



ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES

**FACTORS INFLUENCING SUSTAINABLE FUNDING OF NON-
GOVERNMENTAL NOT FOR PROFIT ORGANIZATION
A CASE STUDY OF ACTION FOR DEVELOPMENT IN ADDIS
ABABA**

BY

TARIKU BEYENE

APRIL, 2014

ADDIS ABABA, ETHIOPIA

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**A THESIS SUBMITTED TO ST.MARY'S UNIVERSITY, SCHOOL
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TARIKU BEYENE

APPROVED BY BOARD OF EXAMINERS

Dean, Graduate Studies

Signature & Date

Advisor

Signature & Date

External Examiner

Signature & Date

Internal Examiner

Signature & Date

DECLARATION

I hereby declare that this submission is my own work and that, to the best of my knowledge it contains no material previously published by another person nor material which has been accepted for the award of any other degree of the university, except where due acknowledgement has been made in the text.

Tariku Beyene T/Mariam

Signature _____ Date _____

This thesis has been submitted to St. Mary's University School of Graduate Studies for examination with my approval as a University advisor.

Mr. Abebe Yitayew, Assistance Professor

Signature _____ Date _____

DEDICATION

To my late mother Almaze G/mariam. I am extremely sad that you are not around to share this wonderful achievement with me. Your constant love and early support have made my wildest dream, this academic achievement a reality. I will always remember you.

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ABBREVIATIONS AND ACRONYMS

AFD	Action For Development
CBOs	Church based organization
CSR	Corporate Social Responsibility
FS	Financial Sustainability
ID	Income Diversification
IG	Income Generation
MDR	Management of Donor Relationship
NGO	Non-governmental Organizations
RBV	Resource-Based View
SFM	Strategic Financial Management
SNNPR	Southern Nation Nationalities and People Region
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

ABSTRACT

Sustainable funding has helped many NGO's implement diverse programmatic interventions which has not only benefited the communities but has also improved the standard of living. But tough economic times buoyed by global recession have in one way or another affected global funding. Many NGO's continue to cease operations by the day often due to lack of sustainable funding. The NGOs are overwhelmingly significant in most Africans search for their well-being, so deeply woven in the rhythms of their everyday lives and deeply entwined in their values, attitudes, perspectives and decision-making. Many new NGOs fall into the pitfall of un-sustainability, as they operate for a summer or for a few years and then fade away. The failure of NGOs to sustain their work stems from many inadequacies. A lack of financial resources contributes to their demise. The purpose of the study was to examine the factors that affect financial sustainability of NGOs in Ethiopia with specific reference to AFD in Addis Ababa. In this study, exploratory research design was adapted. The target population of this study included the management team of AFD in Addis Ababa. Stratified proportionate random sampling technique was used to select 13 respondents. This study made use questionnaires for primary data collection. Quantitative data was analyzed using table and ratios. Data collected through the open ended questions and analysis of documents was analyzed qualitatively through content analysis. The study found that donor relationship management contribute most to financial sustainability of nongovernmental followed by strategic financial management then income diversification while own income generation contributed the least to financial sustainability of nongovernmental organizations. The study recommends that in order to ensure that the NGOs remain sustainable; they should procure employees that are competent in strategic planning, plan implementation and financial analysis. The NGO management should increase their income sources from their usual ones. The management should ensure that they maintain a good relationship with the donors mainly by information management, ensuring there is accountability and meaningful communications.

CHAPTER ONE

This paper has examined Factors Influences Sustainable Funding in Action for Development in Ethiopia. Chapter one encompasses background of the study, statement of the problem, purpose of the study, research questions, objectives of the study, significance, scope, limitation, assumption, measurements, operational definition of terms and organization of the study.

Introduction

Globalization during the 20th century gave rise to the importance of NGOs. Many problems could not be solved within a nation. International treaties and international organizations such as the World Trade Organization were perceived as being too centered on the interests of capitalist enterprises. In an attempt to counterbalance this trend, NGOs have developed to emphasize humanitarian issues, developmental aid and sustainable development (Wikipedia, 2006). NGOs are increasingly visible and diverse, from small grassroots NGOs to multi-million-dollar budgets giants, such as CARE or Human Rights Watch, largely funded by governments. NGOs fast and often unchecked growth has raised serious questions of transparency and accountability in their operations (NGO Watch, 2006).

Over the past several decades, NGOs have become major players in the field of international development. Since the mid-1970s, the NGO sector in both developed and developing countries has experienced exponential growth. From 1970 to 1985 total development aid disbursed by international NGOs increased ten-fold (Malena, 1995). The structures of NGOs vary considerably. They can be global hierarchies, with either a relatively strong central authority or a more loose federal arrangement.

Alternatively, they may be based in a single country and operate transnational. With the improvement in communications, more locally-based groups, referred to as grass-roots organizations or community based organizations, have become active at the national or even the global level. Increasingly this occurs through the formation of coalitions (Willetts, 2002).

1.1 Background of the Study

The 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 (Drucker, 1990). An organization is financially sustainable if its core work will not collapse if its external funding is withdrawn. Sustainable funding is a process that leads to the projects have longer life-spans and is further translated to impacts that are of beneficial to communities over a given period of time. Most donors are looking for a range of projects which can utilize the sustainable livelihoods approach to enhance activities aimed at supporting local communities to reduce poverty and disadvantage.

Organizations are required to use funds wisely for the purpose intended and improve the living standards of the populations meant to benefit. Often, uses of funds are diverted to serve other interest of the organization managers outside the scope and work plans of these projects. This has resulted in surprise audits where misuses of funds are suspected by donors and in the extreme cases bank accounts have been frozen to minimize the extent. Good management practices demand that obvious key management concepts and principles such as sustainability, accountability and transparency which are necessary for institutionalized formal procedures are put in place administrative efficiency.

Most donors attach various restrictions to their funding including among others sound financial management systems in place, good leadership with integrity, educated staff with experience an advantage and the strategic plans of the organization. Organizations lacking these ingredients have difficulties attracting donor funding. Some donors will assess the capacity of the organization to handle funds before funding can be approved. They also consider if the potential recipient has experience and knowledge to meet deliverables.

1.1.1 Financial Sustainability

Financial sustainability is one of the key challenges for NGOs and only those institutions that have sound financial structures and stable income flows are able to fulfill their multiple missions and respond to the current challenges in an increasingly complex and global environment. Indeed, financial sustainability is not an end in itself; it aims to ensure an organization's goals are reached by guaranteeing that the institution produces sufficient income to enable it to invest in its future.

It is the core of organizational effectiveness and connected to all other key components. Sustainable strategies must therefore be considered in the areas of strategic direction, spiritual values, moral values, governance, management practices, human resources, impact of service delivery, financial resources and external relations. Sustainable organizations have been found to have at a minimum: A clear mission and strategic direction, the necessary skills to attract resources from a variety of local and international sources, skills and ability to manage resources effectively and efficiently and any effort at organizational regeneration (Ogara and Gitoho 2005).

1.2 Background of Action for Development

Action For Development (AFD), is an Ethiopian Residents Charity that implements a program of dry lands/pastoral development. AFD has been operational since 1998 implementing its program in marginalized areas that are deprived of opportunities for socio economic development. Currently, AFD works in 13 Woredas/Districts found in the Borena Zone of Oromia Region and the South Omo Zone of SNNPR. AFD has its HQ in Addis Ababa and maintains two field offices in the project area.

It envisions a society where poverty is eradicated, and people lead a dignified life in an enabling environment. In order to achieve its vision the organization has developed its mission stating that a learning organization which, in partnership with other development actors, complements the self development initiatives of pastoral and other rural communities in the dry lands of Ethiopia through mobilizing local and external resources and undertaking programs in rural/pastoral livelihoods diversification, water resource development, community managed disaster risk reduction and capacity building of communities and service providers, with the mainstreaming of such issues as gender, HIV and AIDS and environmental concerns.

In order to achieve its vision statement, AFD has been working in partnership with various funding partners in integrated development projects with particular focus on water development, livelihoods diversification, disaster risk reduction, capacity building and other cross cutting issues for over a decade. It has developed the required technical competence in these and other areas. Its intimate engagement in the dry lands of Oromia and the SNNPR has given it a comparative advantage in pastoral development involving marginalized communities. Adoption of participatory approach as well as the high level of transparency developed in internal governance system, social accountability to clients and pro-poor actions have resulted in good image and strong reputation among all stakeholders.

Through the years of its partnership AFD has proven itself to be a good steward of the resources entrusted to it by its funding partners. Its skill of grant management as well as compliance with donor contracts is among its strengths. At the community level, AFD has proven its worth by complementing the self development efforts of the marginalized through productivity enhancement, enhancement of access to basic services, strengthening of capacities, amplifying the voice of the poor, facilitating space for their engagement, etc.

While doing all these grassroots level, the organization has adopted Governance structure with its supreme of organ to be its General Assembly. Operational guidance and oversight is provided by a Board of Directors elected from among the general assembly members. Day-to-day operations of the organization are run by a Secretariat with its HQs in Addis Ababa, and two field coordination offices in Borana and South Omo.

Specifically, AFD's current program is implemented in Yabello, Dire, Miyo, Dillo, Dhas, Malka Soda, Dugda Dawa, Bule Hora, and Arero Woredas of Borena Zone, and Debub Ari, Maale, Gnantom and Dhasenech Woredas of South Omo Zone with a staff size of 102, who work in close coordination with local leaders and community organizations.

The organo-gram of the secratriate at head office level is composed of Program Department, Operation Department, Partnership ans Fund Raising Department, and Admonstration and Finace Department where all are directly accountable to the Excutive Director of the Organization. The field office also share more or less simliar organ-gram with the head office and it is under the Adminstration and Finace Department that most of the Human Resource activities and practices of the organization are carried out.

1.3 Statement of the Problem

Different research findings reveals that the financial management processes of NGOs are generally weak and dominated by conditions of resource scarcity given the ever increasing agenda of social development activities on which such funds could be spent. Sustainable funding has helped any NGO's to implement diverse programmatic interventions which has not only benefited the communities but has also improved the standard of living.

However, most local NGOs fail worldwide, even after promising initial periods, owing to problems with financing (Hennie, 1999). (Turary, 2002) argued that 'the continuity of NGOs is the continuity in raising money, but if the organization is not doing that it will wither and die'. Many NGO's continue to cease operations by the day often due to lack of sustainable funding. Many new others are also set-up any day it dawns leaving one with question marks than answers as to what's ailing the sector. Many new NGOs fall into the pitfall of un-sustainability, as they operate for a summer or for a few years and then fade away.

Unlike their for profit counterparts whose accounting system reflects the results of economic activities, expressing the efficiency with which the objective has been achieved, NGOs are mostly concerned with raising and expanding resources according to specific budget plans (Blazek, 1996). This state of affair has boxed the NGOs into a dependency syndrome which is threatening the sustainability of their programmes and their survival as institutions.

To the researcher's knowledge, no local studies had ever focused on the strategic responses adapted by NGO's in Ethiopia to the shorter life spans. This is despite the ever increasing capacity building measures organized by various stronger donors like USAID, OXFAM, World Bank etc which time to time organize refresher courses for NGO's on best practices in the sector.

This lacuna represents a significant gap in knowledge that must be bridged since NGOs provide an important component of education, health and other social developments in Ethiopia.

It is in this light that the researcher aims to fill the existing gap by carrying out an investigation into the factors influencing sustainable funding in the NGO's with reference to Action for Development in Ethiopia.

1.4 Purpose of the Study

The purpose of the study was to find out the factors that influence sustainable funding in NGO's in Ethiopia with specific reference to Action for Development in Ethiopia.

1.5 Research Objectives

To realize the purpose of this study the researcher were approach with two research objectives namely general and specific objectives.

1.5.1 General Objective

To the researcher's knowledge, no local studies had ever focused on the strategic responses adapted by NGO's in Ethiopia to the factors that influence sustainable funding and shorter life-spans.

The central objective of this study was, therefore, to examine Factors Influences Sustainable Funding in Ethiopia referencing AFD.

1.5.2. Specific Objectives

In light of the central objective the study also includes the following specific objectives:-

1. To determine the effect of income diversification on NGO's funding sustainability.
2. To establish the effect of strategic financial managements on NGO's funding sustainability.
3. To assess the effect of participation in income generating activities on NGO's funding sustainability.
4. To examine how the donor relationship management affects NGO's funding sustainability.

1.6 Research Questions

1. To what extent does income diversification contributes to sustainable funding for NGO's?
2. What is the effect of strategic financial managements on NGO's funding sustainability?
3. To what extent does participation in income generating activities affect NGO's funding sustainability?
4. How does the donor relationship management affect NGO's funding sustainability?

1.7 Significance of the Study

The study would be important not only to Action for Development (AFD) but also other managers in the NGO sector in pinpointing the methods used in gathering and applying various strategic practices, which can help them to improve their management styles. It can help them to understand the strategic practices and how its understanding can help different and diverse NGO's sustain funding long afterwards.

The results of this study would also be invaluable to researchers and scholars, as it forms a basis for further research. The students and academics would use the study findings as a basis for discussions on sustainable funding and the strategic processes it call for. Moreover the study can serve a source of reference material for future researchers on other related topics; it would also help other academicians who undertake the same topic in their studies.

1.8 Delimitation of the Study

As a part time student who needs to balance the studies with full time employment, the researcher was not able to undertake an extensive and exhaustive research covering all NGO'S found in Ethiopia and the researcher totally relied on Action for Development. The study focused on factors influencing sustainable funding and issues in nongovernmental organizations (NGOs) in Ethiopia by focusing more specifically on Action for Development (AFD). More specifically data were collected only from the management team of Action for Development (AFD) in Addis Ababa.

1.9 Limitations of the Study

There were challenges during data collection where some target respondents were not responded properly to the research questionnaires due to lack of good concepts about financial sustainability measurement indicators identified by the researcher and some target respondents were failed to give the required information. The researcher however worked at winning the confidence of those who were involved in this research by giving them a brief discussion about the financial sustainability indicators incorporated in this study and awaring them the reasons for the research and assuring them of confidentiality.

1.10 Assumptions of the Study

The researcher assumed the following during the study.

1. Organization acknowledges the risks associated with unsustainable funding.
2. Organization has put in place financial and project management policies.
3. Organization as routine measures, undergo an audit periodically aimed at ensuring internal controls are not compromised.
4. The information that was provided by the respondents is based on good faith as per their status in the organization.

1.11 Measurements

The following independent variables were measured to see its effects on NGO's funding sustainability:

a. Income Diversification

On the effect of income diversification, the study sought to establish the importance of various drivers for income diversification in the NGO and also the effectiveness of various income diversification strategies in enhancing financial sustainability at organization. The various drivers for income diversification were measured to see its effects on financial sustainability of the NGOs using a scale of 1-5 where 1 = very important and 5 = unimportant, ratio and scale of 1 – 5 where 1= very effective and 5 = ineffective.

b. Strategic Financial Managements

Good financial management requires sound organizational planning and the set-up and implementation of workable systems, policies and procedures which can respond to, accommodate and overcome the financial challenges a nongovernmental organization may face. The researcher was used a five scale measurements: very great extent, great extent, moderate extent, little extent and not at all to measure extent of the various strategic financial management issues affects the financial sustainability of the NGO.

c. Participation in Income Generating Activities

Income generation is a key programmatic strategy to address the need to find alternative means to make a living in a dignified way and with the objective of becoming less dependent, more self-reliant and able to offer services to the community they serve. Further, according to CRDA (2001) NGOs need to develop more business-like operations, focusing on the most practicable forms of enterprise structure but without losing their priority of seeking to benefit the poor and other disadvantaged groups.

Thus, to address such issue the researcher was requested the respondents to indicate the extent that participation in income generating activities affects the financial sustainability of the organization. The effects of participation in the income generating activities on financial sustainability were measured using a five scale measurements: very great extent, great extent, moderate extent, little extent and not at all.

d. Donor Relationship Management

Matten and Moon (2008) observes that donors viewing the communications they receive as informative, courteous, timely, appealing, and convenient appear to remain loyal for a greater period of time. The issue then becomes how best to achieve this perception.

The study sought to find out how donor relationship management affects the financial sustainability of the organization. The researcher was also measured the effects of donor relationship management on financial sustainability using a five scale measurements: very great extent, great extent, moderate extent, little extent and not at all. Moreover, yes or no sorts of questions were included to measure factors that influence sustainable funding in Action for Development.

1.12 Organization of the Paper

The paper is organized into five chapters. The first chapter deals with background of the study, statement of the problem, purpose of the study, research questions, objectives of the study, significance, scope, limitation, assumption, measurements and operational definition of terms.

The second chapter reviews literatures related to the study. In this second chapter various theoretical concepts and other findings that relates with factors influencing sustainable funding by looking on issues such as income diversification, strategic financial managements, participation in income generating activities and donor relationship management.

The third chapter sets out various stages and phases that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data.

The fourth chapter is about presentation and analysis of the data. Finally, Chapter five presents summary of the findings, conclusions drawn and the recommendations.

CHAPTER TWO

LITRATURE REVIEW

2. FACTORS INFLUENCING SUSTAINABLE FUNDING

2.1 Introduction

This chapter provides a detailed analysis of existing literature on sustainable funding with reference to non-profit organizations. It assesses the nature of NGOs, concepts of NGOs, and sources of funding of local NGOs. Moreover the chapter reviews literature on what other have established on the factors influencing sustainable funding of non-governmental organizations by looking on issues such as income diversification, strategic financial managements, participation in income generating activities and donor relationship management. The chapter concludes with the deductions made from the literature and conceptual framework of the research. The sources of literature include books, journal, thesis and web articles. The chapter is organized according to the main areas of the study.

2.2 The Nature of Non-Governmental Organizations

NGOs take different forms and play different roles in different geographical regions. The roots of NGOs are therefore different in the geographical and historical context. As a result there are many concepts and definitions of the term NGO.

2.2.1 Concept of Non-Governmental Organizations

NGO sector has become a worldwide explosion which is increasingly responding to the social, political, environmental and economic needs of the vulnerable and disadvantaged nations. The worldwide recession, political instability, poverty and disease, natural disasters are some of the changes in the world which have made the activities of NGOs possible.

According to Lektorwe (2007), the term NGO is broad and ambiguous and covers a range of organizations within civil society, from political action groups to sports clubs. The concept of NGO came into use in 1945 following the establishment of the United Nations Organizations which recognized the need to give a consultative role to organizations which were classified as neither government nor member states (Willet, 2002). Lektorwe (2007) argues that the clear definition of NGO still remains contested. However, it can be argued that all NGO's can be regarded as civil society organizations though not all civil society organizations are NGO's (Lektorwe 2007). Despite the difficulty of defining NGO, attempts have been made by various authors to define the term.

2.2.2 Definition of Non-Governmental Organizations

According to Holloway (2001), NGOs are a group of organizations distinct from government institutions and business organizations. Their distinct feature is that they are formed to complement, supplement and offer alternatives to government development efforts. Teegan et al. (2004), quoting the United Nations (2003), describe an NGO as: any non-profit, voluntary citizens' group which is organized on a local, national or international level and is task-orientated and driven by people with a common interest.

The World Bank (1995) argues that NGOs are private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, and/or undertake community development.

From the above definitions NGOs can be defined as organizations that are not part of the government, independent, voluntary, non-profit and charitable and which promote development oriented activities for vulnerable groups in society.

Although there are variations in terms of the definitions of NGOs, for the purpose of this study, NGO are organizations which are not for profit and complement government efforts to relieve the suffering, promote interests of the poor and provide basic social services to vulnerable communities and individuals (Adopted from World Bank, 1995).

In the view of (Schiavo, 2001) for NGO to be classified as non-for-profit, it should satisfy the following criteria:

- First, an NGO should be privately set up and sufficiently autonomous in its activity, that is independent of direct governmental control;
- Secondly, an NGO should clearly define its voluntary character;
- Thirdly, it cannot be considered as a political party with an aim of attaining political power; and
- Fourthly, an NGO should support development which demonstrates its public interest character.

2.3 Sources of Funding Local Non-Governmental Organizations

To appreciate the challenges of financial sustainability it is necessary to understand the potential sources of revenue for the NGO sector (More, 2005). While there is, of course, tremendous variation in the sources of NGO revenue among countries and NGOs within any sector, there are at the same time identifiable trends of NGO financing. In their study of East African local NGOs, Semboja and Therkildsen (1995 cited in Barr et al., 2005) for example, found that much local NGO funding comes from international donors. Hulme and Edwards (1997 cited in Barr et al 2005,) also emphasize the role of international donors in local NGO funding.

Lee (1997) also revealed that there are three sectors from which NGOs can derive their resources. These are the private sector, the general public and government/public sector. Resources from each of these sectors can originate from both external sources (i.e. international) and local (i.e. domestic or municipal public and private donors). More (2005) in a similar vein indicates that NGO revenue falls within three broad categories. They include government funding, private giving and self-generated income.

Salamon and Anheier (1996 cited in Barr et al 2005) find that NGO funding comes from three main sources. These are the private sector, public sector and self-generating income. The authors found that 10 percent of the Local NGOs funding come from private charitable giving; 43 percent come from government support and public sector payments, including grants and contracts; and 47 percent come from private fees and payments, often originating in the sale of services or products. According to the authors, reliance on private fees moves the organizations away from their charitable roots and puts them in direct competition with private businesses.

In 2003, the John Hopkins University Comparative Nonprofit Sector Project (cited in More, 2005) published a comparative analysis on global civil society based on research in 35 countries, on the sources of NGO's income. It revealed that:

- Self-generated income was the dominant source of revenue for NGOs accounting for 43 percent of local NGOs total income;
- Private giving that is, individual, corporate and foundation-based accounting for 30 percent; and
- Government or public sector support also ranks as a significant source of NGO income constituting 27 percent.

2.3.1 Private Sector Source of Funding Local NGOs

In countries where there is some economic growth recorded with a presence of a vibrant private sector, NGOs look upon the corporate agencies as major sources of funding. These corporate groups according to Lotsmart (2007) have Corporate Social Responsibility (CSR) agenda for enhancing equity, social justice and development. Besides, in the present times, some corporate agencies are also partnering with NGOs for joint profit-oriented projects. Private giving usually comes in the form of cash and in-kind donations from individuals, businesses, and foundations or other grant-making legal entities. The efforts of volunteers may also be considered donations and can be embraced by the concept of philanthropy. Another source of funding for NGOs is from the private charities/foundations/international organizations that are more privately handled and have a better focus on equipping local NGOs. It provides financial and technical resources to them. Donations and gifts, mostly from individuals or informal groups are also sources of funding for NGOs. According to Lotsmart (2007) donations come from individuals or groups such as churches, foundations and private firms. They may take the form of cash or in-kind materials.

2.3.2 Public Sector Source of Funding Local NGOs

In some countries, the local governments are a major source of funding as they have different community welfare and development schemes which NGOs can apply and raise resources and implement projects. The public sector provides various types of subsidies to non-governmental organizations (NGOs). Government funding includes a broad range of direct and indirect support. The UNDP (1993 cited in Lotsmart, 2007) noted that one-third of NGOs funding come from governments through varied degrees such as subsidies, government grants, and contracting. Exemptions from taxation can be considered a government subsidy. During the last term of Clinton (United State President 1993 -2000) administration for example, the White House support to NGOs increased from 13 percent to 50 percent through USAID assistance. In addition, most embassies of developed countries residing in the developing countries fund local NGOs (Lotsmart, 2007).

2.3.3 Self-generating Income

Self-generated income includes membership dues, fees and charges for services (that is, economic activity), as well as income from investments. According to More (2005) NGOs are able to engage directly in economic activities, within certain defined limitations. Incomes from their economic activities are exempted from taxation, albeit to a limited extent. The sources of funds for local NGOs identified above are from both external and internal sources. The external source can come from governments, corporations etc whilst internal source can also come from governments, corporations and business income.

2.4 Empirical Review

This section reviews literature on what other have established on the factors influencing sustainable funding of non-governmental organizations by looking on issues such as income diversification, strategic financial managements, participation in income generating activities and donor relationship management.

2.4.1 Income Diversification

Diversification of funding sources is essential to increase the stability of nongovernmental organizations income streams. As a response to the economic crisis, tapping international funding streams might be more important than ever (Kurosaki, 2003). In particular, funding from international governments and their respective bilateral aid agencies has provided excellent opportunities for the NGOs. With the funding challenge most nongovernmental organizations have responded with the same entrepreneurial spirit, good planning and hard work that brought them success in their core activities (Barrett, et al 2000).

They have expanded fund-raising activities directed at the general public, tapped new corporate donors for monetary and in-kind support, and held one-time events. They have redesigned program implementation strategies to include cost-recovery components whereby the beneficiaries of the program pay part, and sometimes all, program costs (Henin, 2002).

One definition of income diversification, perhaps closest to the original meaning of the word, refers to an increase in the number of sources of income or the balance among the different sources (Jenkins, 2006).

Thus, organizations with two sources of income would be more diversified than an organization with just one source, and an organization with two income sources, each contributing half of the total, would be more diversified than organization with two sources, one that accounts for 90 percent of the total (Joshi et al. 2003; Ersado 2003).

For many nongovernmental organizations, social enterprise serves as a strategy to diversify their funding base, decrease reliance on donors, and recover or subsidize program costs. In these cases, the social enterprise offers a means to reduce program deficits and employ resources more efficiently (Rao et al, 2005). Nongovernmental organizations seeking means to diversify income may set modest financial objectives.

There are neither magic answers, nor simple solutions and every nongovernmental organization is unique (Clark, 2007). But there are ideas, information and sources of practical support for nongovernmental organizations wanting to broaden their income base and explore sustainable funding not as a single source of income - but as a process comprising several related parts (Migros, 2008).

Diversification should begin with a strategic analysis of the status quo, the institutional strengths, specificities and opportunities, as well as a scan of the competitive environment. Pre-existing additional income streams should be included in the overall evaluation (Lavie, 2006). Apart from undertaking an appropriate analysis of cost effectiveness and risk of various activities, institutions need to assess the appropriateness of these activities in relation to the nongovernmental organizations' mission and culture.

The leadership's commitment to this process is of crucial importance. The leadership is best placed to project a vision and build the case for diversification activities. Nongovernmental organizations leaders also play an important role in shaping the necessary change processes related to diversification, be it a cultural change or an organizational change. Many activities to increase and generate new income sources need new expertise, which does not necessarily always exist within the institution. Churches may recruit professionals from outside the congregation or invest in the development of staff to acquire these skills (Dauncey, 2009). When external staff is recruited, it is important that they understand the specificities of the research and education environment or are integrated in an established team. Professionalization is relevant at all levels, including human resources management, knowledge transfer activities, research administration, financial management, etc.

A gradual approach to structured development of staff capacity may be best adapted considering the fact that the potential to invest in human resources is reduced in times of financial constraints (Ciliberti et al, 2008). Given the high relevance of building up these skills for successful income diversification however, targeted support from governments towards this end would have a high leverage effect.

The success of income diversification strategies largely depends on the ability of the institution's leadership to communicate effectively with the organization community as well as with external stakeholders. Nongovernmental organizations need to reinforce awareness around the range of activities they undertake and the added value they create for society, helping potential partners to evaluate funding options (Hargrave et al, 2006).

External communication should also contribute to reinforcing the image and specific profile of an institution. Communication can also usefully be undertaken at sector level, upholding the value of higher education for the wider economy.

Risk management constitutes a major driver for income diversification for nongovernmental organizations (Beringer et al, 2008). The perception that it is necessary to spread financial risks is commonly shared among nongovernmental organizations, especially in the light of the consequences of the economic crisis and on the basis of pessimistic expectations regarding future trends in funding coming from traditional sources. Developing additional funding streams becomes necessary to mitigate negative consequences of a sudden drop in income or to fuel further growth of the organization's activities.

Nongovernmental organizations also tend to approach income diversification as a means to gain more flexibility in their internal financial management. Income generated by the institution often responds to different rules in terms of allocation, types of use allowed, etc. There is a commonly shared perception that additional income sources may involve fewer administrative requirements, although this is not necessarily so in reality. High fragmentation of donor funding exacerbates this issue, with different donors often having complex and different rules and requirements (Amsler, 2009). This demands swift action by donors to streamline funding modalities across the different funding entities.

Large, broadly based nongovernmental organizations are generally better equipped to diversify their funding sources than smaller NGOs. They can take advantage of their recognizable name and logo. They have more technical skills on which to build commercial activities. They have more contacts and connections with outside groups with which to form partnerships. And internally they have more experience adopting new programs and adapting to organizational change.

These nongovernmental organizations also often have a greater need to seek outside funding because of their higher costs for support services and overhead (Daub, 2007). On the other hand, smaller NGOs have the advantage that relatively small amounts of self-generated funds can make a big difference in ensuring their financial viability.

2.3.2 Strategic Financial Managements

Financial management in nongovernmental organizations is concerned with ensuring funds are available when needed and that they are obtained and used in the most efficient and effective way to the benefit of the nongovernmental organization (Waddell, 2000). From an organizational point of view, the process of financial management is associated with financial planning and financial control. Financial planning seeks to quantify various financial resources available and plan the size and timing of expenditures. Financial management practices requirements can impose a significant burden on NGOs (Page, 1984). Managing the movement of funds in relation to the budget is essential for a NGO. At the corporate level, the main aim of the process of managing finances is to achieve the various goals NGO sets at a given point of time (Linton, 2005).

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. The financial instruments of the organization mainly comprise available for sale financial assets. These are investments in equity securities and government securities (Ahrens et al, 2006). Originated loans and receivables– these are loans and receivables created by the organization for providing money to a debtor. These include debtors, prepayments and grants receivable. Financial liabilities–the Organization has financial liabilities, which consist mainly of trade creditors and unexpended grants.

Used appropriately, financial management tools can help an organization to deliver its mission better and to ensure the best and most beneficial use of resources. The consequences of bad financial management are therefore very serious. Good financial management requires sound organizational planning and the set-up and implementation of workable systems, policies and procedures which can respond to, accommodate and overcome the financial challenges nongovernmental organization may face. All organizations need money.

Nongovernmental organizations usually exist because they have a mission: to cure the sick, to advance a profession, to discover new technologies, to educate the public. Establishment of trust funds which gather financial resources together on either an individual NGO or collective model. Investing those resources provides long-term income from interest or a combination of interest and principal.

Meeting financial goals is essential to fulfilling this mission, but is not the top priority. Managers must ask a 'chicken and egg' question: Which comes first, the programmes to fulfill the mission, or the income (earned and voluntary) to finance the programmes? It is important to recognize that aspirations and financial resources are related and that it is management's task to co-ordinate the two (Edwards et al, 1995). All nongovernmental organizations require a financial management system, however, many nongovernmental organizations may only have an accounting or bookkeeping system.

Accounting or bookkeeping are a subset of financial management. Financial management is generally the responsibility of the finance manager however all section managers should contribute to and benefit from a financial management system. The role of the finance manager is a key role within an organization. The financial manager must also be able to maintain perspective so that activity and administrative objectives are directed towards achieving organizational goals.

The finance manager is in a position to have a bird's eye view of the day-to-day operations of the organization and will be able to see trends, strengths, weaknesses and opportunities for improvement (Gray et al, 2006). This unique position allows the finance manager to play an active role in strategic planning. Strategic planning focuses on the long-term goals and objectives of the nongovernmental organization and should, at a minimum, include the board of directors and the key management staff of the organization.

Naidoo (2004) concluded that ethical environments are more important than codes of conduct in influencing finance managers in organizations when resolving ethical dilemmas. Catusus et al (2005) found that management's attitude toward internal control was significant when accountants were asked to evaluate the control environment of an organization. A more important issue, however, is whether these internal control factors are actually related to misrepresented financial information. Numerous empirical studies have looked into both the needs of financial reporting and management skills in public accounting information.

Sound financial management practices, good governance, and accountability are essential building-blocks for driving improvement and better-value for money in faith based organizations. Gray et al (2006) have surveyed nongovernmental organizations, civil society and accountability: making the people accountable to capital and Ebrahim (2005) report on accountability myopia: losing sight of organizational learning. Financial statements are intended to be understandable by readers who have a reasonable knowledge of business and economic activities and accounting and who are willing to study the information diligently (Linton, 2005). Financial statements may be used by users for different purposes: Owners and managers require financial statements to make important business decisions that affect its continued operations. Financial analysis is then performed on these statements to provide management with a more detailed understanding of the figures.

Earlier research has shown that management control, such as accounting; have a stabilizing function Huque et al (2003). Financial management plays an important role in supporting new programs to be diffused in practice. Some even argue that programs can only be fulfilled to the extent that they can be realized through technologies Gray et al (2006). As a consequence, technologies become imperative in terms of realizing the program (Ahrens et al, 2006).

2.3.3 Donor Relationship Management

Donor Relationship Management is not just a tool to collect data from donors; it is a holistic strategy, a methodology of collecting, organizing and analyzing every aspect of your donors. Burnett (2002) recognized the need for what he termed relationship fundraising dealing with donors individually, recognizing each donor as unique in terms of giving history, motivation for giving, and the overall standard of care expected from the charities being supported. The entire relationship with a donor, he argued, should be viewed holistically and fundraising decisions taken in light of the perceived value of the overall relationship. Recognizing the benefit of a future income stream, NGOs are not afraid to invest in their donors and allow them greater flexibility over the content, nature, and frequency of the communications they receive. This might make people feel important.

Although the initial costs of implementing such a strategy are undoubtedly higher, the benefits in terms of an enhanced pattern of donor loyalty and therefore the future revenue stream far outweigh this investment. Donors should be able to choose when communication is initiated and the form that it might take. It seems that one way in which NGOs might achieve this goal is to ensure that they give ongoing and specific feedback to donors as to how their funds have been put to use, in particular the benefit that has resulted for the beneficiary group (Plummer, 2009). If this feeling of impact on the cause is not strengthened, it seems less likely that donors will view other causes as being more deserving than those they already support.

Donors viewing the communications they receive as informative, courteous, timely, appealing, and convenient appear to remain loyal for a greater period of time. The issue then becomes how best to achieve this perception (Matten et al, 2008). The donor, ideally, should be able to select the pattern of communication he or she wishes to receive.

Some NGOs offer donors the opportunity to specify how frequently they would like to hear from the organization, whether they would like news about how their gift has been employed, whether they would like such news but not additional letters asking for money, and so on. Such practices are likely to improve perception of the quality of communication received and thereby enhance loyalty (Wilson, 2003).

Furthermore, it seems clear that NGOs could also offer donors some choice over whether or not they wish to be asked for a specific sum. Some donors may welcome guidance about the appropriateness of certain gift levels. Others may prefer to take such decisions themselves and not be prompted by the NGO (Hobson, 2006). Obviously, where specific sums are requested, NGOs should be sure they are appropriate given the financial ability of the donor (Sargeant et al, 2007).

Liljander et al (2005) proposed that the relationship quality construct is critical in guiding relationship management, and Sasso (2003) suggested that relationship quality and its understanding will guide the field of services management in general. Indeed, an understanding of the processes and the development of the relationship quality within the charity-donor dyad is considered central to implementing any relationship fundraising marketing strategy (Shabbir et al., 2007). Although some research has focused on beneficiary perceived relationship quality the influence of quality perceptions of donor satisfaction and behavior and the development of the relationship quality construct (Shabbir et al., 2007), little empirical enquiry has explored the role that relationship quality may have in assisting the effects of identity-based constructs.

Religiosity and relational independent self-construal are selected as two important identity-based constructs which may impact on future giving intentions through the mediating effect of relationship quality. Despite the importance of these constructs in charitable giving behavior, there is a lack of knowledge concerning their role in improving donor-perceived relationship quality. The powerful influence of these constructs is evident in the success of faith-based and medical charities in the UK. Faith-based giving, for instance attracts £4.6bn in the UK (Blackmore, 2005). Medical charities have consistently remained the largest recipients of individual donations in the UK for the past decade (Pharoah, 2006). Faith-based charities also appeal to the religious or spiritual identity, whereas medical charities commonly use relational-based self identity appeals, often by reminding donors of the value of familial utility (Sargeant, et al., 2007). The effect on charity of both of these constructs is also well known in global giving cultures and has consistent.

Nonprofit sector donors tend to have relationships with two to three organizations. These relationships are stable, typically based upon (often deeply) personal commitments to the mission of each organization they support. As with customers in the for-profit world, a nonprofit's existing donors are frequently their most valuable donors, and can be a key engine for growth. While the nonprofit world is rapidly evolving technologically, with the emergence of sophisticated online donor management and analytical tools, the ability to create a single donor view of giving throughout and across the organization remains elusive.

As nongovernmental organizations began to recognize the true value of maintaining and upgrading a donor's relationship and support, the roles of acknowledgment, recognition, and stewardship shifted from being rote activities to being strategic actions (Clarke, 2006). The field of donor relation management became the responsibility of the professional staff and the principles of donor relations were integrated into the many aspects of the development and institutional advancement programs at charitable organizations and nongovernmental organizations.

Dependence on grants and donations can also inhibit the autonomy of NGOs to choose which program activities to undertake and to select the most effective intervention strategies to achieve program goals (Bekkers, 2005). To a certain extent, all donors have their own agenda, i.e., their own views as to which problems are important and the best intervention strategies to address these problems. NGO managers may be compelled to follow the money and allow donors to dictate the scope and direction of their activities, or else receive no funds at all.

Another problem is that many grants and donations carry restrictions on the types of expenses that they may cover. The most common restriction is to cover only direct program costs, but not the cost of support services or other overhead costs incurred by the NGO. The NGOs must contribute these costs on their own, or at least cover an increasing share of these costs over time. The uncertain continuity of donor funding, be it short term or long term, makes it extremely difficult for NGO managers to plan and implement their organization's core activities. It also may force a NGO to live a project-to-project existence, being unable to make long term plans to expand core activities or to improve the quality of program services (Bateson, 2006).

The various processes and procedures involved in the delivery of aid has made both donors and developing countries realize that development impacts were affected by these overwhelming transactions. Thus, armed with the intention of effectively delivering aid through efficient use of scarce resources; multilateral and bilateral donors together with their partner countries decided to harmonize their operational policies, procedures and practices with the conscious effort of aligning development support with country-owned development frameworks.

Financial sustainability involves all the elements and functions of an organization and every major decision made within the organization. As the work of NGOs broadens and becomes more complex, concerns about their capacity and sustainability will loom much larger and have more significant implications for development processes. Nonprofit organizations, like all institutions, wrestle continually with the question of how to keep going and to improve their lot, especially during today's difficult economic times. In short, nonprofits must constantly strive for sustainability.

The need to strengthen the financial sustainability of NGOs and civil society organizations to fulfill multiple and increasingly complex roles has been identified time and again by NGOs themselves, by donor agencies and by governments. Organizations must recognize that their stakeholders and their stakeholders' needs may change over time, and they must consciously change and adapt as needed.

Evidence about cost of intervention is critical for program decision-making, because it provides evidence about potential for sustainability. According to a UNDP representative, NGO financial sustainability is probably the most talked about issue at the nonprofit organizations' stakeholder. It is one thing to be able to access funds and quite another to have the capacity to deliver what has been agreed to.

Alongside finance, NGOs recognizes the need to develop their own capacity in a number of areas. David (1989) further argues that it will be a long time before NGOs find avenues of sustainable self financing to replace official development assistance. There are two main routes through which funds are transferred to NGOs: the indirect route in which resources are provided to NGOs which then work with NGOs' partners' in the country concerned; and the direct route in which funds are given directly to NGOs via the donor's country office.

Donor relationship is therefore important in meeting the needs on the NGOs. Providing people with the opportunity to invest in creating a better future for the communities is an incredible gift. While some of the tasks required to successfully raise money are tedious and can seem like drudgery (creating databases and maintaining good files comes to mind), the real joy in fundraising is being able to talk with donors and prospects about our shared vision for a better community. Donor funding is still overwhelmingly provided through project funding.

Projects have a finite funding lifetime and within this framework the issue of core administrative costs remains a very difficult area for negotiation. Essentially, the view from the NGOs sector is that whilst it is possible to access project funding from donors, it is difficult if not impossible to obtain funding for core administration costs such as salaries, the cost of renting a building, vehicles for project use and so forth. The end of project funding all too often means beneficial impacts that should have been sustained are lost.

The role of NGOs as important determinant of giving and pro-social behavior is undisputed. The antecedent qualities of religiosity to foster and harness pro-social and giving behavior are well documented, and a full exposition of this work is beyond the scope of this study. Indeed, the concept of charity and the development of pro-social behavior is a common denominator in global faiths, and therefore religion and charity are often perceived to go hand in hand.

Each global religion has its own unique tradition of giving, but all places a strong emphasis on nurturing altruistic ties with charity, and the heart of faith-based giving is often a sense of selflessness, sacrifice and an afterlife in which deeds are accounted for. Indeed, receiving a return on charity in the afterlife is a powerful driver of religious giving motivations. Christiano (2000) and Brooks (2003) assert that religious establishments have been instrumental in shaping the nature, character and quality of social capital. This is because

religious institutions encourage a sense of duty and obligation to maintain and sustain relationships with the needy and the poor (Brooks, 2003). However, Brooks (2004) also highlights the heterogeneity of religious sentiment in giving behavior and offers several explanations for understanding religiosity's effects on charitable giving.

Seeking demonstrable utility or simply wanting to help those in need and seeing a positive change as a result in the recipient's condition (Sargeant et al., 2006) is considered to be a key motive in religious giving and indeed in explaining general giving behavior (Brooks, 2003). Alternatively, a self-serving principle guiding religious giving, where religious givers seek to enhance the faith condition of the recipient, has also been proposed. Also, a religiously induced altruistic personality may develop into habitual giving behavior. Brooks (2004) argues that no real consensus in understanding religiosity's effects has been reached and the mere search for a feeling of self-fulfillment through what refers to as warm glow is rather simplistic. Notably, faith-based giving attracts a substantial ratio of overall individual giving in many countries.

2.3.4 Participation in Income Generating Activities

Nongovernmental organizations experience difficulty in finding sufficient, appropriate and continuous funding for their work (Jacobsen, 2005). They find accessing donors as challenging as dealing with their funding conditions. They perceive there to be certain cartels of individuals and nongovernmental organizations 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.

Local Resource Mobilization provides potential for nongovernmental organizations to raise funds from local businesses, individuals, government and locally generated income (Edwards et al., 1995). To do this nongovernmental organizations must have strong governance and accountability mechanisms, clear strategies and local credibility. There is a

high dependency of donors and a tendency to shift interventions to match donor priorities. There is a lack of financial, project and organizational sustainability. Nongovernmental organizations must be concerned with three aspects of sustainability: enduring impact, the continuity of resources, and the viability of the organization.

Sustainability within each category requires insightful agility; overall sustainability depends on creating a virtuous spiral 'linking the three categories in a positively reinforcing way (Viswanath, 2000). The conference noted that there is often a wide gap between what nongovernmental organizations say, what NGOs do, and how people perceive nongovernmental organizations. Despite all the rhetoric about participatory development and building stronger civil society, very often nongovernmental organizations tend to ignore actively communicating with and listening to their local constituency.

Business activities generate income for nongovernmental organizations through "rent" on factors of production, and the skilful combination of these factors in "income generation programmes". The very idea of dabbling in business speculation and risk taking with an eye on profit making appears to be anathema to nongovernmental organizations (PRUS, 2001). Many simply do not have the skills to do any kind of business that's why they are there in the nongovernmental organization sector, anyway. It is clear that many NGOs are working in areas where both markets and government policy have failed. The works of such NGOs need to be supported with public funds, whether they are from international donors, government sources, or an as yet unlikely source - the public or various "publics". The time has come for the NGO community to consider going to the or publics to raise funding for their work. If NGOs are to concentrate on what they can do best social work, then Marketing and Fundraising become boundary management activities, which are of utmost importance, and yet should not demand too much time from NGO leaders, who very frequently may not have the best skills and attitudes for such work (CRDA, 2001).

NGOs with excess assets can use them to generate income which may be used as the NGO determines. They consider renting buildings, providing consultancy, offering training, trading on their name or with locally made products. Killick (2001) pointed out that the participatory element embodied in the development strategy of NGOs might not always enhance the economic benefit of women beneficiaries of an economic development program. It requires the accountability of an organization towards their members to increase the economic benefit. Killick (2001) emphasized that higher member accountability of an organization brings larger socio-economic benefit to their beneficiaries. Communities have assets, wisdom, labor, time, and skills to be applied to their own development programmes.

Income generating programs (IGPs) are intended to enable NGOs to attain self-sufficiency by providing economic inputs and activities like agriculture, service provision (e.g. food vending, charcoal making) or trade (Norton et al., 2001). The idea behind self-sufficiency or self-reliance is that most NGOs are able to support themselves and should not be forced to depend on assistance while awaiting their return. Governments therefore allow NGOs to pursue income generating activities. In a few cases, IGPs are linked to a policy of local integration, where NGOs are helped to pursue their livelihoods as part of the host community.

2.4 Conceptual Framework

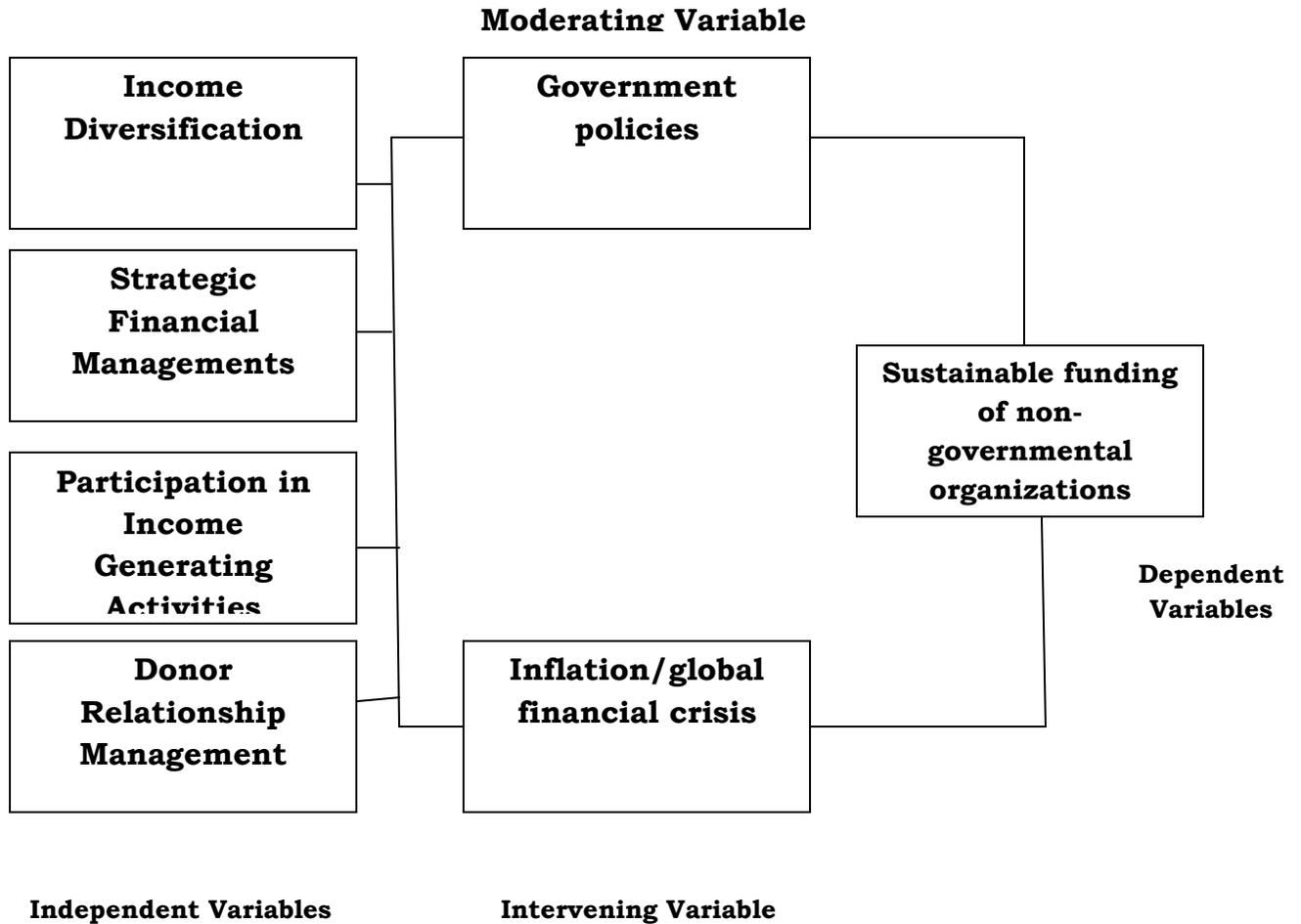


Figure 1: Conceptual Framework

The conceptual model indicates that, attainment of Financial Sustainability in NGOs would require Strategic Planning analysis and Competitive Position/Strength Analysis to provide a basis for fostering strategic financial management. This would promote orientation of the organizations towards adaptation of Strategic and Financial Planning and Sound Management of Resources/Costs. At the same time, the need for change adaptation arises in terms of: Own Income Generation; Income Diversification, and; Management of Donor Relationship. It is anticipated in this study that the foregoing factors will minimize challenges associated with the dependency syndrome in the wake of

reduced donor support and subsequently promote financial sustainability of the NGOs. It can, thus, be argued that Financial Sustainability (FS) of NGOs depends on: Strategic Financial Management (SFM), Own Income Generation (IG), Income Diversification (ID) and Management of Donor Relationship (MDR).

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter sets out various stages and phases that were followed in completing the study. It involves a blueprint for the collection, measurement and analysis of data. Moreover, the chapter reveals an overall scheme, plan or structure conceived to aid the researcher in answering the already raised research questions. In this stage, most decisions about how research was executed and how respondents were approached, as well as when, where and how the research was completed is discussed. Therefore, in general this part of the study describes the research design and methodology that were used to guide the study under the following sub-headings: the research design, target population, sample and sampling design, sample frame, reason for the sampling, data collection instruments, data collection procedures, and data analysis procedures.

3.2 Research Design

A research design is the plan and structure of investigation conceived so as to obtain answers to research questions or test the research hypotheses. The plan represents the overall strategy used in collecting and analyzing data in order to answer the research questions. A research design summarizes the essentials activity and time based plan; always based on the research question; guides the selection of sources and types of information; a framework for specifying the relationship among the study variables and outlines the procedures for every research activity.

In this study, exploratory research design was used. The exploratory research design using case study method is primarily used in qualitative studies to provide the overall strategy for collecting and analyzing in-depth textual data in order to gain adequate understanding of the problem from the perspectives of the research participants (Hubermann 2002).

3.3 Target Population

Target population is the specific population about which information is desired. According to Ngechu (2004), a population is a well defined or set of people, services, elements, events, group of things or households that are being investigated. Mugenda and Mugenda, (1999), explain that the target population should have some observable characteristics, to which the researcher intends to generalize the results of the study. The target population included in this study was the management teams of Action for Development who were working in the organization during this study and comprises the top level managers, middle level managers and lower level managers.

Table 3.1: Target Population

Target population	Frequency	Percentage
Top Level Managers	3	13.64
Middle Level Managers	12	54.54
Lower Level Managers	7	31.82
Total	22	100

Table 3.1 above clearly reveals that there were 22 managers who are found at different managerial levels in the organization and a sample of 13 managers were selected from the total of 22 target population and the sample size comprises 59% percent of the population. Since the sample size is greater than 50% and it is reliable to generalize the research findings. Babbie (2002) posited that any response of 50% and above is adequate for analysis.

3.4 Sampling Procedure and Sample Size

Ngechu (2004) underscores the importance of selecting a representative sample through making a sampling frame. From the population frame the required number of subjects, respondents, elements or firms was selected in order to make a sample. The sampling frame for any probability sample is a complete list of all the cases in the population from which a sample is drawn (Saunders et al., 2007). A sample is a smaller and more accessible sub set of the population that adequately represents the overall group, thus enabling one to give an accurate picture of the population as a whole, with respect to the particular aspects of interests of the study. Sample of responded management team was drawn from 22 target possible respondents. Accordingly, a total of 13 questionnaires were distributed to the management team and all 13 questionnaires were properly filled and returned back.

From the population frame the required number of subjects, respondents, was selected in order to make a sample. For this study stratified proportionate random sampling technique was used to select the sample. According to Oso (2009), stratified proportionate random sampling technique produce estimates of overall population parameters with greater precision and ensures a more representative sample is derived from a relatively homogeneous population.

The study grouped the population into three strata i.e. top, middle and lower level managers. From each stratum the study used simple random sampling to select 13 respondents. Stratified random sampling technique was used since population of interest is not homogeneous and could be subdivided into groups or strata to obtain a representative sample.

3.5 Reason for the Sampling

Empirically supported generalizations are usually based on partial information. This has been supported by Frankfort et al., (1996), who said that it is often impossible or extremely expensive to collect data from all the potential units of analysis covered by a research. Frankfort et al., (1996) maintain that the researcher can draw precise inferences on all units based on relatively small units when the units accurately represent the relevant attributes of the whole unit.

3.6 Sample Frame

The sample frame of this study was the list of all sample units in the population. In particular the study sample frame was constituted all staffs working at managerial position during this study at head office level and branch offices. Accordingly, there were 22 staffs who were working at managerial (top, middle and lower) position in the organization during this study. The study was group the population into three strata i.e. top, middle and low level managers. From each stratum the study was used simple random sampling to select a total of 13 respondents in the ratio of 2: 7: 4 respectively. The selection was carried out as follows:

Table3. 2: Sampling Frame and Sample Size

Target population	Frequency	Population Proportion to Size	Sample Size
Top Level Managers	3	0.6	2
Middle Level Managers	12	0.6	7
Lower level Managers	7	0.6	4
Total	22	0.6	13

3.7 Data Collection Methods and Procedures

In order to achieve the research objectives, primary data was collected through questionnaires and specifically questionnaires was designed and distributed to the management team of Action for Development. The questionnaires were used because they are straightforward and less time consuming for both the researcher and the participants (Owens, 2002). The Questionnaires had a number of sub-sections that are sub-divided based on the major research questions except the first sub-section (section A) that is meant to capture the background information of the participants like gender, marital status, age, working experience, level of education and historical formation of the organization. Other sections cover the main areas of the study. The questionnaire was includes both the close and open ended questions. Questionnaires are appropriate for studies since they collect information that is not directly observable as it is inquire about feelings, motivations, attitudes, accomplishments as well as experiences of individuals (Borg and Gall, 1996).

In order to obtain secondary data the researcher was examined various publications, different journals, articles related to the subject under study, other online materials, the kind of document (government or institution document) that expected to make the paper full and its author, dates, title, edition, where written and other relevant information with regard to secondary source of data has disclosed at the appendix part of this paper. The researcher also dealt with the financial records of the AFD to establish financial sustainability issues over the last 5 years and any other document that may contribute to answering the research objectives.

3.8 Piloting (Instrument Validation)

Before get on fieldwork, a pilot study was carried out to pre-test the instruments. This was done in order to assess the clarity of items, validity and reliability of the instruments (Mulusa 1988). It is after the pilot testing that the main survey was followed.

3.8.1 Validity of the Research Instrument

To ascertain the validity of questionnaire, a pilot test was carried out. This was done by administering the questionnaire onto the pilot group. The content validity of the research instrument was evaluated through the actual administration of the pilot group. In validating the instruments, 4 management team members were selected. The population units used in the pilot study was not included in the final sample. The study used both face and content validity to ascertain the validity of the questionnaires. Face validity is actually validity at face value. As a check on face validity, test/survey items was sent to the pilot group to obtain suggestions for modification. Content validity is concerned with sample-population representativeness i.e. the knowledge and skills covered by the test items should be representative to the larger domain of knowledge and skills.

The instruments were administered by the researcher after which a discussion was made to determine the suitability, clarity and relevance of the instruments for the final study. Ambiguous and inadequate items were revised in order to elicit the required information and to improve the quality of the instruments. Furthermore, to enhance the validity of the instruments, my advisor (university lecturer) who is an expert in the area of financial management was asked to appraise the instruments.

3.9 Data Analysis

The data collected from both primary and secondary sources was collated, synthesized and analyzed using both qualitative and quantitative analytical techniques to draw valid conclusions and inferences. Tables, figure, frequencies and percentages were used in the case of the quantitative technique, while a description was used in the case of the qualitative analysis.

3.10 Summary

Chapter three describes the nature of the study as exploratory in order to enable the researcher to learn more about the problem. The study chapter also refers to the population of interest. Data collection method was through questionnaires and secondary data sources being in the library and the different organizations internal data. A pilot study was conducted and the data was analyzed using description and presented in tables, figures, frequencies and percentages.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION OF FINDINGS

4.1 Introduction

This chapter presents analysis and interpretation of findings from data that were secured from the management team of Action for Development. The data was obtained through questionnaires. To obtain more dependable information, diversified groups of respondents such as top level managers, middle level managers and lower level managers who were working at head office and district offices were involved to give information for the study.

Furthermore, document analyses were also conducted to secure additional data. The data gathered through questionnaires and from relevant documents were analyzed and interpreted.

A total of 13 copies of questionnaires were distributed to be filled out and returned to the researcher. All the questionnaires distributed to respondents at head office were completed and returned. Then the data obtained from all the above-mentioned sources were organized, presented in tables, analyzed and interpreted.

The purpose of the study was to analyze factors that influence sustainable funding in local NGO's in Ethiopia with specific reference to Action For Development in Addis Ababa. The researcher used table, figure, frequency and percentage to present data. Finally, responses of the management teams are summarized in the following consecutive tables under different sub heading. To make the paper interesting and to install an overall concept about the subject under study in the minds of the reader(s), the researcher has approached the analysis with brief description of each research question setting as a sub heading.

4.1.1 Response Rate

The researcher targeted a sample of 13 management teams from Action for Development and all of them were responded. This represented a 100% response rate as table 4.1.1 below clearly revealed. It is a reliable response rate for data analysis as Babbie (2002) posited that any response of 50% and above is adequate for analysis. Moreover, it is possible to generalize that as the response rate indicates all of the respondents were happy towards the study and its findings.

Table 4.1.1: Response Rate

Number	Respondents category	Frequency	Percentage
1	Responded	13	100
2	Did not respond	0	0
Total		13	100

4.1.2 Reliability Test

A pilot study was carried out to determine reliability of the questionnaires as discussed in details in chapter three page six. The pilot study was involved 4 respondents from the target population to ascertain the validity of questionnaire and the population units used in the pilot study was not included in the final study sample.

4.2 Demographic Information

As part of the general information, the researcher requested the respondents to indicate their gender, age bracket, education level and working experience. This background information assumed as it helped the researcher in generalizing whether the organization structure filled with the required qualification and experience. Moreover, the background information helped the researcher in generalizing whether the existing management teams were capable of in responding to the research questionnaires.

4.2.1 Gender Composition

Few issues initiate more debates, misconceptions, and unsupported opinions than whether women perform as well on jobs as men do. The evidence suggests to recognition that there are few, if any, important differences between men and women that will affect their job performance. According to Robbins (2010) there are, for instance, no consistent male female differences in problem solving ability, analytical skills, competitive drive, motivation, sociability, or learning ability. Psychological studies have found that women are more willing to conform to authority and those men are more aggressive and more likely than women to have expectations of success, but those differences are minor.

Up to the finalization of this study and to the level of the researcher knowledge there was no a research findings that discloses consistent difference between men and women with regard to job performance. In reality there are jobs where women best fits than men and vice versa. Table 4.2.1, below also summarizes gender composition of AFD.

Table 4.2.1: Gender of the respondents

Number	Gender	Frequency	Percentage
1	Female	0	0
2	Male	13	100
Total		13	100

Table 4.2.1 depicts the gender distribution of the respondents. Although there were no consistent differences between the two genders in job performance, on the gender of the respondents, the study found that 100% of the respondents were male. This shows that all of the managers in the organization were male and share of female manager in the organization was zero.

4.2.2 Age Characteristics

There is a widespread belief that job performance declines with increasing of age. Regardless of whether it's true or not, a lot of people believe it and act on it. Robbins (2010) a number of positive qualities that older workers bring to their jobs: specifically, experience, judgment, a strong work ethic, and commitment to quality. But older workers are also perceived as lacking flexibility and as being resistant to new technology. On the other hand young workers are flexible and accept new technology fast.

Till the finalization of this study there was no study that revealed older workers are better than young workers and vice versa, except recognizing the existing differences between the two.

Table 4.2.2: Age distribution of the respondents

Number	Age	Frequency	Percentage
1	Under 24 years	0	0
2	25-30	1	7.69
3	31-34	2	15.38
4	35-40	5	38.47
5	41-44	1	7.69
6	45-50	1	7.69
7	Over 51	3	23.08
Total		13	100

As can be seen from Table 4.2.2, the age characteristics of respondents of AFD were distributed across alternatives given, i.e. 25-30 years (7.69%), 31-34 years (15.38%) 35-40 years (38.47%), 41-44 years (7.69%), 45-50 years (7.69%) and more than 51 years (23%). From this one can possibly infer that, majority of the respondents (about 38.47%) were aged between 35 - 40 years. Accordingly, it possible to deduce that majority of the managers was found at middle age and they were at the age of productivity in Ethiopian reality.

4.2.3 Educational Qualification

It is obvious that academic qualification and composition have clearly determines the success and failure of an organization given other factors remain insignificant. Given this fact, if we take the Ethiopian case there are situations that requires minimum educational qualification and composition to license an individual or an organization that wants to engage in certain economic activities/business venture. Above all in reality there are certain activities in an organization or even at a country level that demands high level of academic qualification and experience. In general professionalization is relevant at all levels, including human resources management, knowledge transfer activities, research administration, financial management, etc. Here below the educational level of Action for Development is presented.

Table 4.2.3: Highest education level

Number	Education	Frequency	Percentage
1	Certificate	0	0
2	Diploma	0	0
3	Bachelors' degree	10	76.92
4	Masters' degree	3	23.08
5	PhD degree	0	0
6	Others	0	0
Total		13	100

Table 4.2.3; above clearly prove that majority (76.92%) of the respondents from AFD were degree holders. The rest (23.08%) were masters' degree holders. Accordingly, there were only two groups with bachelor' degree and master degree holders. Bachelor' degree holders were 10 and 3 masters' degree holders. From this it is possible to deduce that the respondents are well informed and can give relevant information on the subject matter of the study.

4.2.4 Work Experience

Basically, respondents service year in an organization were essential requirements to the researcher to obtain relevant information. In other words long years of respondents service in an organization helps them to know more about the organization and able them to provide relevant information to the researcher.

Table 4.2.4: Working Experience in the Organization

Number	Service year	Frequency	Percentage
1	1-2	1	7.70
2	3-4	2	15.40
3	5 years and above	10	76.90
Total		13	100

The study also sought to determine how long the respondents had been working with the organization. According to the findings, 7.7% of the respondents reported that they had been working with their organization for 1-2 years, 15.4% indicated between 3 and 4 years; while 76.9% indicated they had been working with their organization for 5 years and above. These findings clearly shows that majority (76.90%) of the respondents had been working with the organization for long enough to understand their operations and provide relevant information. Moreover, it seems that majority of the managers were better experienced and thought to have good judgmental ability.

4.3. Strategic Financial Management

Strategic financial management involves planning, organizing, controlling and reporting on the financial resources of an organization to achieve organizational goals (David, 1989). Strategic financial management has been used to imply a deliberate and integrated set of actions or strategies aimed at increasing the long term well being and strengths of an Organization relative to its competitors financially.

As part of the strategic financial management, the researcher requested the respondents extent they did measure the financial sustainability of the NGO's using the following possibly selected indicator.

Table 4.3.1: Trend of sustainability measure in general for the last five years (2008-2012)

Statement	Greatly improving	Improving	Stable	Deteriorating	Greatly deteriorating	Total
Cash flow	3	8	1	1	0	13
Cost recovery	0	1	7	4	1	13
Unrestricted income	0	1	3	7	2	13

The term sustainability has been used in the study to mean the ability of a NGO to secure and manage enough resources, human and financial to fulfill its mission effectively in the long term. As can be seen from the table 4.3.1, the management team was provided with three statements related to or thought to be factors that affect financial sustainability of the organization. Identifying factors that could negatively influence sustainability of funds are important to find solutions in order to the life of the NGO's.

Key findings may be summarized as follows:

Financial statements may be used by users for different purposes: Owners and managers require financial statements to make important business decisions that affect its continued operations. Financial analysis is then performed on these statements to provide management with a more detailed understanding of the figures. According to the findings that revealed in table 4.3.1, majority (61.54%) of the respondents reported that use of cash flow statements to measure sustainability was improving. This shows that a good number of the respondents considered cash flow statements play an important role in measuring the financial sustainability of the organization.

Cost-recovery refers to a strategy whereby the beneficiaries of the program pay part, and sometimes all costs. On the other hand unrestricted income refers to source of income where the provider does not limit the purpose for which the resources expended. From the findings unrestricted income and cost recovery rate were deteriorating as shown by a percentage of (53.85%) and (30.77%) respectively. This implies that in the past five years the organization were not charged the beneficiaries part or total cost of services and there were no funds which did not free from donor(s) restrictions for which it disbursed.

Generally, the study findings revealed that the organization use of cash flow was improving while unrestricted income source and cost recovery rate were deteriorating.

Table 4.3.2: Extent to which strategic financial management affects the financial sustainability of the NGO's

Number	Extent of Measure	Frequency	Percentage
1	Very great extent	6	46.2
2	Great extent	4	30.8
3	Moderate extent	2	15.4
4	Little extent	0	0
5	Not at all	1	7.7
Total		13	100

The researcher also requested the respondents to indicate the extent to which strategic financial management affect the financial sustainability of the NGO's. According to the findings pointed out in table 4.3.2; 46.2% of the respondents reported that strategic financial management affect the financial sustainability of the NGO's to a very great extent, 30.8% said to great extent while those who said to a moderate extent and not at all were shown by a 15.4% and 7.7% respectively.

Generally, as the majority (46.2%) of respondent's rate of response proved strategic financial management affects financial sustainability of the organization to a very great extent. David (1989) sets that strategic financial management has been used to imply a deliberate and integrated set of actions or strategies aimed at increasing the long term well being and strengths of an Organization relative to its competitors financially. Thus, the management team of AFD who were on the managerial position during the study was well aware of the importance of strategic financial managements.

Table 4.3.3: Extent that aspects of strategic financial management affect the financial sustainability of the NGO's

Statement	Very great extent	Great extent	Moderate extent	Little extent	Not at all	Total
Financial management	8	3	1	1	0	13
Strategic planning	7	4	1	1	0	13
Financial analysis	7	4	2	0	0	13
Budget preparation	9	3	1	0	0	13
Plan implementation	6	4	2	1	0	13

Basing question discussed under table 4.3.2, the respondents were provided with five statements with the objective of obtaining information on the extent that aspects of strategic financial management affect the financial sustainability of the organization.

Summary of the findings

From the findings, majority of the respondents felt that the aspects of strategic financial management affect the financial sustainability of the NGO's to a very great extent include budget preparation, financial management, strategic planning, financial analysis and Plan implementation as shown by percentage of 69.23%, 61.54%, 53.85%, 53.85% and 46.15% respectively.

Moreover, as clearly discussed on the importance of strategic financial management under table 4.3.2, majority of the respondents were reported strategic financial management affects financial sustainability to a very great extent. Generally the study results discussed under table 4.3.2 and table 4.3.3 above proved that consistency of the respondents in addressing the research questionnaires.

4.4 Income Diversification

Diversification of funding sources is essential to increase the stability of nongovernmental organizations income streams. As a response to the economic crisis, tapping international funding streams might be more important than ever (Kurosaki, 2003). In particular, funding from international governments and their respective bilateral aid agencies has provided excellent opportunities for the NGOs. With the funding challenge most nongovernmental organizations have responded with the same entrepreneurial spirit, good planning and hard work that brought them success in their core activities (Barrett et al., 2000).

They have expanded fund-raising activities directed at the general public, tapped new corporate donors for monetary and in-kind support, and held one-time events. And today we even see nongovernmental organizations owning and managing restaurants, clinics and other businesses. For many nongovernmental organizations, social enterprise serves as a strategy to diversify their funding base, decrease reliance on donors, and recover or subsidize program costs. Diversification should begin with a strategic analysis of the status quo, the institutional strengths, specificities and opportunities, as well as a scan of the competitive environment. Pre-existing additional income streams should be included in the overall evaluation (Lavie, 2006). Apart from undertaking an appropriate analysis of cost effectiveness and risk of various activities, institutions need to assess the appropriateness of these activities in relation to the nongovernmental organization mission and culture.

Owing to this, the study sought to establish the importance of various drivers for income diversification in the organization and also the effectiveness of various income diversification strategies in enhancing financial sustainability in the organization.

Table 4.4.1: Importance of various drivers for income diversification in the organization

Statements	Very important	Important	Moderately important	Less important	Unimportant	Total
Risk management	7	3	1	2	0	13
Mitigation of negative consequences of a sudden drop in income	7	2	3	1	0	13
Fueling further growth of the NGO's activities	5	4	2	1	1	13
Reducing the danger that a withdrawal of funding forces the organization to close down	6	2	1	3	1	13
Increasing the long term reliability of the income stream	6	3	2	1	1	13
Being able to decide how to generate and spend financial resources without restrictions	5	3	3	0	2	13
Being able to fund projects according to your priorities	6	3	2	1	1	13
Being able to say no to some sources of income because they do not fit in the organization's values	7	1	3	2	0	13

Table 4.4.1, shows that the management teams were provided with eight statements on the importance of various drivers for income diversification and the researcher tried to find out the most important factors that improve the financial sustainability of the organization.

Key findings may be summarized as follows:

On the importance of various drivers for income diversification in the organization, majority of the respondents indicated that the drivers for income diversification that were very important include risk management, mitigation of negative consequences of sudden drop in income and being able to say no to some sources of income because they do not fit in the organization's values as shown by a response rate of (53.85%). This shows that of the total respondents 7(53.85%) of them were responded on the importance of various drivers for income diversification in the organization and considered income diversification advantages of the organization in terms of risk minimization, mitigation of negative consequences of sudden drop in income and being able to say no to some sources of income because they do not fit in the organization's values.

Other drivers that were also rated as the second very important include reducing the danger that a withdrawal of funding forces the organization to close down, increasing the long term reliability of the income stream and being able to fund projects according to your priorities as shown by 46.15% percent.

Finally, on the importance of the rest various drivers for income diversification in the organization, the respondents indicated that the drivers for income diversification that were very important include fueling further growth of the NGO's activities and being able to decide how to generate and spend financial resources without restrictions as shown by 38.46% percent.

Generally, the majority of respondent's response rate were proved that the importance of various drivers for income diversification in the organization, were very important except response rate variation to the various drivers.

Table 4.4.2: Effectiveness of various income diversification strategies in enhancing financial sustainability in the organization

Statements	Very great extent	Great extent	Moderate extent	Little extent	Not at all	Total
Social entrepreneurship	3	0	6	1	3	13
Fundraising and development plan	6	3	1	3	0	13
Tapping international funding stream	8	2	2	1	0	13
Corporate donors sourcing	6	2	4	0	1	13
Owning and managing businesses	3	1	3	0	6	13

The management teams were provided with a battery of five statements and asked to respond on the effectiveness of various income diversification strategies in enhancing financial sustainability in the organization.

The findings can be summarized as under:

Tables 4.4.2 revealed 61.54% of the respondents were reported that tapping to international funding streams is an effective strategy to a very great extent in maintaining financial sustainability. This shows that as a response to the economic crisis, tapping international funding streams might be more important than ever. In particular, funding from international governments and their respective bilateral aid agencies has provided excellent opportunities for the NGOs.

Corporate donors sourcing and fundraising and development plan strategies for income diversification in an organization were also enhances financial sustainability in the organization to a very great extent as shown by 46.15% percent response rate. This shows that expanded fund-raising activities directed at the general public, tapped new corporate donors for monetary and in-kind support enhances the financial sustainability of the organization.

Social entrepreneurship strategies for income diversification were enhances financial sustainability in the organization to a moderate extent as shown by a response rate of 46.15% while owning and managing businesses strategies for income diversification were not at all enhances financial sustainability in the organization as shown by a response rate of 46.15% percent.

4.5 Donor Relationship Management

Donor Relationship Management is not just a tool to collect data from donors; it is a holistic strategy, a methodology of collecting, organizing and analyzing every aspect of your donors. Burnett (2002) recognized the need for what he termed relationship fundraising – dealing with donors individually, recognizing each donor as unique in terms of giving history, motivation for giving, and the overall standard of care expected from the charities being supported. The entire relationship with a donor, he argued, should be viewed holistically and fundraising decisions taken in light of the perceived value of the overall relationship. Recognizing the benefit of a future income stream, NGOs are not afraid to invest in their donors and allow them greater flexibility over the content, nature, and frequency of the communications they receive.

The study further sought to find out how donor relationship management affects the financial sustainability of the organization.

Table 4.5.1: Extent that donor relationship management affects the financial sustainability of the organization

Number	Scale of measurement	Frequency	Percentage
1	Very great extent	12	92.31
2	Great extent	0	0
3	Moderate extent	1	7.69
4	Little extent	0	0
5	Not at all	0	0
Total		13	100

The researcher also requested the respondents to indicate the extent that donor relationship management affects the financial sustainability of the organization. According to the findings, 92.31% of the respondents reported that donor relationship management affects the financial sustainability of the organizations to a very great extent while 7.69% of the respondents said donor relationship management affects the financial sustainability of the organizations to a moderate extent.

Table 4.5.2: Extent that various aspects of donor relationship management affect financial sustainability of NGO's

Statements	Very great extent	Great extent	Moderate extent	Little extent	Not at all	Total
Enhanced meaningful communications	6	4	3	0	0	13
Use information management	4	6	3	0	0	13
Providing accountability	10	3		0	0	13
Implementing a comprehensive recognition program	12	0	1	0	0	13

Management teams were provided with four statements that are considered to be factors that affect financial sustainability of NGO with respect to donor relationship management.

Responses of the management teams can be summarized as under:

From the results in table 4.5.2, the majority of respondents indicated that the aspects of donor relationship management affect financial sustainability of NGO's to a very great extent include use of implementing a comprehensive recognition program, providing accountability and enhanced meaningful communications as shown by percentage of 92.31%, 76.92% and 41.15% respectively while use of information management a moderate extent as shown by a percentage of 41.15%.

4.6 Participation in Income Generating Activities

Nongovernmental organizations experience difficulty in finding sufficient, appropriate and continuous funding for their work (Jacobsen, 2005). They find accessing donors as challenging as dealing with their funding conditions. They perceive there to be certain cartels of individuals and nongovernmental organizations 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.

Local Resource Mobilization provides potential for Nongovernmental organizations to raise funds from local businesses, individuals, government and locally generated income (Edwards and David, 1995). To do this nongovernmental organizations must have strong governance and accountability mechanisms, clear strategies and local credibility.

Owing to this respondents were also requested to indicate the extent that participation in income generating activities affects the financial sustainability of the organization.

Table 4.6.1: Extent that participation in income generating activities affect the financial sustainability of the organization

Number	Scale of measurement	Frequency	Percentage
1	Very great extent	7	54.00
2	Great extent	3	23.00
3	Moderate extent	2	15.00
4	Little extent	1	8.00
5	Not at all	0	
Total		13	100

According to the finding, majority of the respondents (54%) indicated that participation in income generating activities affect the financial sustainability of the organization to a very great extent, 23% said to a great extent while those who said to a moderate extent and not at all were shown by 8% and 0% percent respectively.

Table 4.6.2: Influence of participation in income generating activities on financial sustainability of NGO

Statements	Very great extent	Great extent	Moderate extent	Little extent	Not at all	Total
Unrestricted income generating activities	7	2	2	1	1	13
Business activities	8	1	1	1	2	13
Public contributions	7	2	3	0	1	13
Trust or endowment fund	6	1	2	3	1	13
Corporate alliances	7	3	2	0	1	13

The study further sought to establish the influence of participation in income generating activities on financial sustainability of NGO. From the study findings, majority of the respondents said that business activities, unrestricted income generating activities, public contributions, corporate alliances and trust or endowment fund affect the financial sustainability of NGO to a very great extent as shown by 61.54%, 53.85%, 53.85%, 53.85% and 46.15% respectively.

CHAPTER FIVE

DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presented the discussion of key data findings, conclusion drawn from the findings highlighted and recommendation made there to. The conclusions and recommendations drawn were focused on addressing the purpose of this study which was to analyze the factors that influence sustainable funding in NGO's in Ethiopia with specific reference to Action For Development (AFD) in Addis Ababa. From the data collected and analyzed, the following discussions, conclusions and recommendations were made.

5.2 Summary

5.2.1 Strategic Financial Management

The study deduced that strategic financial management affects the financial sustainability of the NGO to a very great extent. The aspects of strategic financial management affect the financial sustainability of the NGO to a very great extent include budget preparation, financial management, strategic planning, and financial analysis and plan implementation. This is in agreement with Waddell (2000) that financial management practices requirements can impose a significant burden on NGOs. Good financial management requires sound organizational planning and the set-up and implementation of workable systems, policies and procedures which can respond to, accommodate and overcome the financial challenges a nongovernmental organization may face. Ebrahim (2005) also found that establishment of trust funds which gather financial resources together on either an individual NGO or collective model. Investing those resources provides long-term income from interest or a combination of interest and principal.

5.2.2 Income Diversification

On income diversification, the study found that the drivers for income diversification that were very important include risk management, mitigation of negative consequences of sudden drop in income and being able to say no to some sources of income because they do not fit in the organization's values.

Other drivers that were also rated as the second very important include reducing the danger that a withdrawal of funding forces the organization to close down, increasing the long term reliability of the income stream and being able to fund projects according to your priorities.

Finally, on the importance of the rest various drivers for income diversification in the organization, the respondents indicated that the drivers for income diversification that were very important include fueling further growth of the NGO's activities and being able to decide how to generate and spend financial resources without restrictions. This is in line with Kurosaki (2003) that diversification of funding sources is essential to increase the stability of nongovernmental organizations income streams. As a response to the economic crisis, tapping international funding streams might be more important than ever. In particular, funding from international governments and their respective bilateral aid agencies has provided excellent opportunities for the NGOs.

It was clear that the income diversification strategies enhancing financial sustainability at the organization to a very great extent include tapping international funding streams, corporate donors sourcing, and fundraising and development plan. This agrees with Barrett et al., (2000) that with the funding challenge most nongovernmental organizations have responded with the same entrepreneurial spirit, good planning and hard work that brought them success in their core activities. They have expanded fund-raising activities directed at the general public, tapped new corporate donors for monetary and in-kind support, and held one-time events.

5.2.3 Donor Relationship Management

The study further found that donor relationship management affects the financial sustainability of the organizations to a very great extent. This agrees with Burnett (2002) who recognized the need for what he termed relationship fundraising dealing with donors individually, recognizing each donor as unique in terms of giving history, motivation for giving, and the overall standard of care expected from the charities being supported.

The aspects of donor relationship management affect financial sustainability of NGOs to a very great extent include implementing a comprehensive recognition program, providing accountability and enhanced meaningful communications. This agrees with Plummer (2009) that donors should be able to choose when communication is initiated and the form that it might take. According to him, it seems that one way in which NGOs might achieve this goal is to ensure that they give ongoing and specific feedback to donors as to how their funds have been put to use, in particular the benefit that has resulted for the beneficiary group. If this feeling of impact on the cause is not strengthened, it seems less likely that donors will view other causes as being more deserving than those they already support. Further, Matten and Moon (2008) observes that donors viewing the communications they receive as informative, courteous, timely, appealing, and convenient appear to remain loyal for a greater period of time. The issue then becomes how best to achieve this perception.

5.2.4 Participation in Income Generating Activities

The study also deduced that participation in income generating activities affect the financial sustainability of the organization to a very great extent. It is clear that business activities, corporate alliances, unrestricted income generating and trust or endowment fund affect the financial sustainability of NGO to a very great extent. These findings are in line with World Bank (2000) income generation is a key programmatic strategy to address the need to find alternative means to make a living in a dignified way: it aims at creating opportunities for the use of resources among NGOs in a meaningful way and with the objective of becoming less dependent, more self-reliant and able to offer services to the community they serve. Further, according to CRDA (2001) NGOs need to develop more business-like operations, focusing on the most practicable forms of enterprise structure but without losing their priority of seeking to benefit the poor and other disadvantaged groups.

5.3 Conclusion

The study concludes that strategic financial management such as budget preparation, financial management, strategic planning, and financial analysis and plan implementation affects the financial sustainability of the NGOs. The drivers for income diversification that were very important include risk management, mitigation of negative consequences of sudden drop in income and being able to say no to some sources of income because they do not fit in the organization's values.

The study further concludes that the income diversification strategies enhancing financial sustainability at the NGOs to a very great extent include tapping international funding streams, corporate donors sourcing, and fundraising and development plan.

The study also concludes that donor relationship management such as implementing a comprehensive recognition program, providing accountability and enhanced meaningful communications affects the financial sustainability of the NGOs. The study also deduced that business activities, corporate alliances, unrestricted income generating and trust or endowment fund affect the financial sustainability of NGO to a very great extent. The study finally concludes that international donation contribute most to financial sustainability of nongovernmental followed by donor relationship management then income diversification while strategic financial management contributed the least to financial sustainability of nongovernmental organizations.

5.4 Recommendations

From the study findings, it was clear that strategic financial management such as strategic planning, plan implementation and financial analysis affects the financial sustainability of the NGOs. The study therefore recommends that in order to ensure that the NGOs remain sustainable; they should procure employees that are competent in strategic planning, plan implementation and financial analysis that are seen to affect the financial sustainability to a great extent.

The study further recommend that since income diversification strategies enhance financial sustainability at the organizations to a very great extent, the NGO management should increase their income sources from their usual ones. Such ventures could include owning and managing businesses, corporate donors sourcing, tapping international funding streams and fundraising activities.

The study also recommends that since donor relationship management affects the financial sustainability of the organizations, the management should ensure that they maintain a good relationship with the donors mainly by information management, ensuring there is accountability and meaningful communications.

In order to enhance financial sustainability that the study found to influence financial sustainability, the study recommends that the NGOs should participate more in more income generating activities such as corporate alliances, and unrestricted income generating activities that will go a long way in enhancing their sustainability.

5.5 Areas of Further Research

The study recommends that further research should be done on the effect of financial strategies on the financial sustainability of all the nongovernmental organizations in Ethiopia so as to allow for generalization. Further studies should be done on the effect of financial strategies on the financial sustainability of profit making organizations

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APPENDIX
SAINT MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES
MBA PROGRAMME

The series of questions in this questionnaire are designed to obtain organizational responses on how local NGOs maintains sustainable source of funds in Ethiopia using Action for Development as a case.

Please, answer the questions that follow by ticking the appropriate option (if provided) or writing unrestrictedly for open-ended questions. Please answer all questions freely but objectively.

The information is for academic purposes only and will be treated with the strictest confidentiality.

Thank You

Tariku Beyene

MBA (Master of Business Administration Student)

Title of the project:

“Factors Influences Sustainable Funding”

The enormous developmental functions undertaken by local NGOs demand an availability of funds and effective and efficient mobilization of financial resources. With the recognition of the vital role played by local NGOs at grassroots level in the task of providing basic social services including health, education and building organizational structures for development projects as an instrument to meet community needs, local NGOs require more stable and secure funding. However, local NGOs in development sphere continue to lack a stable financial base. As a result many run out of funds after few years of establishment.

To the researcher's knowledge, no local studies had ever focused on the strategic responses adapted by NGO's in Ethiopia to the shorter life-spans. It is in this light that the researcher aims to fill the existing gap by carrying out an investigation into the factors influencing sustainable funding in the NGO's with reference to Action For Development in Ethiopia.

Dear the management team,

This questionnaire is designed to obtain information about financial management, donor relationship management and activities carried out towards maintaining sustainable funding in your organization. I would appreciate it if you could answer the following questions as comprehensively as possible.

Thank you for your assistance and for sparing your precious time.

Section A: Background Information

1. Your gender: Male [] Female []

2. Your age bracket (Tick whichever appropriate)

Below 24 years [] 25 - 30 Years []

31 - 34 years [] 35 - 40 years []

41 - 44 years [] 45 - 50 years []

Over- 51 years []

3. What is your highest education level? (Tick as applicable)

Certificate [] Diploma []

Bachelors' degree [] Masters' degree []

PhD degree [] Others- Specify _____

4. Working Experience in the Organization

1-2 years [] 3-4 years [] 5 years and above []

5. How was the NGO formed? Any history behind its formation?

6. Do you have Board of Directors? Yes [] No []

7. If your answer to question number six above is yes, what are the roles of the Board of Directors?

8. How is the board helping you to maintain sustainable funding?

Very great extent [] Great extent []

Moderate extent [] little extent []

Not at all []

SECTION B: STRATEGIC FINANCIAL MANAGEMENT

9. What is the trend of the following measures of sustainability for your NGO in the last five years?

	Greatly Improving	Improving	Stable/constant	Deteriorating	Greatly Deteriorating
Cash Flow					
Cost Recovery Rate					
Unrestricted Income					

10. To what extent does strategic financial management affect the financial sustainability of your organization?

Very great extent [] Great extent [] Not at all []
 Moderate extent [] Little extent []

11. To what extent do the following affect financial sustainability of your NGO?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Financial management					
Strategic planning					
Financial analysis					
Budget preparation					
Plan implementation					

SECTION C: INCOME DIVERSIFICATION AND FINANCIAL SUSTAINABILITY

12. How important are the following driver for income diversification in your NGO? Use a scale of 1-5 where 1= very important and 5 = unimportant

	1	2	3	4	5
Risk management					
Mitigation of negative consequences of a sudden drop in income					
Fueling further growth of the NGO's activities					
Reducing the danger that a withdrawal of funding forces the organization to close down					
Increasing the long term reliability of the income stream					
Being able to decide how to generate and spend financial resources without restrictions					
Being able to fund projects according to your priorities					
Being able to say no to some sources of income because they do not fit in the organization's values					

13. How effective are the following income diversification strategies in enhancing financial sustainability at your organization? Use a scale of 1-5 where 1 = very effective and 5 = ineffective.

	1	2	3	4	5
Social entrepreneurship					
Fundraising and development plan					
Tapping international funding stream					
Corporate donors sourcing					
Owning and managing businesses					

14. Please rank in total amount received from the following funding sources for the past five years.

	2008	2009	2010	2011	2012
Internal source (within Ethiopia)					
External source (outside Ethiopia)					

15. Based on question number 14 above which of these funding sources are more reliable?

Internal source [] External source []

SECTION D: DONOR RELATIONSHIP MANAGEMENT

16. To what extent does donor relationship management affect the financial sustainability of your organization?

Very great extent [] Great extent []

Moderate extent [] little extent []

Not at all []

17. To what extent do the following affect financial sustainability of your NGO?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Enhanced meaningful communications					
Use information management					
Providing accountability					
Implementing a comprehensive recognition program					

SECTION E: PARTICIPATION IN INCOME GENERATING ACTIVITIES

18. To what extent does participation in income generating activities affect the financial sustainability of your organization?

Very great extent [] Great extent []
 Moderate extent [] little extent []
 Not at all []

19. To what extent do the following affect financial sustainability of your NGO?

	Very great extent	Great extent	Moderate extent	Little extent	Not at all
Unrestricted income generating activities					
Business activities					
Public contributions					
Trust or endowment fund					
Corporate alliances					

20. Please mention any other financing issues and challenges that have not been covered above?

THANK YOU