Financial Monitoring and Evaluation on Financial Sustainability of Public Governance Non-Governmental Organizations in Nairobi County, Kenya

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ABSTRACT

The study sought to establish the effect of financial monitoring and evaluation on financial sustainability of public governance NGOs in Nairobi County. The study was guided by agency theory. The study adopted descriptive research design. The collected data was analyzed using both quantitative and qualitative data analysis methods. SPSS was used for data entry, descriptive analysis, reliability analysis, correlation analysis and multiple regression analysis. Data was collected by use of questionnaires and analyzed using descriptive statistics and inferential statistics. The study established that the financial monitoring and evaluation ($r=0.597$, $p<0.05$) had positive and significant effect on NGO financial sustainability. The study concluded that high number of NGOs were not sustainable a problem which could be addressed through NGOs improving their monitoring and evaluation practices. The study recommended that the management of NGOs to work towards improving monitoring and evaluation practices with aim of enhancing financial sustainability of the NGOs.

Key Words: *Financial Monitoring and Evaluation, Financial Sustainability, Public Governance Non-Governmental Organizations, Nairobi County, Kenya*

1. INTRODUCTION

Sustainability is a measure of an organization's ability to fulfil its mission and serve its stakeholders over time (Johnson and Scholes, 2007). It is the ability of an organization to develop a growth strategy and development that continues to function indefinitely. For organization to be sustainable, it need to have proper strategies covering advocacy, foundations and fundraising, governance, management and appropriate leadership (Dorothy, 2007). Focusing on the organisation's ability to achieve sustainability helps decision-makers look toward the future and consider all relevant factors, instead of making more expedient and short sighted decisions. There are three types of sustainability: organizational sustainability, the sustainability of services and financial sustainability (Johnson & Scholes, 2007). Financial sustainability is a measure of NGO self-sufficiency and determines the organization's ability to me*et* all its resource and financing obligations, whether these funds come from user charges or budget sources and fulfil its mission and serve its stakeholders over time (Johnson and Scholes, 2007). It is promoted through a broad based, interdisciplinary approach. Financial sustainability is about marshalling resources to ensure that some measure of human well-being is sustained over time and current spending does not hinder future generations spending (Pearce and Robinson, 2003). For an NGO to be sustainable, it requires a sound financial base arising from reliable sources of funding, financial systems to facilitate accountability and cash flow projections and development of marketable products/services to generate excess incomes over the expenditure of the project (Nturibi, 2004).

There are three types of organizational sustainability; namely financial sustainability, programmatic sustainability and institutional capacity (good standard of governance, management knowledge and skills) (Ganesh, Swami and Shaik, 2015). Many people equate an organization's financial sustainability with its financial strength. However if an organization does not also develop its overall capacities, ultimately the lack of good management or technical capacity prevents the organization from generating revenue or attracting donor funding. Financial sustainability can be measured by an organization's net income (the surplus of revenues over expenses); liquidity (the cash available to pay bills); and solvency (the relationship of assets and debt or liabilities) (Karanja & Karuti, 2014). NGOs in Kenya play important roles in diverse areas including social, political, economic, agriculture and cultural development. NGOs are central in public and private partnership development of a country and enjoy privileges such as tax exemption and waiver. In their reforming role, NGOs are seen as agents of advocacy and contribute immensely to policy dialogue. NGOs are able to represent the interests of the people they work with and in this case can ensure that policies are adaptable to real life situations. Overall, Kenya NGOs have been characterized as having weak relationships with citizens because of historical, cultural and political reasons; in some cases this has led to a tendency for NGOs to be run as elite organization with the sole purpose of meeting the whims of their masters or persons (Karanja & Karuti, 2014). International involvement and levels of donor contributions in Kenya has steadily declined where donors have withdrawn their programs and the focus has generally shifted from humanitarian relief and recovery to accountability of funds donated. This has affected the operations of NGOs in Kenya where they have to be accountable for them to access more funds. The withdrawal of donor funding has led to their reduced activities as a result of financial unsustainability which is the most crucial factor for sustaining operation of NGOs (Karanja & Karuti, 2014).

NGOs specializing in public governance promote principal elements of good governance that includes accountability, transparency, efficiency, effectiveness, responsiveness and rule of law (OECD, 2011). Public governance NGOs promote good governance which leads to eradication of poverty and successful economic development. Improved governance encourage better service delivery and improved accountability in the public sector. Further, the NGOs promote innovative mechanisms to monitor and evaluate public management and are commonly used to improve transparency and build credibility, important determinants of investment (OECD, 2011). For public governance NGOs to perform the role of advocating for better public corporate governance, the organizations ought to lead by example by adopting appropriate accountability practices. Additionally, the role that public governance NGOs play is perceived as secondary compared to NGOs promoting basic services like health (OECD, 2011). Therefore, lack of accountability is likely to have more negative effect on financial sustainability of the public governance NGOs compared to organizations offering basic services.

2. STATEMENT OF THE PROBLEM

NGOs in public governance are facing growing scrutiny from regulators and donors to better account for the impact and integrity of their activities as they are seen to influence politics and financing political activities (OECD, 2011). Therefore, lack of accountability is likely to have more negative effect on financial sustainability of the public governance NGOs compared to organizations offering basic services. Empirical findings have failed to adequately address the effect of accountability and financial sustainability in Kenya. Omeri, (2015) established that financial sustainability is critical for the stability and enhancement of growth of NGOs. Juma (2012) examined the factors affecting sustainability of donor funded community development projects in Bungoma County and found out proper accountability measures resulted in improved sustainability of the NGOs. Karanja and Karuti (2014) sought to assess the factors influencing financial sustainability of Non-Governmental Organizations in Isiolo and establish accountability and financial planning to play a create role in sustainability of the NGOs. Similarly,Abongó and Ombaba, (2018) also found out that proper financial management was essential for financial sustainability among donor funded community projects.

However, Ngahu and Mutinda, (2016) established that financial accountability and resource mobilization had minimal impact on the financial sustainability of NGOs. Odhiambo (2013) studied accountability of donor funding by non-governmental organisations in Kisumu County and did not relate accountability to financial sustainability. While Murithi, (2014) conducted a study on the financial sustainability of NGOs in Kenya and found out that though NGOs have reporting structures that facilitate accountability and openess, the sustainability levels still remained low. This concurs with Odhiambo, (2013) who indicated that there was lack of accountability experienced among the NGOs in Kisumu County. The studies conducted have mainly focused on the outcome of the projects, capacity building, and stakeholder involvement rather than the factors influencing the financial sustainability aspect. Additionally, little mention is made on the financial sustainability of NGOs which may be due to them being associated with having unlimited donor fundings. Notably, none of these studies determined the effect of accountability on financial sustainability of NGOs in Nairobi County.

3. STUDY OBJECTIVE

To assess the effect of financial monitoring and evaluation on financial sustainability of public governance NGOs in Nairobi County

4. AGENCY THEORY

Agency theory was exposited by Alchian and Demsetz in 1972 and further developed by Jensen and Meckling in 1976. The theory defines the relationship between the principals, such as shareholders and agents or company executives and managers. A general proposition of this theory argue that shareholders who are the owners of the company, hire the agents to perform work on their behalf. Principals delegate the running of business to the managers, who are the shareholders' agents. Agency theory is concerned with agency relationships. The two parties have an agency relationship when they cooperate and engage in an association where in one party (the principal) delegates decisions and/or work to another (an agent) to act on its behalf (Eisenhardt, 2009). The important assumptions underlying agency theory is that; potential goal conflicts exist between principals and agents; each party acts in its own self-interest; information asymmetry frequently exists between principals and agents; agents are more risk averse than the principal; and efficiency is the effectiveness criterion. Two potential problems stemming from these assumptions may arise in agency relationships: an agency problem and a risk sharing problem (Xingxing, 2012). An agency problem appears when agents' goals differ from the principals' and it is difficult or expensive to verify whether agents have appropriately performed the delegated work. Agency problem also arises when it is difficult or expensive to verify that agents have the expertise to perform the delegated work (i.e. adverse selection) that they claim to have. A risk-sharing problem arises when principals and agents have different attitudes towards risk that cause disagreements about actions to be taken (Xingxing, 2012).

The prescriptions of agency theory fit naturally with the issues inherent in NGO accountability and financial sustainability. The donors provide funds to the NGOs meant for specific purpose. The managers of the NGOs may have different objectives rather than those meant by the principals who are the donors. The managers misappropriate the funds or fail to apply the funds to the objectives which the donors were contributing the funds for. The proposition of the theory to the study is that due to the existence of agency conflict in the NGOs, the managers may fail to be accountable for the operations which may result in agency problems. Therefore, lack of accountability according to agency theory will lead to reduced funding and hence sustainability of the organizations.

5. EMPIRICAL REVIEW

Kamwana and Muturi (2014) studied the effects of financial management on performance of World Bank funded projects in Kenya, a case of KPLC projects. The study sought to determine how financial planning, financial monitoring, financial evaluation and financial control affected performance. The study applied descriptive research design and collected data using questionnaires from 500 KPLC employees. The study found that financial planning, financial monitoring, financial evaluation and financial controls (some measures of accountability) contributed to project performance with coefficient of determination 0.89. The study recommended that policy and practice for project performance to be carefully evaluated and the results of that evaluation fed back into improved approaches. Ernest (2012) studied organizational factors influencing sustainability of local non-governmental organizations in Ghana. The study identified that the availability of funds, quality material resources, supportive leadership, development of needs-based and demand-driven programmes, and effective management can have a significant influence on the sustainability of local NGOs. Significantly, leadership emerged as the most important factor to organizational sustainability of local NGOs. Equally, the availability and quality of material resources for work were least critical to local NGO sustainability, although they were all very important. Owolabi (2010) studied NGO accountability and sustainable development. It was observed, as in many other jurisdictions and NGOs that the NGOs studied were accountable essentially to the owners or those stakeholders with economic power over their organizations and conducted regular monitoring and evaluation of application of funds. Not much of the accountability is focused on the stakeholders upon whom the organizations have impacts. Kakumani and Prabhakar (2014) Sustainability measurement framework for development aid NGOs - an integrated approach for development aid NGOs to plan, evaluates and increases the impact of projects and the sustainability of the organization. The study found that accounting process offered the greatest leverage for planning, measuring, and increasing the overall sustainability of the development aid NGO. The accounting framework served as a practical compass, helping development aid NGOs to decide, implement, measure, assess, and continuously improve their performance management practices. Monitoring and evaluation practices brought about donor confidence and hence affecting level of financing available to the firms.

6. CONCEPTUAL FRAMEWORK

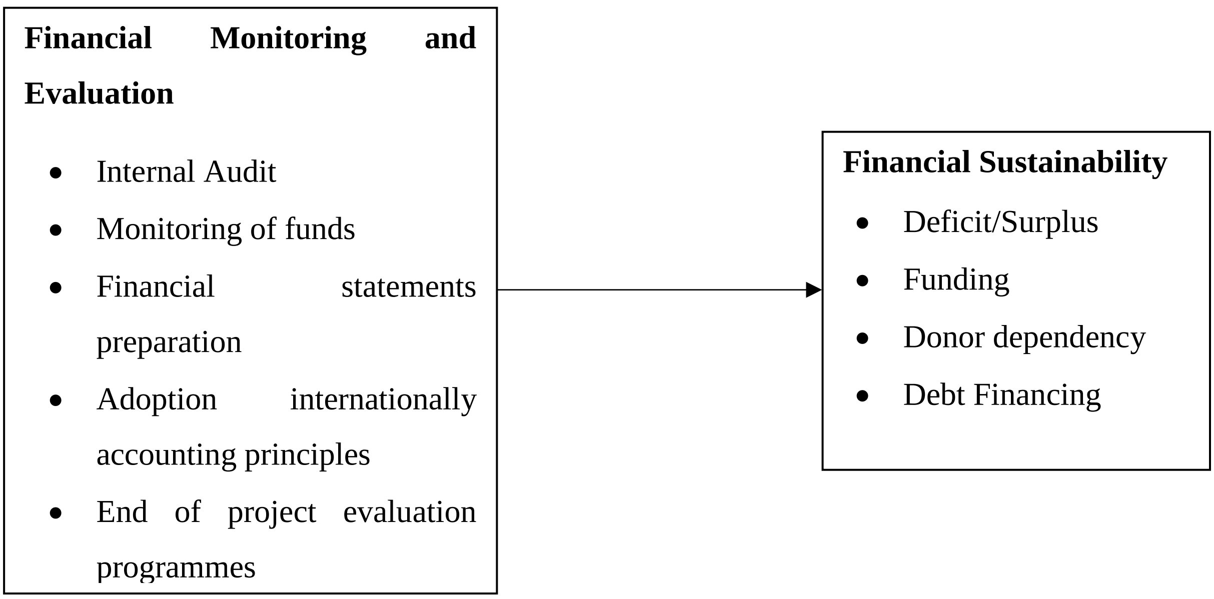

Figure 1: Conceptual Framework

7. RESEARCH METHODOLOGY

The study adopted the descriptive design. Target population were 550 public governance NGOs with offices in Nairobi County as at December 2014. These public governance NGOs in Nairobi County formed the study target population. Public governance NGOs were studied due to the role they play and hence lack of accountability is likely to have more negative effect on financial sustainability of the NGOs compared to organizations offering basic services like health. The collected data was analysed using both quantitative and qualitative data analysis methods. Quantitative method involved both descriptive and inferential analysis. Data from questionnaire was coded and analysed using Statistical Package for Social Science (SPSS). SPSS was used for data entry, obtaining the variable descriptive statistics, reliability coefficient, correlation coefficient and multiple regression. Primary data was collected by use of questionnaires which were self-administered to the respondents. The questionnaire is presented in Appendix I. The target respondents were the finance managers since they are best placed to provide the required study information.

8. DATA ANALYSIS RESULTS

The study sought to determine the extent of adoption of various financial monitoring and evaluation in the organizations. A likert scale of 1 to 5 was used to rate their responses, where 1 is no extent, 2 is small extent, 3 is moderate extent, 4 is large extent and 5 is a very large extent. The findings obtained are as shown by Table 4.5.

Table 1 Financial Monitoring and Evaluation

Financial Monitoring and Evaluation	NE	SE	ME	LE	VLE	Mean	Std. Dev
Fully functional internal financial monitoring department	1.3	1.3	28.6	51.9	16.9	3.82	0.773
NGO expenditure monitoring	9.1	16.9	24.7	32.5	16.9	3.31	1.206
Financial transactions recording	11.7	11.7	27.3	35.1	14.3	3.29	1.202
Financial statements and management reports	19.5	10.4	23.4	29.9	16.9	3.14	1.364
Using internationally accepted accounting principles and practices in reporting.	11.7	20.8	20.8	28.6	18.2	3.21	1.291
Evaluation programmes are conducted at completion of projects	13	14.3	18.2	35.1	19.5	3.34	1.304
The results of monitoring and evaluation	16.9	20.8	13	28.6	20.8	3.16	1.415

Where NE=No Extent, SE=Small Extent, ME=Moderate extent, LE=Large Extent, VLE=Very Large Extent

As shown, there existing a fully functional internal financial monitoring department including internal audit with mean of 3.82 and standard deviation of 0.773. To a large extent, the NGOs had a functional financial control section. NGO expenditure being continuously monitored in relation to the budget and the planned use of NGO funds had a mean of 3.31 and standard deviation of 1.206. The finding implied that to a moderate extent, expenditure of the NGOs was continuously monitored. The standard deviation was greater than 1 implying that the respondents disagreed more on monitoring of the NGO expenditure. To a moderate extent, the NGOs financial transactions were being recorded immediately they occur to facilitate finance monitoring (mean of 3.29 and standard deviation of 1.202). This implied that there were some NGOs where financial recording was not being done on real time basis which is a serious concern.

To a moderate extent, financial statements and management reports were being timely and reliable had (mean of 3.14 and standard deviation of 1.364). This implied that the practice had not been fully adopted by the NGOs. To a moderate extent too, financial statements and reports were prepared and presented following internationally accepted accounting principles and practices with a mean of 3.21 and standard deviation of 1.291. This indicated that reporting was not being done for some NGOs according to international standards. To a moderate extent, evaluation programmes are conducted at completion of projects (mean of 3.34 and standard deviation of 1.304). The findings indicated that for some NGOs, evaluation of programmes was not being conducted on all projects which raises questions on management of NGO resources. Monitoring and evaluation exercises being communicated to the stakeholders had the least mean of 3.16 and standard deviation of 1.415 implying that the practice had been adopted to a large extent. This implies that the Financial Monitoring and Evaluation practices in the NGOs had moderate extents of adoption with functional internal financial monitoring department having the most extent of adoption. Lack of transparency in financial practices has been established to be due inadequate monitoring and evaluation and this does not auger well with most of the stakeholders such as the donors, the government, and even the beneficiaries all which affects NGOs revenue streams and hence financial sustainability (Odhiambo, 2013).

Regression analysis was used to determine the relationship between the study variables. The results are presented in Table 2.

Table 2: Regression Analysis Results

Model Summary					
R	R Square	Adjusted R Square	Std. Error of the Estimate		
.597a	0.356	0.348	0.561		
ANOVA(b)					
	Sum of Squares	df	Mean Square	F	Sig.
Regression	13.054	1	13.054	41.543	.000a
Residual	23.567	75	0.314		
Total	36.621	76			
Coefficients(a)					
	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	0.907	0.303		2.994	0.004
Financial Monitoring and Evaluation	0.574	0.089	0.597	6.445	0.0000

a. Predictors: (Constant), Financial Monitoring and Evaluation

b. Dependent Variable: Financial Sustainability

9. CONCLUSIONS AND RECOMMENDATIONS

Financial Monitoring and Evaluation practices in the NGOs had moderate extents of adoption with functional internal financial monitoring department having the most extent of adoption. Similarly, the study concludes that Financial Monitoring and Evaluation practices in the NGOs had moderate extents of adoption. Financial monitoring and evaluation was concluded to have positive and significant effect on financial sustainability on public governance NGOs in Nairobi County, Kenya. Thus, the study recommended that NGOs management to enhance financial monitoring and evaluation practices with the aim of better utilizing available resources. This will improve donor confidence and improve financial sustainability.

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