DONOR FUNDING PRACTICES AND FINANCIAL SUSTAINABILITY OF DONOR AIDED PROJECTS IN WORLD VISION KENYA

By

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D61/72577/2014

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF THE UNIVERSITY OF NAIROBI

NOVEMBER, 2016

DECLARATION

This research project report is my original work and has not been presented for examination in any other University.

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This research report has been presented for examination with our approval as university supervisor.

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ACKNOWLEDGEMENTS

I sincerely thank my family and friends whose advice and financial support enabled me to complete this project. May the Almighty God bless them.

I would also like to express my gratitude and regards to my supervisor, Mr. Jay Murray Gichana for his exemplary guidance, valuable feedback and constant encouragement throughout the duration of the project. His valuable suggestions and constructive criticism were of immense help throughout my project.

DEDICATION

This work is dedicated to the Almighty God and my beloved family; my dear mum Agnes Jediel and dad Jediel Miriti as well as my siblings for their support and encouragement which influenced much the completion of this research project. A special mention to my fiancé Doris Pendo whose input and encouragement was invaluable.

ABSTRACT

Donor agencies play a key role in developing life changing projects in arid and semi-arid which is of great importance and cannot be ignored. Over the years, third world countries have registered a significant increase in donor agencies activities. Not all of these development projects, undertaken by these donor agencies, are sustainable as some have been noted to perform dismally while others become non-operational on termination of donor support (Adera, 2012). Few studies have been undertaken to establish sustainability of projects funded by donors, this is despite there being evidence on the poor performance of these projects with many becoming non-operational immediately after donors withdrawal. This study was intended at filling this gap by examining donor funded projects and their financial sustainability. The study determined the effect of accessibility of donor funding, donor training, and donor funding policies on financial sustainability of donor funded projects. The study concentrated on the principle agency theory, resource based theory and complexity theory. Descriptive research design was adopted in the study. The target population included 10 projects implemented by world vision Kenya in five counties. A sample size of 130 employees was selected using stratified sampling technique. Questionnaires were used for data collection from the respondents. Descriptive statistics such as mean, standard deviation, skewness and kurtosis and inferential statistics such as Pearson correlation and multiple regression model were used for data analysis. Project implementers and donors will benefit from the study by focusing on key factors affecting project sustainability in the long run even after donor withdraws.

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LIST OF ACRONYMS AND ABBREVIATIONS

ADB	Africa Development Bank
DAG	Development Assistance Group
ERSWEC	Economic Recovery Strategy for Wealth and Employment Creation
GoK	Government of Kenya
IFAD	International Fund for Agricultural Development
NGO	Non-Governmental Organization
OECD	Organization for Economic Cooperation and Development
PRSP	Poverty Reduction Strategy Paper
SWAPS	Sector Wide Approaches
UNICEF	United Nations Children's Education Fund
UN	United Nations
USAID	United States Agency for International Development
UNDP	United Nations Development Programme
WVK	World Vision Kenya

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

For every policy maker, sustainable projec9676ts are a priority both in national as well as international development. These development projects, especially in Africa and other third world countries, have been noted to play a vital role in offering basic social services like the agricultural extension, provision of education, infrastructure building, raising public awareness on various development issues such as environmental protection and gender equality. The key to note is that these development projects aim to fill development gaps where many governments, especially in third world countries, fall short. However, the disappointment of beneficiaries and stakeholders has been prevalent and common in most of these projects due to their poor performance (Kwak, 2002).

Hawkins and Mann (2007) noted that most of the projects implemented in the 1980s did not perform satisfactorily. These projects were recorded to have project overruns costly both to the World Bank and the recipient countries. They further pointed out that the bank lost focus along the way resulting in inadequate supervision which eventually affected the performance and outcomes of many projects. They further stated that the sustainability of projects was the main challenge in the third world countries. A big percentage of high-cost projects undertaken mostly tended to have sustainability challenges which became and still is a concern for key donors including the Asian Development Bank, the World Bank, as well as bilateral aid agencies. Khan (2000) noted that the trend on projects implementation was showing significant improvement but post implementation sustainability was still disappointing as fewer projects were sustainable beyond donors' support. This unsustainability meant that despite massive expenditures incurred towards implementation of development projects especially in third world countries, poor sustainability was denying the beneficiaries expected returns. This further meant that the despite increase in development expenditure debts, intended gains were either not imminent or were accruing at a dismal rate.

Scholars have argued that projects undertaken by donor agencies in arid and semi-arid areas are very significant hence cannot be ignored. Over the years, third world countries have registered a significant increase in donor agencies activities, some of the agencies include; Non-Governmental Organizations (NGOs), Community-Based Organizations (CBO), and Faith-Based Organizations (FBO). These fund a number of projects especially in arid and semiarid areas due to governments' failure to deliver services to its people. However, not all of these development projects, undertaken by these donor agencies, are sustainable as some have been noted to perform dismally while others become non-operational on termination of donor support (Adera, 2012)

1.1.1 Donor Funding Practices

To adapt to best practices resulting from different circumstances of various countries, donors needs to be flexible in their policies and how they conduct their activities so as to accommodate differing institutional capacities, partnership histories, and traditions. It is key for the donors to communicate coherently with partner governments, and resolve different policies noted so as to align them to those recommended by the partner government, this will enable them make informed and constructive choices. For the donors and the partner governments to achieve coherent, a lead donor representing all donors working in the sector on all crosscutting issues (OECD, 2005) is needed. Donors need to ensure that policies they support are based on credible and sound information. Recognition towards the need of an evidence base policy has seen an increase in the amount of analytical work undertaken. It is key to note that most of these analytical work has been funded by donors as many partners have been noted to have limited capacity (OECD, 2003).

Presence of a well-established diagnostic tools applied in policy making has seen an increase in ownership by partner governments. However, these have been noted to have little consistency and coverage, the core statistics required by the tools may not be sufficiently collected or ineffective communications within a partner government preventing analytical work from being shared (OECD, 2003). In these engagements of policy change, donors might have many goals aimed at encouraging embracing of fresh concepts and plans by donor agencies as well as endorsing the adoption by the national governments of pro-poor measures. In addition, they may also work towards ensuring that key players are more effective and promoting relations among them, or through advocating for the public to support a certain policy (Jones, 2010).

The extent of assessing donor's policies is determined by the scope and frequency of the delegated co-operation arrangements. Where a significant number of delegated co-operation arrangements are envisaged then a comprehensive review to establish a general framework may be desirable. A modest one-off arrangement warrants a more limited assessment. 2000-2001, Australia, and New Zealand embarked on a joint review of Harmonizing Donor Policies and Practices in the Pacific to find ways to improve aid delivery at both strategic and operational levels, as well as enable the partner governments to reduce transaction costs. The review team found that the most significant benefits of this pilot would be reduced transaction costs and reporting burdens for partner countries, and an improved focus on the program. It could also increase the synergy of the donors' programs (OECD, 2003)

Evidence suggests that the aid policies and procedures of Australia and New Zealand in the Pacific may be more closely aligned than they are with those of other donors to the region. Japan has very specific rules and procedures for delivering assistance. Japan's overall aid policy is closely linked to broader foreign policy objectives, and as a consequence, there is a reluctance to introduce more general issues of conditionality into project design. There is also a strong emphasis on large capital projects, which from a very early stage in the design are driven by the private sector objectives of Japan's implementing agency. Under these circumstances, the private contractor is concerned to deliver the project within a given time frame with little concern for the activities of other donors. A similar situation exists with some of the other bilateral donors such as China and Taiwan (Australian Agency for International Development, 2001).

1.1.2 Concept of Financial Sustainability

An organization can measure its financial sustainability by computing the income after expenses and taxes (the surplus of revenues over expenses); availability of cash to cater for expenses; and comparing its assets and debt/liabilities. Sustainability shows whether an organization will be able to achieve its duties and attend to its stakeholders over time. USAID describes sustainability to mean broader funding sources accompanied by an enhanced capability to offer essential services to target populations who are in need of the services (USAID, 2007).

International Fund for Agricultural Development (IFAD, 2004) describes sustainability as continued funding of the projects and the government assumption of the goods and services offered by donor-funded projects and an ongoing provision of required funding and credit to rural areas even after donor support ends. Besides, it points out that sustainability is demonstrated by strong, trained, active, community groups who have an aim of owning project outputs and are willing to improve the structures and keep the projects running. There is no doubt that sustainability of the donor funded projects will be assured and guaranteed if community groups come together, own the projects and assume their functions.

Sustainability refers to the projects' ability to continue with its operations and benefiting the intended communities within its lifetime. It is the expectation of every stakeholder involved in a project to see it helping the targeted population in the long run as this is one way of reducing poverty levels in developing countries like Kenya. However, sustainability issue needs to be looked at within changing time, social, economic and political contexts meaning that a project which is sustaining today, may not be so in future. On the other hand, there are instances where the government for its own interests, implements projects with the aim of maintaining their financial sustainability not taking into account how viable the projects are, then those projects can only be viewed from the perspective of that government (Khan, 2000).

1.1.3 Donor Funding Practices and Financial Sustainability of Donor Funded Projects

Success or failure of donor funded projects has been blamed on the donors, through their practices which determine whether the projects implemented through their funding to the

NGOs will be sustainable in the long run or not (Font *et al*. 2012). There are various donors who fund projects in developing nations such as bilateral donors (national cooperation/development aid agencies), multilateral (World Bank, United Nations Development Programme, Asian Development Bank, European Union), NGOs, and foundations (Rashid, 2005). Many people view development assistance to developing countries as being politically motivated, but in reality, the practice has shown that it is mostly linked to enlightened self-interest by the donors. More funds are directed towards countries where donors have more self-interest as compared to countries which are considered hostile to them (Wilson, 2007). Evidence has shown that donors sometimes choose aid recipients based on potential trade benefits where more funding is directed towards countries where they will have favorable trade agreements with the receiving country (Younas, 2008) or because of historical ties with former colonies.

Donors have been known to allocate aid across countries based on income, population, and policy where more assistance is directed to countries with low income among its citizens, high population and with policies which are considered moral and acceptable by the donor country (Anderson & Clist, 2011). Moreover, donors' responsibility and performance go beyond aid allocation, to also include their commitment, flexibility, and control, among others. A study conducted on aid practice measures, UN agencies were found to perform worse than bilateral aid, with marginal improvements in aid transparency and improving ineffective support channels being noted in all agencies. Specialization, selectivity, and overhead costs showed no or little discernible improvement (or weaker performance) despite many agencies claiming the contrary (Easterly &Williamson, 2011). Easterly and Williamson, 2011 carried out a study on

“The Best and Worst of Aid Agency Practices” aimed at measuring whether donors follow best practices, as defined in the Paris Declaration, aid agency documents, and the academic literature, and if there was improvement in agency behavior. The result of the study was a no. the study noted that more qualitative data is needed to be able to have a clear and more accurate position of the state of aid in developing countries and aid agencies which in turn will ensure that projects undertaken by NGOs are sustainable in the long run and their benefits are enjoyed by current and future generations (Easterly and Williamson, 2011).

Mosley, Harrigan, and Toye (1995) reviewed World Bank lending processes and noted that pressure on the staff to achieve allocated disbursement targets and to spend the available budget was the main objective of management. Edgren, (1996) argued that it would reflect negatively on staff if they failed to disburse funds as this would be an indicator of problems in the country department. Svensson, (2003) also noted that budgets were committed to interventions based on what was pledged by donor countries rather than on the performance and impact of the agencies and the projects being undertaken.

1.1.4 Overview of NGOs

The term Non-Governmental Organizations (NGO's) started to be used in 1945 when UN needed to distinguish in its charter between participation rights for private international organizations and those for specialized intergovernmental agencies (NGO Coordination Act, 1990). NGOs are not profit organizations; also they should neither be governmental nor inter-governmental organizations. NGOs are established with the reason being to bring together individuals who have a common goal of achieving certain objectives especially uplifting the well-being of the most vulnerable members of the society or to assist people suffering from a life-threatening diseases like cancer, AIDS, and the rest. NGOs have different sizes demonstrated by their coverage, organization structure and their effectiveness in meeting beneficiary needs. The size and coverage is mostly determined by the availability of funds from donors which means that those with more fund will be able to cover a large area and be able to employ more staff who will be distributed across the country of operation. We have both locally established and foreign NGOs operating in developing countries like Kenya with their funding coming foundations, governments, individuals, or businesses. There are also those which are run entirely by volunteers and hence don't receive any formal funding. Different NGOs offer various services to the countries where they operate, with the services mostly being guided by community needs.

Some NGOs have been known to undertake projects in marginalized areas without consulting the community members to list their priorities, with such projects facing resistance from the communities hence ending up being abandoned along the way or they collapse immediately they are handed over to the communities. Projects, where community members have been engaged, are known to perform better during the period they are under the NGOs and even when they are handed over to the communities as they take ownership of them. Some NGOs may also be started with charitable status while others will be registered for tax exemption based on due to their operation and their recognition of social purposes. Some political parties, churches or other interest groups have also been known to start their NGOs to assist the local communities or undertake activities which are considered to be vital and lacking to the communities (NGO's Global Network).

The USAID description of NGOs as private voluntary organizations has caused controversy among scholars who have argued that many NGOs receive funds from the state and corporates and projects implemented are normally managed by professional staff. There are various reasons why NGOs exist; to advance political and social goals of their members or funders (Global Policy Forum Operational Directive, 1994).

NGOs are not allowed to be a branch or in any way be affiliated with any organization. Further, they cannot be part of a political group established outside of Kenya. In broader terms, an NGO means any non-profit organizations depending wholly or partly on voluntary service or charitable donations with activities that are independent of the Government (NGO Co-ordination Act, 1990). The Government of Kenya has failed in providing quality services to its citizens hence attracting several NGO's operating in the Kenya from a few hundred in the 1990's to 8042 in 2013. (Jhuthi, 2015).

Records at the Kenya's Government bodies/ agencies shows that Kenya had a total of 836 NGOs in 1997 with Nairobi County having the largest number and North Eastern region having the least. By 2007, this figure had tremendously gone up to 4099 NGOs; the number increased further to 8042 in 2013 (Jhuthi, 2015).

The focus of the study will be World Vision Kenya whose early assistance to Kenya included a 1965 grant to World Gospel Mission. WVK began operations in Kenya in 1974 while responding to severe drought and famine experienced in some parts of the country. Currently, WVK employees over 1,000 staff members who works in 56 Area Development Programmes which are spread across the 35 counties with various needs, this translates to 74% of 47 counties in Kenya. WVK, engages with valued partnerships/donors/support offices, to enable communities easily access the knowledge, skills, and resources needed to improve the living standards of children and overcome poverty in Kenya. World Vision Kenya uses a community development approach where communities are engaged to identify their needs before a project/program is undertaken. WVK has various interventions in areas such as child protection, water and sanitation, health, education, food security, nutrition, economic development and microfinance. By helping community members help each other, most of the projects/programs implemented continues long after the development programs phase out.

1.2 Statement of the Problem

Existing literature, (both local and global) reviewed noted minimal research on the financial sustainability of donor funded projects implemented by both domestic and international NGOs. Most of the focus by the few research studies carried out on non-profit organizations focused mainly on the outcomes and results of projects/programs (whether operational or not), capacity building of relevant stakeholders and government involvements in the entire process or projects implementation as opposed to focusing on organizational processes and procedures and factors affecting financial sustainability of these projects. Literature review further pointed out that most of the studies carried out on the financial sustainability of donor funded projects were focused in India, South Africa and Asia. These regions have different environment both in community expectations and government policies than Kenya. Further, these areas have varying conditions, especially on economic conditions, levels of poverty, levels of literacy and political stability which plays an important role in ensuring the financial sustainability of donor-funded projects (Davis, 1999). This research sought to determine factors influencing the financial sustainability of donor funded projects in WVK with the main focus on donor practices.

Financial sustainability will be achieved by examining various donor practices such as accessibility of donor funding, donor training and donor funding policies and their influence on financial sustainability of donor funded projects.

For a very long time in Africa, the struggle to attain sustainable development and improve the living standards of the people has been associated with donor aid as governments have proved not to be doing enough to uplift its citizens as corruption has become cancer and governments have not been able to fight it. The corruption menace has seen donors funding in Africa and other developing countries increase tremendously over the years with the aim of filling the gaps left by the governments especially on improving the livelihoods of its citizens through engaging in sustainable projects. Most of these funds have been directed towards donor dependent programs/projects rather than community-based and accepted projects resulting in most of them becoming non-operational immediately the donor support ends. Thus, one of the assumptions of donor aid through NGOs would be to pursue sustainability of donor assisted projects/programs as a significant development value and principle (Jhuthi, 2015).

Over the years, development assistance by donors has been criticized for not realizing the real impact on the target beneficiaries. For a long time especially in Africa, the question of why development projects are not realizing the value despite huge sums of money from donors has not been answered, and the search for a solution continues. The NGOs in Kenya, have been receiving huge amounts of money towards developing sustainable projects which fight poverty but the situation seems to deteriorate with many of its citizens languishing in poverty (Jhuthi, 2015).

ODI (1995) alludes that NGOs and Donors in spite of recording success and life changing stories, they are still facing a myriad of challenges in undertaking projects which are life changing. In most of the times, the projects introduced are not sustainable and once the donor support ends, the situation goes back to the initial state before the arrival of the donors. It has also been noted that in some cases, the projects do not meet the clients' needs which have been associated with NGOs not focusing on the needs of the beneficiaries when undertaking their projects. Kenya has not been spared either with many huge capital extensive projects being started and ending up abandoned along the way due to various reasons. This failure has been attributed to lack of adequate donor funding and donors' withdrawal, non-supportive government, failure by the community and beneficiaries to support the projects. Stringent donor practices, lack of donor commitment and inflexibility of donors has also been linked to the failure of the projects. There is an alarming rate of unsustainably of community projects whereby upon an NGO leaving a project area community members can no longer sustain the projects. This trend points to the wastage of donor funding since even after billions of shillings are pumped into a project the designated areas remain totally underdeveloped with the community living standards remaining the same if not worse. These reasons support the need for an investigation on the link between donor practices and financial sustainability of donor funded projects and provide insight into the best practices to be adopted by donors for the social and economic development of citizens of developing countries where most of the funding is directed (ODI, 1995).

Norwegian Government initiated a plant for fish processing in Kenya's Lake Turkana at a cost of $22 million. The project was designed in 1971, with the aim of providing employment to the Turkana community through fishing and fish processing meant for export. The project was unique given that Turkana community is nomads and have no history of either fishing or fish eating. After the project was completed, it only operated for a few days after which it was quickly shut down. The closure of the project was associated with the cost of running the freezers being too high in addition to the high demand for clean water in the desert. The project has remained a "white elephant" in Kenya's arid northwest who have for the longest time been pastoralists (Odhiambo, 2012).

Various projects implemented by World Vision Kenya have also experienced closure after donor support ends. For example, two boreholes constructed in Turkana County in 2012 became non-operational after they were completed and handed over to the community. Both projects were dug at the cost of USD 0.3 million and were supported by Hong Kong and USAID (WVK, 2013). A water irrigation scheme project constructed and completed in Kainuk in West Pokot in 2013 at the cost of USD 20,000 became non-operational immediately it was handed over to the community. Project failure was associated with the community being too poor to sustain the project whenever it needed repairs, they could not afford to maintain it and were awaiting WVK to come in and revamp the project. Also, the project could not generate enough resources due to poor management to be able to sustain itself and provide the beneficiaries with the intended services.

Most of the research studies carried out on NGOs operating in Kenya have focused mainly on the outcomes and results of projects/programs, capacity building of the community members and the level of government involvement in donor funded projects/programs rather than focus on organizational processes and procedures and factors affecting financial sustainability of donor funded projects which has been an issue especially in the developing world where funds continue to be channeled by donors but the impact on the community communities remain vague and people continue to languish in poverty. This research study was therefore aimed at finding out the donor funding practices and their impact on the financial sustainability of donor funded projects in World Vision Kenya.

1.3 Objective of the Study

The study is aimed at examining the donors funding practices and the financial sustainability of projects funded by these funds.

1.4 Value of the Study

The study will seek to assess donor-funded projects, their short and long-term financial sustainability and perhaps later suggest ways on how non-governmental organizations and donors can work together to improve the financial sustainability of donor funded projects.

The study will also point out key issues relating to donor aided projects and will help facilitate new development perspectives towards donor aided projects in Africa and Kenya in particular. Also, this study will significantly contribute to the body of literature on the donors funding and the financial sustainability of projects funded by these funds as not much work has been done on the topic. As a result, future researchers can draw literature from the study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Literature refers to evaluating all information or data sources relating to the topic under study. Hart (1998) and Gordon (1996) defines literature review as use of ideas in the literature with the aim of satisfying a certain approach to the topic, methods selection, and the demonstration that a study or project contributes to something new. The chapter considered the work from various authors to build theoretical and the conceptual framework of the concept of financial sustainability of donor funded projects and various donor practices.

2.2 Theoretical Framework

2.2.1 Principal-Agent Theory

The study will employ Agency theory which refers to a 'type of institutional analysis' that looks at the incentive problems which may occur in foreign aid and end up resulting in inefficient aid expenditure. In the donor-beneficiary relationship of foreign aid principal is assumed to be the donor while the agent is the beneficiary. Agency theory, which is the same as principal agent theory is associated with either moral hazard or adverse selection which talks about the need to delegate from the principal to the agent resulting in imperfect monitoring, and thus uncertainty of the projects implemented. As such it has been argued that recipient's compliance with donor agreements is subject to adverse selection and moral hazard.

Moral hazard is demonstrated in instances where beneficiaries have incentives to follow policies advancing themselves at the expense of the objectives of the donor aid agencies. The Adverse selection which runs against the principal is associated with asymmetric information which favors the beneficiary (agent) over the funding agency (principal). Moral Hazard advances itself in recipient countries where agents who are the direct beneficiaries of the aid from the principal have incentives to portray development projects as making a difference in their lives when they know in reality, it is not. The agents, who are the beneficiaries believe that it is better to get something than nothing and so they will end up lying about the benefits of the projects being funded by donors, this is especially when external sources fund the projects. This has made benefactors of foreign aid have no incentive in raising concerns with the donor agency when they realize the full benefits of the projects are not forthcoming (Martens, 2001).

Milner (2008) applies the principal-agent model to demonstrate domestic politics in donor countries. He argued that when the taxpayers (principals) feel that the aid agency (agent) is not attending to their interests in developments abroad through the funds contributed for the purposes of development projects in developing countries, the agency tries to ease the situation by channeling aid through multilateral organizations. Wood (2008) further argued that voters in donor countries, who are the principals, have biased or in accurate information about the actual benefits of their government's aid channeled to the agencies who are considered to having incentives to misrepresent their impact to the donor countries whereas multilateral agencies have fewer incentives to appeal to a particular country's constituency.

2.2.2 Resource-Based Theory

This theory highlights how firms may enjoy competitive advantage effective and efficient performance over others by making use of their available, treasured, scarce, unique, and organized resources. Resources can either be tangible (physical) or intangible (non-physical) in nature. RBV describes a firm as a bundle of resources brought together for a certain purpose mainly in ensuring the future survival of the firm, which clearly shows that a firm's resources and their organization make one firm unique from the other. This looks and analyses firms from the inside –out whereby internal environment is analyzed first before looking at the external environment (Barney, 1995).

Gitonga (2014) argued that by NGOs employing qualified staff and having all the funds to undertake a project is not enough to ensure financial sustainability of donor funded projects. He further pointed out that there is the need for project management teams to involve local communities to obtain required support before commencing a project. To create a sustainable environment, they need resources categorized into the three C's; Competence, Capital, and Contacts. Competence is necessary to effectively meet donor targets; the project needs enough capital to purchase raw materials or obtain a business premise and finally avenues and contacts to access project beneficiaries and for smooth cooperation with the necessary stakeholders.

This theory will be adopted in this research on financial sustainability of donor funded projects due to its focus on internal environment especially on how easy does the NGOs access funds or internally generate funds to ensure that projects commenced will be completed and enough resources will be available to capacity build the stakeholders to ensure that projects undertaken will be sustainable in the future. NGOs ability to mobilize sufficient resources from both donors and locally generated funds and donors policies will be likened to the environment. In spite of Non-Governmental Organizations being nonprofit, they cannot run away from the fact that they are economic institutions. This is due to their practice of extracting capital from scarce resources to advance their agenda and meet their objectives. These capital could include land, labor and human resources which are mainly attained through public/community participation and ensuring that the communities become part and own the projects (Omeri, 2014).

2.2.3 Complexity Theory

This theory studies nonlinear dynamic systems as it tries to reconcile fundamental unpredictability of organization and industries with the development of unique patterns in the environment. This theory was initially developed in physical and biological sciences contexts; it has in recent days been continually applied in social, ecological and economic systems tending to exhibit nonlinear relationships and complex interactions evolving dynamically over time (Kiel & Elliott, 1996).

The theory has linked the rise in highly complex and often unpredictable behavior in an organization to changes in simple deterministic functions. Thus, the application of this theory in strategic planning is based on the assumption that organizations are flexible beings which responds to variations in the environment. Any organization needs to be aware and accommodate unexpected changes in its strategic planning to ensure its survival. Thus organizations including the NGOs cannot operate in a vacuum assuming that they are not prone to the dynamics of the environment. Thus NGOs should not only rely on donor funding but should devise other means of raising local funds in instances where donor funding reduces and donor policies unexpectedly become non-favorable to them making accessibility to donor funding difficult (Gathiru, 2014). By being aware and making plans to counter unexpected donor practices changes, NGOs will be able to implement financially sustainable projects which will continue in future even after the donor supports comes to an end.

2.3 Factors Affecting Financial Sustainability of Donor Funded Projects

2.3.1 Accessibility to Donor Finances

Securing funds has always been a major challenge for NGOs in implementing development projects. Accessing donor funds has been noted as an essential element in NGOs undertaking of projects in the communities beginning with project preparation/design, conducting due diligence on the viability of the projects and offering support for any income generating investment NGOs may involve in. Many projects would neither be started nor be affordable without the availability of donor funds. Accessing funding has remained one of the key challenges in ensuring that donor-funded projects are sustainable (Donor Report, 2012). Donors have in the recent periods increased their funding towards projects in developing countries, but there is still no clear understanding of the guidelines they apply when disbursing those funds which threatens the success of the projects they fund (Nunnenkamp et al., 2009).

Most NGOs have a designated person coordinating donor finance at the same time acting as the middle man between donors and the NGOs. This person has the responsibility of handling both loans and grants from donors. Most of these loans granted are guaranteed by NGOs who endeavor to repay, and most of these loans are only lent to the communities with the aim of developing projects considered life changing (Nunnenkamp et al., 2009).

Most of the donors have been known to set a ceiling on the grant funds disbursed to NGOs and insist that funds allocated to a specific project cannot be utilized on another project not unless they have been consulted and approved. Grants have been found to face more conditions than loans hence becoming difficult for NGO to access them. Some donors also offer grants to NGOs with conditions tied to them especially on procurement of goods and services which can only be acquired from countries (Donor Working Group, 2004).

2.3.2 Capacity Building of Stakeholders

Aid agencies, especially World Bank have over the years embraced knowledge sharing and knowledge management in their development agenda. They have worked hard in ensuring they become knowledge centers instead of just funding agencies making them appear like some private companies. Additionally, various aid agencies have undertaken organizational changes and worked towards becoming more decentralized in the way they run the organizations. This means that decisions can be undertaken at the country level, mostly in partnership with peers donors as well as ensuring that they are aligned to the national partner charters (Jensen, A. 2005). This trend has forced donors to have joint declarations: Paris Declaration on Aid Effectiveness in 2005, the Rome Declaration on Harmonization 2003 and the Joint Marrakech Memorandum in 2004 (OECD 2004).

Over the years, there has been development in technology between the donors and the NGOs who are the intermediaries between the donors and the beneficiaries. For instance, development of satellite telecommunication technology has helped the NGOs be able to easily access key information on donors globally through the use of intranets and the Internet meaning that staff have access to all the information that they need which they can pass to the beneficiaries. Over time, donor agencies have found it necessary to compare notes and have resulted in the use of technology to access and disseminate information on procedures as well as on tools and on the best practices to be adopted (Jensen, 2005).

Train4dev forum was established in Glasgow in 2003 with the aim of harmonization donor practices and information sharing. This was a joint Donors Competence Development Network. The more than 17 donor agencies who are its members meet once in a year. Their activities involved development of joint event training, staff exchanges and e-learning organized in sub-groups during the meeting (Jensen, 2005).

There has been an increase in the use of knowledge management and training in donor organizations as this has been highlighted as one way to develop sustainable projects which are transforming the lives of beneficiaries. The aim of improved knowledge sharing through joint donor approach is aimed at exploring how Train4dev network can create a synergy between training and sharing knowledge among the donor agencies. This will present a key knowledge sharing issues related to donors funding and implementation of projects in developing countries. The key group targeted by this strategy was primarily donor agency staff involved in disseminating the best practices or those involved in trainings and competence development within their agencies and to the beneficiaries. This is also expected to inspire corporate policy makers as the policies they come up have an overall effect on the sustainability of the implemented projects (Jensen, 2005).

Donors' provision of relevant training to identified target groups such as the NGOs and the communities has been linked to achieving sustainable benefits from donor-funded projects in the long run. Scholars have argued that training should begin at the design phase and not at the end of the project. Training should be conducted throughout project implementation to ensure there is free flow of information and knowledge which in turn ensures project financial sustainability. Quality training of the target group, should not only 'educate' them but also motivate them to deliver quality job; trainees' selection should be purely on merit, both men and women should be included in the program, and it should be directly relevant to their work. Once trainees have completed the training, opportunity to apply newly acquired skills should be given to them to test their understanding and at the same time ensure sustainability. Other methods of training noted to achieve sustainable development include; on-the-job training, mentoring and short-course competency. In instances where staff are transferred or leave the organization, refresher training must be repeated for essential skills to be sustained throughout (Okun, 2009).

2.3.3 Donor Funding Policies

Poverty has been noted to be reduced at a higher level by external aid only if donor practices and policies are in line with the government-steered poverty reduction-related practices. In this aspect, The Poverty Reduction Strategy Paper (PRSP), a strategy which resulted from G-7 governments' 1999 Cologne annual meeting, where leaders of the industrialized countries agreed to Enhanced Heavily Indebted Poor Countries Initiative, are potentially key tools aimed at rationalizing and coordinating global aid flows. There has been a shift from traditional conditionality with the aim of achieving shared outcomes; a requirement whereby external donors are to realign their aid disbursements methods and donor policies to be in the same spirit and goals of PRSP. The launch of

PRSP has seen a positive change in how some donors draft their policies and procedures (Booth, 2001; UNDP, 2001). Some of the changes related to how donors funds countries with some of them supporting budgets of developing countries or lending funds within the framework of sector-wide approaches (SWAPs). Both Tanzania and Uganda have witnessed a move in methods employed in financing projects from financing a single project towards supporting a programme composed of many projects and the budget. Development partners in Burkina Faso have established themselves into a group supporting the budget in line with PRSP. European Union, Netherlands, Belgium, Sweden, Denmark and Switzerland forms this group (Koudougou, 2002). The arms of UNDP and World Bank operating in Ethiopia have harmonized various donors and lenders interests, this has been facilitated through Development Assistance Group (DAG). This group comprises 17 bilateral and multilateral representatives, who are chaired by UNDP (UNDP, 2003). Other donors have indicated their willingness to shift towards budget support (Abebe, 2002).

For a long time, donor funding policies have been known to focus mostly on new capital investments rather than on supporting operation and maintenance costs. This focus has been associated with the failure to implement sustainable projects, especially in economies/countries experiencing internal budget deficit problems. Limited resources being used to finance continuing programs have also been used to fund additional operation and maintenance costs resulting from the new capital projects which strain available funds resulting in projects experiencing funding cuts. This points to a need for a sustainable and permanent approach to maintenance cost funding. This should be based on a serious and careful assessment of the local community capacity to cater for these costs. Project implementers need to carefully analyze and determine whether or not some assets needs maintenance or replacement. This will in a big way help to ensure that money to maintain assets is available which in turn guarantees project sustainability in the long run (Okun, 2009).

2.4 Review of Previous Studies

Rono (2008) conducted a study on the financial sustainability of NGOs projects in Nairobi which pointed out that many projects depended on donor funding resulting in low utilization of internally generated resources. He further stated that these projects ended up not offering the beneficiaries the needed services. Khan and Hare (2005) associated sustainable donor-funded projects to the development of a clear institutional base, adoption of a robust programmatic approach, and availability of enough funds to implement the projects to the end. They further argued that all NGOs needs to establish sound internal systems and structures that foster the belief that the community will support valuable projects, and ensure that development plans for sustainability of donor funded projects are established. They went further and highlighted that at the projects/programs level, market is carefully analyzed and community engagement is encouraged resulting in the offering of quality service at affordable prices. NGOs are expected to set up systems and policies aimed at providing sufficient funds to finance and manage the projects well (Khan and Hare, 2005).

Asian Development Bank's (ADB, 2004) key pillars of financial sustainability included; funds availability to finance projects, recovery of some project costs from project beneficiaries so that the recovered funds can be used for development projects in other areas, and the financial incentive necessary to ensure community participation in the project. Consequently, it's necessary for the NGOs to have a financial plan which clearly shows whether they will have adequate funds to finance project expenditures.

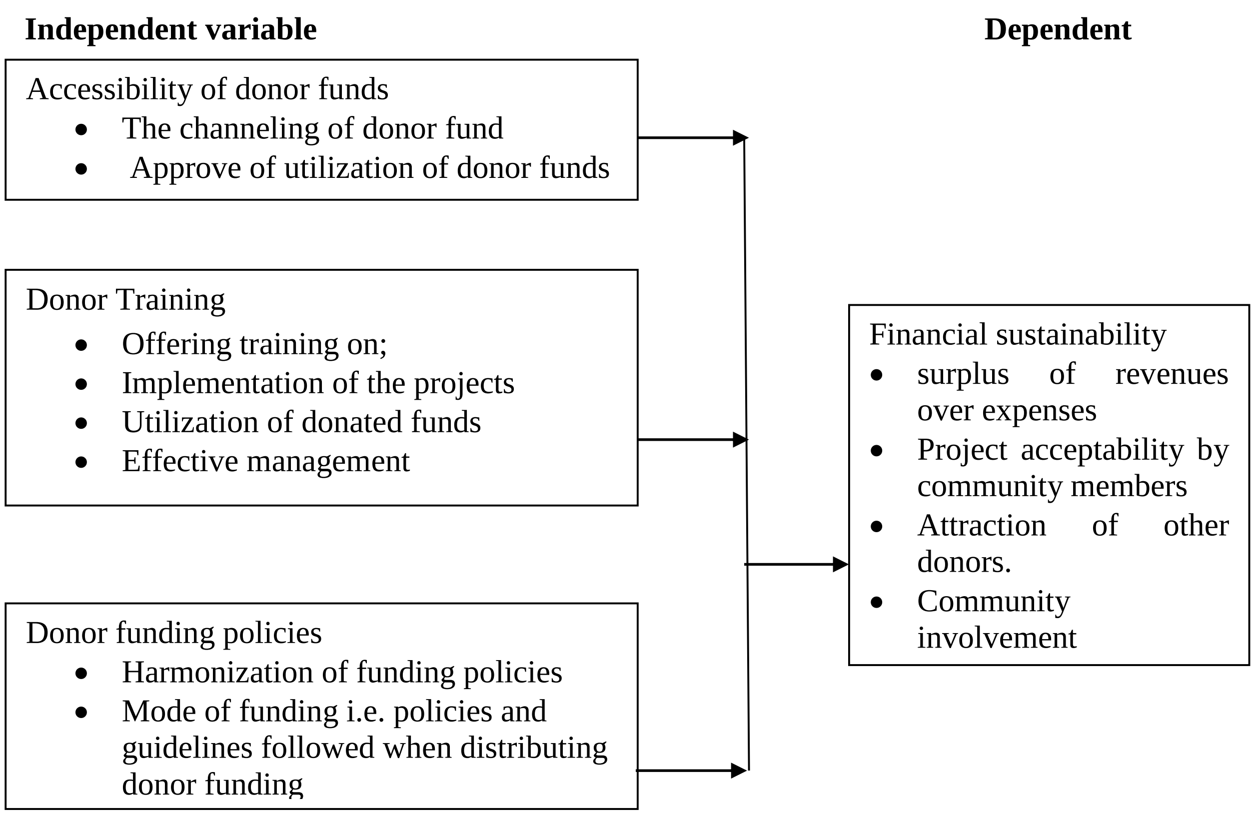
Amott (2003) argued that NGOs that are funded by one donor can be very vulnerable. NGOs are nowadays recognizing that additional income from local sources can be an extra avenue to raise funding to complement donor funding and at the same time help to build projects which are sustainable in the future. These locally generated income allow NGOs invest in projects/programs for which they would not have obtained donor funds to implement especially if the projects relate to those donors perceive to be higher risk. Moreover, the ability of a project to generate income cannot entirely guarantee that the project will be financially sustainable forcing some NGOs around the world to take the approach of generating funds locally (Schneider & Gilson, 1997).

In Kenya, continuous deterioration in economic performance has worsened the poverty situation in the country as was outlined in the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) report 2003-2007. Percentage of people living in poverty has increased by 48% from 11 million in 1990 to 17 million by 2002 (GoK, 2003). Due to this, a concerted effort aimed at alleviating poverty through public private partnerships mainly through rural projects initiation (GoK, 2001) was needed. This also called for sustaining the projects initiated to ensure that they continue to offer the services intended to the beneficiaries.

2.5 Conceptual Framework

Some of the donor funding practices discussed include accessibility of donor funds, donor training and donor funding policies. These formed the independent variables of the study. Financial sustainability of donor aided projects will be measured in terms of the surplus of revenues over expenses, project acceptability by community members, the attraction of other donors and community involvement. The conceptual model is a conceptualization in functional form of how the independent variables affect the dependent variable which is the financial sustainability of donor funded projects as shown in figure 2.1.

Figure 2.1: Conceptual Framework



Source: Self (2016)

2.6 Summary of the Literature Review

This chapter has clearly and in depth shown what other researchers have done concerning the effects of donors' behavior on the financial sustainability of donor funded projects. For instance, it has looked at findings on donor training from Jansen (2005), among others. However, from the literature review it is not clear how the knowledge gained through the execution of the donor funds, particularly at the wrap-up review stage is ploughed back to benefit and refine the solution already provided. There is also no evidence of proper knowledge on how well donors should behave to pave way for projects which will be sustainable financially which is what this study will seek to find out.

CHAPTER THREE

RESEARCH DESIGN AND METHODOLOGY

3.1 Introduction

This chapter explains the research design, target population, sample size and sampling procedures, data collection and data processing and analysis.

3.2 Research Design

Descriptive survey design which was adopted in this research involved data collection from a sample population to understand population status in relation to one or more variables (Mugenda & Mugenda, 1999). This provided a large sample and a greater source of data for my study. The study was conducted in 10 donor funded projects under World Vision in North Rift region. It targeted a population of 120 respondents which included project managers and project coordinators, and employees from the 10 donor funded projects.

3.3 Target Population

Population is described as a group of people or things which the researcher wishes to investigate (Sekaran, 2010). Mugenda and Mugenda (2003) defines population to mean a group of people or objects with common visible characteristics. This study targeted top management staff from the ten projects being implemented by World Vision Kenya in 4 counties (Turkana, Baringo Nakuru and West Pokot).

3.4 Sample Size and Sampling Procedures

Cooper and Schindler (2011) describes a sample is a sub group of a large population which enables a researcher to understand the population. The study used stratified random sampling techniques. The population was divided into stratus (10 projects in north rift) namely; Turkana, Baringo, Nakuru and West Pokot. Census technique was used to provide a sample size of 130. The respondents were selected as they had adequate knowledge on the concept of donor funding and channeling of donor funds.

Table 3.1: Sample Size

Counties	Projects	Projects Manager	Project Assistant Manager	Team managers and supervisors
Turkana	3	3	3	34
Baringo	2	2	2	26
West Pokot	2	2	2	21
Nakuru	3	3	3	29
Total	**10**	**10**	**10**	**110**

Source, World Vision Database (2016)

3.5 Data Collection

The study used both primary and secondary data. Secondary data was used to identify who were the stakeholders of the projects and project reports such as financial reports sent to donors and evaluation reports done at the end of the project phase. The study also made use of journals, periodicals, publications, newspapers among others to obtain reviewed literature data to assist in the buildup of empirical literature. Self-administered questionnaires were employed to capture primary data. Likert scale was used to measure the variables which were then measured using a combination of different questions administered through the questionnaires.

Sapsford and Japp (2006) argue that the questionnaire is a standardized method of data collection where similar questions with the same meaning are directed to all respondents for easier comparison. They further argue that it is a cheap and the fastest way of collecting information about a population.

Wood and Ross (2011) argue that Social desirability and acquiescent response set are some of the errors in social science research. Wood and Ross add that the two types of errors must be avoided as it greatly affects the validity of the measurement or its ability to arrive at the differences among subjects. In this study, the researcher presented the questions in such a way to avoid any or both errors.

3.6 Data Processing and Analysis

The data was processed and analyzed so at to ensure that all the relevant data for making contemplated comparisons and analysis is available. Statistical package for social sciences (SPSS 19.0) was used to analyze data. The study used descriptive statistics which enabled the researcher to describe and compare variables numerically such as mode, mean and median. The researcher further used measures of variability to see how spread out the scores of each variable was, and other measures of variability such as the range and the standard deviation.

Since it's hard to interpret or work with raw data from the field, it is imperative that such data is cleaned, coded and key punched into the computer. Data analysis was done using correlation and classical multiple regression techniques. Correlation technique helped in showing how the variables relate, whether they were positively or negatively related. Classical multiple regression techniques brought out a number of variations explained by the independent variables through the coefficient of determination (R^2). A linear relationship between donor funding and financial sustainability of donor funded projects was established using multiple regression models. The multiple regression models are shown below;

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$

Where,

Y = Financial sustainability measured by the number of years project remained functional after completion and hand over to the communities.

α = constant.

$\beta_1 \ldots \beta_3$ = Coefficients of independent variables $X_1 \ldots\ldots\ldots X_3$

X_1 = ease of accessibility of donor funding measured by the number of donors supporting a project throughout its implementation phase to completion.

X_2 = existence of donor training measured by the cost of training conducted during the implementation of the project vis-a-vis the total budget

X_3 = favorability of donor funding policies measured by the number of months project implementation delayed due to unfavorable or limiting donor policies

€ is error term (represents all other factors affecting the dependent variable other than the independent variables in the study)

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter highlights the results of the study in line with objectives formulated. Variables involved are analyzed and the conceptual model estimated. Data collected was analyzed and presented in a tabular form. The model estimation and the analysis of the results were then interpreted.

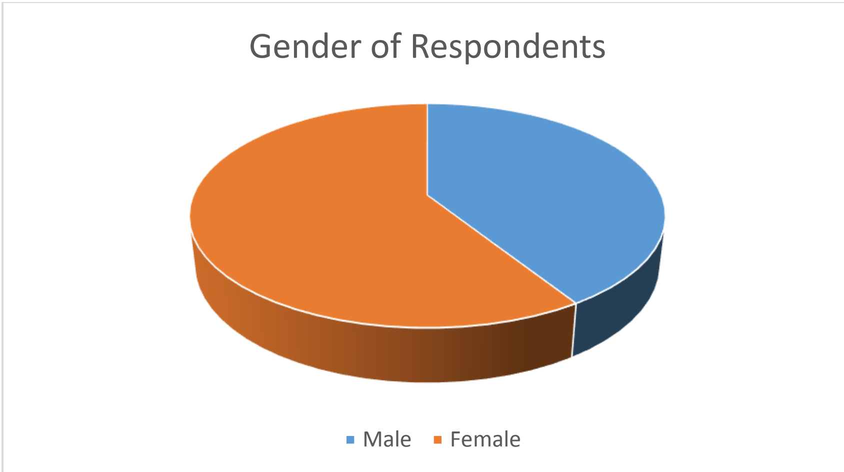
4.2 Demographic Information

The researcher is able to understand characteristics of elements in the sample as well as understand the view of respondents from demographic information. The general information obtained from the respondents formed the basis for data interpretations. The respondents who came from 10 projects implemented by World Vision Kenya in five counties comprised of 120 employees.

4.2.1 Gender of the Respondents

Forty one percent (41%) of the respondents were male while fifty nine percent (59%) were female.

Figure 4.1: Gender of the Respondents

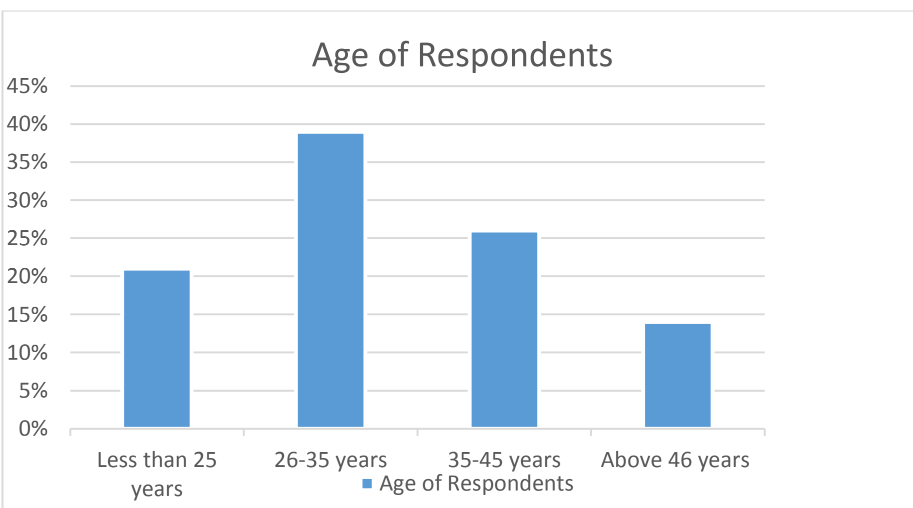


Source; Field Data (2016)

4.2.2 Respondents' Age

Majority of respondents (39%) were within the age category of 26-35 years. These were followed by 35-45 at 26%, less than 25 years at 21 % and lastly by respondents above 46 years at 14% as shown in the table below.

Figure 4.2: Respondents' Age

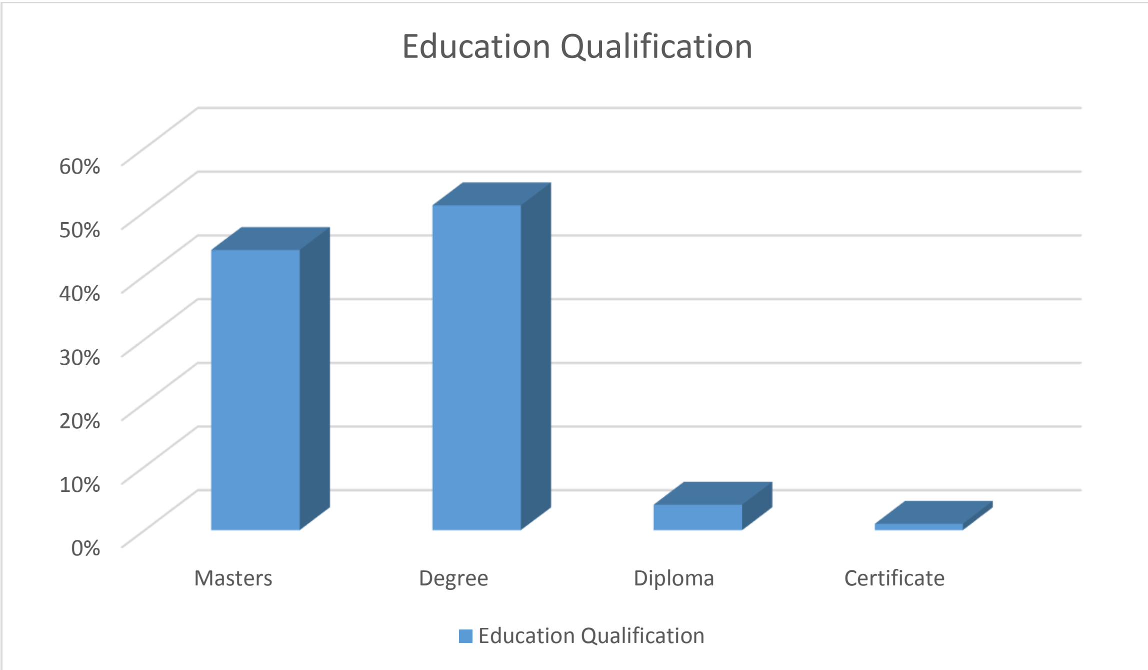


Source; Field Data (2016)

4.2.3 Education qualifications of the Respondents

44% of the respondents had Master's Degree, 51% had a Degree, and 4% had Diplomas while 1% had Certificates.

Figure 4.3: Education Qualification



Source; Field Data (2016)

4.3 Financial Sustainability

The study showed that projects had more revenues than expenses resulting in a surplus by (mean=4.64) confirming that projects had sufficient, had enough cash to pay the bills (mean=4.6), had required support from stakeholders (mean= 4.08) and community and local representatives acceptance of the projects was high (mean=4.3).

The findings also indicated that the projects product prices were higher than the product (mean=4.87). The projects were further found to have a positive impact on the environment which in turn contributed to the net profit to the economy (mean=4.73). All the findings above clearly indicated that donor funded projects were sustainable in the long run.

Table 4.1: Financial Sustainability

	Mean	Std. Deviation	Skewness	Kurtosis
Projects had surplus of revenues over expenses	4.64	0.503	-0.331	-1.256
Project had enough cash available to pay bills	4.6	0.556	0.597	1.747
Projects had attracted required support from various parties	4.08	0.945	1.015	0.266
Projects were widely accepted by community and local representatives	4.3	1.075	-0.682	-0.963
Projects product prices were higher that project costs	4.87	0.594	1.269	3.257
Positive impacts on the environment were noted which contributed to the economy's net profit	4.73	0.485	1.163	4.412

Source; Field Data (2016)

4.4 Accessibility of Donor Funding

The study revealed that respondents had ease of access to donor funding (mean =4.4), utilization of donor funds approval is done within provided timeframe (mean=4.51). It was further revealed there was less bureaucracy in channeling money to implement the projects, there is good coordination and management when accessing donor funds (mean=4.65). WVK has a designated responsible for coordinating donor finances for easy access (mean=4.95). In addition to proper coordination and management of donor funds, there are indicative ceiling set by the donors on their grant funds with clear guidelines that money used to finance one activity cannot be used to fund another (mean=4.51) unless there is proper approval from them. The above findings indicated that that accessibility to Donor funding has been improving over time.

Table 4.2: Accessibility of Donor Funding

	Mean	Std. Deviation	Skewness	Kurtosis
Ease of access to donor funding	4.4	0.492	0.402	-1.859
Approval of utilization of donor funds is done within the timeframe provided	4.51	0.534	0.504	0.483
Monies are channeled without lot of many Bureaucratic	4.65	0.511	-0.009	0.66
Access of donor funds is well coordinated and managed	4.69	0.721	1.37	2.867
The NGO have designated person who coordinates donor finance for easy access	4.95	0.428	-5.091	31.431
Donors have set an indicative ceiling on their grant funds.	4.51	0.513	0.072	-1.692

Source; Field Data (2016)

4.5 Donor Training

The study showed that donors share best knowledge with project implementers (mean=4.46), donors offer training on effective project management (mean=4.61) and training on implementation is also offered (mean=4.61). Donors commitment to make full use of skills and transfer them to their beneficiaries is available (mean=4.71).

Further, donors share both transferable best practices on innovative grant making and information with colleagues that they may not have otherwise engaged (mean 4.54). Lastly, donors have established joint working arrangements including shared decision making (mean=4.67).

Table 4.3 Donor Training

	Mean	Std. Deviation	Skewness	Kurtosis
Donors share best knowledge and power leveraged with project implementers	4.46	0.533	0.71	0.739
Donors offer training on effective project management	4.61	0.523	0.149	0.458
Donors offer trainings on implementations	4.61	0.523	0.149	0.458
Donors commitment to making full use of skills and transfers them to their beneficiaries	4.71	0.535	0.771	6.548
Best practices on innovative grant making including information to colleagues those may not otherwise have been engaged is shared among Donors	4.54	0.544	0.497	0.489
Donors have established joint working arrangements that include shared decision making	4.67	0.559	0.467	1.696

Source; Field Data (2016)

4.6 Donor Funding Policies

The study found out that donors have established procedures and policies arrangements including shared decision making (mean=4.57), they have agreed to work together to harmonize various procedures and regulations (mean=4.61), they have embraced common system and procedures (mean=4.68). Lastly, they work together in various ways (mean=4.67).

Table 4.4 Donor Funding Policies

	Mean	Std. Deviation	Skewness	Kurtosis
Establishment of procedures and policies arrangements including shared decision-making	4.57	0.459	0.461	1.689
Donors harmonized procedures and regulations which they explored together	4.61	0.510	-0.102	0.820
Mutual procedures and systems have been adopted by various donors	4.68	0.502	0.209	2.716
Donors work together in various	4.59	0.588	0.719	3.348

Source; Field Data (2016)

4.7 Correlation Analysis

Correlation analysis assesses the relationship between variables; it measures the degree of association between two random variables. Significant correlation may not necessarily point out causality but rather a common linkage in a sequence of events. The study examined the relationships existing between independent and dependent variables as well as among the independent variables/ factors. The results are as per table 4.5.

The table clearly indicates that there funding is a positive relationship between the various independent factors and donor at 0.01 level of significance. The table shows donor funding at 46.8%, Donor training contributes 15.5%, donor funding policies at 16.5%, and financial sustainability represents the largest and most significant effect. The table also shows that accessibility to donor funding would result in 54.1% while Donor Training would result in 25.8%.

Table 4.5 Correlation Analysis

	Financial Sustainability	**Accessibility of Donor Funding**	**Donor Training**	**Donor Funding Policies**	
Financial Sustainability	1				
Accessibility of Donor funding	0.466**	0.541**	1		
Donor Training	0.155**	0.042	0.258**	1	
Donor Funding Policies	0.165**	0.474**	0.360**	0.229**	1

**** Correlation is significant at the 0.01 level (2-tailed).**

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

Source: Researcher, 2016

4.8 Regression Results

4.8.1 Coefficient of Determination

Table 4.6 shows that all the three predictors (donor funds, donor capacity building and donor financing policies) explained 50.8 percent variation of financial sustainability, this means that using the three tested variables, financial sustainability can only be predicted by 50.8% (R-squared =0.508). However, if another variable is added, there is a likely hood of the predicted value increasing with 1.4% (adjusted R-squared = 0.495). Durbin-

Watson test indicated that there was no autocorrelation since it fell between the recommended thumb rules of 1 to 2.

Table 4.6: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
0.712	0.508	0.495	0.10285	2.1

Predictors: (Constant), Donor funds, Donor capacity building

Dependent Variable: Financial sustainability

Source; (Researcher, 2016)

4.9 Multiple Regression Results

4.9.1 Model Summary

Table 4.7 shows that multiple regression model used during the study had a coefficient of determination (R^2) of 0.624 meaning that accessibility to donor funding, donor capacity building, and donor financing policies explains 62.2% variations of financial sustainability. Durbin–Watson statistic is substantially less than 2 indicating that evidence of positive serial correlation exists. However positive serial correlation does not affect the consistency of the estimated regression coefficients, it only affects our ability to conduct valid statistical tests, as such our conclusion is that significant statistics are valid. The table further reveals that F-value of 139.934 with a p value of 0.00 significance at 5% indicates the significance of overall regression model, hence showing the significance of the independent variables in predicting financial sustainability.

4.9.2 Test of Multi-Co linearity

Table 4.7 shows that values of tolerance were greater than 0.2 rule while those of VIF were less than 4 revealing lack of multicollinearity among independent variables. This implies that omitting variables with insignificant regression coefficients would be inappropriate.

4.10 Hypothesis Testing

Donor funds as evidenced by β_1=0.169, ρ<0.05, indicates that donor funds had an effect on financial sustainability, therefore rejecting the null hypothesis that donor funds has no effect on financial sustainability. This means that increasing donor funds will lead to increase in financial sustainability of donor aided projects. A statement supported by t-test value of 3.517 implying that an increase in one unit of donor funds increases financial sustainability by 0.169 units.

Findings in table 4.7 donor capacity building had estimated coefficient of 0.279 with p values of 0.000 which was less than 0.05 level of significance, therefore rejecting the null hypothesis that that donor capacity building had no significant effect on financial sustainability and concluded that donor capacity building had a significant impact on the sustainability of the project. This means that increase in donor capacity increases financial sustainability of the project.

Similarly, the study results revealed that the estimated coefficient for donor financing policies was 0.241 with p value 0.00<0.05 level of significance, providing evidence rejecting null hypothesis that there was no significance effect of donor financing policies on the financial sustainability of the project hence confirming the existence of a positive relationship between the two.

Table 4.7: Multiple Regression Results

	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
	B	**Std. Error**	**Beta**	**T**	**Sig.**	**Tolerance**	**VIF**
(Constant)	0.843	0.133		6.269	0.000		
Donor funds	0.153	0.044	0.169	3.517	0.000	0.479	2.089
Donor capacity building	0.233	0.04	0.279	5.802	0.000	0.479	2.088
Donor financing policies	0.254	0.05	0.241	5.089	0.000	0.469	2.152
R Square		0.624					
Adjusted R Square		0.620					
F		139.934					
Sig.		.000					
Durbin-Watson		1.338					

a Dependent Variable: Financial sustainability

Source; (Researcher, 2016)

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The objective of the study was to establish the impact of donors funding practices on the financial sustainability of donor funded projects in WVK. The target population was managers, assistant managers and team supervisors from 10 WVK projects in 4 counties (Turkana, Baringo, Nakuru and West Pokot).

5.2 Summary of Findings

The study established that more female than male were involved in the management of projects tested in the four counties. It was also revealed that many of the respondents were between the age of 26-35 years at 39% and most funding was received from international donors. Majority of respondents were well educated with those with an undergraduate degree contributing the highest percentage at 51% followed by those with a masters degree at 44% confirming that these projects are managed by staff with a high understanding of the projects.

5.2.1 Accessibility to Donor Funding

A positive correlation was identified between level of access to donor funds and the Financial sustainability (Pearson correlation=0.466, p value=0.000) supporting the argument that donor funding is essential for any project to ensure that there are enough funds to undertake the community projects to completion. 2012 donor report indicated that many projects would never be started were it not due to donor funding as communities do not have sufficient funds to implement them. Most of the third world countries especially those who have had a war for a long time have relied heavily on donor funding, either through the UN or NGOs to fund projects aimed at empowering communities and improving their living standards.

5.2.2 Donor Capacity Building

This was found to significantly effecting financial sustainability of donor aided projects which supported Jensen, 2005 argument that joint donor approach is key to ensuring there is improved knowledge sharing. Donor training helps organizations seek new and more effective ways achieving their objectives by ensuring that all stakeholders have the necessary knowledge on how to implement and manage projects even after donor support ends. Part of the training conducted by donors are aimed at keeping administrative costs as low as possible to ensure that most of the funds are geared towards direct implementation of community projects. Capacity building, on the other hand, involves identifying efficient communication strategy, use of technology and engaging community members to ensure that they are supportive of the implemented projects which in turn increases financial sustainability.

5.2.3 Donor Policies

The study showed that donor financing policies were positively correlated to financial sustainability at beta coefficient 0.296, $\rho<0.05$. Donor policies guide how contracts are prepared, the duration of funding, projects to be implemented and reporting on the progress of projects being implemented. Also, the policies emphasize on community participation so as to ensure that projects implemented are in line with their needs.

NGOs should not only focus on approved activities and output levels but must incorporate regular monitoring to ensure that projects implemented are sustainable in the future. Projects funded by multiple donors need high coordination so as to ensure they run smoothly. It is important for donors to have field level agreements with various stakeholders clearly documenting their roles and responsibilities, as well as have appropriate channels for distributing resources and receiving feedback.

5.3 Conclusion

The study established a direct link between donor funding policies and financial sustainability of donor aided projects meaning that financial sustainability of projects will increase with increased donor funding. The study further confirms that the level of access to donor funds plays a major role improving financial sustainability. Specifically, projects with high level of access to donor funds have high chances of being sustainable in the future.

The study also indicated that donor capacity building is key in improving the financial sustainability of projects as donors can come up with better ways of achieving their set goals and implement projects with the involvement of the beneficiaries.

Finally, the study concludes that financial sustainability of donor funded projects will increase if donor policies are not stringent and are aligned towards the recipient countries' policies. It is, therefore, necessary for project implementers to act in accordance with donor financing policies, so as to guarantee donors' confidence which in turn increases financial sustainability of these projects.

5.4 Limitations of the Study

The study faced unwillingness of the respondents to freely give information as they considered information sought to be strictly confidential. However, the introductory letter plus the permission requested from the organization helped mitigate this constraint.

5.5 Recommendations

The study revealed that donor funding has a profound effect on the success of a project. The findings further suggest that projects with easy accessibility to donor funding are most likely to be financially stable in the long run. This clearly shows that individuals who have been put in charge of donor aided projects should have the required skills and professionalism to ensure the projects are sustainable in the future even after the donor support ends.

The study strongly supports the argument that donor capacity building impacts projects financial sustainability, in the long run; thus implementers should be willing to increase transparency to improve the growth of projects and hence realize their financial sustainability.

Finally, donor financing policies need to be adhered to by project implementers as this will result in the proper implementation of the projects. Donors' policies should be favorable and consider all stakeholders as this will ensure that they are acceptable.

5.6 Further Recommendations

Further studies need to be conducted focusing on the various ways in which the locally available funds such as Constituency Development Fund (CDF) and Local Authority Transfer Fund (LATF) can be utilized to start sustainable projects in the region. Use of locally available funds would reduce overdependence of external donors who have very stringent policies that have to be followed by the local beneficiaries and stakeholders.

The researcher also recommends that similar studies be conducted in other parts of the country to assess the factors affecting financial sustainability of the donor funded projects and compare the results of other parts of the country with the five counties' results.

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APPENDICES

Appendix I: Transmittal Letter

DOUGLAS MIRITI,

UNIVERSITY OF NAIROBI,

P.O. BOX 30197,

NAIROBI.

Dear respondent,

RE: COLLECTION OF RESEARCH DATA

I am a post graduate student at the University of Nairobi. In order to fulfill the requirement of attaining a Master of Business Administration in Finance I am undertaking a research project on the donor funding practices and financial sustainability of donor aided projects, a case study of World Vision Kenya.

I kindly request you to participate as one of the respondents for an interview to assist me in data collection. Do not write your name on the questionnaire since the responses are confidential and will be used solely for the purpose of research.

Thank you for your cooperation.

Yours faithfully,

Douglas Miriti,

Student MBA

Appendix II: Questionnaire

SECTION A: DEMOGRAPHIC INFORMATION

In this section the study would like you to provide some background information about yourself. Kindly tick (√) appropriately.

What is your Gender?

Male [ ] Female [ ]

What is your age bracket?

Below 25 years [ ] Between 26-35 [ ] Between 35-45 [ ] Above 46 years

What is your level of education?

Master [ ] degree [ ] diploma [ ] certificate [ ]

Respondents Position:

How long have you worked on this project:

How much is the project budget to completion in USD?

Kindly indicate category of your donors

International [ ] Local [ ] Both [ ]

SECTION B: FINANCIAL SUSTAINABILITY

a) In this section the study is interested in your view about financial sustainability of the projects. Read each of the statements carefully and tick the appropriate choice.

Key SA – Strongly Agree, A- Agree, N – Neutral, D – Disagree, SD- Strongly Disagree

S/N	Financial Sustainability	SA	A	N	D	SD
1	Project has had surplus of revenues over expenses					
2	The project had enough cash available to pay bills					

3	The project has attracted required support from various parties					
4	The project has widely been accepted by community and the local representatives					
5	Projects product prices have been higher than project costs					
6	There have been positive impact on the environment contributing to the positive impact to the economy.					

b) How many years has the project been operational since being handed over to the communities?

SECTION C: ACCESSIBILITY OF DONOR FUNDING

a) In this section the study is interested in your view about Donor control towards the projects. Read each of the statements carefully and tick the appropriate choice Key SA – Strongly Agree, A- Agree, N – Neutral, D – Disagree, SD- Strongly Disagree

S/N	**Accessibility of donor funding**	**SA**	**A**	**N**	**D**	**SD**
1	It is ease to access donor funding					
2	Approval of utilization of donor funds is done within the timeframe provided					
3	Monies are channeled without lot of bureaucracy					
4	Accessing donor funds is well coordinated and managed					
5	The NGO have designated person who coordinates donor finance for easy access					
6	Donors have set an indicative ceiling on their grant funds and money that is used to finance one activity cannot be used to finance another					

b) How many donors are supporting/supported the project from its inception to completion?

How much did each contribute in USD?

SECTION D: DONOR TRAINING

a) In this section the study is interested in your view about **Donor collaboration on the projects**. Read each of the statements carefully and tick the appropriate choice

Key: SA – Strongly Agree, A- Agree, N – Neutral, D – Disagree, SD- Strongly Disagree

S/N	Donor training	**SA**	**A**	**N**	**D**	**SD**
1	Donors share best knowledge practices with project implementers					
2	Donors offer training on effective project management					
3	Donors offer training on proper project implementation					
4	Donors have committed to make full use of skills and transfers them to their beneficiaries					
5	Donor shares both transferable best practices on innovative grant making and information with colleagues that they may not otherwise have engaged (e.g. those working on different issues)					
6	Donors have established joint working arrangements that include shared decision-making.					

b) How much was the budget for the training for the entire project from inception to completion in USD?

SECTION E: DONOR FUNDING POLICIES

a) In this section the study is interested in your view about Donor Coordination towards the project. Read each of the statements carefully and tick the appropriate choice.

Key: SA – Strongly Agree, A- Agree, N – Neutral, D – Disagree, SD- Strongly Disagree

S/N	Donor Funding Policies	SA	A	N	D	SD
1	Donors have established procedures and policies arrangements that include shared decision-making.					
2	Donors agree to explore together various procedures and regulations that are harmonized					
3	Donors have adopted common systems and procedures					
4	Donors work together in various ways e .g joint monitoring teams and joint high-level meetings, directly reducing administrative burdens on partner countries.					

b) Were there delays experienced during implementation of the projects resulting from in applicability or stringent donor policies? [ ] Yes [ ] No

If answer above is yes, indicate by how many months