



**INFLUENCE OF FINANCIAL SUSTAINABILITY
ON FINANCIAL GROWTH OF NON-GOVERNMENTAL
ORGANIZATIONS IN LREB-KENYA**

**Eunice Achola¹,
Benjamin Ombok²,
Evans Kiganda³ⁱ**

¹PhD Student,
Maseno University,
Kenya

²Senior Lecturer, Dr.,
Maseno University,
Kenya

³Lecturer, Dr.,
Kaimosi Friends University,
Kenya

Abstract:

Literature reveals inconsistencies on factors influencing the financial sustainability of local NGOs, with some suggesting such factors as income diversification, incomes from local and external donors as well as own income-generating activities, while others opine that continued external donor funding is required for sustainability. Evidence also shows that for the period under review, the financial growth of the NGOs, as critical vehicles of welfare development in the region has been fluctuating since 2010, but with a declining trend from 2019 to 2022. The purpose of this paper is to establish influence of the financial sustainability on the financial growth of non-governmental organizations in the Lake Region Economic Block- Kenya. A cross-sectional research design is adopted on a sample size of 220 respondents from whom both primary and secondary data were obtained and analyzed using independent samples t-test, one-way ANOVA, correlation, and regression. Guided by the Resource Based View Theory, the results yielded a significant R^2 change of 0.033; from 73.7% to 77% after moderation; implying that financial sustainability has a significant moderating effect of 3.3%. The findings of this study are invaluable for innovative and sustainable financial decisions by NGOs, and also scholars and policymakers on matters of revenue growth.

Keywords: financial sustainability, financial growth, Lake Region Economic Block-Kenya

ⁱ Correspondence: email eunice7542@yahoo.com, eachola99@gmail.com

JEL: G10, H80

1. Introduction

Financial growth of the NGOs in the Lake Region Economic Block has been fluctuating since 2010, exacerbated by a declining trend from 2019 to 2022, creating a need for investigation. The financial sustainability and growth of an organization as measures of the organization's ability to meet its financial and programmatic obligations, according to NGOs Co-ordination Board (2020), Gul & Morande (2023), Makeche & Chowa (2023) Varghese, Joe, & Ajukuria (2021) investigated on financial sustainability of non-profit organization in North East India and established relationship between donor and income diversification significantly correlate with sustainability. Others require progressive integration to strike funding stability and growth sustainability alongside the foundational and effective attainment of their goals. However, financial growth sustainability remains a key concern for even the most established NGOs the world over.

Malito D. V. (2014) researched the measuring sustainability and sustainable development in European Union and established gaps with the fiscal sustainable indicators and UN debts while, Musah, & Ahmed (2020) researched on determinants of financial sustainability of non-governmental organizations in Ghana and established that NGOs in Ghana are donor-dependent and are not financially sustainable after donor funding ends, have very little income diversification and income generating capacity. Remarkable decline in funding from a growth of 8% to -4% in 2019 and 2020 respectively are such indicators of financial sustainability challenge for the NGOs in Kenya (NGOs Co-ordination Board, 2020).

Matinda & Ndungu' (2022), Spicer, Barthelmer, Spellerberg, & Montgomery (2011) while investigating determinants of financial sustainability for non-governmental organizations, using positivism research philosophy and descriptive research design, established positive and statistically significant regression results. The financial performance trend is exemplified by Figure 1.1 below.



Figure 1.1: Trend of funds received (billions KES) by NGOs in Kenya (NGOs Co-ordination Board, 2020).

The NGOs Co-ordination Board (2020) annual report indicated that the LREB had the highest number of projects implemented in 2020 by NGOs at 2,255 followed by Nairobi at 1,143 and an evaluation envisaging sustainability of NGOs by Lozano (2008) recognized that there has been a massive increase in NGOs being incorporated in Lake Region Block (LRB). However, 70% don't survive beyond donor funding due to a lack of adequate resources for implementation and a number have closed their doors when donor funding stops.

Atalay (2021), in examining how environmental sustainability affects sports performance, showed a positive relationship between sustainability and sports performance but inadequate studies had been carried out among humanitarian organizations in Kenya. The research was limited to environmental sustainability, which is the main sustainable development goal and effect of sports sustainability. To enhance financial growth sustainability, NGOs have come up with new ways as noted by Pittel (2010) investigated sustainability and endogenous growth in Germany and established issues that have been neglected on sustainable growth, and some of the integration to economic growth on a model of more importance being financial sustainability as the key long-term solution. For instance, studies by scholars such as; Nemetz (2015), Zabolotnyy & Wasilewski (2019), Galera (2016) researched financial sustainability in different sectors and results showed that NGOs have become major vehicles to deliver social services such as poverty relief and environmental protection. Further, Mulusa, Kiganane, & Asiega (2021), Gebregiorgies (2022) in their studies using the purposive sampling technique in applied sample selection, concurred that fund-generating capacity, fund source diversity, and financial planning and management drive financial sustainability of NGOs which would subsequently determine the size and geographical expanse of their services.

The studies acknowledged financial management practices, revenue diversification, funder-to-beneficiary relationship management practices, and revenue generation capacity as the sustainability factors that influence the growth of NGOs. From the foregoing, as much as the researchers tried to relate financial sustainability and growth, the important aspects of financial sustainability such as Income generating capacity, Income diversity, and donor relationship were not considered an indication that their influence on the financial growth of NGOs remains unknown hence a justification for a study to determine the effect of financial sustainability on the financial growth of Non-governmental organizations in Lake Region Economic Block (LREB).

2. Literature Review

Studies done by Hailey & Salway (2016) and Nnabuife & Onwuzuligbo (2016) adopted a descriptive research design approach and multistage cluster sampling technique. Findings reveal there is a very significant positive relationship between sustainability factors and organizational longevity, and that financial sustainability is crucial for the long-term survival and effectiveness of all types of NGOs. Strong communication skills and diversity in funding also influence donors, hence increased self-sufficiency and the

more sustainable they become. Studies reveal that non-governmental organizations have a greater need to seek outside funding because of their high implementation costs for support services and overhead. Whereas Ochiri & Maina (2019) researched on the determinants of financial sustainability of community-based organizations using descriptive research design, and the results established that most of the CBOs in the area are relatively sustainable financially while a significant number are less sustainable and struggling financially. Alshubiri (2021) researched on analysis of financial sustainability indicators of higher education institutions on foreign direct investment using descriptive research design and revealed that there was a significant and negative relationship between FDI and the GETR variable for the FE results but this previous relationship was insignificant to non-governmental organization estimations.

Gakuu, Kidombo, & Ltumbesi (2018) investigated empirical analysis of the influence of technical assistance on the sustainability of donor-funded projects in Samburu County, Kenya. The study used a mixture of research designs and data was collected using questionnaires and document analysis. The study established that technical assistance had a positive and significant influence on the sustainability of projects funded by the donors and on community participation thus lasting impact on the project lifetime. This study however focuses on the relationship between technical assistance and the sustainability of donors in Samburu and therefore performance and growth of the organization could not be effectively ascertained. The study also focused on community participation in Samburu but failed to establish the influence of financial sustainability on the financial growth of non-governmental organizations in Lake Region Economic Block, Kenya.

Research done by Arner D. W. (2007) on financial stability, economic growth, and the role of law in Hong Kong using descriptive research methods established that financial systems and economies are interlinked in shaping financial growth. Financial development, financial stability, and the law have a great and centered role in institutions on economic growth. Waiganjo *et al.* (2012), and Khatiwada & Pradhal (2021) researched the effect of Covid 19 and in achieving Sustainable Development Goals (SDGs). Alhadhrami & Nobanee (2019) researched sustainability practices and sustainable financial growth using a qualitative method of research on the possibilities of bankrupt corporations and steps to develop the financial sustainability of a company. The scholars examined that NGOs and companies combine a diverse set of income generating, good strategic financial management, and social activities to construct a portfolio of livelihood activities that potentially meet basic and enhance better livelihood outcomes. They assert that financial management practices involve reviewing and managing the current and future financial positions of the NGO and how best the strategic goal of NGOs can be funded. Although there's a positive link between income-generating capacity and income diversion in profit-making firms the study focused on the sustainability and growth in profit-making organizations that are not comparable to NGOs hence results may not be generalized to non-profit organizations.

Other scholars, like Schultz & Neely (2016), researched on the NGOs performance with high financial performance and low financial performance using descriptive research design. The results revealed that high-performing organizations have high capital assets and a high level of compensation for talented officers in terms of high pay. Hui Hu & Sathye (2015) investigated analysis of corporate financial sustainability and its relationship to financial distress prediction using logistics regression and the jackknife method to test for the predictability of various models in Australia. The study revealed that a model that combines firms-specific financial variables and firms-specific non-financial variables are better predictor of financial distress than one that includes only one variable. Holland, et al. (2011) conducted a study on the effect of a framework for integrating sustainability into remediation projects using a cross-sectional research design. The result encouraged communication among the stakeholders in order to achieve maximized integration of sustainability parameters to the project.

2.4 Summary of gaps in literature

A lot of research work world over has been conducted to establish the nexus between innovation and performance. The majority of the studies established positive and direct links while some established indirect associations. This depicts mixed findings. Furthermore, all studies were reviewed except Ahawo (2021) who also viewed performance from the perspective of efficiency. This together with mixed results creates a knowledge gap with regard to how the aspects of product, process, and structural innovations affect the financial growth of NGOs. Hence it remains unknown the direction and magnitude of the effect of product, process structural innovation, and financial sustainability on the revenue growth of NGOs. This justifies a study to analyze the influence of financial innovation and sustainability moderation on the financial growth of NGOs in Lake Region Block (LRB).

3. Methodology

A cross-sectional research design was adopted targeting a total of 517 NGOs. The study employed a modified Mugenda and Mugenda (2003) formula to obtain a sample size of 220 based on stratified sampling where a subsample of NGOs was drawn using simple random sampling within each stratum. Both primary and secondary data were collected where secondary data was obtained from published NGOs Co-ordination Board reports for 2021/2022 and 2022/2023 financial years that were used to compute the annual revenue growth which was comparable with primary data collected in the financial year 2022/2023. Drop and pick procedure shall be adopted where research assistants distribute the various questionnaires and collect them after one week from the selected NGOs.

3.1 Study area

The study was carried out in the Lake Region Block (LREB). LREB was established in 2014 and comprises 14 counties as in Figure 3.1 Trans-nzoia, Bungoma, Busia, Kakamega,

Siaya, Vihiga, Kisumu, Homa Bay, Migori, Kisii, Nyamira, Kericho, Nandi and Bomet. The block has more than 10 million people, lies between latitudes 10 16'N and 10 54'S and longitudes 330 55' and 350 51'E and the equator passes across the region and focuses on the seven key intervention areas of agriculture, tourism, education, health, financial services, and infrastructure (Deloitte, 2014).



Figure 3.1: Lake Region Block Map (Deloitte, 2014)

Table 3.2: Sample Size

County	No. of NGOs	Percent (%)
Kisumu	60	27.27
Kakamega	27	12.27
Homa Bay	8	3.64
Siaya	13	5.91
Busia	15	6.82
Bungoma	18	8.18
Migori	14	6.36
Kisii	20	9.10
Vihiga	6	2.73
Trans-Nzoia	17	7.73
Kericho	9	4.10
Nyamira	4	1.81
Bomet	5	2.27
Nandi	4	1.81
Total	220	100.0

$$n = \frac{(1.96)^2 (0.5)(0.5)}{(0.05)^2} = 384$$

$$n_f = \frac{n}{1 + \frac{n}{N}}$$

Where;

n_f : Sample size

n : 384

$N = 517$: Target Population

4. Results

Table 4.6: Adopted Financial Sustainability Aspects

	Sustainability aspect											
	Several donors			Own non-current assets			Local support			Self-generated income		
	Yes	No	Total	Yes	No	Total	Yes	No	Total	Yes	No	Total
Frequency	131	2	133	115	18	133	127	6	133	126	7	133
%	98.5	1.5	100	86.5	13.5	100	95.5	4.5	100	94.7	5.3	100
Specific sustainability aspects; non-current assets, self-generated income, local support												
Non-current assets owned												
	Land/plot			Buildings			Vehicles			Machines		
	Yes	No	Total	Yes	No	Total	Yes	No	Total	Yes	No	Total
Frequency	16	99	115	20	95	115	82	33	115	74	41	115
%	13.9	86.1	100	17.4	82.6	100	71.3	28.7	100	64.3	35.7	100
Self-generating income sources												
	Self-generating income sources					Form of local support						
	Renting building	Consultancy	Farming	Schools & hospitals	Total	Local community funding		In-kind contribution	Total			
Frequency	4	98	23	1	126	4		123	127			
%	3.2	77.8	18.3	0.8	100	3.1		96.9	100			

Source: Research data (2023).

Results in Table 4.6 indicated that a number of NGOs in LREB-Kenya had adopted sustainability but at different rates. Out of 115 (86.5%) owned non-current assets in relation to 18 (13.5%) that didn't own non-current assets, 127 (95.5%) had local support while 6 (4.5%) did not get any local support from the community and 126 (94.7%) had self-generated income as opposed to 7 (5.3%) that had no self-generated income. The most outstanding sustainability aspect that had been embraced by the majority of NGOs was having several donors at 98.5%.

An analysis of the specific non-current owned by the 115 NGOs indicated that land/plot, buildings, vehicles, and machines were owned. From 115 NGOs, 16 (13.9%) owned land/plot, 20 (17.4%) had buildings, 82 (71.3%) owned vehicles and 74 (64.3%) had machines. Out of the 126 that had self-generated income, the sources were renting buildings, consultancy services, farming, and operating schools and hospitals. Generation of income was at 4 (3.2%) for renting buildings, 98 (77.8%) for engaging in consultancy services, 23 (18.3%) for practicing farming, and 1(0.8%) for operating schools and hospitals. Local support emanated from two aspects, local community funding and

in-kind contributions. Out of the 127 NGOs that received local support, 4 (3.1%) got local community funding while 123 (96.9%) received support in terms of in-kind contributions from the local community.

Table 4.7: Independent Samples T-test- Sustainability Aspects

Group Statistics							
Aspect	Sustainability Aspect	N	Mean	Std. Deviation			
Local support	Yes	127	-12.26	26.824			
	No	6	-4.67	27.912			
Self-generated income	Yes	126	-11.48	26.904			
	No	7	-19.71	25.676			
Several donors	Yes	131	-1.00	4.243			
	No	2	-12.08	16.980			
Non-current assets	Yes	115	-10.63	25.299			
	No	18	-20.17	34.735			
Independent Samples Test							
		Levene's Test for Equality of Variances		T-test for Equality of Means			
		F	Sig.	T	Df	Sig.	Mean Difference
Local support	Equal variances assumed	.064	.801	-.676	131	.500	-7.593
Self-generated income	Equal variances assumed	.064	.801	.789	131	.431	8.230
Several donors	Equal variances assumed	2.364	.127	-3.579	131	.001	11.084*
Non-current assets	Equal variances assumed	2.264	.923	1.409	131	.161	9.541

Source: Research data (2023).

The test results in Table 4.7 were based on the null hypothesis that there is no significant difference in the mean percentage change in revenue due to the adoption of a given specific sustainability aspect. Levene's test for equality of variances indicated that local support and self-generated income had a p-value of 0.801, several donors had a p-value of 0.127 while non-current assets had a p-value of 0.923. These p-values were all greater than 0.05, hence equal variances were assumed. A p-value of 0.001 on several donors that was less than 0.05 while p-values of 0.500, 0.431, and 0.161 which were greater than 0.05 for local support, self-generated income, and non-current assets respectively under the T-test equality for means section implied that the null hypothesis was rejected at 5% level of significance for several donors only such that there was a significant difference in the mean percentage change in revenue for the NGOs that had several donors in relation to those with a single donor.

5. Summary, Conclusions and Recommendations

The main objective has been to establish influence of the financial sustainability on the financial growth of non-governmental organizations in LREB-Kenya based on the null

hypothesis that financial sustainability has no significant influence on the financial growth of NGOs in LREB-Kenya. Various financial sustainability approaches have been embraced by various NGOs including having several donors, ownership of non-current assets, self-generated income, and local community support. However, the most outstanding sustainability aspect that had been embraced by the majority of NGOs was having several donors at 98.5%.

It was noted that financial sustainability had a significant influence on the financial growth of NGOs in LREB-Kenya where the NGOs that had embraced the appropriate financial sustainability approach of having several donors had a smaller decline in percentage change in revenue compared to those that had depended on a single donor. The percentage change in revenue was better by 11.08% for those with several donors. Furthermore, product, process, and structural innovations influenced the percentage change in revenue with structural having a greater influence in relation to product and process innovations. A correlation coefficient of 0.239 with a p-value less than 0.05 between the number of donors and percentage change in revenue indicated that financial sustainability had a significant positive association with financial growth for NGOs in the LREB-Kenya. A regression coefficient of 2.796 before moderation for the number of donors, an aspect of sustainability indicated that a percentage increase in the number of donors increased the percentage change in revenue for NGOs in the LREB-Kenya by approximately 2.8%.

Conflict of Interest Statement

We the authors of this paper, Eunice A. Achola, Benjamin O. Ombok, and Evans O. Kiganda, declare that we are not conflicted in any way that would make the content originality and reliability of this paper be of any doubt or claim by any other author; in the form in which it is presented for publication.

About the Author(s)

Eunice A. Achola is a PhD student at Maseno University, Kenya.

Benjamin O. Ombok (PhD), Director and Senior Lecturer, Department of Accounting and Finance, Maseno University, Kenya.

Evance O. Kiganda (PhD), Department of Economics, Lecturer Kaimosi Friends University, Kenya.

References

- Atalay, A. (2021). The Journal of Corporate Governance, Insurance, and Risk Management (JCGIRM). Central and Eastern European Library, 19-38.
- Alhadhrami A. and Nobanee H. (2019). Sustainability Practices and Sustainable Financial Growth. SSRN Product Services. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3472413

- Alshubiri, F. N. (2020). Analysis of financial sustainability indicators of higher education institutions on foreign direct investment. *International journal of sustainability in higher education*, 22(1).
- Arner, D. (2007). Financial Sustainability, Economic growth and the role of law. Retrieved from https://www.researchgate.net/publication/227390374_Financial_Stability_Economic_Growth_and_the_Role_of_Law
- Barthelmer, Spellerberg, & Montgomery, R. (2011). Education for Sustainability at Lincoln University New Zealand. Lincoln University.
- Board, N. C. (2020). NGOs Annual report. Nairobi: NGOs.
- Gakuu C., Kidombo H., & Ltumbesi L. (2018). Analysis of moderating influence of community participation on the relationship between technical assistance and sustainability of donor-funded project in Samburu. *International journal of economics, commerce and management*, (4)1. Retrieved from https://www.researchgate.net/figure/Moderating-influence-of-Community-Participation-on-the-relationship-between-Technical_tbl1_326609841
- Galera, A. (2016). Measuring the financial sustainability and its influence factors in local government. *Applied Economics*, 48(41).
- Gebregiorgies, E. (2022). Determinant of financial sustainability of non-governmental organization in Ethiopia. *Journal of accounting and marketing*, 11(8).
- Gul, K. & Morande S. (2023). Factors Influencing Sustainability of Non-Governmental Organizations in the developing world. *SEISENSE Business Review*. Retrieved from <https://journal.seisense.com/index.php/sbr/article/download/885/193>
- Hailey, J. & Salway M. (2016). New routes to CSO sustainability. *Development in practice*, 26(5).
- Holland Karnis (2011). Framework for integrating sustainability into remediation projects. *Journal of environmental cleanup cost, technologies and techniques*, 45, 17, 7116–7117. Retrieved from <https://pubs.acs.org/doi/10.1021/es202595w>
- Hui Hu, & Sathye, M. (2015). Predicting financial distress in Hong Kong's growth enterprises market from the perspective of financial sustainability. *Journal sustainability*. 7(2) <https://doi.org/10.3390/su7021186>
- Makeche, E. M., & Chowa, T. (2023). A Study of the Factors that Determine Local NGO Financial Sustainability, A Case of CIDRZ. *International journal of innovation science and research technology*, 8(4).
- Malito, D. (2014). Measuring Sustainability: Benefits and Pitfalls of Fiscal Sustainability Indicators. Retrieved from <https://cadmus.eui.eu/handle/1814/31913>
- Matinda, J. & Ndungu', E. (2022). Corporate growth strategies and financial performance. *International Academic Journal of Economics and Finance-IAJEF*, 3(8), 25-46.
- Musah A. & Ahmed A. (2020). Determinants of Financial Sustainability of Non-Governmental Organizations (NGOs) in Ghana. *The journal of accounting and management*, 10(1).

- Mulusa, G., Kiganane, L. K., & Asiega (2021). Influence of income generating activities on the financial sustainability of churches in Kenya. *JSSBT*, 2(1), 22-32.
- Nemetz, A. (2015). A Global Investigation of Government and Community Stakeholder Influences on Large Company Engagement in Sustainability. *International journal of business and management*, 10(2).
- Nnabuife, E., & Onwuzuligbo P. (2016). Sustainability and corporate longevity of firms in Nigeria. *Journal of economic and sustainable development*, 6(18).
- Ochiri, G., & Maina, A. (2019). Determinants of Financial Sustainability of Community Based Organizations in Kenya. *International journal of management and commerce innovation*, 6(2).
- Pittel, K. (2010). Sustainability and Endogenous growth. *Canadian journal of economics*. Retrieved from <https://ideas.repec.org/b/elg/eebook/2776.html>
- Schultz, G., & Neely, D. (2016). Exploring nexus of non-profit financial stability and financial growth. *International journal of voluntary and non-profit organization*, 2561-2575.
- Varghese, Joe, & Ajukuria (2021). Financial sustainability of non-profit organization (NPO) North East India. *Turkish online journal of qualitative inquiry*, 12(7), 6683-6697.
- Zabolotnyy, S.; Wasilewski, M. (2019). The Concept of Financial Sustainability Measurement: A Case of Food Companies from Northern Europe. *Sustainability*, 11, 5139. <https://doi.org/10.3390/su11185139>

Creative Commons licensing terms

Authors will retain copyright to their published articles agreeing that a Creative Commons Attribution 4.0 International License (CC BY 4.0) terms will be applied to their work. Under the terms of this license, no permission is required from the author(s) or publisher for members of the community to copy, distribute, transmit or adapt the article content, providing a proper, prominent and unambiguous attribution to the authors in a manner that makes clear that the materials are being reused under permission of a Creative Commons License. Views, opinions and conclusions expressed in this research article are views, opinions and conclusions of the author(s). Open Access Publishing Group and European Journal of Economic and Financial Research shall not be responsible or answerable for any loss, damage or liability caused in relation to/arising out of conflict of interests, copyright violations and inappropriate or inaccurate use of any kind content related or integrated on the research work. All the published works are meeting the Open Access Publishing requirements and can be freely accessed, shared, modified, distributed and used in educational, commercial and non-commercial purposes under a [Creative Commons Attribution 4.0 International License \(CC BY 4.0\)](https://creativecommons.org/licenses/by/4.0/).