IOSR Journal of Humanities And Social Science (IOSR-JHSS)
Volume 26, Issue 5, Series 5 (May. 2021) 15-20
e-ISSN: 2279-0837, p-ISSN: 2279-0845.
www.iosrjournals.org

The Influence of Income Diversification on the Financial Sustainability of Donor Dependent NGOs in Nakuru Town West Sub-County, Nakuru County, Kenya

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Abstract:
Background: Non-Governmental Organizations contribute significantly to education, health, social welfare and economic improvement programmes, especially among underprivileged sectors in the society. In order to run their operations, these organizations require financial resources. However, financial sustainability of local NGOs remain a major concern based on the rate at which many fail to sustain their operations in the long term and also the fact that finances are fundamental facets to running an NGO. When considering the organizational management processes of not-for-profit organizations such as Non-Governmental Organizations (NGOs), resource scarcity as an element of financial sustainability stands out as a critical aspect. Resource diversification programs are intended to enable donor dependent NGOs to attain 'self- sufficiency' through providing economic inputs and activities such as agriculture, service provision or trade premised in the narrative that self-reliance ensures that NGOs are able to support themselves and are not forced to depend on donor assistance while awaiting their return. This paper seeks to assess the influence of income diversification on donor-dependent NGOs in Nakuru Town West Sub-County, Nakuru County, Kenya.
Materials and Methods: A cross sectional survey research design was adopted on a sample of 104 respondents. Purposive sampling, proportionate stratified random sampling and simple random sampling procedures were then used and thereafter primary data was collected using self-administered questionnaires.
Results: The relationship between income diversification was significant further agreeing with other research findings that have encouraged income diversification to help organizations sustain themselves and affirming the importance of resources and finances as a critical element to ensuring financial sustainability of NGOs. The influence of income diversification on financial sustainability had a correlation coefficient of 0.334. This implies that there is a positive relationship between the two variables. Additionally, this relationship was significant as the p value was 0.009.
Conclusion: Diversifying sources of income minimizes dependency on any single source thus reducing vulnerability to shifts in funds availability.
Key Words: Donor dependent organizations, Resource diversification, Financial sustainability, donor assistance

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Date of Submission: 30-04-2021 Date of Acceptance: 14-05-2021

I. Introduction

The role of NGOs and civil society in financing sustainable development is important, but it is changing. While domestic resource mobilization and international funding flows are growing very rapidly, they are not equally available to all.[1] Non-Governmental Organizations experience difficulty in finding sufficient, appropriate and continuous funding for their work. They find accessing donors just as challenging as dealing with their funding conditions.[2] Local resource mobilization provides a great potential for NGOs to raise funds from local businesses, individuals, government and locally generated income.[3] Self-sufficiency or self-reliance concept is premised on the thought that most NGOs are able to support themselves and should not be forced to depend on assistance while awaiting their return. Governments, through regulations and set guiding principles therefore allow NGOs to pursue income generating activities to sustain their cause to social, economic and political wellbeing. Income generating programs are intended to enable NGOs to attain 'self- sufficiency' through providing economic inputs and activities such as agriculture, service provision or trade.[4] Income diversification strategies enhancing financial sustainability at the NGOs to a great extent include tapping international funding streams, corporate donors sourcing, fundraising and owning and managing businesses.

Hailey (2014) while studying on the networking and financial sustainability strategy by the Stitching Nederlandse Vrijwiligers Organization revealed that the well-established Dutch International Non-Governmental Organizations have adopted an evolving strategy towards becoming a hybrid social enterprise. In an effort to move away from its dependence on official aid funding, the organization targets to generate income by providing advice and capacity building support.[5] A study by Ahmedali (2012) focused on the factors influencing sustainable funding of NGOs, in particular, Sisters Maternity Home. The findings revealed that donor relationship management such as use of information management systems, providing accountability, enhanced meaningful communications and implementing a comprehensive recognition program affected the financial sustainability of the NGOs.

In analyzing the factors influencing sustainable funding at the Sisters Maternity Home in Garissa, Kenya, the author deduced that participating in income generating activities such as business activities, corporate alliances, trust or endowment fund and unrestricted income generating activities significantly affect the financial sustainability of the organization. Further, own income generation contributed most to financial sustainability of NGOs followed by donor relationship management then income diversification while strategic financial management contributed the least to financial sustainability of Non-Governmental Organizations. The study in Garissa, Kenya further recommend that since income diversification strategies enhanced financial sustainability at the organizations to a 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.

Indeed, one of the strongest pillars to financial sustainability is the availability of such funds to manage and utilize to facilitate their course, without which, all other elements are untenable.[6] Availability of income and financial resources by extension is a very critical determinant to an organization’s ability to sustain its operations in the long term and therefore the impact of the diversification of these sources of income on financial sustainability is key.

II. Material And Methods

This study was conducted using the survey research design. The study adopted a cross-sectional type of survey in Nakuru Town West Sub-County, Nakuru County, Kenya between December 2017 and December 2018. A total of 104 respondents drawn from 14 registered NGOs in the study location were used in this study.

Study Design: Survey research design; cross-sectional survey
Study Location: Nakuru Twon West Sub-County, Nakuru County, Kenya
Study Duration: January 2019 – July 2019
Sample size: 104 members of NGO staff
Sample size calculation: The desired sample size for the study was computed using the formula by Yamane (1973) which provides a simplified approach to calculating sample sizes.[7] The formula is as follows:-

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

Where:
N = 141
e = 0.05

$$n = \frac{141}{1 + 141(0.05)^2}$$

= 104

Where;
n is the sample size
N is the population size
e is the level of precision

Subjects & selection method:

The study applied purposive sampling, simple random sampling and proportionate stratified random sampling procedures to obtain the respondents for the study from an accessible population of 141 members of staff of NGOs registered and operating in Nakuru Town West Sub-County, Nakuru County, Kenya. The organizations under study were purposely selected as NGOs that are donor dependent, registered and operating in Nakuru West Sub-County. Selection of subjects from the population was done using proportionate stratified random sampling technique. In stratified sampling, the members were categorized into different strata’s namely Executive Directors, programme managers and programme officers. Simple random sampling technique was used to pick the respondents from each stratum. This ensured that each individual is given an equal chance of participation in the study and that there was no bias in the selection of individuals to participate.

Table 1: Sample Distribution

Staff Category	Population of Study	Proportion	Working Proportions (104/141)	Sample Size
Executive Directors	14	0.1	0.74	10
Programme Managers	34	0.24	0.74	25
Programme/project officers/social worker	93	0.66	0.74	69
Total	**141**	**1.0**		**104**

Procedure methodology

The researcher used a letter of approval from Egerton University Post Graduate School and Egerton University Research Ethics Committee which then was used to facilitate the acquisition of research permit from the National Commission for Science, Technology and Innovation (NACOSTI). After obtaining the permit, the researcher sought permission from the directors of the 14 purposely selected organizations to conduct the research in their organizations after which questionnaires were then distributed on a day agreed upon by the respective organizations. The questionnaires were self-administered by the respondents and arrangements were made on possible dates of collecting the questionnaires.

Statistical analysis

The raw data from the field was first cleaned then coded before being entered onto the computer for analysis using Statistical Package for Social Sciences (SPSS) version 20. The choice of SPSS in handling and analyzing data was made because it contains all the statistical analysis tools required in the study. The data was then analyzed using descriptive and inferential statistics. Frequency and percentages were used to describe the characteristics of the sample. Pearson's correlation coefficient was also used to test on the influence of the independent variables on the dependent variable. A summary of findings was also further done from conducting a multiple regression analysis which was used to test for the relationship between the independent variables that helped generate recommendations for action. Data analyzed was compiled, grouped and emerging trends described. The data was then recorded, organized and discussed in line with the study objectives. Open ended questions were also summarized and discussions generated to support emerging trends from data analyzed. First a summary of statistics was done to describe the NGO practices and the sustainability patterns in NGOs. The findings were then presented in form of tables, graphs and charts in addition to discussions based on the research objectives.

III. Results

Demographic Characteristics of the Respondents

The minimum academic qualification reported in the study was diploma level of education. The respondents who had this level of education made up 33% of the participants while respondents who had attained a Bachelors degree made up the majority of the respondents with 55%. Those who had attained a postgraduate degree made up 11% of the respondents. Education and training is a vital a component of any human resource development.

The respondents in the study fell into three strata; that is, upper management, middle management and lower levels of management of the organizations. The upper management consists of executive directors (17%) while middle–level management (28%) were programme managers. Lower level management (55%) was made up of programme officers.

Organizational Characteristics

The Non-Governmental Organizations in the study worked in various sectors. These included; peace and security, health, governance and human rights, policy research, land and natural resources, rehabilitation of social groups, children welfare, education as well as youth entrepreneurship training. Of the NGOs sampled, 39% had existed for between 5-9 years. This was followed by those that had existed for between 10-14 years and 15-20 years comprising of 21% and 17% respectively. NGOs that had been in existence for less than four years were only two (3.3%) while those that had been doing their work in the sub-county for more than 20 years made up 14% of the organizations sampled. The mean number of employees in the Non-Governmental Organizations in the study was 16 with a standard deviation of 13.

Analysis

Income from international donors made up 62% of their total income with a standard deviation of 33.922. Organizations sampled in the study were heavily dependent on donor funding based on the income sources over the previous three years. In comparison income sources from national donors and self-generated income had the second and third most averages at 13% and 12.6% respectively. This translates to a mean gap of 48.21% between international donor funding and funding from national sources for the organizations in the study**.** Results also showed that the other income sources had very low averages of the total organizational income. Other international income sources, other local funding and government sources on average made up 10.77%, 5.13% and 3.17% of the organizations' total funding. Income from local corporations had the least average contribution at 1.42%.

Table 2 shows the frequencies of the proportions of income sources the respondents felt their organizations had. International donor funding had the highest frequency for proportion of funding that at least comprised of 26% of the total funding. For organizations that had generated their own income in the previous three years, none comprised of more than 50% of their total income. Local corporations and government sources had the least number of organizations that derived some income from them. Local corporations and government sources had the least number of organizations deriving some income from them. The funding sources variable had the highest number of missing values in the dataset especially among the lower levels of management implying a missing link in communication between the upper and lower management levels on the actual sources of income for the organizations.

Table 2: Frequencies for the Proportion of Different sources of Funding

Sources of Funding	0%	1-25%	26-50%	51-74%	75-100%
Self-generated Income	20	16	4	0	0
Local corporations	40	8	0	0	0
Local others	26	18	4	0	0
Government	28	20	0	0	0
National donors	26	12	6	0	4
International donors	8	0	10	10	20
International others	30	10	0	0	4

In terms of distribution of the income diversification cumulative scores, Table 3 shows that as compared to the other variables, its distribution had longer tails. There were two responses that cumulatively had a score of 5 while on the other extreme, there were 3 responses that fell in the 21-25 range. The 16-20 range had the highest frequency of responses at 22. This was followed by the 11-15 and 6-10 ranges that had cumulative income diversification frequencies of 19 and 14 respectively. Since the maximum cumulative income diversification score was 40 from the eight set of questions, as presented in the table 4 below, majority of the responses were below the 50% mark. This shows that the NGOs had not diversified their income. This is consistent with the findings of other studies where generally NGOs were donor dependent.[8 9]

Table 3: Distribution of Income Diversification Cumulative Scores

Cumulative score	Frequency
1-5	2
6-10	14
11-15	19
16-20	22
21-25	3

Table 4: Income Diversification Likert scale

Statement	SA	A	IDN	D	SD
Our organization has invested in income generation projects					
We own and manage businesses to sustain our operations					
We have international funding streams from donors					
We rely on multiple donors to finance our projects					
We engage corporate donors who are interested in financing our projects though their corporate social responsibility programs					
We hold fundraising activities to aid in financing our programs					
Our organization has invested in innovative financing strategies such as crowd funding					
We charge fees to offer services to other institutions					

It was evident that the organizations had not invested in income generating activities and projects with 60% of the respondents disagreeing with the statement on whether their organizations had some income generating projects. This was supported by 62% of the respondents who stated that their organizations did not own or manage any business to sustain their operations. Only 22% of the respondents stated that their organizations had invested in financing strategies further supporting the study findings that clearly showed that NGOs had not diversified their income sources. An analysis of the financial sustainability variable indicated that only 38.3% of the respondents thought that their organizations were able to raise the funds required for their projects. The need, therefore, to diversify income sources couldn't have been more important. Moreover, 63.4% of the respondents stated that their organizations did not have long term contracts providing enough money to finance their programmes.

The influence of income diversification on financial sustainability had a correlation coefficient of 0.334. This implies that there is a positive relationship between the two variables. Additionally, this relationship was significant as the p value was 0.009. This is consistent with other research findings that have encouraged income diversification.[10 11 12] According to Fowler, (2013) financing strategy is also an indicator of whether an NGO can sustain itself. It consists of diversifying sources of income and thus minimizing dependency on any single source-reducing vulnerability to shifts in fund availability or donor preferences. Fowler's findings further implied that the financial sustainability of most of the NGOs in the area was assured in many aspects although the effects of the diminishing income streams from the donors were noticeable.[13] According to Busienei (2017), non-Governmental Organizations (NGOs) needed to develop diverse resources bases so that they can sustain their institutional structures and production of benefits for intended client population after the cessation of donor financial support.[14] A sustainable approach to NGO financing is an approach that avoids dependency on any one source of revenue, whether external or internal.

IV. Discussion

For organizations to remain active for a long time there is need to diversify their income sources as being dependent on a particular source of income has a higher risk as compared to when they have multiple sources. Studies have found that income generation is central strategy used to respond to financial challenges and find alternatives to stabilize financial status of NGO.[15] Imperatively, revenue diversification, which generates resources from different streams together with an increased number of sources, is increasingly cited as an active strategy to maintain long term revenue stability. Non-governmental organizations find accessing donors as challenging as dealing with funding conditions. Green & Haines (2015) noted that they experience difficulty in finding sufficient, appropriate and continuous funding for work.[16]

There is a wealth of evidence consistent with the findings of this study that with donor funding diminishing or diverted to other more pressing projects, humanitarian organizations are seeking forays into other alternative sources of income as they race to reduce over reliance on dwindling traditional inflows. It was however not clear on whether NGOs had consciously and systematically developed and implemented coherent strategies to raise funds from multiple sources critical for the continuity of core organizational functions.

Additionally, there was uncertainty as to whether NGOs were confident that their broad funding sources were reliably sustainable. There was also contrary assertion that domestic sources of funding for NGOs are becoming increasingly reliable affirming that most financial supports are provided by foreign bodies as seen in the proportion of funding for organizations by local partners. Donor dependent NGOs should be encouraged to diversify their income sources to ensure that they are financially sustainable. This must be preceded by a resource mobilization strategy as a requirement for all NGOs. They should thus target multiple potential sources of income as compared to targeting one source of funding that they have regularly turned to. This may be through their individual efforts, civil society network groups, government regulation or in partnership with donors. For instance, a certain portion of donor funding should be directed towards creating income generating activities for an NGO to ensure that even when the funding ends, the organization can continue to meet its expenses as well as work towards achieving their mission and vision statements. The NGOs should also be encouraged to charge fees for services offered to other organizations and institutions which according to the results they have generally have not tapped it as a source of income.

V. Conclusion

Income diversification was shown to have a positive influence on financial sustainability and a significant factor in the study. Sustainable approach to NGO development is one that avoids dependency on any one source of financing, whether external or internal. It was evident that the organizations had not placed greater emphasis on investing in income generating projects. Diversifying sources of income minimizes dependency on any single source thus reducing vulnerability to shifts in funds availability.

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