UTILIZATION OF DONOR FUNDING AND ITS EFFECTS ON ECONOMIC DEVELOPMENT OF THE INTENDED BENEFICIARIES

By:

Kiplang'at K. Yator

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR CONFIRREMENT OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) OF THE UNIVERSITY OF NAIROBI

2012

DECLARATION

This research project has not been presented for a degree programme or for any other examination in any University, it is my original work.

Signature.. Date: 9/11/2012...............................

Kiplang'at Koech.Yator,

Registration Number: D61/63305/2010,

This Research project has been submitted for examination with my approval as the University supervisor.

Signature: .... Date: 9/11/12..........................

Mr. Joseph Barasa

Lecturer,

Department of Finance and Accounting

School of Business

University of Nairobi

ABBREVIATIONS

ADB	- Asia Development Bank
ANPPCAN	- African Network for Prevention and Protection against Child abuse and Neglect
ARR	-Agency for Rehabilitations and Reconstruction
ARVs	- Antiretroviral
CBOs	-Community-based Organizations
CUB	-Cumulative undisbursed balance
DAC	-Development Assistance Committee
ECOSOC	-Economic and Social Council
ESTESP	-Earthquake and Tsunami Emergency Support Project
GONGO	-Government-organized NGO
IMF	-International Monetary Fund
IPS	-Institute of policy studies
INGO	-International non-government organization,
MBA	-Master of Business Administration
NGO	-Non-government organization
ODA	-Oversea Development Bank
OECD	-Organization for Economic Co-operation and Development
PVO	-Private Voluntary Organization
RBZ	-Reserve Bank of Zimbabwe RBZ
UN	-The United Nations,
UNAIDS	-The United Nations' Acquired Immune Deficiency Syndrome

ACKNOWLEDGEMENT

I would like thank the almighty God for having accorded me the opportunity to further my academic studies to this level.

It would not have been and will never be possible to complete a programme at MBA level without valuable support, assistance, guidance and understanding from various people (my family, classmate and the University of Nairobi Lecturers). My sincere and heartfelt gratitude goes to all of you, however I obliged to mention and acknowledge a special contribution from the following:-

I' am and will always be indebted to my supervisor Mr. Joseph Barasa who never felt tied in guiding, providing material support, correcting my work and being there when I needed his wisdom. This is without forgetting the support, guidance and input of my Moderator Mr. Ondigo, may God bless both of you and/cause you be there for students. This project required raw and sensitive data from organizations, due to the sensitivity of their data I had to leave their names out as agreed with some of them, my sincere thanks goes to them and their individual staff who understood the need and gave me their data Having come this further there are individual who have shaped my life and have kept encouraging me to keep moving, I will never forgot and always appreciate their guidance as they have made me who am, among them are Grace Amurle who not only has been my mentor since I joined employment, but encouraged me to go back to college, Mr. Salim Mbete and Mr. Alex Muyonga who went again their positions requirements to ensure that had the time at different period to attend classes, My Primary standard seven mathematics teacher/Headmaster at Olchorro-Oirowua Mr. Ruto ,who laid my foundation and gave me the direction of what I needed then, and My late friend/classmate at Moi University Mr. Rotich, who changed my way of analyzing and looking academic issues.

To my family you present and support was one of its kinds during the period of this programme, to my classmate we were together and we made it, thank you for your support.

"You must BE THE CHANGE you wish to see in the world'' Mahatma Gandhi

DEDICATION

To

My dear wife

Reachel Wanjiku

and

our beloved children

Kipkoech

Chepkoech

And

Kibet

That you may live to outgrow this

Ten times

ABSTRACT

This research study was carried out to examine the utilization of donor funding by Non-governmental organizations within a contractual period, identify the contributing factors and the effects on economic development of the intended beneficiaries. In order to achieve its objectives, this research used a descriptive research design and a survey of fifteen NGOs with a total of forty five projects implemented in the last six years, the response rate in terms of organizations was 73% and 64% of the projects. The data used is primary and secondary which were collected through structured questionnaires. Once the pertinent data was collected, the researcher carried out editing for errors and omission before analyzing the date. The analysis of the same was done through frequency and percentages calculation and presented in tables and charts. The study established that there is 59 % underutilization of the funding as per budget level usage, 91 % of the sampled organizations requested for a no-cost extension period to enable them complete the activities and a further 27% returned the fund balance to the donors. This means beneficiaries were unable to receive the services/goods as intended and or if they do, it is at a high cost during the no-cost extension period; hence impact negatively in their economic development.

TABLE OF CONTENTS

CHAPTER ONE

INTRODUCTION

1.1 Introduction

Over the years Non-government organizations have been involved in development activities across the global, through funding from different donors, their aim is to supplement governments' effort in development activities particularly in areas where the governments activities not very strong. Their operations are governed by policies and agreements that are enforceable and therefore binding once they approved and signed by the parties involved. They implement projects based on contractual agreements which specify, how, what and when the services/goods are delivered. Project period is one of the major contractual clauses that aim at ensuring that the services/goods are delivered within the agreed period and at the agreed cost.

1.1.1Background

Development is the strategy of evasion, when you can't give people land reform, gives them hybrid cows, when you can't send children to school, try non-formal education. When you can't provide basic health to people, talk of health insurance. Can't give them jobs? Not to worry, just redefine the words "employment opportunities". Don't want to do away with using children as a form of slave labor? Never mind. Talk of "improving the conditions of child labor!" It sounds good. You can even make money out of it (Palagunmi, 1996).

In the early 1990s there began to be a recognition of the importance of NGOs, they were found to have closer ties to on-the-ground realities in developing countries and, perhaps more important to be able to deliver development aid considerably more cheaply than states or intergovernmental organizations, NGOs comes in as partners to supplement the states development activities (Willetts, 2001).

Nadia, and Yontcheva (2005) carried out a research whose aim was to reassess the effectiveness of foreign aid in terms of its impact on selected human development indicators, they had chosen to evaluate how aid affects infant mortality and illiteracy because improvement in both indicators are official objectives of all donors. Their results show that NGOs aid significantly reduces infant mortality and therefore improved development, reasons being NGOs aid may be more effective than government actions in reaching out to the poor. According to them infant mortality is "flash indicator" of the living conditions of the poor (Boone, 1996).

NGOs main focus is to supplement and support the governments' developments in areas and region where the governments are not able to. They are involved in development activities through utilization of public resources in specific areas of economic. Though they tend to be better than governmental bodies, it has been reported across the world that they do not fully use their fund within a greed period and therefore tend to be expensive. In the early 1990s there began to be a recognition of the importance of NGOs. NGOs were found to have closer ties to on-the-ground realities in developing countries and, perhaps more important, to be able to deliver development aid considerably more cheaply than states or intergovernmental organizations. As the United Nations (UN) Secretary-General's 1998 report stated, "In terms of net transfers, non-governmental organizations collectively constitute the second largest source of development assistance". An article in the New York Times just before the UN Conference on Environment and Development in 1992 cited development successes by NGOs such as the Trickle-Up Program, and stressed their low costs and high impact (Stephenson, 2005).
Both the number of nongovernmental organizations and their involvement in national and international policy-making have increased tremendously over the last half century and especially the last several decades. At the time of the foundation of the United Nations in 1945, there were 2,865 international nongovernmental organizations (INGOs); by 1990 that number had increased to 13,591. This compared to 3,443 international intergovernmental organizations and roughly 200 nation-states (Lewis, 1992).

However due to their ever increasing in numbers and being complex in operation, it has been argued over a number of years that due this continuous increase, there tend to be doubling of activities and having many NGOs operating in the same location/area and therefore being unable to utilized their funds. According to the African Network for Prevention and Protection against Child Abuse and Neglect (ANPPCAN), the emergence of many NGOs in the field of child welfare, activities at times tend to be leading to duplication of efforts. The situation is made worse by the reality that the NGOs go to the same donors to seek for funds (Anppcan, 2002).

While a generous scaling-up of foreign aid seems an indispensable condition for reducing poverty and achieving global prosperity, history has shown that it is not sufficient. The failure of foreign aid to attain development objectives can approach from two different but not incompatible perspectives. One group argue that foreign aid is partially wasted by recipient agent/government and inherently poses incentive problems and produced negative externalities, which in turn diminish its effectiveness. The other group argues that if donor allocates aid to some strategic considerations and do not respond to the need of beneficiaries why should we expect improved growth or poverty reduction in recipient countries? (Nancy, and Yontcheva, 2006).

1.1.2 The term Non-governmental organizations

The term non-governmental organization was not in general currency before The United Nations (UN) was formed. When 132 international NGOs decided to co-operate with each other in 1910, they did so under the label, the Union of International Associations. The League of Nations officially referred to its "liaison with private organizations", while many of these bodies at that time called themselves international institutes, international unions or simply international organizations. The first draft of the UN Charter did not make any mention of maintaining co-operation with private bodies (Willetts, 1996).

A variety of groups, mainly but not solely from the united state of America (USA), lobbied to rectify this at the San Francisco conference which established the UN in 1945. Not only did they succeed in introducing a provision for strengthening and formalizing the relations with private organizations previously maintained by the league, they also greatly enhanced the UN's role in economic and social issues and upgraded the status of the Economic and Social Council (ECOSOC) to a "principal organ" of the UN, to clarify matters, new terminology was introduced to cover ECOSOC's relationship with two types of international organizations. Under Article 70, "specialized agencies, established by intergovernmental agreement" could "participate without a vote in its deliberations. Many diverse types of bodies are now described as being NGOs. There is no generally accepted definition of an NGO and the term carries different connotations in different circumstances (Fisher, 1998).

Nevertheless, there are some fundamental features, clearly an NGO must be independent from the direct control of any government; in addition, there are three other generally accepted characteristics that exclude particular types of bodies from consideration, an NGO will not be constituted as a political party; it will be non-profit-making and it will not be a criminal group; In particular it will be non-violent. These characteristics apply in general usage, because they match the conditions for recognition by the United Nations. The boundaries can sometimes be blurred: some NGOs may in practice be closely identified with a political party; many NGOs generate income from commercial activities, notably consultancy contracts or sales of publications; and small numbered NGOs may be associated with violent political protests. An NGO is never constituted as a government bureaucracy, party, a company, a criminal organization or a guerrilla group. Thus, an NGO is defined as an independent voluntary association of people acting together on a continuous basis, for some common purpose, other than achieving government office, making money or illegal activities (Willetts, 2002).

1.1.3 Development and Growth of NGOs

The 1980s saw the onset of what could arguably be described as the "golden age of the international non-governmental organizations (INGOs), the number of INGOs has been growing steeply from the beginning of the 1980s, there were 38,000 NGOs registered as working in more than one country in 1996, more than double the number of a decade earlier. INGOs are important actors in development policy, and donor governments have always used them as a tool to carry out aid policies (Catherine, 2006).

"Aid is back in the international agenda, after more than a decade of aid fatigue, the international community envisages substantial increase in aid flow to poor countries in Africa and part of Latin America and Asia. While generous scaling-up of foreign Aids seem an indispensable condition of reducing poverty and achieving global prosperity history has shown it is not sufficient'' (Yontcheva,2003).

The total amount of funds being channeled through has also grown significantly and the proportion of aid going through NGOs relative to bilateral or multilateral agencies has also increased. For example, the European union funding for international NGOs in mid-1970 had a budget of USD 3.2 million and by 1995 had reached estimated USD 10 million accounting for somewhere between 15-20% of donor funding. This continuous growth in NGOs has been attributed to number of reasons such as Technological advancement, cheap air travel and telecommunications , mobile phone and internet are all said to be making post-cold world a small-place. Above all there has been increase in disaster related events and therefore the need for various organizations and even individual to come up with all kinds of NGOs around the global in the name of raising funds and delivering services to affected communities (Davies, 2008)

However in the last 20 or so years, new actors have emerged on the development sense, the private NGOs, which are channeling an increasing share of development assistance (mostly in form of donated grants). Their proponents argue that NGOs care about the most vulnerable populations and represent the voices of the poor. Their motivation is meant to be humanitarian and not to follow any reasons of the state/ country. As NGOs expand, however they are increasingly funded by institutional donors and concerns have been voiced about the impact on donors' funding on NGOs behavior. Donors in different parts of the world, particularly the developed west and Europe contribute trillions of dollars every year towards the activities being carried by NGOs and other development agencies including the governments. However, does it mean by contributions such amount of money, they just want to help or there are other motivational factors? (Nancy, 2006).

According to Meyer (1995) there has been intensified participation of NGOs in Oversea Development Aid (ODA), NGOs have prospered with, "associtial revolution'' Salamon (1994). The number has grown exponentially; the size of some of them make significant players in social welfare and employment market at National level, funding they attract has increased enormously and their visibility in general public has been higher.

The available data from organization for economic co-operation and development (OECD) indicates that resources channeled through NGOs in all OECD member countries rose from 0.2 percentage of the total bilateral ODA of DAC (development assistance committee) in 1970 to 17 percentage in 1996 to reach, in absolute terms amount equal to twice the total ODA of the United Kingdom, the DAC's sixth largest donor by volume (Wood, 2003).

The rise of NGOs and their funding increase is not by an accident, while it reflect private initiative and private action, it also follow an increase in popularity of NGOs with governments and other aid agencies and the willingness of donors to make fund available to them. Many of them have switched from being primarily funded by private donors to being essentially funded by institutional donors. The reasons of expanding were due to the fact that the official agencies support NGOs in providing welfare services because of their assumed cost-effectiveness in reaching the poor. They are also seen as representative of the poor and the most vulnerable; their relationship with the people is seen as giving them greater public legitimacy than some government (Meyer, and Carrie, 1995).

Kameri-Mbote (2000), the qualitative and quantitative growth of NGOs in Kenya over the last quarter of the 20th century has been enormous. They registered cumulative of 100% between 1977 and 1987; by 1995 there were at least 23,000 women's organizations in the country. The roots of NGOs in Kenya may be traced philanthropy mainly in colonial time, during this early period the activities of NGOs were welfare. Later in 1990s on emergence of democracies came with an era of civic society sector. According to her many NGOs in Kenya are inefficient and should adapt to more effective and efficient ways of utilizing the scarce resources in order to deliver the desired goals.

1.2 Statement of the Problem

Over the years NGOs around the world have continued raising funds which are channeled to priority projects in countries and regions where they have development programs. These programs (projects) are based on contractual terms; these terms contains various conditions which are binding, they form the bases of fund usage and therefore need to fulfilled, one of them is the project duration, i.e. the period in which the deliverables are supposed to be delivered and the developments benefits accrued to the beneficiaries.

In remote and inaccessible areas any meaningful development activities such as schools, hospitals etc are mostly done by NGOs, however this is only possible when other factors such time frame, inflation; corruption, scandals, stability etc are under control, NGOs are there to spent, improve the life and the living standards of a given group.

People's qualities of life are improved through the public expenditure by providing recreational, cultural, educational institution, food, and public health facilities etc. Consumption, after all is the end objective of economic activity of individual, by promoting the level of economic activity and more equitable distribution of income, the state can bring about a greater sense of social and economic security in the live of individuals.

According to Kelly (1997), by exploring the effects of public expenditures on growth among 73 countries over the period 1970-1989, there was evidence that contribution of public investment and social expenditures to economic growth is rather significant.

Most of the NGOs projects are found in areas of insecurities and instability, their main country offices are either based in the capitals cities of the countries they operation in or in the countries of origin, at the project level are site offices without much decision organ, therefore creating a gap on decisions for key issues to be decided within a short notice. Logistics in the country of operation is also a major concern as most projects are based in remote regions which are difficult to access.

NGOs play an important role in international development cooperation, notably for aid from the United States, this is at least partly because NGOs are widely believed to be more efficient than official aid agencies in delivering foreign aid to the poor and needy in recipient countries (Barro, and McCleary,2008).

Research studies which have been done are focused on service delivery, public spending through NGOs vs. economic growth and development on a wider scale without narrowing in specific conditions such contractual term, more research studies have been conducted to investigate the relation between spending and economic growth, also a lot of research has been carried out on public budgeting. However researches that narrow on fund utilization on a given period have not be done, this is critical in that once funding are available it is meant to be used to improve the economic standard of the beneficiaries, NGOs activities are all over but results are difficult to see. If a project was/ (is) not completed within a given period, what were the reasons and the consequences of the delay? What happened to the unused fund? This research

This research study is seeking to find out how NGOs are utilizing donor funding within a contractual period, and what are the contributing factors?

1.3Research Objectives

a) To examine the utilization of funding by NGOs within a contractual period;

b) Identifies the contributing factors.

1.4 Significance of the Research

NGOs plays a major role in developing countries through provision of services in areas where the government's developments activities are low or not available; they are always the first to respond when there is a disaster in any corner of the global, in some regions/area meaningful economic development activities are not possible without the present of NGOs

Their contribution towards development in term of resources and man power is very critical in developing countries, post conflict countries, disasters areas. They are found in remote corners of the global and their good network of resources mobilization is among the best, they source for funding through projects proposal, which contain conditions and terms of implementation.

A project is supposed to be implemented within given time frame; however there are several cases around the world where they are never implemented within a contractual period, in such cases NGOs seek for project no cost extension period and during such a period the original budget will not change. However the activities are implemented over a long period without budget increase.

This study therefore will enable both NGOs and the donors re-examine the project duration, look at the factors that affect it, so as to enable them to re-evaluate projects future duration at the project proposal stage, adequately plan and have understanding of the key factors which may affect the implementation process in advance. Further it will save them time used in continuous re-assessment of the project progress, re-adjustment of activities and budget, reduce the final cost of the project and therefore meeting the deliverables in time.

It will benefit the intended beneficiaries as the project will be implemented on time, at the lowest possible cost, thus beneficiaries receiving the services in time. The funding donors will be able to get reports and feedback on development impact of the project on time, the government will be also benefit from this research in terms of planning and directing of development resources.

CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

National Development is a duty of the government; they are duty bond to ensure that the country's development plans are implemented for the benefits of her citizens. Governments world over provide services and goods to the citizens mostly for free or at minimal cost, however every few governments world over if any are able to do that, to support and supplement the government other partners come in Among them are NGOs. whose set-up, activities and operation are similar to the government, they both offer public good and services through utilization of public resources, operate in a similar manner.

2.2 Theoretical Literature Review

This section looked the theoretical aspect of both the governmental and the NGOs in relation to observations as reported over time on how these critical organizations have grow over time both in size, funding raising activities and the increase in resources channeled them. Most of the theoretical literatures in this area are biased on governmental organizations whose operations and activities are similar to NGOs.

2.2.1 Theory of Functions of Public Budget

NGOs like the government base their activities and services delivery on budgets, these are plans which are translated in monetary term for a given period, they contains policies and procedures that guide the project implementation, once approved they become binding documents and enforceable. Theory of functions of public budget (theoretical approaches to public budgeting were developed by Wildavsky (1964).The results of most objectives to be realized by the budget are not quantifiable, budget brings together a variety of consideration, public budget is frequency of lower quality than the norms in the private sector. The budget stipulates which goods and services are supplied by the authorities and which are to be supplied by the private sector.

One of the limitation of this theory is that it said, a budget is apolitical document through in which money is appropriated according to value judgment and the budget is a political process that takes place within a political arena (Gildenhuys, 1997a).A significant development in the intellectual history of the 20th century has been the explicit recognition by economists, politicians and the public at large of the important of government and partners in the operation of the economy. Public budget generally reflects the policy of the government towards economy, while public budget is the forecast of government expenditure and revenues for the ensuring fiscal year. Except for primitive economies budget is the key instrument for expression and execution of government economic policy, and therefore after its approval by the legislative authority (for NGOs the donors) is enforceable.

It guide the economic, social, political and other activities of a community in a certain direction in order to realize the set goals and objectives, the results of which are not always quantifiable. The features of a public budget ensures that the unique foundation on which its preparation, approval and executions are based. It serves as a coordinating instrument by which activities can be integrated because it is supposed to contain all the information on policies, objectives and activities in one document. The important issues of implementation are related to the systems, institutions and methods aim at answering simple and old age the questions, such as: Is the money being spent efficiently? Is the money reaching those for whom it was intended? Is the policy generating unwanted and undesirable effects? A budget being a policy document guide the implementation and fund utilization, it give period a specification which the activities are to be completed and fund budgeted for fully used (Gildenhuys, 1997b).

It is assumed that the implementation of the budget routinely and rapidly generates information as to whether the monies budgeted/voted are indeed being spent within the legislated framework (contractual period) provided by the budget. Such implementation and monitoring exists in most countries/organizations, but this basic feedback on policy implementation is often limited to financial information and is used almost exclusively by the budget office, (Lacasse, 1996).

2.2.2 Theories of Public Expenditure

Under the theories of public expenditures and growth, there are several theories that were developed and summarized as follow:

2.2.2.1Marginal utility approach

Marginal utility approach is one of the important theories developed in 1920s by the marginalist group of economist (W. S. Jevons from Great Britain, L. M. E. Walras from Switzerland, and K. Menger and E. Böhm-Bawerk from Austria), which suggested an economic approach to determine the composition of expenditure and budgeting. According to this theory, the government spends its limited income on alternative services in such a way that the marginal benefit is the same on all the items. Just like individual, in order to satisfy his /her wants, spends in manner to achieve a certain balance among different type of expenditure which would ensure some marginal returns of satisfaction from all of these. According to this theory, "Expenditure should be so distributed between the battleship and poor relief in such wise that the last shilling devoted each of them yield the same return''. The same principle has been restated by Dalton thus "Public expenditure should be carried out just so far that the marginal social advantages of expenditure in all directions are equal and just balance the marginal social disadvantages of all methods of raising additional public income (Hogye, 2002).

2.2.2.2 Public Goods

This theory was developed in 1954 by an economist Paul A. Samuelson; he argued the merits of public sector production, when he first formalized the theory of goods that there is no good revealed-preference mechanism for public goods, so that they will not be produced efficiently, if at all in the public sector (Randall, 1992).

Later Musgrave (1959) in his classic public finance treatise define public good as "good the inherent quality of which requires production''. He gave education and military as examples, and defends them in commonsense way by noting that there are compelling reasons for having both produced in the public sector, his assessment may not have been right because by then public goods were thought of more generally as goods that are produced by the government.

Public goods are those for which no private mechanism exists for providing and which are consumed in equal amounts by all. They have both characteristics of nonexcludability and jointness in consumption, People who have not paid for them cannot be excluded from their enjoyment, e.g. public parks or security, jointness in consumption means once produced for one person, additional consumers can consume at no additional cost. Dictionary defines public good as "of related to or servicing to the community''. Public goods usually correspond to all goods and services provided by the government and include a wide variety of goods and services. The major assumption in theory is the image of goods available for all citizens to consume; it also assumed it is only the government that can produce them (Holcombe, 1997).

2.2.2.3 Positive Approaches

The positive approaches theory was developed by A. Wagner, (1876) they are concerned with the actual growth of public expenditure over a period of time, the formulation and verification of public expenditure hypothesis. This came to be known as "Wagner's laws". He propounded the "law of increasing expansion of public and particularly the state activities'' which is referred to as "the law of increasing of fiscal requirement''. The law suggests that the share of the public sector in economy will rise as economic growth proceeds, owing to the intensification of existing activities and extension of new activities. According to Wagner social progress has lead to increasing state activities with resultant in increase in public expenditure. However it later turned out that it is not fruitful to seek an explanation for the total expenditure. Tests done by various researchers have shown that the increase in expenditure is far more complex than evident from tests carried out in empirical data (Bird, 1971).

2.2.3 Theory of Impact of Public Expenditure

The name public goods suggests public-sector production, and Samuelson (1964) argued the merits of public-sector production when he first formalized the theory of public goods, he argued that there is no good revealed-preference mechanism for public goods, so they will not produced efficiently, if at in private sector. He later recognized that there could other definition of publicness and other theories of public expenditure, but reinforced the idea that public goods with the collective consumption characteristics he described would have to be produced in the public sector for efficiency reasons (Holcombe, 1997).

Governments undertake an array of other expenditure program, but because public good theory has been put forward as a theory of public expenditure, it is reasonable to ask whether government output is a public good. In other words, can public good theory be used to explain what government actually does? The best claim that one could make that redistribution is a public good is that it may provide a non-excludable benefit to those who give. The argument goes as follows; people want to be charitable because they want to see improvement in the well being of those who are disadvantaged. However, if one person gives to charity, another can free ride off those donation by allowing the contribution of the other to improve the situation of the disadvantaged. Both the giver and the free rider receive the same benefit in terms of seeing an improvement in the well-being of the recipient (Samuelson.1967).

2.2.4 Conspiracy Theory

The elegant theory of bureaucracy propounded by William Niskanen in 1950s is far more intuitively appealing and aesthetically pleasing. By what criteria, he asks are bureaucrats judged and rewards? The difference between the results they achieve and the resources their agencies consumes are not among them. Bureaucracy cannot appropriate savings; neither can their agencies carry over funds, rather their opportunities for promotion, for salary, and for influence increase with size irrespective of their success. They will want more, much more for their agencies and programme than citizens would prefer under the similar circumstances,(Tiebout, 1956)

2.3 Objectives of NGOs

Organization objectives are achieved through a strategy, and strategy refers to a general approach an organization follow to achieve its objectives/goals, for efficiency and effectiveness organization apply more than one strategy at any given time, as objectives can only be achieved at the end of the project through good strategies set at the beginning, however strategies are not fixed they can be adjusted along the way, depending on what is going on in the environment. Goals and objectives are greatly influences by environmental factors to different degrees/levels.

The environment is what gives the organizations their means of survival. In private sector, satisfied customers are what keep an organization in business; in public sector (same as NGOs), it is the government, client, patients or student that typically plays the same role. However, the environment is also a source of threats e.g. hostile shift in market, technological changes, and new competitors. Environmental changes can be fatal to an organization survival, (Johnson, Scholes, Whittington, 2008)

Operating in different sectors of a country requires a specific set of objectives or aims depending on the sector and the services being offered. These objectives can keep changing depending on what the donor wants to be achieved; the following are across section objectives of NGOs offering services in different sectors:

a) Assisting producer groups to come together as pressure groups and find ways to influence policy on matter concerning them, e.g. by making the group aware of their rights and educate them on ways to demand greater political participation, for welfare NGOs;
b) Provide medical assistance to the poor and family planning methods free of charge;
c) Empowerment of women e.g. in activities on political or economic level, these kind of NGOs may be concerned with issues relating to education and health of women, NGOs would help them to unite and use their strength to stand up for their right in the political arena;
d) Objectives of other NGOs may include promoting use of the appropriate technology and development into new technology, NGOs dealing in research and development related activities;
e) Objective of other are to assist small businesses in gaining access to credits and find markets for their produce, e.g. provide microfinance, that include giving loans to small businesses, saving and insurance products to low income householder;
f) Empowering CBOs and the poor among the rural communities to use impact monitoring for project management, therefore contributing to the sustainability of their of their projects;

NGOs assist and guide members in obtaining financial and technical assistance for rural development programme from donors, governments,(Funds for NGOS, 2008),

Their objectives differ from one to another, each being guided by its own mission and vision which give a blue print of what each is planning to do and focus on where to be in the future, these mission and vision statements set out clearly the direction of the organization's objectives.

2.4 Empirical Literature Review

Empirical literature refers to evidence from observations and reports from different sources. It can be through naturalistic observation (the in depth observation to a phenomenon in its natural setting) or experimental observation (manipulating an independent variable to observe its effects on a dependent variable). Experimental evidence is much more reliable, as naturalists observations are vulnerable to researcher bias. Though not much research has been done in relations to project contractual period, there are research which relates to this area, therefore this research is to fill this gap.

2.4.1U.S Government Practice in Evaluation of Water Resources Projects

One of earliest empirical studies in evaluation of utilization of resources was on US government practice in evaluation of water resources projects, according to it the federal government evaluates water resources by means of benefit- cost analysis; as there was no single model which could be used by the agencies, one of the problems in evaluation practice has been lack of uniform methods among the agencies, how there are certain characteristic form which an ideal model of federal can be derived. This evaluation method has two benefits:-

a) The direct benefits which are largely additions to individual income;
b) The indirect which are miscellaneous repercussion.

At least in principle, the difference between benefits and cost is to be maximized in determining the scale of the project, while project ranking is to be based on ratio of total benefits to total cost (Minasian, 1967).

Project implementation however does not depend on the cost only; the cost is input which at the end of the agreed period should result in deliverables (benefits) to the target groups. The original cost of the project and the life span is used but at the end of the period, has fund (Cost) fully used? Marginal cost of the project should at the end of the day be equal marginal benefits of the individual projects.

2.4.2 The Mckean's Study

The Mckean's study came up with the view that stresses, that many objectives of policy and limited weight that is to be attached to criteria that reflect economic efficiency. His interest was in the economic benefits of a project, according to him efficiency in resources use, (in case time is a resource) will result in timely services delivery to the beneficiaries and hence an economic growth. In economics he seeks to maximize the expected gain of real income, though he stresses the need for consideration of intangible and adjusting to uncertainty. He took the maximization of the difference of the present values of benefits and cost as the ultimate objective. The interest rate he would use to compute the marginal internal rates of return, he pointed out that this tantamount to a strict rate of return criteria. He preferred the benefits (savings) to be re-invested, which is more of commercial than the public sector and NGOs where service delivery is the aim (Robin, 1990).

However, he later believe that budget money will remain scarce for a long, long time, and operating costs a decade from then will prove as much drain as on a scarce resource as current investment outlays. It is the preparation of a federal program which is at stake; he preferred to treat only federal cost as the constrained financial resources and assumed that there is no reinvestment, partly because the benefits of projects and the institutional arrangements in this particular field are such that there is very direct revenue generated. There is public fund avail by the donors for utilization in efficient manner for economic benefits on the beneficiaries within a given duration and therefore at the end of the duration there should be no saving for reinvestment. According to him the budget money is scarce and therefore any scarce resources should be used as intended and within the time framework.

2.4.3 Public Expenditures and Economic Growth

However Landua (1986), gave a different view, according to him, public spending have no impact on the beneficiaries development, actually public spending lead to economic decline, any economic in the world is associated with low standard of living.

According to IMF (2012) pamphlet series No.48, many studies have aimed at estimating the effects of public expenditure on economic growth. Empirical studies have yield conflicting results: some support the hypothesis that a rise in the share of public spending is associated with a decline in economic growth, Landua (1983), Others have found that public spending is associated positively with economic growth and other studies have no significant relationship.

2.4.4 Utilization of Aid in different Countries

In 1994 Health care service in Bolivia was not universally provided, it is estimated that some 11 percent of the population has no access to health care service of any kind, 25 percent rely on traditional medicine, 7 percent rely on self-medication, and 20 percent use private medicine. This means that public and NGO sectors together service approximately 37 percent of the population. Those with least access to health care are the poor who live in rural areas. Resource shortages are the principal constraint to the provision of services by the public sector. In addition, much of the decision making process, including decisions about resource allocation and hiring and firing of personnel is highly politicized. Such problems mean that resources are frequently not used efficiently and that personnel are not assigned on the basis of merit. Staffing of positions frequently changes, and, due to labor unions and regulations, incompetent people cannot be dismissed easily. Where donor programs have provided resources to fund public sector activities, more effective services are provided. Donor-supported programs, however, may create centers of focused attention and attract human resources from other activities and, in the process, decrease capacity building prospects for programs that do not have external funds (Grindle, 1994).

The world always response to disasters in every corner of the global with aid, grants and other assistance: Following the tsunami disaster of December 2004 and the subsequence earthquake of March 2005 in Indonesia areas of Aceh and North sumarta. According to

Asia Development Bank (ADB) progress project report No.39127 (2009), ADB contributed a grant of $ 291 million to Earthquake and Tsunami Emergency Support Fund (ETESP) and $10 contribution to multi-donor fund both funded by the Asia Tsunami fund, complementary grant of $ 28 and reprogrammed loan of up to $33 The funding were for reconstruction and recovery program of Aceh and North sumrata. The government of Indonesia's Agency for rehabilitation and reconstruction (ARR) was the executing agency for ETESP until the termination of its 4-years in April 2009, when the National planning agency assumed this role. However by 2008, the government was still addressing the underutilization of annual budgets due to poor performances by contractors and logistical challenges that arose in remote areas such as Nias and simeulue Island. In additions to previous years, ARR was unable to expedite the annual appointment or reappointment of implementing units; this disrupted the transition from one unit to another. The original goal of completing the project in (by the end of 2008) three years proved optimistic (ABD, 2009a).

Sri Lanka, like many developing countries, has been grappling with problems of underutilization of aid.29 the rate of aid utilization (measured by the disbursement ratio: disbursed aid as a share of cumulated undisbursed aid) indicated a relatively low utilization of aid of around 13-15 per cent towards the end of the 1990s, institute for policy studies (IPS), (2001). By 2003, there was a gradual improvement in the utilization rate to a more respectable disbursement ratio of around 20-22 per cent, though the cumulative undisbursed balance (CUB) has remained stubbornly in the region of US$ 2.5-3 billion (ABD, 2009b).

The NGO sector in Zimbabwe is notably disorganized and fragmented, the umbrella body, NANGO, no longer functions in any meaningful way, and had long lost credibility in the eyes of both donors and members. NANGO's failure to grapple with the private voluntary organization (PVO) Act merely deepened its crisis. NANGO's problems were exposed to public scrutiny in mid1996, after five members of the Northern Region committee (including Harare) resigned citing a lack of transparency. All five were prominent members of the NGO community and two also played important roles on NANGO's National Executive. Donors have complained that NANGO lacked transparency and was using project funds for administrative purposes. NANGO also faced a crippling deficit of ZWD$2 million, owed substantial back pay to staff, and was in need of new premises for its head office (Rich, 1997).

In Ghana in 2007, NGOs were told be sincere in the utilization of funds for projects and not use non-existent communities to raise funds for their personal use. Dr Seidu Al-Hassan, a Lecturer at the Economics Department of the University for Development Studies, gave the advice at a "Northern Ghana Forum on Education" in Tamale. Dr Al-Hassan said there was a mixed feeling about the contribution of NGOs to the accelerated economic growth and poverty reduction of beneficiary countries particularly, the developing nations, where poverty was endemic. Dr Al-Hassan noted that while some of the NGOs were doing well in terms of fund utilization, others were using their organizations as means and sources of employment instead of applying the funds for the intended purpose. He called on NGOs to build strong collaboration with one another, as well as an effective collaboration and harmony with the public sector for development, efficiency and sustainability (Atta, 2007).

The Reserve Bank of Zimbabwe (RBZ) has also come under fire for diverting funds, US$ 7.3million meant for disease programmes. Irate activists have said the Bank's actions were 'unforgivable' and put HIV-positive Zimbabwean's lives at risk, in a time when they are most in need. President of the Zimbabwe HIV & AIDS Activists Union, Bernard Nyathi, stressed that the Global Fund should no-longer channel donor funding through government. The Fund has since stated that money provided to Zimbabwe will be dependent on future behaviors and agreements, specifically referring to the fact that the funds should be channeled without interference from government. The Fund's Michel Kazatchkine also announced recently that the organization has placed all funds under its administration in Zimbabwe under the additional safeguard policy in order to insure that the money is only used for the specific purpose that was granted for, (Mundell, 2009a)

South Africa has been found guilty of a different kind of funding mismanagement. In December (2008) it was announced that 13 South African HIV & AIDS organizations did not receive their share of the US$ 3.9 million allocated to them by the Global Fund. According to the Fund, the delay was due to the Health Department's slow and inefficient disbursing systems, even though the department was repeatedly advised to allocate full-time staff to deal with the allocation of funds. In the Free State Province of South Africa, the substandard management of funds led to 'cost containment measures', meaning that 31 hospitals were forced to postpone emergency surgery and refuse new AIDS patients for Antiretroviral (ARV) treatment. In 2008 Uganda experienced significant cuts in funding, specifically from the Global Fund, largely due to the suspension that the Fund imposed on Uganda more than three years ago, for mismanagement of grants. The suspension occurred in August 2005, following a Global Fund audit that indicated that the Ministry of Health had misused US$ 1.6 million, (Mundell, 2009b).

In 2008/2009 the total funding for HIV/AIDS in Kenya amounted to $687 million, these funding came from a range of donors, the most significant one was the U.S government. In the financial year 2009 from the US President's emergency Plan for AIDS relief (PEPFAR) amounted to $ 541.5.The Global fund was the second largest contributor to HIV/AIDS funding in Kenya, having contributed $ 87 million in total. The utilization of these funding was faced with some serious issues, which lead to the donors to withhold the funds. Corruptions and lack of transparency of the distribution of the funds were the major ones, and therefore resulting in the funds not being utilized within the agreed duration between the Kenya governments, selected NGOs for the implementation of the project and the donors. In 2009 Kenya was ranked in the bottom third of countries worldwide for corruption. The same issues affected the influx of funding in 2003, 2008, and 2009, and it lead to Global fund delaying and refusing application for funding in Kenya (UNAIDS, 2010).

2.5 Summary of Literature Review

Due to a dramatic growth in number of NGOs involved in development and humanitarian activities in both developed and developing countries over the last three decades, there has been a significantly growth in funding and the proportion of aid channeled through them, This growth can be attributed to increase in disasters and conflicts across the global, thereby the need for financial assistance.

Questions and concerns has been raised about these growths in relation with efficiencies of NGOs policies and practices, questions on NGOs being unable to put in use donors funding within the specified period, quality of services rendered by these organizations have been a concern, corruption has forced a number of donors to stop and suspense funding to several countries in developing world.

Within NGOs it was only in late 1980s, under increasing pressures from donors agencies that there began an earnest attempt to examine evaluation of funds utilization. Given billions of dollars raised by them over the last decades for projects, and millions spent on evaluation, why has it been difficult a process of critical reflection and learn from their experience? With increasing competition for funding and growing social problems, how does one separate efficient and inefficient, effective and ineffective program.

NGOs has been measuring certain aspects of their performances for several decades- these includes financial accountability, input, cost, program output, quality services and client satisfaction, while these measures give critical information about services the NGOs provide, they seldom reveal whether the NGOs make any different, are the beneficiaries better off with the NGO or not?, is the funding used within the specified period and the benefits accrued to the beneficiaries when they still need them? However disputes these, calls for accountability in the use of donor funds has become increasingly essential, with various cases of fund mismanagement across the continent placing added pressure on HIV & AIDS initiatives.

Donor funding are meant to benefit the intended beneficiaries at the end of the day, i.e., the services being delivered to them on time and at the lowest possible cost, any delay utilization of the resources mean, the needed services are delay also and if they are ever delivered then at a high cost. This study will benefits four key parties, the project implementing organization which will be able to re-examine the project duration and cost at proposal stage, the intended beneficiaries who are concerned with services being delivered at the right time when needed and at the lowest cost possible, the funding donors whose interest getting reports on time and feedback on the impact of the project to beneficiaries and the government whose planning incorporate what the NGOs are doing.

A project duration is a very critical aspect of a project cycle as it determine the actual cost and the net deliverables to the beneficiaries, however there is little information, research as to whether the implementers of projects meet this contractual requirement, if not what happy to final cost of the project?, how are the beneficiaries affected by this?, is the period extended and if so under what conditions? Specifically this research study is concerned with contractual agreement between the project implementers and the donor. There is very litter research done specifically on fund utilization based on the initial contractual period of the project, and therefore is a knowledge gap which this research is gear towards filling it.

CHAPTER THREE

RESEARCH METHOLODOGY

3.1 Introduction

This chapter set out the steps that were used in identifying the targeted population, the size of the sample needed for the study, data sources, collection instruments and the procedures followed in data analysis and presentation.

3.2 Research Design

This is a descriptive research design; a descriptive research gives an accurate profile of events and situation. It constitutes the blue print for collection, measurement and analysis of data, it is the plan and structure of investigation so conceived as to obtain answers to research question.

It allows one to collect a sample data from a large population at low and economical cost within a short time. The method also allows the researcher to collect quantitative data and analyze quantitatively using descriptive statistics, a descriptive study is concerned with finding out the what, where, who and how of a phenomenon, a cross-sectional survey was chosen since in a cross-sectional data collection is at one point from a sample that represent a larger population.

3.3 Population of Study

The population of interest was from NGOs registered under the Kenya NGO coordination Board, which was established by an Act of parliament, the NGOs Coordination Act No. 19 of 1990. Its role is to register, co-ordinate and facilitate the work of all national and international Non-Governmental Organizations operating in Kenya

The study covered fifteen NGOs (at least three projects from each of them making a total of forty five projects), having offices in Kenya but operate within the East Africa region including the republic of South Sudan. This gave a unique representation for the survey. Population size was selected through random simple sampling procedures, as the method gave each element of the population an equal opportunity of being selected; the method is not biased in selection and also save time.

3.4 Data Collection Method

This research was carried out through self-administered drop and a pick questionnaires that was distributed to the twenty NGOs; they were also be emailed to a few of the targeted organizations. The questionnaire was designed to identify and capture all the necessary data needed.

The research used both secondary and primary, secondary data being information already documented and are available from the records of the organization,(financial reports to donors showing how much was the budget and how much spent), and budgets which indicates the project duration, the total amount approved by the donor.

Primary data being any uncollected factors that are relates and affect the activities within the selected organization, in this case, data such as how often does the organization seek for no cost extension period, reasons for no-cost extension period, factors contributing to the underutilization etc. Primary data gives reasons to why and how, they were obtained through the unstructured questionnaire as these questions seek for reasons and explanations.

3.5 Data Analysis

Editing was done to detects errors and omissions, correction done where possible and therefore ensuring that maximum data quality standard were achieved, this process ensured that the data is accurate, consistent with the intent of the question and other information of the survey, uniformly entered, complete, arranged to simplify coding and tabulation.

The coding of data was done, that is assigning a number to answers so that the responses can be grouped into a limited number of categories. Descriptive statistics was used mainly to summarize the data, they included percentages, frequencies. Tables, pie charts and other graphs where appropriate were use to present the data for ease in understanding of the analysis.

3.6 Validation and Reliability of Data

Validity refers to that ability of a test to measure what it purport to measure, validation of the research instrument was done through a pilot study, before the study a pilot test of the measure was done against the targeted sample population. The subject approached during the pilot was marked to avoid being used in the final study, pre-testing of the questionnaire was done.

The questions are re-examine to ensure they are no ambiguous or have different meaning to different people, confusing or offensive to the respondents and therefore will lead a biased or no responses. The study was based on data which most organization consider confidential and therefore unwilling to give, and to protect them, the name of the organization was optional in the questionnaire and are not appearing in this report.

CHAPTER FOUR

DATA ANALYSIS, RESULT AND DISCUSSION

4.1 Introduction

This chapter presents the data finding from the field, its analysis and interpretation thereof. The data was gathered through dropped and picked questionnaires to fifteen organizations (NGOs); eleven questionnaires were dropped and picked while four were emailed with a request to mail back the responses.

For the dropped and picked one, the responses were seven and for the emailed four responded, (with twenty nine projects), making a total respondent rate of 73% based on the organizations and 64% in terms of projects. This was deemed adequately representative and sufficient by the researcher for the purpose of data analysis. The questionnaire was structured in a way that it captured all the key data which relates to each other, each question complementing the other, therefore confirming the accuracy of the respondents,

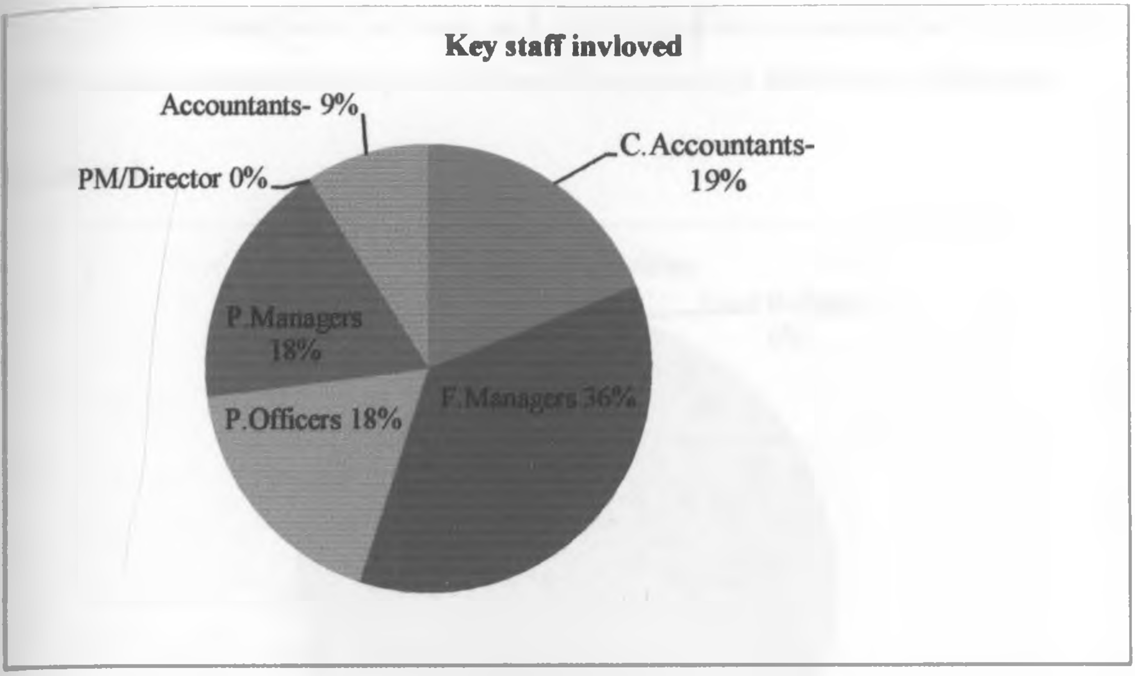
4.2 Data Analysis

Table 1: General information on the organizations-Key staff responses

Title	**Frequency**	**Cumulative Frequency**	**Percentages (%)**
Chief Accountants	2	2	19
Finance Managers	4	6	36
Project Officers	2	8	18
Project Managers	2	10	18
Programme Managers/Directors	0	10	0
Others-Accountants	1	11	9
Total			**100**

Source: Survey Data 2012

Table 1 indicates general data on the key staff of the organization, who took part as the nature required as mostly in hands of few key personnel particularly finance.



Source: Author computation 2012, **Pie chart 1**

Financial data are classified as sensitivity, and therefore most organizations are unwilling to disclose, only key staff who are the custodian of such data were able to, as indicated in the table no.1 (64%-Finance staff), with 36 % Finance managers, Chief Accountants 19%, Accountants 9%, were the highest involved, they are one who determinate whether to disclose the data or not, Project Managers and Officers with 18% each.

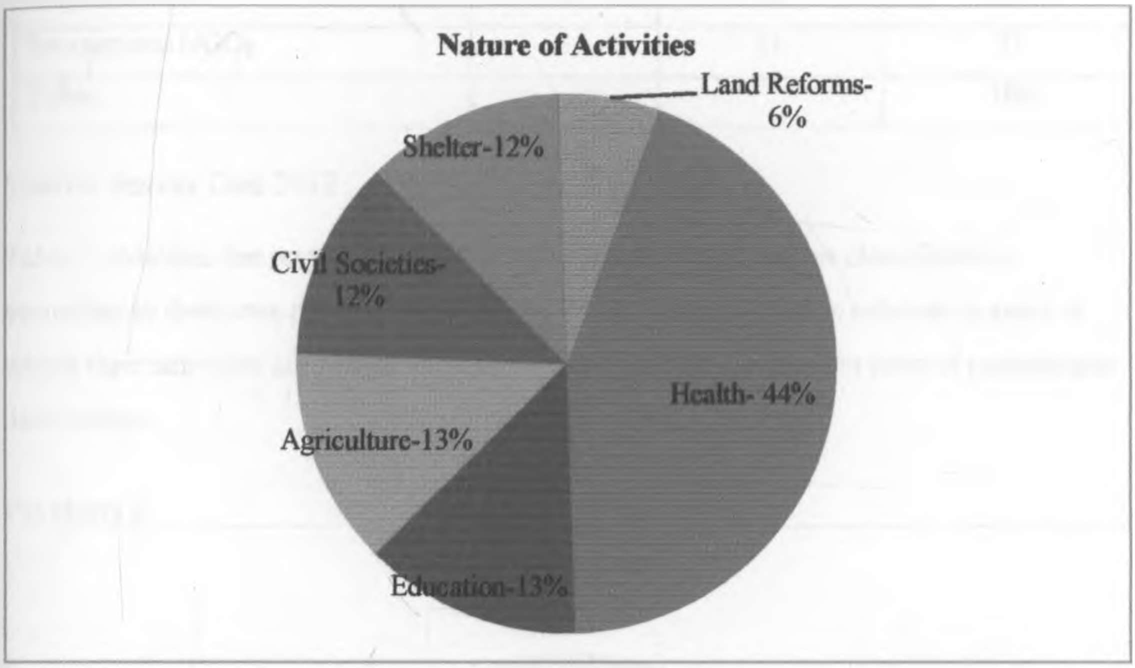
Table 2: Nature of activities

Activities	Frequency	Cumulative Frequency	Percentages (%)
Health	7	7	44
Education	2	9	13
Agriculture	2	11	13
Civil Societies	2	13	12
Shelter	2	15	12
Others-Land reforms	1	16	6
Total			**100**

Source: Survey Data 2012

Tables 2 show the natures of activities each of the organization sampled for the purpose of this research undertake and pie 2 indicates the percentage distribution of the same.

Pie chart 2



Source: Author computation 2012

The survey targeted NGOs with different activities and the results was, 44% Health related activities, followed by Education, Agriculture, shelter 13% each,12% civil societies and 6% land reforms. While visiting these organizations, the health related ones were opened and willing to discuss this research, their interest was to know how their data will be protected the benefits of study and why specifically funds under-utilization, one key observation during the discussion was some of them do acknowledge that there is a problem of fund under-utilization.

Their being opened could have led to their high response rate, and their high response rate could also be an indication that there are many NGOs involved in Health related services, the other groups had a lot of reservation on the information being requested and therefore could not disclosed.

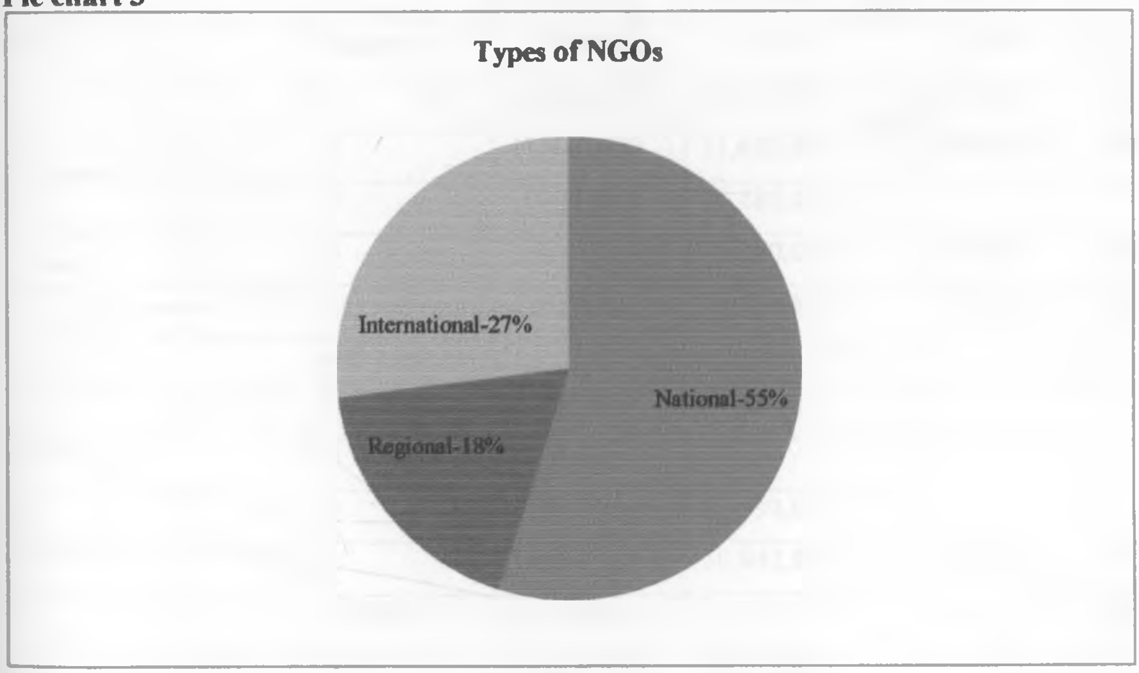
Table 3: Types of NGOs

Type	Frequency	Cumulative Frequency	Percentages (%)
National NGOs	6	6	55
Regional NGOs	2	8	18
International NGOs	3	11	27
Table			**100**

Source: Survey Data 2012

Table 3 indicates the responses on sampled organizations based on classification according to their area of activity operation; NGOs are classified in relation to areas in which their activities are found. Pie chart 3 below shows the same in term of percentages distribution.

Pie chart 3



Source: Author computation 2012.

NGOs are classified according to their area of operation, based on this the response rates of the sampled 55% National NGOs, 27% International NGOs, and 18% Regional NGOs, this indicates that the data and the result of the survey cut across the NGO sector.

Table 4: Funds usage per Project (Kshs)

Respondents Organizations	**Projects**	**Period years**	**Approved donor budget**	**Expenditure end of project**	**Balance**	**%**
A	1	2	62,897,974	61,693,203	1,204,771	2%
	2	1	6,776,765	5,999,192	777,573	12%
	3	1	20,216,422	19,613,664	602,778	3%
B	1	3	38,000,000	38,000,000		
C	1	6months	80,000,000	80,000,000		
D	1	2	74,236,160	52,192,720	22,043,440	30%
	2	1	6,561,200	5,959,200	602,000	9%
	3	2	35,154,400	26,261,361	8,893,040	25%
	4	2	26,049,440	16,312,400	9,737,040	37%
E	1	2	60,000,000	59,000,000	1,000,000	2%
	2	2	55,000,000	55,000,000		
	3	2	70,000,000	70,000,000		
	4	1	90,000,000	85,000,000	5,000,000	6%
F	1	6months	699,000	700,047	(1,047)	(0.2%)
	2	2	26,000,000	18,000,000	8,000,000	31%
G	1	5	11,440,000	11,680,000	(240,000)	(2%)
	2	5	6,480,000	6,480,000		
	3	3	1,520,0000	1,280,000	240,000	16%
	4	1	439,200	405,600	33,600	8%
	5	4months	27,040	27,040		
	6	6months	48,000	48,000		
H	1	5	No data			
I	1	2	11,998,000	11,998,000		
	2	1	14,448,505	10,942,888	3,506,617	24%
	3	6months	21,120,000	12,418,772	8,701,228	41%
	4	1	14,220,412	14,220,412		
J	1	3	30,000,000	28,900,000	1,100,000	4%
	2	3	18,000,000	16,500,000	1,500,000	8%
H	2	2	267,000,000	212,000,000	55,000,000	21%

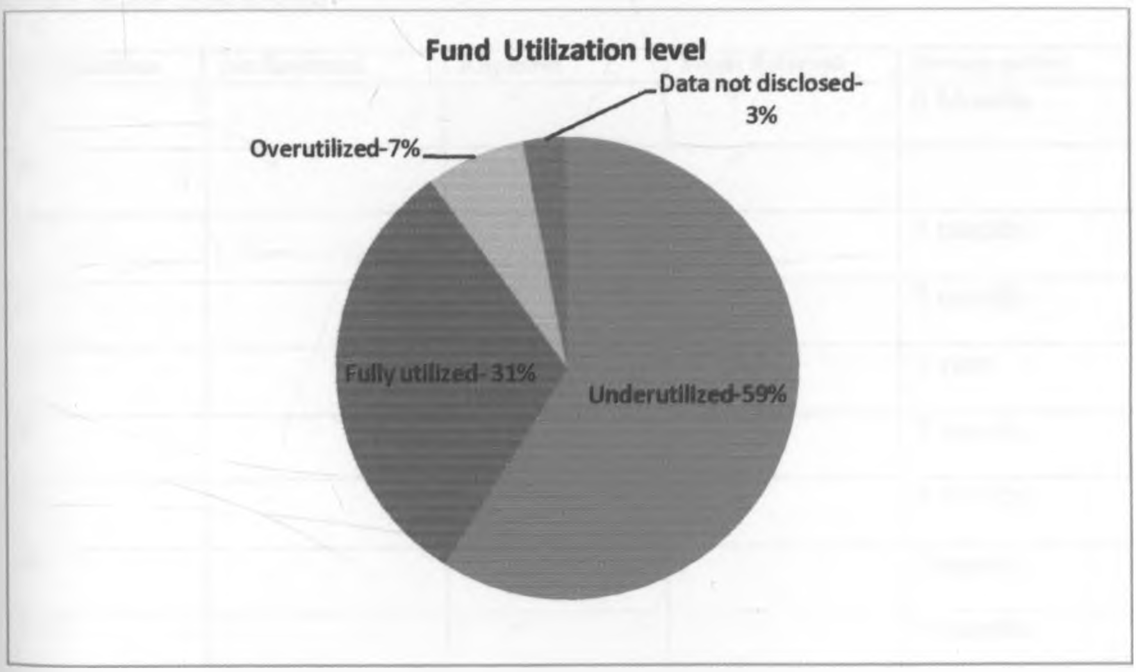
Summary of fund usage per project

Fund utilization level	Projects-Frequency	Cumulative	Percentages (%)
Underutilized	17	17	59
Fully utilized	9	26	31
Over utilized	2	28	7
Didn't disclosed the data	1	29	3
Total respondents			100

Source: Survey Data

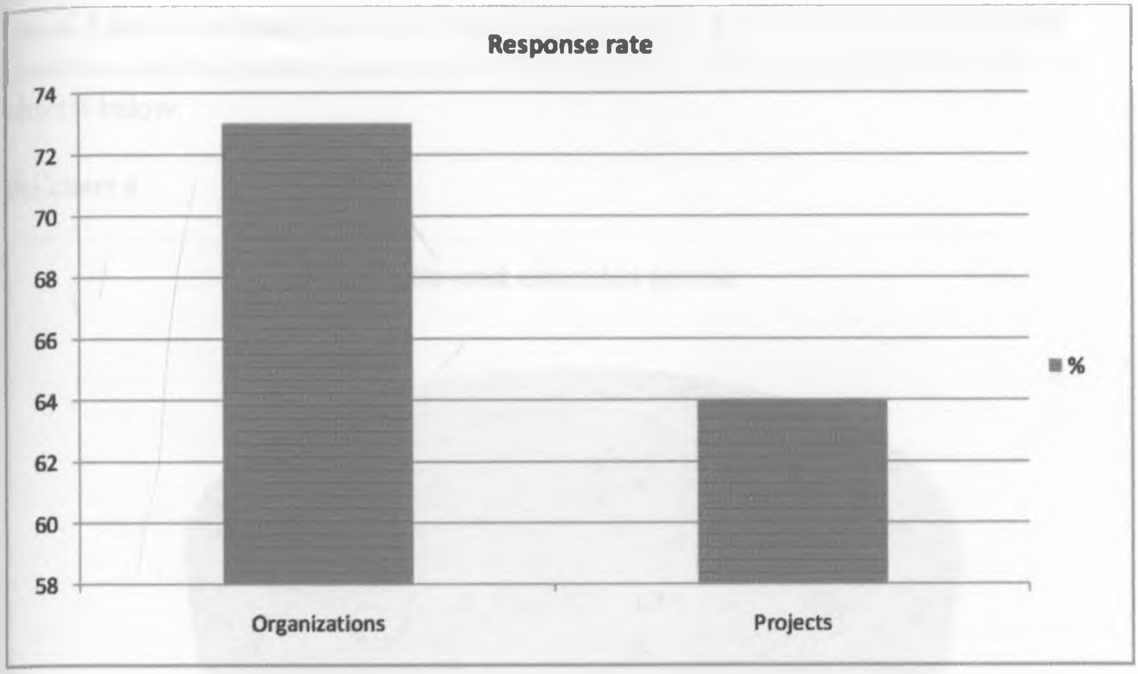
Table 4, show the number of organizations that responded and the fund usage, however due to the sensitivity of the information the names of organizations are not indicated but replaced by the letters. Pie chart 4 below indicates the results in percentages.

Pie chart 4



Source: Author computation 2012,

The respondents were 11 organizations with a total of 29 projects and therefore the respond rate was 73% for organizations and 64% projects rate, as per bar chart 1 below.



Source: Author Computation, bar chart 1

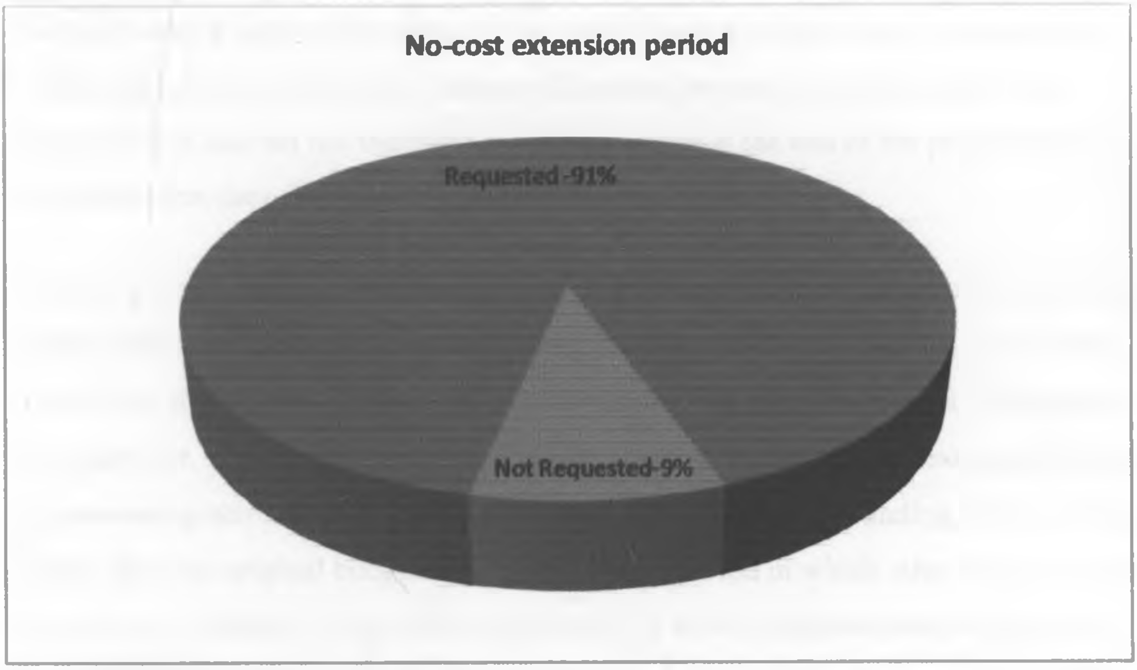
Table 5: No-cost extension period

Organizations	Not Requested	Requested	Funds Returned	Average period
A		✓	✓	6 Months
B	✓		✓	
C		✓		3 months
D		✓	✓	5 months
E		✓		1 year
F		✓		2 months
G		✓		6 months
H		✓		1 month
I		✓		3 months
J		✓		3 months
H		✓		Not available
11	9%	91%	27%	

Source: Survey Data 2012

Table 5 above indicates the no-cost extension period request by the respondent, their durations and the percentage analysis of the same. The analysis is presented by the pie chart 4 below.

Pie chart 4



Source: Author computation 2012,

4.3 Results and Discussion of the Study

According to the data on fund utilization level (Table No.4), 59% of the projects underutilized their donor funding during the six years period of the sample, while 31% fully utilizing their budget. Some of the projects underutilization was as high 30% of their individual budgets;

Depending on the funding budget this could be in millions shillings, e.g. the balance of ksh.22, 043,440 under project D above is enough to build above five permanent Health centres in Turkana county, assuming that this funds were returned to the donor, then it is a lost in development. Based on this finding, it means that the much needed services were never delivered to the intended beneficiaries as earlier planned and has a negative an impact on their economic development. NGOs are not there to make any saving on project activities funding, they are supposed to ensure that any given funding is fully used within the stated period and actual services delivered as agreed.

In project fund management no-cost extension period is an important part of a project cycle; it enables organizations to complete unfinished activities and or utilized unused funding at the end of the initial project period, without any increase on the initial budget. However during such a period the cost goes up and deliveries of the services or goods are delayed. According to no-cost extension period (Table No.5), 91% of the respondents requested for a no-cost extension period after the normal contractual period of their project ended, a further 27% returned the fund balances to their donors, as there are donors that do not give a second chance. One thing to note here is that even those organizations that did not indicated any fund balance at the end of the project period, responded that they do request for no-cost extension period.

This is an indication that the respondents were not able to utilize their funding during initial project period, and therefore the need for no-cost extension period, all of them stated that, the request was to enable them complete unfinished activities. The periods requested for, ranged from one month to one year. During the no-cost extension period the remaining activities are implemented without any additional funding, this therefore mean using the original budgeted fund over a long period in which other factors comes into play e.g. inflation. Thus affecting the level of activity implementation, also the period becomes long and the fund remains the same, it would not be enough to deliver the intended services, and even if delivered, it is at a higher cost.

As the cost become higher than the initial budget, then the initial service delivery level will not be achieved and the consequences are negative effects on the economic development of the intended beneficiaries, e.g. the construction of five Health centres above (pp 34) will not be met and the Health statues of the people in that areas will not improved.

All the sampled organizations responded that they prepare financial reports at various intervals throughout the projects life using donor approved budget; basically financial reports are monitoring tools on fund utilization and activity implementation. They enable one to see the level of fund usage and activity implementation at any given time, hence the implementer is able to either to speed up implementation process or slow down.

However looking at some of the statistical data received from the respondents, it is difficult to tell if really these organizations do prepare the reports, the under-utilization in some of the projects are very.

One can only conclude that either reports are prepared at end of the project period, when it is too late to be of any use or if they are done within the project life cycle, they are not used for monitoring and implementation.

4.3.1 Factors Contributing to Fund Underutilization

Respondents given the following as the contributing main factors:

1. The funding donor delays releasing funds once the project is approved, and therefore affecting the starting of the project and the project period;
2. Delay in reporting from the field stations of those organizations with activities in different parts of the region, therefore leading to delays in reporting to the donors, consequently delays in funds re-imbursements from the donors;
3. Projects activities not starting on time due to logistical problems between the donors and implementing NGOs, a number of them stated that there are delays communication on the approval of the funding on time by the donors;
4. Poor infrastructure, projects site being in, inaccessible areas most of the time and therefore leading to delays in implementation of the activities;
5. Mobilizations of resources takes time particularly staff recruitment, as in some cases they have be sourced from other countries e.g. in the post conflict counties or disaster areas, where most of the personnel comes other countries. Also some of the NGOs have attendance of changing staff after very project and therefore affect the continuity of the organization activities;
6. There is a trend in which donors are only willing to fund the activities without personnel and even the overhead cost, they give funds for a project and tell the NGOs to use their current personnel to implement the activities. This overloads the current staff, and affects implementation of both new and the current project;
7. Several projects being implemented at the same time in the same project site with similar activities.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION OF THE STUDY

5.1 Introduction

This chapter outlines the summary of the findings in chapter four, the conclusion and recommendation, based on the objectives of the study. The objectives of the research were to examine if there is any under-utilization of donor by the NGOs within a contractual period and the contributing factors. The study employed descriptive research design and used questionnaire to collect the data from fifteen NGOs (respondents) within a total of forty five projects. The data was analyzed using frequencies, actual variances, percentages and presented using tables, percentages and charts where appropriate.

5.2 Summary of the Findings

The study found out the following: based on the actual fund utilization level, 59% of the sampled projects underutilized their funding in the last six years compared to 31% of the fund fully utilized and 7% over-utilized. In some of the individual projects the underutilization rate is as high as 40%,

When based on the no-cost extension period, the respondents rate were 91% requested for the no-cost extension period in the last six years covered by the research data compared to 9% that never requested, out of the 91%, a further 27% returned the fund balance to the donors, as conditions of some of their donors did not allow for the no-cost extension period after the initial contractual period of the project.

The study further found out that this problem is contributed by a combination of factors such as, delays in releasing of the funding by the donors, delays in mobilization of resources by the implementing NGOs themselves, overlapping projects in the same site, poor infrastructure in some of the projects' site, continuous change of staff and donors conditions e.g. giving funding only for activities without personnel cost

This study established that based on the data of the respondents from the sampled organizations, there are evidences of an underutilization of donor funding within an initial contractual period and therefore negatively affecting the delivery of goods and services to the intended beneficiaries which further affects their economic development.

5.3 Conclusion of the Study

Based on the finding the study concludes there are evidences of funds under-utilization that cut across the NGOs sector, though NGOs are said to be effective and efficiency there are evidences that those organizations are not able to use the funding and deliver goods and services within a given period. They could be better organized than the government but not as effective and efficiency as they said to be, when given a time frame. However there is need for further research with a big sample size.

The data indicates that there are donors, that are given periods extension to enable NGOs complete the activities and utilized fund balance, in this case the same funds will be used over a longer period than initially intended and therefore not enough to deliver the initial targeted level of services/goods.

On the other hand there are those donors whose conditions do not allow for periods extension and therefore any fund balance is returned to them, in this case there is double lost as the funding could have been gave out earlier to other NGOs, and possibly could have benefited other beneficiaries. However the one that received was unable to used and therefore returned to the donors.

Most of the contributing factors to this problem are management issues that can be addressed at the proposal level or implementation stages, thus enabling the delivery of services within the contractual period. The purpose of these funding are to improve the economic living standards of the beneficiaries, but with the low utilization rate their impact are rarely there.

5.4 Limitations of the Study

The study required uses of information that are considered sensitive, and most of the NGOs were not willing to disclosed, even with assurance that information are basically for research study. Some of those, that were willing to, did not disclosed accurate position of their fund utilization e.g. in the question that asked, if they have ever requested for no-cost extension in the last six years, their answer was yes. However on the budget utilization level question, they indicated no fund surplus in any of their projects during the period. The sample size though representative was not large enough to capture big and more organizations with overlapping projects being implemented at the same.

5.5 Recommendation of the Study

The main purpose of donor funding is to supplement governments' activities in development through services delivery. There is need to reach the beneficiaries at the intended cost within a specified period and therefore improving their economic status. The data shows that there are evidences of underutilization of donors funding by the projects implementing NGOs.

However the contributing factors as per respondents are management related issues that can be addressed, therefore there is a need for NGOs managements to address them in good time and avoid fund hold-up for long period or even being returned and therefore not benefiting the intended people.

This is an area in financial management that calls for further research to find out to what extend this under-utilization goes, are the NGOs rising money only to benefit their staff in terms of salaries and other benefits leaving the intended people?, a further research that could look into personnel salaries utilization in comparison to project activities implementation could give a different picture on the purpose and aims of some of the NGOs.

Financial reports are tools for monitoring and controls on fund consumption and activity implementation, also donor approved budget is for the same purposes, and for any project to be successfully implemented there is a need to use these tools. NGOs need to make more use of these tools in their projects implementations.

REFERENCES

Alesina, A., and Dollar, D. (2000). Who gives Foreign Aid to Who and Why? *Journal of Economic Growth, on Aid to who*, 5,23.

Atta, S.O. (2007). modern Ghana. Retrieved on February 1,2012,from http://www.modernghana.com/news/145063/1/ngos

ADBI. (2005). Discussion paper on emerging issu*es*. Retrieved on February 20, 2012, from http://www.adbi.org/discussion /2005/11/10/1491.tsunami.sri.lanka/emerging .

Anppcan, (2002). The African Network for the Prevention and Protection against Child Abuse and Neglect report. Retrieved on February 20,2012, from http://www.anppcan.org-on 20/02/2012

Bird, R.M.,(1971). Wagner's Law of Expanding State activity. *Journal for Public Finance,* 26(1), 23.

Charles, T.,(1956). Political Economy, *Journal of political Economic*, 64,20-25.

Catherine, A., (2006). Is the Golden Age of the NGO behind us?, *Journal on the trends in the government support for Non-governmental organizations*,1

Davies, R.,(1997). Donor information, Demands and NGOs Institutional Developments, *Journal of internal Developments,* 9(4),612-20.

Edwards,M., and Hulme, D.(eds),(1997). Are NGOs overrated? *Article on current issues in comparative education*. Retrieved on February 20,2012 from, http://www.columbia.edu/cice/articles/edintro.htm

Funds NGOS, (2008). *Article on multilateral funds for NGOs*. Retrieved on February 2012, from http://www.fundsforngos.org/category/multilateral-funds-for-ngos

Fisher, J., (1998). Nongovernment NGOs and the Political Development of the Third World West Hartford: Kumarian Press,. *A study report that is focused on NGOs and the development process within countries.*

Gerry, J., Kevan, S., and Richard, W. (2008). Exploring corporate strategy 8th edition, Pearson Education ltd, 54.

Gildenhuys,J.S.H.,(1997). Public financial management, Second edition, Pretoria:J.L Van Schaik Publishers 1997.394.

Grindle, S.M.,(1994). *Pilot* Study of Capacity Building, *case study on Bolivia*, Retrieved on February 20, 2012, from http://mirror.undp.org/magnet/cdrb/partii.htm

Hogye, M.(2002). Theoretical approaches to public Budgeting, Retrieved on March 2012,from http://lgi.osi.hu/publications/2002/216/101

IMF, (2012). Unproductive public expenditures a pragmatic approach to policy Analysis, *Journal on economic growth*. 5(1),33-36.

Karyn,B.,(2011). "NGOs accountability finding", *humanitarian exchange Magazine*. Retrieved on April 5, 2012, from http://www.odihpn.org/humanitarian- exchange-magazine/issue-52/ngo-accountability-findings.

Kelly,T.,(1997). Public Expenditures and Growth, *Journal of Development Studies* 34,60-84.

Lacasse,F.,(1996). Budget and Policy Making: Issues, Tension and Solutions, *Paris Sigma paper on Budgeting and Policy making*,8.

Landau, D., (1983). Government Expenditure and Economic Growth: A Cross-Country/Study, Southern *Economic Journal,* 783-92.

Landau, D.,(1986). Government and Economic Growth in Less Developed Countries: An Empirical Study for 1960-1980,Journal on *Developed and Cultural,* 36-75.

Lewis,P., (1992). "Fixing World Crises Isn't Just a Job for Diplomats," *New York Times,*section 4, p.4.

Mundell, J., (2009). "Consultancy Africa Intelligence (Pty) Ltd" article on mismanagement of donor aid. Retrieved on November 12, 2012, from http://www.ngopulse.org/article/mismanagement-Donor-aid-fears-funding-cuts-intensified-on.

Musgrave, A.R., (1959). Theory of public finance, *Journal on public finance*.

McCleary, and Barro, R.J., (2008). Private Voluntary Organization Engaged in international Assistance. *Quarterly Journal on Nonprofit and Voluntary Sector.* 3(37), 512-536.

Masud, N., Yontcheva, B., 2005, Does Foreign Aid Reduce Poverty? *IMF-Working papers on Empirical Evidence from Non-governmental and Bilateral Aid*, 5(100),3-4

Meyer, Carrie,A.,(1995). Opportunism of NGOs: Entrepreneurship and Green North-South Transfers, *Journal onWorld Development,*23,1277-89.

Minasian, J.R., (1967). Public Goods in Theory and Practice Revisited. *Journal of Law and Economics* 10,205–207.

Nancy, G., and Yontcheva, B. (2006). Does NGOs Aid to Poor? Empirical Evidence from Europe, *Journal of IMF working paper,*6(39),10-15.

Palagunmi, S., (1996). Everybody Loves a Good Drought, *on Stories from India's Poorest Districts*, Penguin Books 1996,421.

Patricia,K.M,(2000), The operational Environment and constraints for NGOs in Kenya, *IELRC working paper.* Retrieved on July 16 2012, from ww.ielrc org/w002

Theory of the theory of public goods, *Journal of the review of Austrian Economic* 10,(1),1-22.

Rich, S., (1997). Africa files article on honey moon over?, *the state of NGOs in Zimbabwe*. Retrieved on February 2012, from http://www.africafiles.org/article.asp?ID=3842,

Robin,I.,(1990). Budget theory and Budget Practice: How Good the fit, *Journal on Public Administration Review*, 50(2), 181

Salamon, L., (1994). The Rise of the Nonprofit Sector, *Journal on foreign Affairs,* 73 (4), 109-10

Samuelson, A.P., (1964). Public Goods and Subscription TV: Correction of the Record, *Journal of Law and Economics* 7, 81-83

Samuelson,A.P., (1967). Pitfalls in the Analysis of Public Goods. *Journal of Law and Economics* 10,199–204

Stephenson ,C.,(2005).Report on Nongovernment organizations on development successes. Retrieved on February 1, 2012, from, http://www.beyondintractability.org/bi-essay/role-ngo.

Tiebout, M.C.,(1956). Political Economic, *Journal of political Economy*,.64, 416-424

Thomes, R. D., (2007). Working papers CUTP/003 on transnational politics. Retrieved on March 12, 2012, from tom.davies @city.ac.uk on

UNAIDS,(2010). UN reports on the global AIDS epidemic. Retrieved on February 15, 2012, from http://www.avert.org/hiv-aids-kenya.htm

Vandever, W., (1995). ADBI News & Events,*Journal on ADBI News & Events Special Programs Partnerships*,8.

Willetts, P., (2002). City University London, *UNESCO article on life support system 1.44.3.7*. Retrieved on November 10,2011,from http://www.staff.city.ac.uk/p.willetts/CS-NTWKS/NGO-ART.HTM

William.C., (1991). Non-Governmental Initiatives in ADB, the Urban Poor and Basic, infrastructure Services in Asia and the Pacific, Asian Development Bank, Manila, *Journal of urban poor and basic*.1, 5.

Willetts, P. (ed.) (1996), The Conscience of the World. The Influence of Non-Governmental Organizations in the UN System, *Washington: Brookings Institution and London: Christopher Hurst. A set of case-studies on UN institutions, NGO lobbyists and the interactions between them.5,26-29*

Wildausky,A.(1964). The Politics of the budgetary process, *Boston Journal on Little Brown*.265.

Woods, A.,(2003). Facts about European NGOs Active in International Development, Development Centre Studies Praris and Washington,D.C: *Journal on organization*

for Economic Co-operation and Development). 9.

Appendix I: Questionnaire

Please kindly answer all the questions based on what goes on in your organization programme. The name of your organization is optional and therefore you do not need to give it, if you feel there are reasons not to, information you provide will be used only for the purpose of this academic research study.

Part A:

Name of the NGO (Optional)................................ based in ....

1) Your title in the Organization:

Finance Manager [ ]

Programme Manager/Director [ ]

Project Manager [ ]

Project Officer [ ]

Chief Accountant [ ]

Others (specify)..................... [ ]

2) Nature of operations/activities/Programmes

Health [ ]

Education [ ]

Agriculture [ ]

Civil societies [ ]

Shelter [ ]

Others specify..................... [ ]

3) Type of organization

CBO [ ]

National NGO [ ]

Regional NGO [ ]

International NGO [ ]

4) Nature of Funding/source

Donor grant [ ]

Self generated income [ ]

Both [ ]

Other sources-specify............ [ ]

5) Does your project/s use donor budget for implementation and reporting?

Yes [ ]

No [ ]

6) At what point does your organization start implementation of a project?

Once a project proposal is submitted and approved by the donor [ ]

Once a project proposal is submitted to donor but not yet approved [ ]

7) At what point does your organization start mobilizing resources for implementation?

On the date stated in the submitted and approved project proposal by the donor, [ ]

One month after the approval of the project [ ]

Two months after the approval of the project [ ]

Once the funding is received [ ]

Any other time (if any state) .... [ ]

8) Through which of the following methods does your project(s) receive funding?

Reimbursement- spending first then claim from the donors [ ]

Down payment before the activities start [ ]

Full payment before the project start [ ]

Full payment once the project is fully implemented [ ]

Others- specify .... [ ]

PART B:

9). Please fill the following table with details of projects implemented in the last 6 years by your organization; give a minimum of three projects where possible.

Project period/duration	Approved donor Budget	Total Expenditure end of Period	Variance	Project location
	Currency	Currency	currency	

10) State any possible reasons for the variances:

a) Positive variances,

i)...

ii)..

c) Negative variances

i)..

ii)..

11) What happened to the unused funding? ....

12) If towards the end of the project period your organization released that the project will have surplus fund, what does your organization do with the expected surplus?

....

13) How often does your organization prepare donor projects financial report?

Monthly	[ ]
Quarterly	[ ]
Half-yearly	[ ]
Yearly	[ ]
End of project period	[ ]
Do not report	[ ]

14) How often does your organization request for a project a no cost extension from donors?

After every project	[ ]
Once in a while	[ ]
Once after two projects	[ ]
None	[ ]

15) If your organization has ever requested for no cost extension period, state the average period and the reasons.

i) Period........................

ii) Reasons...

16) What are your general views on the subject of this study?

....

Thank for you kind cooperation and I appreciate your time and input, may God bless you.

UNIVERSITY OF NAIROBI
SCHOOL OF BUSINESS
MBA PROGRAMME

Telephone: 020-2059162
Telegrams: "Varsity", Nairobi
Telex: 22095 Varsity

P.O. Box 30197
Nairobi, Kenya

DATE.......................

TO WHOM IT MAY CONCERN

The bearer of this letter ....

Registration No...

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.

IMMACULATE OMANO
MBA ADMINISTRATOR
MBA OFFICE, AMBANK HOUSE