INTERNATIONAL JOURNAL OF SOCIAL Sciences and Information Technology
ISSN 2412-0294 www.ijssit.com

http:// www.ijssit.com

EFFECT OF SOURCE SPECIFIC GRANTS ON THE FINANCIAL SUSTAINABILITY OF NON-GOVERNMENTAL ORGANIZATIONS IN KENYA

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Abstract: *Many NGOs across the globe have been facing financial instability, which has raised concerns about their long-term sustainability. As a result, many NGOs are actively seeking to diversify their revenue sources to sustain their programs and operations such as donor grants, fee-based services, revenue from product sales and services and revolving funds interest income. Thus, this study sought to examine the effect of source specific grants on financial sustainability of NGOs in Kenya. The study was guided by Resource-Based View, Institutional Theory and Resource Dependency Theory and these theories hold the view that there is a linkage between revenue diversification to financial sustainability of organizations. Descriptive research design was adopted and the target population of 511 NGOs operating in Nairobi County was used. The study used stratified sampling to select the NGOs dealing with poverty alleviation and a sample size of 52 was applied. The study administered questionnaires to 52 financial managers from 52 NGOs selected. Reliability tests were taken into account and the results showed that Cronchbach value of the research tool was appropriate as it indicated 0.713. Both descriptive and inferential statistics were used to analyze data. Results revealed that grants had a positive effect on the financial sustainability of NGOs in Nairobi County. The findings also revealed that an increase in source specific grants led to an increase in financial sustainability of NGOs while a decrease of the same was related to lower financial sustainability of NGOs. Based on the findings, the study concluded that grants influenced financial sustainability, therefore, NGOs were more likely to be sustainable when the sources of revenue were diversified. The study recommends that NGOs need to put in place the appropriate management structure to implement their financial strategies to expand their base of grants which will promote their financial sustainability. Lastly, further research is needed to determine whether similar results would be realized in public institutions such as universities who are recently facing financial crisis.*

Keywords: *Source Specific Grants, Financial Sustainability, Non-Governmental Organization*

Introduction

Globally, many NGOs have been facing financial instability, which raises concerns about their long-term sustainability. This vulnerability was clearly exposed during the recent COVID-19 pandemic that disrupted global economic and financial systems and affected funding for NGOs. According to Centre for Effective Philanthropy (2021), 44% of NGOs in the USA experienced financial difficulties. In Europe, countries such as Spain and Greece have witnessed a rise in NGOs facing financial challenges due to economic downturns (Dolan, 2017). In 2017, the Open Society Foundations (OSF) announced its decision to cease operations in Hungary, which resulted in the closure of NGOs that were heavily dependent on OSF funding. This decision was made in response to the Hungarian government's crackdown on civil society organizations and their perceived influence on political affairs. As a result, NGOs such as the Hungarian Civil Liberties Union and the Hungarian Helsinki Committee were forced to close their operations due to the loss of financial support from OSF (Grossi, 2017).

According to Olufadewa (2021), an estimated 25% of NGOs in Africa have shut down due to financial challenges. Sustainability of civil society organizations in the region has had financial challenges, with 60% of NGOs reporting financial constraints. In the contemporary African landscape, NGOs constitute a significant component of the expansive "development machinery." This intricate web encompasses official entities, professionals, advisors, researchers, and a diverse array of experts who provide valuable complementary development interventions governments in the continent.

Donor grants serve as a pivotal revenue source for NGOs, supporting their financial sustainability and ability to fulfill their mission. Hung & Hager, (2019) explored the impact of donations on NGOs' financial sustainability and established that there was a remarkable trend, NGOs receiving substantial donations experienced an average annual growth rate of 15%, emphasizing the significant role of donor grants in fostering financial resilience. Similar findings were recorded by Mureithi, (2019) conducted study that delved into the specific role of donor funds in enhancing the financial sustainability of NGOs in Kenya. The study pointed to the significant contribution of donations to the financial sustainability of Kenyan NGOs. However, it also shed light on challenges such as donor dependency and stringent reporting requirements that NGOs encountered while managing donor funds. Further, Kinyanjui, (2021) undertook a local exploration of donations impact on Kenyan NGOs' financial sustainability. The above studies showed that NGOs that diversified their sources across individual donors, corporate partners, and diaspora contributions demonstrated increased financial firmness, fueling growth and enabling NGOs to continue their impactful work.

In Kenya, the financial sustainability of NGOs remains a pressing concern, 67% of NGOs in the country faced financial instability and struggled to meet their financial obligations, furthermore, while there were approximately 15,000 registered NGOs, over 4,000 NGOs were deregistered due to financial viability issues (Despard, 2022). These statistics highlight the immediate need for research on revenue diversification strategies to address the current financial challenges faced by NGOs in Kenya. Diversification of revenue streams by tapping in a variety of funding sources, such as donor grants, to NGOs can reduce their dependency on a single source and build a more sustainable financial base (Rocafort, 2019). Even though most studies conducted in the past only skimmed the surface of financial sustainability, the shifting financing dynamics driven by dwindling donor support demand a more robust investigation into the impact of revenue diversification which includes the source specific grants. Further the lack of awareness of the limitation’s regulatory framework for NGOs in the context of non-profit organizations in Kenya, hinders many NGOs from venturing into creative revenue diversifications strategies that may appear to be for-profit activities (Rotich & Mwangi, 2020).

Statement of the problem

The problem addressed in this study is the effect of source-specific grants on the financial sustainability of NGOs. While there is existing research on sustainability in various fields such as public health (Shelton et al., 2018), community health workers (Morgan et al., 2016), microfinance institutions (Rutanga et al., 2021), and non-profit organizations (Dadić & Ribarić, 2020), there is a need to specifically examine the impact of source-specific grants on financial sustainability.

Significance of the study

Understanding the effect of source-specific grants on financial sustainability is crucial for NGOs that rely on grant funding to support their operations. By examining the relationship between source-specific grants and financial sustainability, this research aims to provide insights into the long-term viability and stability of NGOs. It will contribute to the existing body of knowledge on financial management, grant funding, and organizational sustainability.

Theories Supporting the Study

Besides, various theories have been developed to explore revenue diversification strategies for enhancing the financial sustainability of NGOs and this study was anchored on Resource-Based View, Institutional Theory and Resource Dependency Theory. According to Resource Dependency Theory as portrayed by Pfeffer and Salancik in the 1970s, it contended that organizations establish interdependencies with external entities, such as suppliers, clients, regulators, and other organizations, to access essential resources like funding, information, and legitimacy. The theory further underlines how NGOs' financial sustainability is intricately tied to their ability to manage and diversify their resource dependencies. In relation to this theory, the study examined how NGOs strategically interact with donors, governments, and other stakeholders to secure funding, navigate regulatory landscapes, and establish partnerships.

In this study, Institutional Theory by DiMaggio & Powell (1983) provided insights into how NGOs formulated revenue generation approaches. This included how NGOs navigated external pressures, societal norms, and expectations in their quest for financial sustainability.

Lastly, Resource-Based View theory by Barney (1991) emphasized that the internal resources and capabilities of an organization as the primary drivers of competitive advantage and superior performance. In respect to this theory, enabled an exploration of how NGOs' distinct assets, like reputation and expertise, attract donors and partners, fostering financial sustainability.

Methodology

The descriptive design facilitated a clear and detailed overview of the diverse methods NGOs use to generate income. The study targeted 511 NGOs operating in Nairobi County Kenya dealing with poverty alleviation. This study employed stratified sampling where only NGOs dealing with poverty alleviation were engaged. Further simple random sampling was used to select NGOs from the Strata since there were numerous active and registered NGOs in the area. The sampling frame, included a list of 511 NGOs operating in Nairobi dealing with poverty alleviation. Mugenda and Mugenda (2013) suggested that a sample size equivalent to 10% of the total population is deemed sufficient for a descriptive study. Hence, the present study opted for a sample size of 52 respondents whereby in each NGO selected was represented by one finance manager. A structured questionnaire with closed-ended questions was developed to gather quantitative information from the finance managers. Questionnaires were distributed to the respondents within a reasonable timeframe of one month.

For data analysis and presentation, descriptive statistics where results were presented in frequency tables, while in inferential analysis, correlation and regression analysis were carried out to determine the relationship between the variables. A regression equation representing the relationship between the financial sustainability NGOs as a linear function of the independent variable (determining the effect of source specific grants on financial sustainability of NGOs) with έ representing the error term. The unknown parameters in the model were estimated, using observed values of the dependent and independent variables as follows;

$$Y= \beta 0+ \beta 1X1+ \varepsilon$$ ……………………………………………………………. (Equation 1)

Where;

Y is the variable (Financial sustainability)

β0 is the regression constant,

β1, is the coefficients of independent variables,

X1 is Grants,

ε is the standard error

Further, a pilot study to pre-test the tools was conducted on 5 selected NGOs based in Langata Sub County involving knowledgeable respondents in the field, to test the questions for relevance, comprehension, meaning, and clarity. The 5 NGOs involved in the pilot study were not part of the sampled NGOs in the actual study. To measure the reliability of the instruments, the researcher ran the data through the Statistical Package for the Social Sciences (SPSS-version 21) and a Cronbach's reliability coefficient of 0.713 was established, which was considered appropriate. The three types of validity were tested because this study collected data from different NGOs and therefore the need for data collection tool to be tested in three aspects.

Results and Discussion

The objective of the study was to investigate the effect of source specific grants on the financial sustainability of NGOs in Kenya. This section presents response rate, descriptive statistics and the inferential analysis which includes correlation and regression analysis of the relationship between source specific grants usage and financial sustainability.

Response Rate

The researcher distributed the questionnaires to 52 respondents in the 52 NGOs. Out of the 52, 50 (96%) questionnaires were returned. However, 2 questionnaires (4%) were never returned. Therefore, only the returned questionnaires were used for data analysis. The response rate was found to be 96% as indicated on Table 1 below.

Table 1: Response Rate

Response Rate	Frequency	Percentage (%)
Returned questionnaires	50	96
Not returned questionnaires	2	4
Total	52	100

Findings as illustrated on Table 1, the response rate yielded by the completed and returned questionnaires was above 50% which is sufficient as guided by Mugenda and Mugenda (2019) and supported by Nderitu (2018) that it was seen adequate for population representation of NGOs in Kenya. Thus, the response rate of 96% obtained in this study was appropriate for making the study conclusion on diversification of revenue streams and the financial sustainability of NGOs in Kenya.

Descriptive Statistics

Descriptive statistics such as frequency distributions, percentages, and standard deviation were used to summarize the data. The respondents were asked to indicate the income intervals generated from source specific grants in their respective NGOs. Specifically, they were asked to indicate the income interval in KES ('000') which were arranged in different ranges: Less than 1,000; 1,000 –5,000; 5,001- 10,000; 10,001 – 50,000; and Above 50,000. The different types of grant income included: Government grants, Foundation /Trust Grants, Donations and any other grant income generated by the NGO. Their responses were presented in percentages and frequencies as shown in the Table 2 below.

Table 1: Mean and Standard Deviation Statistics for Source Specific Grants

Type of Grant Income	Income Interval In KES ('000')						Mean	Std. Dev
	Less than 1,000	1,000 – 5,000	5,001-10,000	10,001 – 50,000	Above 50,000	N/A		
Government grants	2%	3%	5%	7%	5%	78%	1.19	0.101
Foundation /Trust Grants	10%	12%	10%	27%	40%	1%	4.63	0.774
Donations	15%	17%	15%	20%	32%	1 %	5.29	0.821
Others	22%	10%	15%	20%	24%	9%	3.19	0.435

Results indicated that majority (78%) of the respondents didn't not have government grants, thus, government grants were not common in most of the NGOs (Mean- 1.19; Std. Dev- 0.101). In addition, the study established that Foundation /Trust Grants, Mean- 4.63; Std. Dev- 0.774, and donations Mean- 5.29; Std. Dev- 00.821, were the common type of grants in NGOs. Also, it was in both that the grant income interval was highest with 40% and 32% ranked at above 50,000 respectively. Other types of grants established by the study included; membership fees, corporate sponsorships, and bilateral and multilateral aid among others, which yielded to a Mean- 3.19; Std. Dev- 0.435.

Based on the study findings, different types of grants affected the sustainability of NGOs. Thus, these findings are in agreement with Jones (2018) who established the relationship between donations and the financial sustainability of NGOs was hypothesized to be positive. However, the current study found that most NGOs didn't use government grants to sustain their operations. This finding disagrees with the assumption by Robertson (2021) who stated that government grants provide a stable and predictable income stream that can enhance the ability of NGOs to plan and implement their activities effectively, leading to greater financial sustainability over time.

Correlation Analysis

This study used Pearson correlation coefficient to determine the correlation between the dependent variable (financial sustainability of NGOs) and the independent variable (Source Specific Grants). To establish the strength of relationship between dependent and independent variables, a correlation coefficient was computed for each variable and the results were as indicated on Table 3 below.

Table 3: Correlation Analysis Results

		Source Specific Grants	Financial sustainability of NGOs
Source Specific Grants	Pearson Correlation	1	.023**
	Sig. (2-tailed)		.004
	N	50	50
Financial sustainability of NGOs	Pearson Correlation	.023**	1
	Sig. (2-tailed)	.004	
	N	50	50

**. Correlation is significant at the 0.05 level (2-tailed).

Mean is 2.9436

Standard Deviation is .35823

The study findings revealed that there was a positive correlation between independent variable that is, Source Specific Grants and the independent variable, financial sustainability of NGOs, r (50) = 0.023, P=0.004<0.05 while the mean was 2.9436 and Standard Deviation was 0.35823. The correlation coefficient was r= 0.023 and the p-value was 0.004 which was lesser than 0.05 thus the significant relationship.

This implied that an increase in Source Specific Grants, resulted to increase in financial sustainability of NGOs while a decrease of the same was related to lower financial sustainability of NGOs. These findings are in line Rocafort (2019) who argued that diversification of revenue streams by tapping in a variety of funding sources, such as donor grants, fee-based services, revenue from product sales and services, and revolving funds interest income, to NGOs could reduce their dependency on a single source and build a more sustainable financial base. In addition, Resource Dependency Theory as depicted by Pfeffer & Salancik, (1978) that firms should identify and develop their distinctive resources, such as human capital, technological expertise, brand reputation, and organizational culture, to gain an edge in the market. Thus, based on the findings of this study, Resource Dependency Theory suggested that internal resources are the foundation for creating value, achieving differentiation, and achieving long-term success.

Regression Analysis

In this study, regression analysis was used to determine the relationship between the dependent variable (financial sustainability of NGOs) and the independent variables Source Specific Grants. Using linear regression analysis, the effect of source specific grants on financial sustainability of NGOs was established. The results were illustrated on Table 4 below.

Table 4: Linear Regression Analysis Model results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate			
1	0.736[a]	0.429	0.292	1.36439			
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	4.701	0.896		4.977	0		
Source Specific Grants	-0.118	0.198	0.129	-0.871	0.003	0.391	2.521

a. Predictor: (Constant), Source Specific Grants
b. Dependent Variable: Financial sustainability of NGOs

Y = 4.701 + 0.129(X1) + έ…………………………………………….………… (Equation 2)

Results from the analysis in table 4 revealed that there was positive relationship between the variables (R = 0.736). Regression coefficient, $r^2 = 0.429$, implying that 43% of the financial sustainability was attributed to grants. The remaining percentage, 57% of financial sustainability was attributed to other factors not under the study. The study used the beta value to find out which how the independent variable was important in the financial sustainability of NGOs in the study area. From the results, the source specific grants was found to have a beta value of ($\beta = 0.129$).

The results further indicated that the financial sustainability of NGOs was 4.701, implying that when there is an increase in grant, there is a likelihood of 0.129 increase in financial sustainability.

These findings implied that source specific grants influenced the financial sustainability of NGOs Nairobi County.

These findings resonate with Gumbiner (2021) who noted that the motivation for diversifying revenue streams stems from the realization that overreliance on a single funding source can render NGOs vulnerable to shifting donor preferences or external shocks. Further, the subsequent analysis of the theories; Resource-Based View (RBV), Institutional Theory, and Donor Dependency Theory, which guided this study revealed that there was an intricate interplay between external influences, internal capabilities, and financial sustainability in NGOs in Kenya. As evidenced in the results from the current study, NGOs have strategically managed their revenue sources to ensure long-term viability and independence, confirming that grants usage in the NGOs indeed influenced their financial sustainability.

Conclusion

The results revealed that there was a positive relationship between source specific grants and financial sustainability of NGOs. Hence the study concludes that source specific grants influenced financial sustainability of NGOs in Kenya.

Recommendation

The study established that source specific grants influenced financial sustainability of NGOs in Kenya. NGOs' contribution to the Kenyan economy cannot be ignored. However, recently this grant has been affected by various financial factors. To solve this problem, NGOs need to put in place the appropriate management structure such as convenient donor mechanisms, to implement their financial strategies to expand their base of grants which will promote their financial sustainability. This will also prevent overreliance on specific sources of grants.

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