustainability.

Keywords: Financial Sustainability; NGOs; Ghana

JEL Classification: F36

Introduction

Research has shown that there have been an increasing number of Not-for-Profit making Organization in developing countries and they have developed and earned the confidence of the local people as key partners for development (Amagoh and Kabdiyeva, 2012; Okorley, Deh and Owusu, 2012). According to Marinkovic (2014), Ghana has a vibrant and diverse NGOs and civil society organizations (CSOs). A lot of these NGOs and CSOs have played key roles in the area of agriculture, education, health and governance, environment and vulnerable groups etc (Marinkovic, 2014). According to Cleary (1997), it is widely acknowledged that NGOs are non-profit oriented whose objective to relief the suffering of poor communities, implement community development projects, and provide basic services. According to Willet (2002), the NGO concept came into being in 1945 when the United Nation (UN) wanted to give a consultative status to organizations that are not regarded as government entities. According to Marinkovic (2014) the concept of sustainability among NGOs and CSOs is not clearly defined. According to Sun and Tse (2009), the sustainability of an organization lies in the substitutability and immitigability of the firm and as such sustainability is a core concept of strategic management. Omeri (2015) defined sustainability as the ability of management to maintain an organization over into the foreseeable future.

[1] Graduate Student, University of Ghana Business School, Ghana, Address: Madina, Ghana, E-mail: andyadjei2gh@gmail.com
[2] Lecturer, Dominion University College School of Business, Ghana, Address: Accra, Ghana, Corresponding author: alaye88@gmail.
[3] Lecturer, University of Education, Winneba, Ghana, Address: Kumasi, Ghana, Email: mamastughosh@gmail.com.

The scarcity of resources is very critical when considering the financial sustainability of NGOs (Omeri, 2015). This reasoning is consistent with Drucker (1980) argument that organizations are confronted with increasing programmes and activities that needs consistent and adequate funding but will have to settle down with their limited funding opportunities. This can results in financial unsustainability if measures are not put in place to address them. Financial sustainability of an organization is the ability of the firm to take advantage of opportunities and react to unexpected opportunities and at the same time maintaining balance in the operations of the organization (Bowman, 2011). Omeri (2015) links financial sustainability to financial capacity which the study argue that it is the extent to which management have flexibility in the reallocation of resources in the light of opportunities and threats.

Researchers in the NGO sector (Ali, 2012; Manyeruke, 2012; Waiganjo, Ng'ethe and Mugambi, 2012; Njoroge, 2013) agree that financial sustainability is one of the major challenges facing the NGO sector in Africa. There have not been any study examining the factors that influence financial sustainability of NGOs in Ghana but studies from other countries have identified a number of factors that determine the financial sustainability of NGOs. These factors include; income diversification, prudent financial management practices, own income generation and good working relationship with donor partners (Leon, 2001; Devkota, 2010; Lewis, 2011; Ali, 2012; Waiganjo et al., 2012). The suitability of these factors and other potential determinants need to be examined in the Ghanaian context to guide NGOs in Ghana to be financially sustainable.

The achievement of financial sustainability is very critical to the survival and sustenance of any organization (Karanja and Kurati, 2014). This will enable NGOs in Ghana increase their programmes to benefits more people as social challenges and vulnerable groups still linger in the Ghanaian society. According to Omeri (2015) financial sustainability has become the buzzword in the NGO sector following 'donor fatigue' in the developed countries. For instance Renz (2010) reported that the recent financial crisis have drastically reduced the disposable income of Americans leading to a reduction in donations from individuals to NGOs with 75% of NGOs conquering with this assertion. Previous studies in other African countries also reported disparities between local and foreign NGOs access to international donor funds. Renz (2010) further argued that NGOs are struggling financially especially those that rely heavily on government funding as governments have reduced funding to the sector. Besel, Williams, and Klak (2011) posit that the result of these factors means that NGOs must identify viable ways to sustain themselves financially to avoid cutting back on community services.

NGOs the world over acknowledge government and foundation support as critical for their operations but recognize challenges associated with reliance on grants, contracts, and other sources of government or foundation funding (Besel et al., 2011; Omeri, 2015). There are little or no studies on the financial sustainability of NGOs in Ghana in the wake of these developments. The only study in Ghana on the subject matter is the study by Okorley and Nkrumah (2012) where they examined factors influencing organizational sustainability of NGOs and identified factors such as ensuring transparency and accountability, writing goods needs-based proposals, leadership training and lobbying for resources. The study however did not examine the factors that influence financial sustainability of these NGOs. Also, previous studies on determinants of financial sustainability of NGOs neglected to role that the use of Enterprise Resource Planning (ERP) systems and cloud accounting have on financial sustainability of NGOs. It is in the light of these factors that the study seeks to determine the financial sustainability of NGOs in Ghana.

The study makes significant in the area of research policy and practice. In the area of research the study will contribute to the already non-existent literature on determinants of financial sustainability of NGOs in Ghana and as such a distinct contribution to knowledge. The study also extends previous studies on the subject matter to include the use of ERPs systems and Cloud Accounting and how that impacts on financial sustainability of NGOs in Ghana. This will help subsequent studies build on it to examine other critical aspect of NGOs operations that may threaten their survival.

The findings of the study are useful to managers and policy makers in the NGO sector on what factors threatens their survival and how they can manage these factors to ensure financial sustainability.

For policy makers, the study will seek to advise them on areas that future policy regulations should focus to ensure sustainability of these NGOs.

Literature Review

Financial Sustainability of NGOs

According to Mirithi (2014) and Bowman (2009) the definition of financial sustainability differ significantly between profit making organizations and not for profit making organizations depending on the nature of revenue of the organization, the structure and goals of the organization. The financial capacity for a not for profit making organization consist of the resource that gives the organization the ability to seize opportunities when they come and also react to unexpected need when they arise (Mirithi, 2014; Kuranja and Kurati, 2014). Financial sustainability of an NGO simply is the ability of the organization to reallocate assets in the wake of opportunities and threat and maintain sound financial balance over a long period (Omeri, 2015; Iwu et al. 2015; Saungweme; 2014; Mirithi, 2014). Other researchers see financial sustainability of NGOs to be the capacity of the organization to raise its own revenue or raise funds locally and reducing foreign dependence but still able to execute the needed projects for the period (Lewis, 2011; Devkota, 2010). A report by Pathfinder International (1994) argues that financial sustainability of NGO is measured by the excess income over expenditure, the excess cash or liquidity position, and the solvency level of the organization. Other strands of literature look at financial sustainability from the point of view of income diversification by the organization such that projects can be executed even when a particular funding source is curtailed (Saungweme; 2014; Lewis, 2011; Abdelkarim, 2002).

According to AbdelKarim (2002) financial sustainability goes beyond resource mobilization and income generation, sound financial management practices, income diversification etc. Leon (2001) see financial sustainability of an NGO as the capacity to generate positive balance sheet so that the organization will have the flexibility to adapt to changes in the environment. According to Okorley and Nkrumah (2012) for NGOs to be financial sustainable, they must have the management capacity to raise funds and get their employees interested in their financial situation to get their full support and cooperation. In the nut shell the key components of financial sustainability of NGOs include; sound financial management practices, income diversification, own income generation capacity and good donor relationship management (Mutinda and Ngahu, 2016; Omeri, 2015; Saungweme, 2014; Ali, 2012; Hendrickse, 2008; Leon, 2001).

Theoretical Review –Resource based theory

Previous studies states that the resource based theory was championed by Kay (2005). According to Mutinda and Ngahu (2016) the theory is based on the principle of economic rent and that an organization is a collection of capabilities. The theory argue for why organizations with valuable resource as well as well-organized resources able to outperform their competitors (Barney, 1995). According to Omeri (2015) the resource based theory relies on the internal resources of an organization to explain organization competitiveness in performance and strategy. The study further argues that resources are the firm's total assets that can be used to create value to stakeholders. The theory posits that an organization's internal environments in terms of its resources capabilities are more important in determining its strategic plan compared to the external environment (Camison, 2005).

Mutinda and Ngahu (2016) argues that even though NGOs are not-for profit making organizations, they are still economic institutions that uses same or similar resources like their profit making counterparts. This view is also supported by Omeri (2015) when he argued that NGOs use capital to execute their projects and programmes drawn from the scarce resources of society. The study further posits that NGOs have high cost of operations and as a result will usually rely on communal support in the execution of some of their projects. Previous studies show that the revenue structure of most NGO is unilateral and as such there is the need for NGOs to diversity their funding sources to ensure sustainability (Saungweme, 2014; Hendrickse, 2008; Barney, 1991). The study adopts the resource view theory with the conviction that all NGOs require resources to operate and to remain sustainable to deliver their projects and programmes.

Empirical Review of Determinants of Financial sustainability of NGOs

This section of the literature review look at a review of previous studies on determinants of financial sustainability of NGOs globally with a view to establishing discrepancies in previous studies and how this study will resolve those discrepancies. The first section present empirical review of the four main key determinants of financial sustainability of NGOs; sound financial management practices, income diversification, own income generation capacity and good donor relations management. The second aspect will look at other determinants that have emerged from other studies but that have not received much attention like these four determinants.

Sound Financial Management Practices

Previous studies on financial sustainability of NGOs revealed that the absence of sound strategic financial planning is a major challenge affecting the sustenance of NGOs the world over (Omeri, 2015; Saungweme, 2014; Mithiri, 2014; Okorley and Nkrumah, 2012; Bray, 2010). According to Mithiri (2014) majority of NGOs do not have a proper strategic financial plan that ensure that their vision and goals can be achieved. This leaves these NGOs vulnerable and left to the whims and caprices of donors which make it difficult to measure their real impact. Sound financial management practices involves the process of managing the present and future financial resources of the organization and determining how the strategic plan of the NGO will be funded (Saungweme, 2014; Ali, 2012; Lewis, 2011; Leon, 2001). A good strategic financial management practice ensures that the organization is able to secure long term funding from donors who understand and share the vision of the organization (Waiganjo et al., 2012). They further stressed that the need for NGOs to manage their finances and have a long term sustainable financial plan is because the donor environment is changing so fast and the demand on NGOs are increasing due to several factors. A report by the Asian- Pacific Entrepreneurship Development Institute (2014) revealed that most local NGOs in developing counties have serious weaknesses in their financial management and maintain account in an ad-hoc manner which makes it difficult to demonstrate financial sustainability. According to Omeri (2015) many NGOs do not have the resources to buy and use advance technology to enable to track and maintain financial data for planning purposes. Schneider (2003) supported this view and stated that NGOs do not see investment in technology to help plan their financial resources as they see that as secondary to their mission.

Lewis (2011) pointed out that, NGOs in developing countries faces two critical strategic financial management challenges: financing of the firm's mission and managing uncertainties. According to Saungweme (2014) sound financial management practices have serious impact on the sustainability of NGOs. Other research found evidence of a string relationship between sound financial management and sustainability of NGOs (Omeri, 2015; Ali, 2012, Ibrahim, 2005). Waiganjo et al. (2012) study on determinants of financial sustainability of Kenya NGOs also found a positive and significant relationship between sound financial management practices and sustainability of NGOs. Proper and sound financial management practices helps to convince donors that the NGOs have financial controls that will ensure that monies donated are used for their intended purposes (Saungweme, 2014; Lewis, 2011).

According to Okerley and Nkrumah (2012), there are more calls on NGOs to be more accountable and transparent and instituting sound financial management practice is a major catalyst to achieving full accountability and transparency. According to Leon (2001) the yardstick for measuring sound financial management practices include but not limited to the presence of financial plans that are linked to the organizations strategic plan, a clear provision of financial oversight function by the board, special committee of the board of oversee financial matters, preparation and presentation of financial statements on regular basis. Ali (2012) argues a sound financial management practices is where the NGO keep undated information on its assets and liabilities and the potential to reinvest these assets to increase the income of the organization. To this end the existence of well-functioning accounting information system that complies with the double entry system and international financial reporting practices is prima facie evidence of sound financial management practices (Saungweme, 2014; Asia-Pacific Entrepreneurship Development Institute, 2014; Leon, 2005).

Income Diversification

Saungweme (2014) defined income diversification of NGOs as the ability of the organization to expand income sources to include many donor sources both locally and internally. Boas (2012) defined diversification of income sources to include a number of activities that reduces the firm's dependence on a particular income source, donor or country. This view is supported by Alymkulova and Seipulnik (2005) where they argue that NGOs must not depend so much on a particular income source if they want to be sustainable. According to Leon (2001) income diversification is when NGOs raise funds from at least five different sources. Lewis (2011) argued that income diversification of NGOs is where the organization have to capacity to secure funding from different sources including the public, local and national government, private sector businesses, and not over relying on foreign donors. Previous studies on income diversification of NGOs in Africa revealed that most NGOs had challenges in their attempt to diversify their income sources with some even losing their identity (Marinkovic, 2014; Waiganjo et el. 2012; Rawlings, 2011). For instance Waiganjo et al (2012) reported that NGOs in Kenya faced stiff competition in their attempt to diversify their income sources from foundations and trust formed by private companies and corporate social responsibilities by banks. This means that monies that could have been made available to these NGOs were channelled to these foundations and projects by private corporations.

On what constitute income diversification of NGOs, Leon (2001) and Lewis (2011) argue that income diversification of NGO is when at least 60% of the organization funding comes from five different sources. Norton on the other hand sees income diversification as where an NGO funding sources include 50% from international donors, 20% from membership fees, 20% from community fund raising and 10% from other income sources. Rasler (2007) argue that building a sustainable NGO has both internal dimensions an external dimension. From the point of view of Irish and Simon (1999) NGOs must achieve organizational and self-governance first before achieving financial sustainability.

Previous studies on income diversification and financial sustainability of NGOs revealed a positive and significant relationship between income diversification and financial sustainability of NGOs. For instance, Omeri (2015) study on NGOs in Nakura County, Kenya revealed a positive and significant relationship between income diversification and financial sustainability of NGOs. Saungweme (2014) also found a positive and significant relationship between income diversification and financial sustainability of NGOs in Zimbabwe.

Own Income Generation

Saungweme (2014) argue that NGOs ability to generate its own income is an important determinant of financial sustainability. Literature shows that there are several ways NGOs can raise their own funds notable among them include; sale of goods and services, financial management and corporate alliance, contribution to trust or endownment funds, fund raising etc (Mutinda and Ngahu, 2016; Omeri, 2015; Ashoka and Mango, 2015; Saungweme, 2014). Waiganjo et al. (2012) reported that local NGOs in Kenya like the Red Cross Society generated their own income through several means including running profit making hotels and ambulance services and using the proceeds for charity and development. In Zimbabwe, some NGOs raised their own funds through consultancy services, sale of goods, membership subscription among other sources (Saungweme, 2014; USAID, 2010). Lewis (2011) argue that the ability of the NGO to raise its own funds is a guarantee of its financial sustainability as this gives the organization the freedom and flexibility to implement its own projects and programmes.

Previous studies have examined the determinants of financial sustainability of NGOs showed a positive relationship between own income generation and financial sustainability of NGOs (Saungweme, 2014; Manyeruke, 2012, Ali, 2012; Lewis, 2011; Leon, 2001). For instance Saungweme (2014) study on Zimbabwe local NGOs found a positive relationship between own income generation and financial sustainability of NGOs.

On the other hand, Waiganjo et al. (2012) found a weak positive relationship between own income generation by NGOs and their financial sustainability using NGOs in Kenya. The findings are similar to those of Ali (2012) and Njoroge (2013) where they found that all the four main determinants of financial sustainability of NGOs was positively related but the relationship was found to be weak. Saungweme (2014) argues that NGOs that try to raise their own funds face the challenge of identity crisis where there are being accused of losing focus and becoming profit oriented. Lewis (2011) on the other hand reported that the lack of capacity of NGOs to do business that will help them generate own revenue. Studies like Ali (2012) and Lewis (2011) argued that privileges like tax exemption enjoyed by NGOs could be revoked ones they are seen to be engaged in any profitable venture.

Good donor Relationship Management

According to Omeri (2015) after the initial relationship has been established between the donor and the NGO, the next important challenge is maintaining that relationship going forward. According to Lewis (2011) building good and cordial relationship with donors was a critical step in NGOs attaining financial sustainability. According to Carman (2001) investors within the community and community foundations can play a critical role is development by assisting NGOs achieve their vision and mission. However, Rasler (2007) argues that every investor expects returns on their investment and it the NGO sector the returns investors and donors expect is to see that the monies have been used for their intended purposes. In this regard Omeri (2015) posits that NGOs have the responsibility to ensure that they present information that donors and investors expect from them in a clear and transparent manner. Saungweme (2014) argues that good donor relationship management include NGOs being able to under the priorities of their donors and adjust their systems, activities and processes to allow them attract more donors. Waiganjo et al. (2012) on their part stated that NGOs that are able to align their programmes in line with donor priorities are likely to get their support and hence become financially sustainable. Their study further revealed that most donor are funding NGOs in a consortium and that is was important for NGOs to join themselves to these alliance to attract such donors to ensure financial sustainability.

Previous studies on determinants of financial sustainability of NGOs have found a positive relationship between good donor relationship management and financial sustainability of NGOs (Saungweme; 2014; Ali, 2012; Waiganjo et al. 2012; Lewis, 2011; USAID, 2010; Fafchamps and Owens, 2008). For instance, Saungweme (2014) study on Zimbabwe local NGOs determinants of financial sustainability revealed a positive but weak relationship between good donor relationship management and financial sustainability. The USAID (2010) report of NGOs in Zimbabwe also reported a positive relationship between good donor relationship management and financial sustainability of NGOs. Ali (2012) study revealed that good donor relationship management was the most important determinants of financial sustainability of NGOs in Kenya. Waiganjo et al. (2012) is a related study also reported a strong positive relationship between good donor relationship management and financial sustainability of NGOs. Fafchamps and Owens (2008) study on NGOs in Uganda also reported a positive relationship between good donor relationship and financial sustainability.

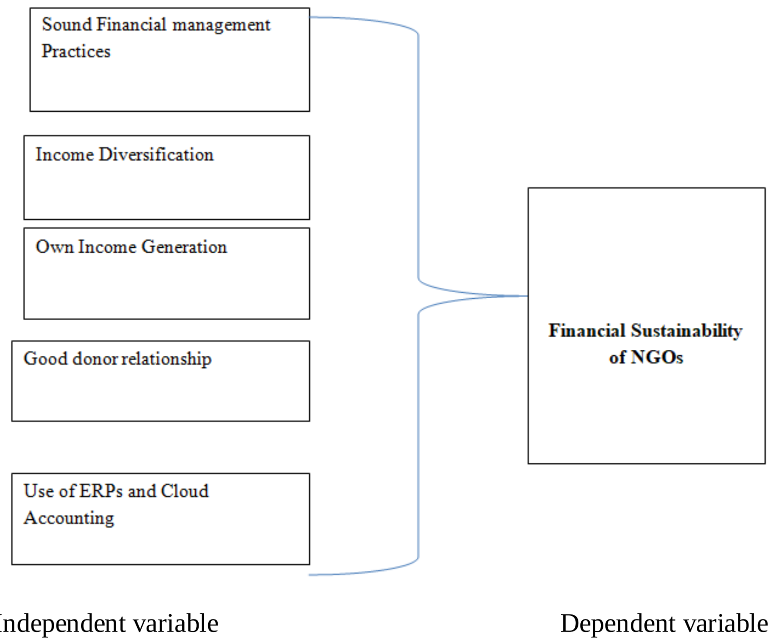
Saungweme (2014) identified some factors from previous studies that formed the basis of good donor relationship management. Some of the key ones include; the number of donor-organised programmes that NGO is invited, keeping an updated database and tracking system of all donors in the country, the number of projects and programmes funded by a donor, repeat funding by donors and donors funding of long term projects of NGOs (Lewis, 2011; CI, 2011; Leon, 2001).

The Use of ERP and Cloud Accounting

Modern organization have adapted to advances in technology to improve the efficiency and effectiveness of their operations. NGOs in developed countries have string IT capabilities and using them to facilitate their operations. The use of ERP and Cloud accounting could contribute significantly towards transparency and accountability of the NGO and reduce risk associated with most NGOs in developing countries (Rahman, 2015). This transparency and accountability and efficiency and effectiveness will build trust with donors which should contribute towards improve financial sustainability of NGOs. Okerley and Nkrumah (2012) in their study argued that NGOs that have systems that enhance transparency and accountability are able to build confidence with donor communities which will help them to attract more funds to undertake their projects. Previous studies on determinants of NGO financial sustainability have not examined how the use of ERP and Cloud accounting could influence financial sustainability of NGOs. This study therefore incorporates this variable to see its significance in relation to financial sustainability of NGOs in Ghana.

Conceptual Framework

Based on the empirical literature above, the study adapts a conceptual framework based on the work of Saungweme (2014) on local NGOs in Zimbabwe.



The framework is based on the argument that income diversification by the NGO, sound financial management practices, diversification of revenue sources, the use of ERPS and Cloud Accounting as well as prudent donor relationship management practices are key determinants of financial sustainability of NGOs in Ghana.

Research Methods

According to Creswell (2012), there are three main research designs used in carrying out a study. These are qualitative, quantitative and mixed research methods. This study employs the mixed research method since the study uses financial data which is quantitative as well as non-financial data as the basis of its analysis using statistical tool. There are two main limitations of the quantitative method to this study; the untested variables may account for the impact and this research method is inflexible because the instruments cannot be modified once the study begins. The study overcomes these limitations by adopting a mixed method. Using a mixed approach, the research mostly adopted quantitative method through the review of related literatures to gather information required to meet the answers of the research questions. Basically, the research questions adopted for the study took the form of casual and exploratory probes as described by Babbie (2013). The survey questionnaire designed for the collection of data from sampled local and foreign non-governmental organizations spanning over a medium term current period was used. This is to reflect current trends and conditions responsible for the influencing the current financial conditions and sustainability of these NGOs. The option to employ mixed approach is to help address the seeming gap between qualitative and quantitative designs as noted by researchers such as White (2009).

There is a deliberate attempt to consider and review research works that used literature review approach in their analysis to enhance consistency. This research studies mostly adopted the case study review approach to review factors affecting the sustainable financial conditions of local and foreign NGOs in Ghana regardless of the limitations associated with it indicated by Mouton (2001) as the non-standardization of measurement. Aside the motive to remedy among others the challenges indicated above, the use of survey approach aided in arriving at contemporary and empirical findings to the factors affecting the sustainable financial conditions of both local and foreign NGOs in Ghana, partly owing to the fact that literature-based researches alone cannot help achieve this result.

The overall sample size targeted for the study constitute 100 foreign and local NGOs. Considering the scope of research questions intended to answer and the scope of the study, the high sampled number is chosen to ensure adequate information is obtained to be able to represent a nationwide scope. However, only 56 respondents returned their questionnaire representing a 56% response rate.

In arriving at the sample size for the studies, a stratified proportionate random sampling techniques was adopted because of its ability to provide estimates of population parameters with relatively exact precision and as noted by Babbie (2013) to also ensure a more representative sample from a target population.

Operationalization of the Study

The focus of the research study is to ascertain the factors and conditions that impact on the financial sustainability of both foreign and local NGOs in Ghana. In determining the conditions influencing financial sustainability of both local and foreign NGOs, a regression analysis was done, holding constant the dependent variable, discussed in details below.

With financial sustainability as the dependent variable, the independent variables for the study constitute organisation's own income generation activities, multiplicity of NGOs source of income, donor- recipient organization relationship and commitment and interest level of donor agencies. The indicators of these variables were used as criteria for measuring the variable.

The Likert scale used in measuring the independent variables was changed to mean values to give cumulative indicators to enable the analysis through a linear regression. With that of the dependent variables, a number of indicators were included in the analysis tool which includes the number of donor agencies that continuously support those activities of NGOs as well as comparing NGOs level of income through self-mobilization activities with income from donor parties. Ratios were deduced from this and the outcome is used to determine the degree of NGOs financial sustainability. An organization's level of financial sustainability is determined by identifying whether or not an organization has a higher score for a continuous support from its donor agencies. Also in the instances where an organization has higher ratio of generated own income as compared with its total funds from the multiple source then it is considered as having sustainable finances.

Regression Model

General model

$y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \cdots .... + \beta kXk + \mathcal{E}$

The following specific regression model was adopted for the study

$$FS = \beta_0 + \beta_1 SFMP + \beta_2 ID + \beta_3 OR + \beta_4 DRM + \beta_5 ERPCA + \varepsilon$$

Where;

FS = Financial sustainability of NGOs

SFMP = Sound financial management practices

ID = Income Diversification

OR = Own Revenue Generation

DRM = Donor Relationship Management

ERPCA = The use of ERP and Cloud Accounting.

Ɛ = Error term

Analysis and Discussion of Findings

Profile of NGOs

First of all, all the NGOs sampled for the study are registered NGOs operating in Ghana for at least the past six years. The first major profile of NGOs the study examined was whether the NGOs were local NGOs, Foreign NGOs or International NGOs with local autonomy. The distributions of NGOs according to the above categorization are as follows.

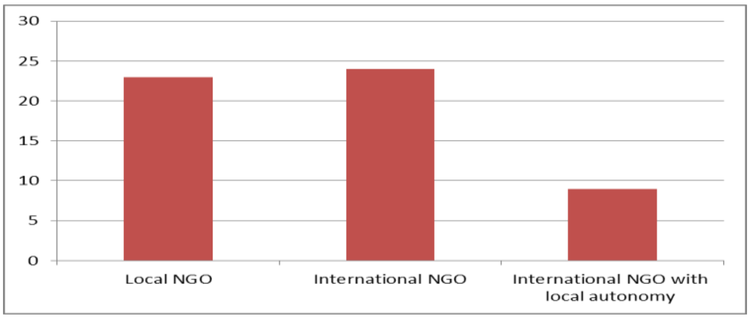


Figure 1. Categorization of NGOs.

The results from Figure 1 above shows that local NGOs was made of 23 out of the 56 sampled representing 41%, International NGOs were 24 representing 43% whiles International NGOs with local autonomy constitute 9 representing 16%. The result shows that more than half of the NGOs are either foreign owned or international NGOs with local autonomy in terms of their operations.

Sector NGO Operates

Also, on the type of organization or sector that the NGOs operate to determine which aspect of the Ghanaian society these NGOs are supporting. The results are summarised in Figure 2 below.

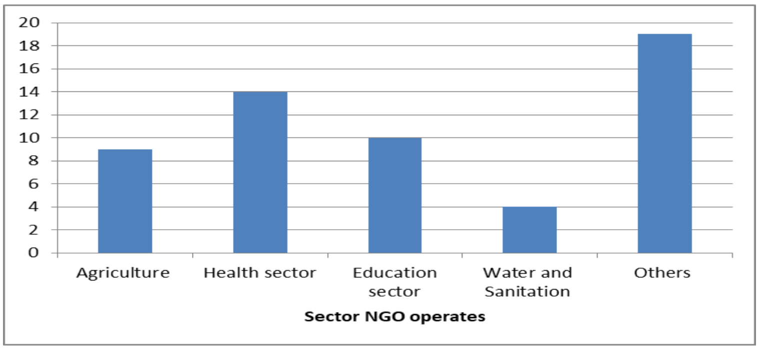


Figure 2. Sectors NGOs operates

The results from Figure 2 above show that majority of the NGOs fall under other category which involves advocacy, human rights, and a combination of the above sectors. For instance, some NGOs operate in more than one sector and as such were classified under others. The individual sector with more NGOs is the health sector, followed by the educational sector, agriculture and the sector with the least sector is water and sanitation. The dominance of health sector NGOs is probably because of the numerous health challenges Ghana as a country faces.

Registration status of NGOs

The study also examined the status of the sampled NGOs. The results are summarised in figure 3 below.

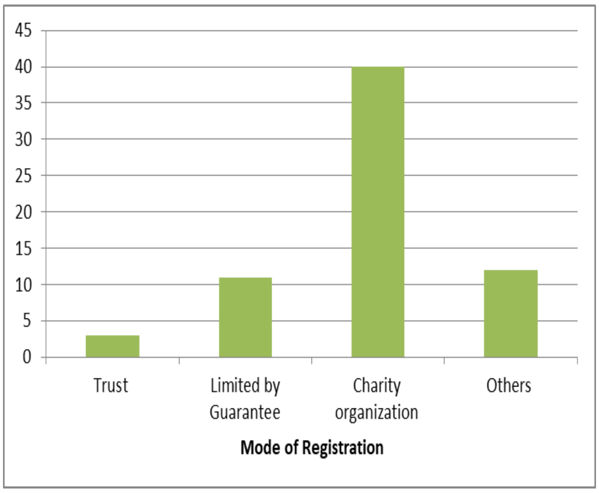


Figure 3. NGOs Mode of Registration

The results from figure 3 shows that majority of the NGOs sampled are registered as charity or humanitarian organizations. The rest are either trust based organizations or companies limited by guarantee or a combination of both. Other represents those registered like social clubs and advocacy organizations.

Finally, the study also examined the major source of funding for NGOs in the last five years. The results show that foreign donors are the major source of NGO funding in Ghana.

Measurement of NGO Financial Sustainability

The measurement of financial sustainability of NGOs was measured based on their ability to raise funds to fund their projects and also the sources of funding for their major projects. In this regard, the study collected data on the average yearly income of the selected NGOs. The study first presents a trend analysis of NGOs income over a five year period from 2012 to 2016.

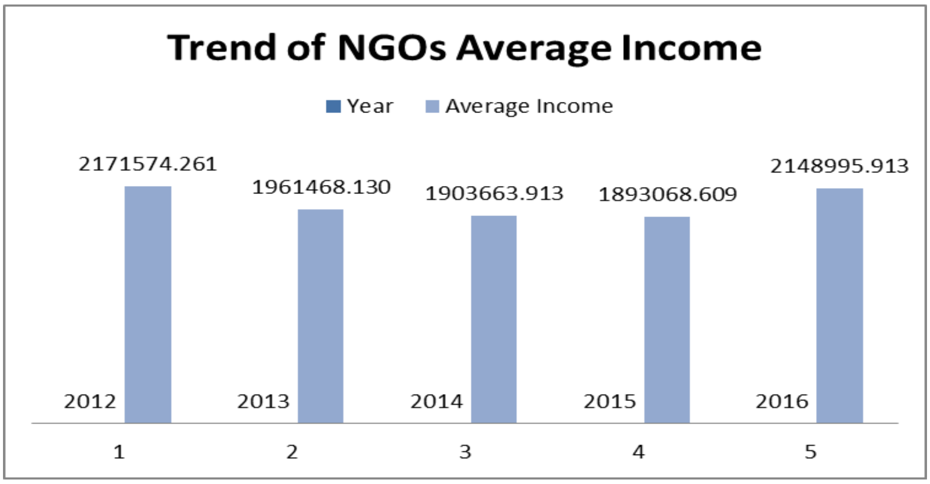


Figure 4. Trend of NGOs Average Annual Income

The results from figure 4 above shows some decline in average income of NGOs from 2012 through to 2015 and later a marginal increase in 2016. The average annual income ranges from $2,171,574 in 2012 and reduced to $1,893,068.609 before increasing to $2,148,995.913. The NGO that received the highest income per anum reported an annual income of $12,000,000. The NGO with the least annual income reported an annual income of $1,200 per anum. The NGOs with foreign affiliation generally had large income base compared to those that are locally owned. Saugweme (2014) noted that the country political situation as well as the NGOs own internal structures and system contribute significantly to their ability to raise adequate income to fund their operations. The trend in NGOs income shows some level of volatility in donor funding given the fact that the trend have not been consistent.

In terms of own income generation by the NGOs, only 36% of the NGOs sampled had their own source of income or an alternative source of income other than donor support. The rest of the NGOs relied on donor supports which were mainly foreign donor support. The decline in the general income of NGOs in Ghana over the period could be attributed to the general decline of financial support from developed countries to developing countries in the last decade (Renz et al. 2010). This shows that the financial sustainability of NGOs in Ghana is under serious threat and NGOs must begin look for new ways to address the problem rather than relying on foreign donors.

Donor Dependency Ratio

The study in furtherance to the measurement of financial sustainability of NGOs also measured donor dependency of NGOs using the formula donor income divided by total income of the NGOs. The results the analysis per year in presented in the figure below.

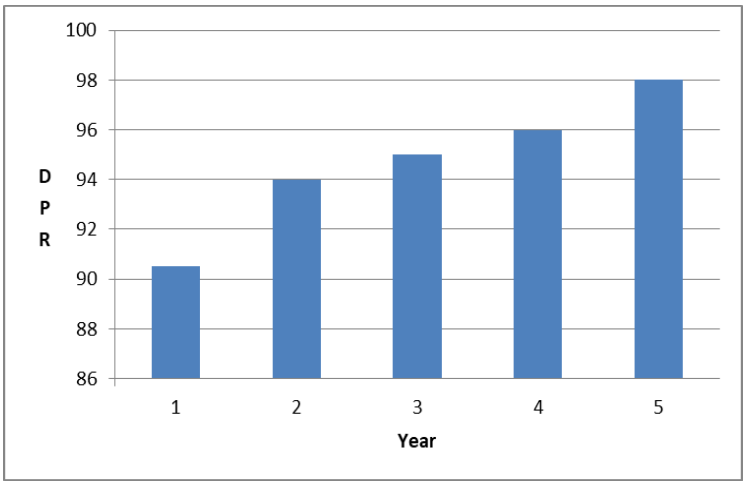


Figure 5. Donor Dependency ratio trends.

The results from the chart above shows an upward trend in donor depends by NGOs in Ghana. Most importantly, donor dependency ratio averages above 90% over the 5 year period suggesting that most NGOs in Ghana cannot function without donor support. The higher donor dependency ratios in Ghana suggest that NGOs in Ghana are financially unsustainable as withdrawal by donors with result in the collapse of the NGO (Lewis, 2010). The result is similar to findings by Manyeruke (2012) study in NGOs in Zimbabwe. The result is also consistent with the results of similar studies in other African countries like Kenya, Ethiopia etc.

Sound Financial Management Practices

Previous studies show that sound financial management practices is one of the ley determinants of financial sustainability of NGOs. Various statements that can be used to access financial sustainability of NGOs were included in the questionnaire for respondents to answer. Table 1 present a summary of the first responses on sound financial management practices in NGOs in Ghana as a means towards ensuring financial sustainability of NGOs.

Table 1. Sound Financial Management Practices

	Frequency		Percent	
Statement	Yes	No	Yes	No
Organization have a useable development plan	45	11	80%	20%
The organization have a financial plan for fund raising	48	8	86%	14%
The organization keeps an updated assets register	40	16	71%	19%
The organization invest or rent/lease out assets	15	41	27%	73%

Source: Field data, 2018

The results from table 1 shows that 80% of NGOs had a well-functioning strategic plan whiles 86% had a plan for raising funds or financial plan. 71% of the NGOs kept updated assets register whiles only 27% of the NGOs have additional investments or rented assets that generate additional income to the organization. The results shows poor performance in sound financial management practices for some NGOs especially with regards to generating alternative income to complement the donor funds. A study by Leon (2001) and Njoroge (2013) revealed that donors consider the presence of a workable strategic plan as well as financial plans as key components of sound financial management practices of NGOs and helps to build their confidence in NGOs that have these strategies in place.

The study also asked respondent to rank certain aspect of financial management practices in their organization according to their importance. To achieve this objective the Kruskal Wallis Test was used to rank the mean responses. The summary of the responses is presented in table 2 below.

Table 2. Ranking of Sound Financial Management Practices

Financial Management Practice	Mean Rank
Strategic planning	15.6
Financial planning	13.8
Assets selection	13
Investment monitoring	9.6
Kruskal-Wallis Statistics KW = 23.451; P-value is 0.009	

Source: Field Data, 2018

The results from table 2 above show that the Kruskal Wallis Test was statistically significant at 1% significance level. In terms of the ranking of sound financial management practice by NGOs, the results shows that strategic planning had the highest mean rank, followed by financial planning with investment monitoring scoring the least mean rank of 9.60. The study shows that strategic planning and financial planning has the most significant influence of NGOs sound financial management practices. The results is consistent with the findings of Saungweme (2014) study of Zimbabwe local NGOs and that findings of Ali (2012) and Njoroge (2013) studies based on NGOs in Kenya.

The study also examined the preparation of certain financial statement by NGOs as part of their financial management practices. Some of the key financial statements and report examined include; cash flow statements, budget statement and budget verification, income and expenditure, and balance sheet. The results showed that majority of the NGOs prepare these financial statement and reports. The reason for the positive attitude towards these reports according to the respondents is the fact that these reports are usually part of the conditions for accessing donor support. Some respondents argued that for project specific donor support, the donor agency usually appoint their own external auditor to come and audit the NGO and present a report to the donor.

The Use of ERPs and Cloud Accounting

The study also examined how NGOs looked that the use of an Enterprise Resource Planning System (ERP) and Cloud Accounting to help in financial management and monitoring of funds of the organization. Respondents' base on a likert scale of 1 to 5 ranked the extent to which these practices apply to their organization. A summary of their responses is presented in table 3 below

Table 3. NGOs use of ERP and Cloud Based Accounting

	Mean	Std. Dev.
Organization accounting system is based on ERP	2.89	0.98
Accounting information system is stored in Cloud	4.12	0.45
All functions of the organization are integrated	2.9	0.95
The entire accounting and financial reporting system is integrated	3.85	0.75
Senior managers can access financial data outside the office	4.1	0.42
Use of ERP and Cloud boost donor confidence in our organization	4.25	0.35
Grand Mean	3.69	

Source: Field data, 2018

The results from table 3 shows that the use of ERP by NGOs had the least mean score below the average of 3 suggesting that majority of NGOs do not use ERP systems. However, the use of cloud accounting showed a good mean score of 4.12. Also, the result shows that most NGOs have an integrated financial reporting system based on some accounting software other than ERPs. The overall grand mean shows that financial reporting is an important component of NGOs financial management practices in Ghana.

Income Diversification of NGOs in Ghana

The literature review in chapter revealed that income diversification is one of the major determinants of financial sustainability of NGOs. The study first used the average number of foreign and local donors an NGO have as basis to measure income diversification. The table below present a summary of the responses.

Table 4. Average number of donors

	Mean	Std. Dev.	Min	Max
Average number of external donors	4.125	0.875	0	100
Average number of local donors	1.325	0.998	0	8

Source: Field Data, 2018

The results from the table show that average number of foreign donors for NGOs in Ghana is 4.125 with the highest number of external donor recorded by an NGO as 100. The average number of local donors is 1.325 with a minimum of 0 and a maximum of 8. The results confirm the assertion that most NGOs rely on external donor support. Lewis (2011) in a study argued that NGOs with more funding sources are more financially sustainable. In fact Leon (2001) revealed that for NGOs to be sustainable, they will need to have 60% of their income coming from 5 donors.

The survey also sought to determine the most important income diversification strategies for NGOs in Ghana with a view to further determining how income diversification influenced financial sustainability of the organisations. The respondents to the survey were requested to indicate the importance of the 11 selected income diversification strategies to the financial sustainability of their organisations. The strategies were social entrepreneurship, fundraising from local donors, funding from external donors, sourcing funds from corporate donors, borrowing from banks, managing a business, investment in endowment funds, fundraising from the government of Ghana, charging fees for consultancies and training, charging membership fees and staging fundraising events.

The results showed that that risk management had a mean score of 2.85 and a standard deviation of 0.754. NGOs mitigating against effects of sudden drop in funding its major activities had a mean score of 3.15 and a standard deviation of 0.562. Gaining flexibility in internal financial management had a mean score of 3.56 and a standard deviation of 0.512. Measures to cushion the organization against the withdrawal of the main source of funding had a mean score of 2.92 and a standard deviation of 0.756. Managing foreign exchange fluctuation had a mean score of 3.55 and a standard deviation of 4.72 whiles NGOs meeting cost sharing requirements of external donors had a mean score of 3.85 and a standard deviation of 0.351. Measure to protect the organization against major economic down turn had a mean score of 3.90 and a standard deviation of 0.312. NGOs ability to reject funding whose source did not fit into the organization values had a mean score of 2.15 and a standard deviation of 0.98 whiles the NGO ability to meet overhead costs and other operating expenses not met by donors had a mean score of 3.45 and a standard deviation of 0.525.

The mean score from the risk factors affecting income diversification shows that most NGOs in Ghana do not have a well-diversified income generation sources which can affect their sustainability.

Own Income Generation

The study also examined the ability of NGOs in Ghana to generate their own income to support their operations. Previous studies have shown that NGOs that are able to generate their own income from diversified sources have high financial sustainability and vice versa (Iwu et al., 2015; Karanja &Kurati, 2014; Omeri, 2015). The study first sought respondent view on the effect of own income generation on the financial sustainability of their NGOs. The responses shows that only 30% believed it was very important, 38% believed it was unimportant, 20% believed it was less important whiles 12% were neutral about its importance to the financial sustainability of their NGOs. The response shows that NGOs in Ghana do not take the issue of own income generation very serious as they do not see that as a means to becoming financially sustainable. The result is inconsistent with majority of literature on the subject matter but somewhat consistent with the findings of Waiganjo et al. (2012) who reported in their study that own income generation had the least contribution to financial sustainability of NGOs.

The study also asked respondents to rank some of the own income generating measures that can help NGOs in Ghana become financially sustainable. The results showed that own income generation measures that most respondent ranked higher was investments in endowment funds and other similar investments, consultancies and training services for government and other private organizations for a fee, raising funds from well-established private businesses in Ghana and establishing a private business to support the operations of the NGO. These were some of the measures that respondent ranked higher in terms of how to generate own income in an attempt to be financially sustainable. Other way of raising funds that respondents did not consider appropriate or applicable to their NGOs include borrowing, raising funding and support from the government of Ghana etc.

Good Donor Relationship Management

Previous studies show that good donor relationship management influence financial sustainability of NGOs. To this the study fist asked respondent view on how important good donor relationship management is to the financial sustainability of their NGOs. The responses show that 90% of respondents view good donor relationship management as very important for financial sustainability of NGOs. Only 2% thought it was not important and the rest neutral about its importance to financial sustainability of NGOs. The overall results show that respondents agree that good donor relationship management plays an important role in financial sustainability of NGOs in Ghana. The result is consistent with the findings of previous studies and the hypothesis of the study (Lewis, 2011; Ali, 2012; Waiganjo et al. 2012).

The study further rated various NGO-Donor relationship management strategies and how significant they are to the overall good donor relationship management. Table 5 presents summary of the responses.

Table 5. NGO-Donor Relationship Strategies

	Mean	Std. Dev.
Effective Communication	3.15	0.463
Adopting information management systems	2.98	0.765
Increasing trust by providing accountability	4.25	0.215
Commitment in implementing donor visibility projects	4.1	0.213
Establishing network with donors	3.85	0.327
Adopting donor tracking systems	3.65	0.392

Source: Field Data, 2018

The results show that respondents rank increasing trust through accountability and transparency as the best way to maintaining good donor relationship. This was followed by NGOs commitment to implementing donor visibility project with a mean score of 4.10 and a standard deviation of 0.213. Also, establishing network with donors and the use of donor tracking systems were also ranked above the mid-point of 3 suggesting that respondent believe these strategies also contribute towards good donor relationship management.

Determinants of NGO Financial Sustainability (Regression Analysis)

To examine the factors that determine financial sustainability of NGOs in Ghana, the study conducted multiple regression analysis in an ANOVA framework as presented in table 6.

Model	R	R-Square	Adjusted R-Square	Std. Error
1	0.805	0.678	0.711	215672.845

The results show as per the Adjusted R-Square shows that the independent variables explain 68% of the variations in the dependent variable (financial sustainability). Even though several measures of financial sustainability were adopted for the study, the amount of income raised per anum was used as a measure of financial sustainability. This was based on the dollar amounts received as income.

Table 6. ANOVA

Model	Sum of Squares	Df	Mean Square	F-Statistic	Sig
Regression	2.76256	5	7.34567	15.153	0.000
Residual	1.5634	48	5.4532		
Total	4.3259	53			

Source: Field Data, 2018.

Table 7. Regression Results

Model	Unstandardized Coefficients		Standardised Coefficient	T	Sig.
	B	Std. Error	Beta		
Constant	0.067	0.07		0.954	0.341
Sound financial Management	0.166	0.061	0.195	2.72	0.007
Income Diversification	0.146	0.07	0.158	2.08	0.038
Own Income Generation	1.28	0.034	2	3.766	0.000
Good Donor relationship	0.23	0.066	0.226	3.471	0.001
Use of ERP & Cloud Accounting	0.009	0.056	0.014	0.155	0.877

Source: Field Data, 2018

The results from table 7 shows that there is a positive association between a/an NGOs sound financial management practices and financial sustainability of that NGO. The relationship is statistically significant at 1% significance level signifying a strong association between the two variables.

The results further revealed a positive association between income diversification and financial sustainability of NGOs in Ghana. The result is statistically significant at 5% significance level suggesting that there is only 5% chance that the results could be wrong.

The third variable, own income generation was also positively associated with financial sustainability of NGOs and statistically significant at 1% significance level.

The last but one variable, good donor relationship also revealed a positive and statistically significant relationship with financial sustainability of NGOs. The relationship was also statistically significant at 1% significance level.

The last variable, the use of ERP systems and cloud accounting had a positive association with financial sustainability of NGOs but statistically insignificant.

The results of the regression analysis show that prudent and sound financial management practices by NGOs improves their level of financial sustainability. This result is consistent with the findings of previous literature on the subject matter in different jurisdictions. According to Saungweme (2014) sound financial management practices have serious impact on the sustainability of NGOs. Other research found evidence of a string relationship between sound financial management and sustainability of NGOs (Omeri, 2015; Ali, 2012, Ibrahim, 2005). Waiganjo et al. (2012) study on determinants of financial sustainability of Kenya NGOs also found a positive and significant relationship between sound financial management practices and sustainability of NGOs. Proper and sound financial management practices helps to convince donors that the NGOs have financial controls that will ensure that monies donated are used for their intended purposes (Saungweme, 2014; Lewis, 2011).

The results also revealed that NGOs that have diversified income sources improve their level of financial sustainability. The results confirms findings of previous studies in other countries and consistent with the expectations of the study. For instance, Omeri (2015) study on NGOs in Nakura County, Kenya revealed a positive and significant relationship between income diversification and financial sustainability of NGOs. Saungweme (2014) also found a positive and significant relationship between income diversification and financial sustainability of NGOs in Zimbabwe.

The regression results also showed that own income generation by a/an NGO improve its level of financial sustainability. The results suggest that NGOs that can generate their won income are more financially sustainable. The result is consistent with the findings of several previous studies (Saungweme, 2014; Manyeruke, 2012, Ali, 2012; Lewis, 2011; Leon, 2001).

The results of the study also revealed that good donor relationship management improves the level of financial sustainability of NGOs in Ghana. The results confirms teh findings of several studies in literature (Saungweme; 2014; Ali, 2012; Waiganjo et al. 2012; Lewis, 2011; USAID, 2010; Fafchamps and Owens, 2008). For instance, Saungweme (2014) study on Zimbabwe local NGOs determinants of financial sustainability revealed a positive but weak relationship between good donor relationship management and financial sustainability. The USAID (2010) report of NGOs in Zimbabwe also reported a positive relationship between good donor relationship management and financial sustainability of NGOs. Ali (2012) study revealed that good donor relationship management was the most important determinants of financial sustainability of NGOs in Kenya. Waiganjo et al. (2012) is a related study also reported a strong positive relationship between good donor relationship management and financial sustainability of NGOs. Fafchamps and Owens (2008) study on NGOs in Uganda also reported a positive relationship between good donor relationship and financial sustainability.

Finally, the results showed that the use of ERP systems and cloud accounting does not necessarily improve financial sustainability of NGOs as it was found to statistically insignificant.

Conclusion

The results of the study showed that NGOs in Ghana depend largely on donor funds which could affect their financial sustainability in the future. Most NGOs also do not have own income generating income measures that will help them to be financially reliable.

The results show that sound financial management practices, own income generation by NGOs, diversification of income and good donor relationship are the key determinants of financial sustainability of NGOs in Ghana. The use of ERP systems and cloud accounting had positive effect on NGO financial sustainability but statistically insignificant. The results call for NGOs to take steps to improve these factors in their respective organization if they want to improve their financial sustainability.

The results show that NGOs in Ghana are donor dependent and even those foreign donors. The study recommends that NGOs should begin to seek for local donor and private organizations to help fund their operations as they make significant contributions to the Ghanaian economy.

The study also recommends that NGOs in Ghana should take steps to diversify their income sources to make them financially sustainable.

The study also recommends that NGOs in Ghana develop alternative source of own income generation to fund their activities

There is a need for studies to look into how the philanthropic culture can be improved. However, NGOs can also improve their accountability mechanisms, communicate and market their work to would-be local philanthropists who are currently not being asked to fund charity work. Ghana has many business people, eminent people including politicians and very wealthy prophetic churches that are sprouting throughout the country.

There is the need for future studies to examine other factors that can influence financial sustainability of NGOs other than the five factors examined in this study.

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