FACTORS AFFECTING FINANCIAL SUSTAINABILITY OF NON GOVERNMENTAL ORGANISATIONS (NGOs) IN UGANDA: A CASE STUDY OF COMPASSION INTERNATIONAL FUNDED PROGRAMS IN KAMPALA DISTRICT.

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DECLARATION

I, NAMAKULA EDITH, declare that this dissertation is a result of my own independent research efforts and investigations. It has not been submitted to any other institution for any award. Where the works of other authors have been quoted, due acknowledgement has been done.

Signed……………………………………………

APPROVAL

We certify that Namakula Edith carried out this study and wrote this dissertation under our supervision. We confirm it is the candidate's own work.

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DATE…………………………………………

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DEDICATION

To the lord God almighty for his goodness and mercies endure forever.

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ACRONYMS / ABBREVIATIONS

ACFODE……………………….……..Action for Development

ANOVA…………………………Analysis of variations

ASDI…………………………….Agency for Promoting Sustainable Development Initiative.

CDC……………………………..Child Development Centre

CDO…………………….……….Child Development Officer
.
CDSP……………………………Child Development through Sponsorship Program

CDRN……………….…………Community Development Research Network

C I……………………….……….Compassion International.

CIVs………………………...…..Complimentary Interventions

CPC……………………………Church Partner Committee

FOCUS………………….……..Fellowship of Christian Unions

IGA…………………….………Income Generating Activities
.
MFI…………………………..……Micro Finance Institutions

MTN……………….………..Mobile Telephone Network

NGO……………………….….Non Governmental Organization

OVC…………………………..Orphans and Vulnerable Children

P.D……………………………Project Director

PF…………………….………Program Facilitator

SPSS……………………….….Statistical Packages for Social Scientists

TASO………………………...The Aids Support Organization

UCCA……….……..……...Uganda Change Agent Association

USDC……………….………Uganda Society for Disabled Children

ABSTRACT

The purpose of the study was to analyze factors affecting financial sustainability of NGOs focusing on Compassion International Funded programs in Kampala-Uganda.
Three factors were considered significant in influencing financial sustainability. These included the size of the financial base, financial controls in place and capacity building.

This was a case study research utilizing both qualitative and quantitative methods of data collection. The study was located in Kampala district and 48 respondents participated in the research. Questionnaires, interviews and documentary review were used as methods of data collection. The qualitative data was analyzed by coding, summarizing using charts and graphs, interpreting findings while quantitative data was analyzed using ANOVA tables and SPSS.

Findings indicated that much as guidelines to safe guard the finances were in place, and all staff received orientation training in financial management prior to being recruited into the programs. Concerning financial controls, the research results indicated that all programs are audited and graded annually and are required to implement the financial controls. However, many gaps were established for instance the respondents claim that the orientation trainings were inadequate, many CPC members are semi literate, beneficiary involvement is limited so there is still need for capacity building. Further still, Compassion International funding is increasingly becoming insufficient yet most CDCs rely on it entirely for their funding. The study recommended refresher, fund raising and resource mobilization training. Investment in beneficiary sustainability, capacity building all stakeholders, and implementing the financial controls.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

The research analyzed financial sustainability among Non Government Organizations (NGOs) and factors influencing it. It looked at the necessary factors that needed to be in place so as to achieve financial sustainability among NGOs. Chapter one presented the background to the study, the statement of the problem, general objectives, research questions, conceptual framework, scope of the study, its significance and operational definitions of terms and concepts.

1.1 Background to the study.

International Non-Governmental Organizations according to http:/www.wikipedia.com (2009) have a history dating back to the mid-nineteenth century. They were important in the anti-slavery movement, the movement for women's suffrage, and World Disarmament Conference. With the establishment of the United Nations Organization in 1945, provisions in Article 71 of Chapter 10 of the United Nations Charter defined them as legally constitutional organizations created by private persons or organizations with no participation or representation of any government.

Globalization during the 20th century gave rise to the importance of NGOs. Many problems could not be solved within a nation. International treaties and international organizations such as the World Trade Organization were perceived as being too centered on the interests of capitalist enterprises. So, in an attempt to counterbalance this trend, NGOs developed to emphasize humanitarian issues, developmental aid and sustainable development. Today, internationally operating NGOs are estimated to be about 40,000. However, many of these are uncertain of the future due to the financial sustainability challenge. They are so much dependants on donor support which seems insufficient and dwindles each day. The situation has been worsened by the credit crunch and its financial implications.

Kamta (2001) in his study of NGOs and social development opportunities emphasizes the importance of funds to the success of projects. He states that many NGOs fail due to facilitating factors of which funds are crucial. He argues that hundreds of worthy causes fail to bloom mainly due to lack of funds. He warns that funds from donors have become and will continue to become scarce, donors have instituted stiffer demands and conditions for their aid and have cut down its volume. However NGOs continue to increase and require more funds. Thus competition for the scarce resources will become stiffer among NGOs… Donor dependence as well as absence of self generating funds prevents most NGOS from meeting the genuine needs of their beneficiaries. Based on the above assertion, there is a very urgent need for NGOs to generate and sustain finances so as to continue providing sufficient services to their beneficiaries. So this research was aimed at finding out what NGOs need to put in place in order to achieve financial sustainability.
Michael (2009) says NGOs rely on funding from individual donors, foundations, corporations and governments. Critics charge that funding sources can seriously affect NGO policy, making these organizations potentially the creatures of special interests. Such charges challenge NGO legitimacy especially when funds come from "outside" - including rich foreign governments, corporations or foundations.

In the global economc crisis report, Fisher (2009) reports that an economic and financial crisis has engulfed the world. Banks have collapsed, stock prices have slumped and there has been an unprecedented decline in economic activity. The crisis began in 2007, in the wake of financial and real estate speculation in the United States, but it came after a long period of international financial instability, trade imbalances and several local or regional crises. By late 2008, the crisis had spread to many countries. Governments responded with massive emergency measures, but the crisis continued to spread and large numbers of workers have been laid off all over the world. Many see the crisis as an opportunity for renewed regulation and democratic re-structuring of the global economy. But solutions are complicated by the depth of the crisis, by the lack of strong global institutions, and by overlapping crises in the environment, natural resources and global trade.

Eyal (2009) a professor from New York University who had predicted that 100, 000 US non-profis would go under in the coming two years due to the economic crisis. Along these lines, the author Eyal Press provides concrete examples of how non-profits in the US would see funding sources disappear. He recommended more careful spending by all actors in society leading to more effective work by those NGOs that survive the crisis. In the worst case, important humanitarian work would be lost, which would directly affect the most vulnerable in society.

Michael (2008) in his report Credit Crisis Rattles Civil Society, raises some of the fears of NGO managers as a result of the credit crunch. It states that NGOs in aid-recipient countries now have to compete for less money. In Cambodia for example, NGOs worry that donors will cancel hundreds of millions of dollars of development aid. NGOs also worry that the Wall Street crisis will tempt governments to reduce international aid and make investors more cautious about supporting development projects. The economic crisis also affects individual donors, who have already lowered their donations to charity organizations.

The greenhorizon report (2009) on the struggle for sustainable NGO financing, stated that of the 3,000 environmental NGOs assessed, 73% 0f them were found to be poor, very poor or unstable.

The research done in Czech, Hungary, Poland and Slovakia indicated that donor support accounted for a very large percentage of NGO funding as compared to local support, however, this donor support too had greatly reduced or completely disappeared in some projects. Further still, it came with very strict restrictions to programmatic expenses while ignoring operational expenses. Many NGOs were forced to go 'where the money is' rather than invest in the actual needs of their people. Meanwhile, the local funding for most of these countries had not yet developed to a level sufficient enough to meet demand. And while the development of a local financial base for NGO initiative may represent the most long-term and preferable solution to NGO financing problems, this is a process which will take years of cultural, social and economic change to develop.

Michael (2005) report states that the number of NGOs in Africa has increased from a few hundred to over 25,000 in about fifty years and their work goes beyond humanitarian aid. This article argues that the growing presence of foreign NGOs, or the "army of outsiders" as the author puts it, both results from, and causes Africa's slow development process. NGOs are now part of an aid business and spend over US$4 billion on recruiting staff from outside the continent.

Collins (2003), reports about initiatives by South African NGOs towards financial sustainability. These include; Cape town mental health society which enjoyed high level funding during apartheid times, is now struggling with since many donors pulled out after independence. The Social Change Association Trust (SCAT) which used to provide legal services during apartheid, era was well funded then, however, after freeing the political parties in 1990, its work was seem as irrelevant by most donors, and thus a significant reduction in funding.

Statistics from the NGO Registration Board Uganda (May 2007) 2,900 NGOs were registered and operating by 1999 and 400 of these were International, and by 2003, 4700 NGOs were registered in Uganda

Kesington (2009) reports that success in attracting grants from international donors depends mostly on network effects. NGOs that raise in-kind resources locally tend to be young and managed by someone who is simultaneously employed elsewhere. There is some evidence of crowding out: NGOs that receive grant funding are less likely to obtain resources locally, whether in cash or in kind. But this seems to be primarily the result of selection. Once NGO-fixed effects are controlled for, there is no evidence that NGOs receive less revenue from fees and donation after obtaining a grant. These results suggest that donors regard Ugandan NGOs as subcontractors of their development efforts, not as charitable organizations in their own right.

According to the Compassion International (C.I) Country Director's report (2007), Compassion International (C.I) is a Christian NGO dedicated to child development. It operates in 25 countries and in Uganda it has 150 centers 20 of which are located in Kampala. Using a holistic approach it addresses the spiritual, economic, social and physical aspects of the neediest children in the community to help them become fulfilled, responsible Christian adults. Its goal is to release children from poverty in Jesus' name. It works in partnership with churches to form Child Development Centers in order to implement its programs. In Uganda there are over 45,000 registered children; over 300 have graduated from university. It has built shelters for over 100 homes, churches, provided economic skills for the youths, health care, support for HIV+ parents and children and evangelism.

However, the centers are faced with a challenge of increased annual expenditure on fees and Salaries, which has threatened the financial sustainability of the programs.

The following table illustrates incomes of six projects and their percentage expenditure on salaries and school fees over a period of six years.

The table below shows annual incomes and expenditure on school fees and salaries for the six selected centers. It also shows the percentage of the annual income that is spent on salaries and fees the balance of which is meant to run the social, health, cognitive and spiritual pr

Table 1: Annual total incomes and expenditure on school fees and salaries for sample projects in Kampala

YEAR	INCOME/ EXPENSE	AGAPE	NTINDA	NAKU LABYE	BUGOLOBI	KYAMBOGO	MAKI
2000	Income	**144,840**	**155,040**	**146,880**	**130,560**	**150,400**	**148,00**
	Salaries	21,600	25,800	29,400	27,000	30,900	23,500
	Fees	52,500	54,500	51,800	58,900	48,000	58,000
	%of income	51%	50.9%	54.7%	65.3%	52%	54.7%
2002	Income	**141,400**	**152,000**	**144,900**	**-**	**148,000**	**146,90**
	Salaries	23,800	27,000	31,000	-	31,000	24,000
	Fees	55,000	56,000	52,700	-	49,000	60,000
	%of income	55.3%	54.6%	57.6%		54%	57.5%
2004	Income	**143,000**	**-**	**143,000**	**127,000**	**147,800**	**146,50**
	Salaries	25,000	-	33,000	30,900	33,000	26,000
	Fees	58,000	-	55,000	61,800	52,000	62,000
	%of income	58%	-	61.5%	71.6%	57.8%	60.2%
2006#	Income	**139,000**	**150,000**	**149,000**	**124,800**	**-**	***157,0**
	Salaries	31,800	33,800	37,800	36,800	-	30,800
	Fees	60,000	61,000	57,000	64,000	-	62,700
	%of income	65.4%	62.6%	63%	80.6%		58.5%

Source: Adopted from annual plans & budgets of Kampala projects from 2000-2006

Key

- Shows those records were not available.

* The centre registered some new children thus increase in income

in 2006, there was a salary increment of 100,000 monthly for all staffs thus salary expenditure was higher.

N.B All figures are in millions

1.2 Problem Statement

Kamta (2001) observed that many NGOs fail due to financial constraints, the increased scarcity of donors and donor support vis a vis the increasing need and growth of NGOs in Africa has caused a stiff competition for funds yet, many NGOs cannot generate their own incomes. This has been further aggravated by the effects of the credit crunch that hit Europe and America in 2009 given the fact that majority of the donors are from the western world.

The Child Development Centers in Kampala receive close to 96% of their budget funding from Compassion International (CI) an American donor agency. However, these centers spend heavily especially on school fees and salaries. When children are promoted to secondary school, expenditure on their fees increases by 133% (from 90,000 to 210,000) centre staff also receive an annual salary increment of 5%. Each year, more children join secondary school and staff salaries increase yet donor contributions do not increase proportionately, so, their budgets become increasingly constrained. The auditor's report (2006) also indicated that there are cases of gross financial mismanagement. All these challenges have threatened the sustainability of the programs.

In order to achieve financial sustainability, a number of authors gave different recommendations. Mugayehwenka (2003) recommended beneficiary contributions, while Anggey & Nilsson (2004) suggested, income generating activities, local fundraising, and getting support from the corporate sector. Ministry of Local Government (2003) encourages use of internal controls. However, previous works gave different recommendations but all in isolation. However, the struggle to achieve financial sustainability has to be approached from several fronts, it requires a combination of key factors like capacity building, financial controls and a strong financial base, so this research explored the three factors and how they affect financial sustainability.

1.3 General Objective

To analyze factors affecting financial sustainability of NGOs in Uganda using Compassion International funded Programs in Kampala as a case study.

1.4. Specific Objectives

Specifically this research was aimed at investigating the following.

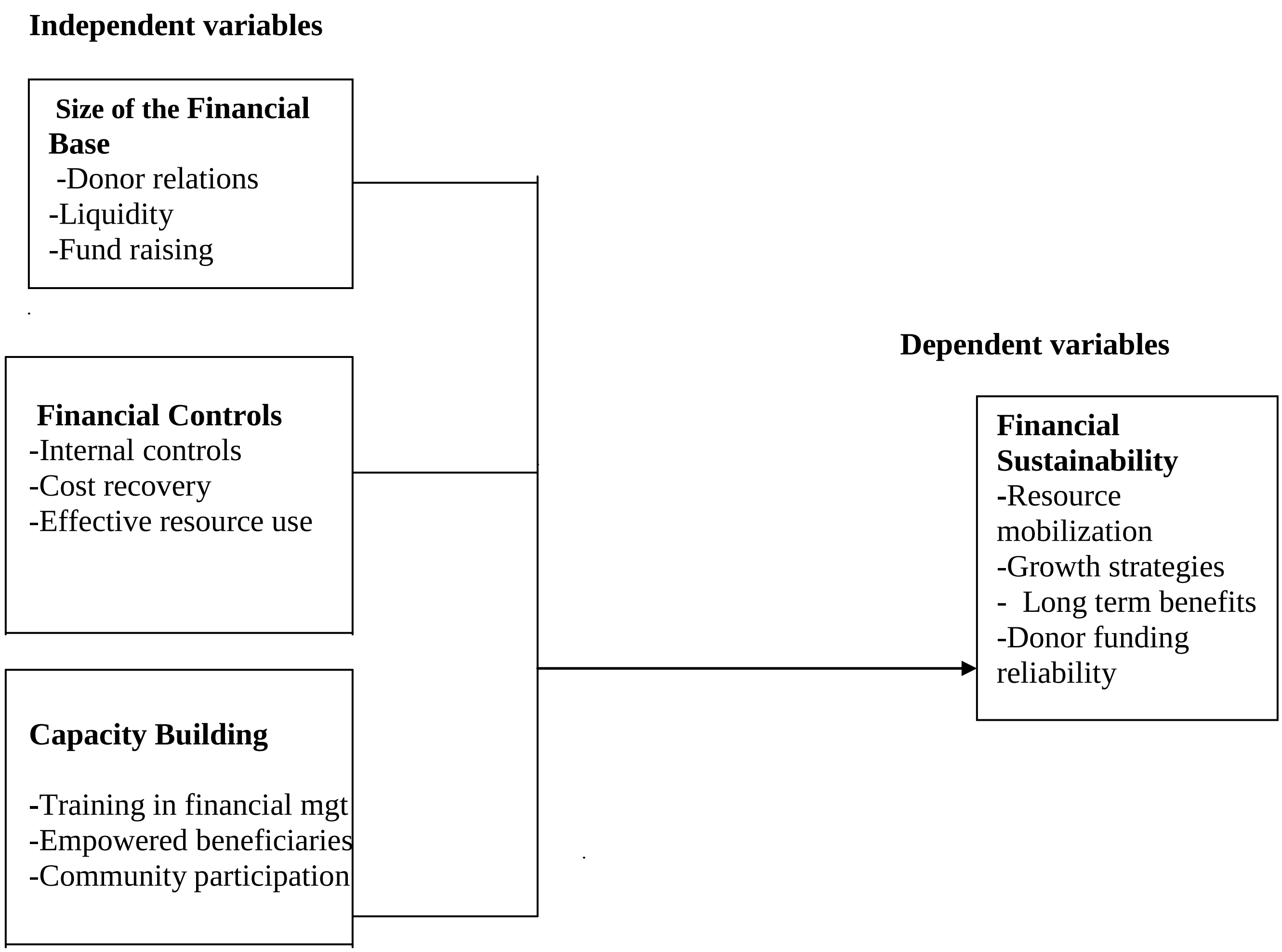
1. To find out how financial controls affect financial sustainability of C.I funded programs in Kampala.
2. To establish the effect of capacity building on financial sustainability of C.I funded programs in Kampala.
3. To find out how the size of the financial base affects financial sustainability of C.I funded programs in Kampala.

1.5. Research Questions

1. How do financial controls affect the financial sustainability of C.I funded programs I Kampala?
2. What effect does capacity building have on financial sustainability of C.I funded programs in Kampala?
3. Does the financial base affect financial sustainability of C.I funded programs in Kampala?

1.6. Conceptual frame work

Figure1 : The conceptual frame work showing the relationship between financial base, controls, capacity building and financial sustainability



Developed from UNEP, 2000, MLG2003, Berg 2007.

A look at the works of different authors who defined and analyzed financial sustainability four broad themes tend to emerge from their reports; these are resource mobilization, growth strategies, long term benefits and reliability of donor funds. The United Nations Environment Protection Report (UNEP) (2000), in its study of guidelines on evaluation indicators, identifies three indicators of financial sustainability. These are; Availability of local resources, private sector financing and donor funding expectations.

From the above conceptual framework, financial sustainability is dependant on a number of factors. A strong financial base which can be built through fund raising, investment, diversified and good donor relations. So if an NGO does not invest in a strong financial base, in the long run, it may not achieve financial sustainability.

Besides building a financial base, an NGO also has to put in place financial controls so as to safeguard its financial and non financial resources. It may invest heavily in broadening its financial base but if there are no control measures to safeguard the acquired resources, they may be mismanaged and embezzled and thus financial sustainability will not be achieved. These controls include checks and balances, regular audits, effective supervision, staff training and application of professional ethics.

In addition to the above, capacity building is also key to financial sustainability. Capacity building according to Berg (2007) is empowering the individuals, organizations and broader systems to perform their functions effectively, efficiently and in a sustainable way. It's the power/energy which determines performance.

Bamberger (2006) defines Capacity Building as empowering human resources so as to get the best out of them; to enable them work effectively and efficiently. NGOs greatly rely on human resources and serve people, so unless these people are envisioned, empowered and greatly involved in the decision making and implementation of the programs, they may not be in position to handle the mega finances accumulated through a strong financial base and thus financial sustainability will not be achieved. This requires staff motivation, management training, greater participation of the beneficiaries and the community in planning and implementation of NGO activities in a bid to help them own it and support it up to the very long run.

However, there are other factors in the project environment which though seemingly detached from the program, may affect the achievement of financial sustainability of the program much as all the independent variables may be in place. These factors are outside the NGO manager's area of control, and are called moderating variables. In this context, they include the political environment; is their relative peace and stability? Does government support and provide a conducive atmosphere for NGOs to operate? Donor policies; do they allow multiple donors, creation of profit making projects and ownership of assets?

So the manager needs to investigate and mitigate these factors where need arises.

1.7 Significance of the Study

This study will be of significant help to Project Directors in Child Development Centers. By highlighting the financial challenge among CI funded programs in Kampala, their causes and impact on the quality of project programs, they will be able to benefit from the findings and recommendations of overcoming this problem.

The study will also help CI consider some of its policies concerning funding for its programs management and auditing of the funds endorsed

The findings from this research will be useful to NGOs that are faced with running development programs on a very limited budget by showing alternative ways of handling the challenge.

The study will also be useful to groups and individuals who intend to start NGOs as they get an oversight of the financial challenges faced by their older counterparts and use them as a learning experience.

This research will be an addition to the body of knowledge and can be used as a reference by students doing research especially on financial sustainability.

1.8. Justification.

Many NGOs are started with worthy causes and clear missions, however, they are forced to close, scale down or change mission because of the financial limitations. So this research aims at digging deep in to the causes of financial challenges among NGOs and

1.9 Scope of the study.

The research looked at financial controls, financial base and capacity building and their influence on Financial Sustainability of C.I funded programs in Kampala. The study was limited to financial sustainability of CI funded Child Development centers in Kampala Uganda which have been in existence for over 10 by 2008. The population comprised of all Project Directors, Over seers and Child Development Officers in Kampala cluster, irrespective of age, sex, years of experience.

1.10 Operational definitions

For purposes of this research, **finance** was defined as the monetary and non monetary resources necessary for the running of an organization while **financial sustainability** was defined as the ability of an NGO to have sufficient resources to facilitate efficient service delivery to its beneficiaries up to the very long run with or without donor support.

Capacity building was defined as empowering the staff and beneficiaries of an NGO to utilize and even create funds that will enable the NGO thrive even in the very long run.

Financial base referred to the value of the total assets/liquidity of an NGO, while **internal controls** referred to the ways and means put in place to protect the assets of the NGO.

After looking at the introductory part of the research which included the background, problem statement, objectives of the study, justification and limitations, the researcher went ahead to look at the views and opinions of different writers/ authors, what have they got to say about financial sustainability? Chapter two shows a detailed presentation of these views and the researcher’s analysis thereof.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter studied and analyzed the available literature that is related to the different sub themes under financial sustainability of NGOs. What different authors had to say about financial sustainability in relation to the size of the donor base, financial controls and capacity building. This was intended to draw lessons for sustainability based on the opinions and experiences of authors and other NGOs respectively and also establish the gaps which were the basis of the research.

2.1 Financial Sustainability

The concern for financial sustainability in NGOs is very crucial and has thus triggered the interest of many so a lot has been written about it. Below are some of the definitions shared by some authors on financial sustainability.

In her report on the good practice guide for non profit organizations, Dorothy (2008) defined financial sustainability as the ability of an organization to develop a strategy of growth and development that continues to function indefinitely. This means NGOs have to build strong financial and non financial structures/ foundations that will enable them survive up to the very long run. Rosengard (2001) in his study of financial intermediation for Africa's poor, looked at financial sustainability as the development of products and delivery systems that meet client needs at prices that cover all costs of producing these financial services independent of external subsidies. Financial sustainability according to Berg (2007) is the projects ability to generate resources from a variety of sources which will overtime reduce its dependence on development assistance funds. Berg also brings in another concept of benefits sustainability which is defined as the continuing availability of benefits such as services beyond the life of the project, even if these are provided from other sources such as the state or private sector.

Perkins (2009) in her report on sustainability for children's villages, she defined financial sustainability as creating revenue through diverse business opportunities to pay the village's operating costs and services essential for breaking the cycle of extreme poverty.

Sustainability according to Bhatt, et al; (1999, 13) means;

- Sustaining the impact created during the intervention. That is the benefits/products from the program should last to the very long run.
- Making the process of empowerment irreversible. This is interpreted as; building the capacity of the beneficiaries in the community where the program has been operating to continue generating their own income for sustenance as a result of the lessons learnt from the program.
- Ability of the NGO to grow and manage on its own. This form of sustainability involves the NGO continuing with its operations and growing even when the original donors pull out. However, a lot of investment and empowerment has to be employed so as to achieve this position.

Fowler (2003,367) argues that "Resources steer organizations, how you raise the resources you need and from which source has a strong influence on what an organization is and what it will be" However he warns against looking at finances as the only means of sustainability.

To him, Sustainability depends on balancing resources, impact, and organizational regeneration. Just as Fowler argues, resources are at the heart of the success of any organization and their contribution cannot be underestimated. However they need to be balanced with other important aspects for the organization to be sustained.

All the above authors have some major aspects which they all agree upon as necessary for financial sustainability. These are, continued funding, growth strategies, revenue creation, less dependence on donors, and long term benefits.

2.2 Financial Base and Financial Sustainability.

A strong financial base is very important in ensuring financial sustainability. NGOs need to build as many strong and reliable sources of income as possible if their financial future is to be secured as the following writers emphasized.

2.2.1 Donors and Donor Relations

Transform and Kubatsu (2003) argue that because of the turbulent changes that affect both NGOs and their financers such as internal policy changes and changes in availability of funds, NGOs should diversify donors as a form of insurance against uncertainties for instance if one donor suspends his/her funding, the program will progress using funds from other donors; so it will still be financially sustainable.

In a research carried out by, Angey & Nilsson (2004) on the financial sustainability of NGOs, they studied some sponsored organizations in Uganda and how they broadened their donor base. These included Action For Development (ACFODE), and Uganda Change Agent Association (UCCA). These programs have been able to increase their financial base by having multiple donors. They attracted these donors by having clear mission statements, proper accountability systems and tangible results of their activities. However, they warned that having several donors creates a number of challenges such as different reporting requirements, accountability for funds, and some other donors may require that you redefine your scope to fit their requirements, and this may cause the organization to loose focus, so NGOs must look out for that.

Amec (2004) argues that NGO managers should be urged to have active investor relationships and encourage regular feedback from major donors. They should keep them updated on corporate governance, risk management and sustainability procedures. When the donors are kept abreast with the progress of the NGO, continued funding will be ensured and thus financial sustainability will be achieved.

Brundley (2005) encourages NGOs to be very honest with donors, give justification for all expenditures so as to build trust and thus encourage continued funding.

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Sewalu (2002) also argues that it's important to handle donors with care, keep them up dated with program activities and address their concerns urgently in a bid to show that they are appreciated and also offer full accountability for all finances dispensed.

2.2.2Diversified funding sources

Karuhanga (2007) the Project Director of FOCUS, an OVC project based in Kalerwe Kampala- reported that the project was able to continue in operation even after the major donors pulled out in July 2006, and this was because they had multiple donors and also encouraged Ugandans to contribute as associates.

Kamta (2001) emphasizes that "Many NGOs fail due to facilitating factors of which funds are crucial. I have personal knowledge of hundreds of worthy causes not blooming mainly due to lack of funds...Funds from donors have become and will continue to become scarce…donors have instituted stiffer demands and conditions for their aid and have cut down its volume. However, NGOs continue to increase and require more funds. Thus competition for the scarce resources will become stiffer among NGOs… Donor dependence as well as absence of self generating funds prevents most NGOS from meeting the genuine needs of their beneficiaries". (p.98)
As Kamta asserts, the need is great and yet the donors are very few, thus competition for donor money is stiff, so NGOs need to be strategic in their approach if they are to win donor support, alternatively, they may consider generating their own funds.

Edwards & Fowler (2003) while looking at NGO management, made the following observations. Many Non Government Organizations (NGOs) have been established the world over with sound objectives such as fighting poverty, advocacy for human rights, environmental and health concerns. The fact that their services are essential and crucial for development and human survival cannot be undermined. However, many of these NGOs are failing to fulfill their set objectives, some have been forced to scale down their activities while others have closed down and the problem is mainly attributed to financial sustainability.
So, as all the above writers may agree, the facilitating factor is very important, donor relations are really delicate and thus NGOs have got to be strategic if they are to remain competitive.

Sahley (1995), urges NGO managers to establish diversified funding portfolios and increase the cost recovery of services so as to retain some autonomy from funding agencies

Agency for Promoting Sustainable Development Initiative(ASDI), is based in war ravaged Apac district in Northern Uganda. It has a telecentre with computers and a library, it provides computer and internet services for the corporates who work for NGOs, CBOs, within that area, it also collects small user fees from the local people and is this has greatly contributed to its financial sustainability.

2.2.3 Fund Raising.

Mutakyahwa (2003) says fundraising is about mobilizing individuals, groups, institutions, government and corporate bodies to sensitize them about the aims of an organization and convince them to agree to finance the needs the organization exists to address. It's aimed at creating a fund that can meet a part of the costs of the NGO in form of cash, materials, equipment and labor

NGOs can organize fundraising events for communities such as sports activities, dinners, festivals or fashion shows. However, these events are time consuming, expensive, they require skills and commitment if they are to be successful. So NGOs should need prior planning and should employ competent human resource when organizing fundraising events.

2.3 Financial Controls and Financial Sustainability

NGOs unlike business enterprises do not survive on profits but on donor funds, so the managers are free from the pressure to deliver, competition and other challengers which their profit oriented counterparts face. However, because of free donations, they may have a tendency to be laxed or extravagant in their financial management.

Sahley (1995;51) presents the grant mentality that many African NGOs have. He says that the attitudes of the financial managers who manage gift money are more likely to be lax as compared to commercial managers with an easily discernable bottom line. Since grants normally come automatically and are not based on performance, the incentives for strict financial management are reduced. Dependency on external funds also complicates planning due to uncertainties created by fluctuations in income levels" (p.51)

So, proprietors of NGOs have to be strict, caution and also evaluate their managers to ensure that they utilize donor funds well and not spend extravagantly. They may also consider providing incentives for managers who use funds efficiently and profitably.

2.3.1 Internal Controls

Ministry of Local Government (2003) recommends internal controls that are aimed at protecting government funds and assets. There is a strict rule on use of documents such as receipts, vouchers, cheques and bank slips in all monetary transactions. Counting money before it exchanges hands, segregation of duties to ensure that each person is in charge of a specified task to ensure full accountability. Regarding control over the assets, the local governments were urged to have records of all their fixed assets and carry out regular physical counts to verify their existence and current state or condition. There should be rules and regulations regarding the use of assets like vehicles.

NGOs can learn from local government about clear documentation and use of financial controls to protect their assets and thus ensure financial sustainability.

Transform & Kubasu (2003), offer NGOs several tips on how to manage their finances well and ensure sustainability. These include: keeping accounting records accurate and updated, transactions should be recorded as they happen. Concerning expenditure controls, NGOs should use voucher systems that require senior personnel to authorize expenditure. For proper checks and balances expenditures should be authorized by someone different from the one who prepares and signs cheques.

Purchase Controls: Establish official purchasing systems with written policies and procedures. They should ensure procurement on the best terms of economic advantage so as to minimize risks of embezzlement and misappropriation.

Should check quality and quantity received as against the stated orders, and also do regular stock taking of goods in the store.

2.3.2 Cost Recovery

Bamberger (1996) based his findings on PAPSCA projects. He asserts that financial sustainability depend on the ability of the community to raise enough resources to recover part of project costs through user charges, taxes and other fees. Cost recovery should be used where possible. Unless some or all project costs are recovered, the project may not survive for long.

This is true because since many of the project beneficiaries tend to develop a dependency syndrome take the project for granted and don’t care about its sustenance or giving it an input. So contributing user fees helps build ownership. However the money from user fees is normally so little it can hardly cover all the cost

2.3.4 Effective Resource utilization:

The UNEP report (Dec, 2007) about Guidelines on evaluation indicators, stated that financial utilization seeks to determine how well the allocated funds were used to execute the programme/project. Important questions to raise include: Did the project deliver the outputs and results prescribed at the budgeted cost? Did the project exceed its budget? And if it did, was the registered variance a result of the addition of new elements/activities while the project was in progress or original under/over estimation of what could be achieved. Cancelled/interrupted/postponed activities due to unforeseen circumstances? Failure to meet financial obligations by co-financiers (organizations or governments). Poor management - financial & coordination or poor project design? So answers to these questions can give one a way forward with cost control and provide lessons for future interventions.

2.4 Capacity Building and Financial Sustainability.

Capacity building according to Berg (2007) is empowering the individuals, organizations and broader systems to perform their functions effectively, efficiently and in a sustainable way. It's the power/energy that determines performance.

2.4.1 Training in financial management

Valderama (1999) urges that capacity building among NGOs has been oriented towards reorganizing individual NGOs and making them more competitive. There is need to train staff in skills of consensus building, interaction, building communication networks and ability to influence policy making.

Concerning capacity building and sustainability, Valderama says that some crucial questions have to be asked for instance, how successful have NGOs been in entering business activities? What lessons can be learnt concerning links between business and NGO social culture? How can we access and systematize the experience of NGOs operating as contractors in projects tendered by international agencies and government? Issues of NGOs attracting national resources, forming funds, trusts and finding market for goods and services produced by NGOs where also raised.

So in his opinion, if NGOs are to attain sustainability, the above issues should form the foundation. They need to train their staff to be competent and be in position to compete with private organizations for markets and for survival so that sustainability to be achievable.

2.4.2 Beneficiary Empowerment

Bamberger et al (1996) argue that many NGOs have learnt to invest in human capital while establishing the basic infrastructure. This is very critical in NGO management since they greatly rely on human resources.

However, they should also work out a way of staff retention since many NGOs are faced with a challenge of a high staff turnover even after investing in them.

The nanag encyclopedia (2009) has this to say about beneficiary empowerment.

1. While assistance can be offered, it should not be charity assistance which promotes dependency and weakness, but partnership, assistance and training which promote self reliance and increased capacity (ability, power and strength)

2. Recipient organizations or communities should not be controlled or forced into change. Rather,

professionals trained as activists or mobilizes should intervene with stimulation, information and guidance.

3. Organisms become stronger by exercising, struggling, and facing adversity. Empowerment methodology incorporates this principle for social organizations.

4. Hands-on participation by the recipients, especially in decision-making, is essential for their Increase in capacity.

5. From the beginning, our goals should include the participants taking full control, exercising full decision-making, and accepting full responsibility for the actions which will lead to their increased strength.

Carrol (1992) says, capacity building involves learning how to negotiate with and make claims on government and local power holders, through such means as legal petitions, accessing technical and financial resources, it means training members in project management skills such as proposal writing and accounting, then giving them more control over project resources and information. However, the critical role in all this is training. NGO managers need training in such skills as project management, proposal writing and accounting which are basic in business and financial management and thus sustainability.

2.4.3 Community participation

Jurichico a former president of Japan in his speech during the African leaders' convention (2002) argued that the key factor to development is people. Giving an example of Japan a country with very few natural resources, he said it was able to grow to its present state not because of natural endowment but on the strength of its human resource.

Amec (2004) says it's very important to involve the communities in NGO work if it's to be sustained. Consult and work with the people, transfer knowledge and skills and also invest in them. Capacity building is about the people, involving them and enhancing their ability to perform. All the authors emphasized the need for training as the most crucial in a bid to achieve concrete capacity building. However the training should go beyond the staff to embrace the beneficiaries and the community. If results are to be sustainable especially in the very long run for they can be relied on to further the cause long after the staff are gone

2.5 Summary of the Literature Reviewed

Basing on what the different authors had to say about the variables of financial base, financial controls and capacity building in relation to financial sustainability, it is evident that all the above factors are crucial if sustainability is to be achieved. The ideas suggested are practical for instance the use of checks and balances and asset registers as suggested by Ministry of Local Government is really constructive and the emphasis on training for capacity building as Caroll advises. However, authors look at these factors in isolation, secondly some of their recommendations were not applicable to the case study programs given the difference in context but this research will look at a combination of all three variables as a bigger block towards achieving financial sustainability. The next chapter looks at the methods used in collection, analysis and presentation of the data collected both from the literature review, interviews, questionnaires and secondary data.

CHAPTER THREE

METHODOLOGY

3.0 Introduction

This section dealt with methods and instruments used in data collection, analysis, interpretation and presentation. It showed the instruments used in collecting and analyzing information necessary to solve the research problem. It highlighted the research design, study population, sample size, sampling techniques and procedures. It also included the, pre testing of data collection instruments, and procedure of data collection, data analysis and measurement of variables.

3.1 Research Design:

The research design is about the where, when, how much, by what means, concerning the inquiry in to the study. It's the conceptual structure within which the research is conducted and constitutes the blue print of collection, measurement and analysis of data (Kothari 2002)

The research design according to Basheka (2009) provides answers to questions like; what is the study about? Why is it being done? Where will it be carried out? What data type is required? Where can the data be found? What period of time will the study take? What will be the sample design? What techniques of data collection will be used? How will the data be analyzed? In what style will the report be written?

This was a case study research about factors affecting financial sustainability of Compassion International funded programs in Kampala which have been in existence from 1998-2008. The purpose of the research was to find out the financial challenges facing these programs, what lessons could be leant from the study that can be implemented to help the centers and other NGOs are faced with financial challenges to help them become more sustainable. The researcher chose to use a case study approach because it allows an in depth study with details and the findings can be used as lessons for similar programs. The researcher sampled out Centers in Kampala because they are some of the oldest and they are also easily accessible for data collection. The sampling technique used was purposive sampling mainly because the researcher was targeting particularly older centers and all the staff and Over seers were selected because they are few (only 4or 5 in each centre). Data was collected using face-to-face interviews, administration of questionnaires, observation and use of secondary data specifically; financial reports and annual plans and budgets. This was aimed at giving the researcher a broad picture and different perspectives to the problem, coupled with the opinions of the different stake holders. A triangulation approach to data collection and analysis was preferred by the researcher because according to Saranktos (2005), the use of both qualitative and quantitative data allows one to view a point in research from more than one perspective thus enriching knowledge and increases validity. Descriptive and explanatory designs were used especially for observation and interview aspects respectively. Qualitative designs help in giving detailed descriptions while quantitative methods have the advantage of yielding numbers, charts and tables that are easy to interpret and are also objective.

3.2 Location of Study.

The study focused on CI funded programs within Kampala district in Uganda. In particular, it looked at 12 centers because these have exited since 1998. This is because they are some of the oldest in the country and thus most affected by the financial hardships. These included Nakulabye, Ntinda, Bugolobi, Agape, Nakasero, Nsambya, Kyambogo, Mackay, Makiv, Mulago, Gaba and Nakawa Child Development Centers.

3.3 Study Population.

Kampala cluster has 20 centers; each centre has 4 members of staffs and one Overseer. The total population comprised of the members of staff in 12 centers 48 in total, all overseers 12 in total and the Partnership Facilitator who is also the donor representatives, this one was included as a key informant because he approves of all funds to Kampala centers. The staff members were selected because they are the ones responsible for implementing day-to-day program activities using finances, the overseers are supervisors to the staff and approve of all expenditures while the Partnership Facilitators administer all centers in Kampala on behalf of C.I. They also approve budgets and other major expenditures.

3.4 Sample Size and selection.

In determining the sample size, Kothari (1985) suggests that a sample should be large enough to give confidence interval of a certain width, so it should be chosen by a logical process. Special considerations here include; nature of the population, number of classifications preferred, nature of the study, type of sampling, financial availability, standard of accuracy and acceptable confidence levels.

Basheka (2009) suggests three guides to sample selection;

-Confidence one has in the data that is certainty that the chosen characters will give atrue representation of the population.

- Margin of error that can be tolerated; level of accuracy.
- Type of analysis to be undertaken that is the number of categories in which the researcher intends to subdivide the data.

Tamane (1967) recommended the formula: n=N/1+Ne2 for sample selection.

This helps to ensure a fair selection of respondents and to avoid bias which may lead unreliability of results

Where n = desired sample

N = study population

e = level of significance (selected at 0.05 or 5%)

However, since this study used purposive sampling, and the respondents are few, there was no need to apply the formula.

According to the Country Director's Report (28th June 2007), Compassion International had 150 projects in Uganda and 20 in Kampala. The sample comprised of 12 projects which are the oldest in the study area (the other 8 are new and thus not covered by the scope of the study) and this comprised of 12 Project Directors, 36 CDOs, 12 overseers and one CI Representative who is also the Partnership Facilitator. All the staff in the relevant centers were involved in the research, so there was no sampling. This is because the population was small; all staff were accessible and so the whole population was well represented thus greatly reducing on the error term.

Table 2: Selection of respondents

Category of respondents	**Population**	**Sample size**	**Sample Formula**
Overseers	**20**	**12**	**Purposive sampling**
Partnership Facilitators	**1**	**1**	**Purposive sampling**
Project Directors	**20**	**12**	**Purposive sampling**
CDOs	**60**	**36**	**Purposive sampling**
Total	**101**	**61**	**Purposive sampling**

3.5 Sampling Techniques and procedures.

The sampling methods here included purposive sampling. The projects were selected deliberately because they are some of the oldest in the country and thus are most affected by the financial challenge.

They were also selected for convenience since the researcher is based in Kampala, does similar work and so this eases the process of data collection since she is well known to all the officers in the programs.

In the sampling procedure, since the researcher was targeting the oldest projects, purposive sampling was used in the selection of the CDCs. The researcher targeted the twelve oldest projects in Kampala district. Regarding individual respondents for questionnaires, each project has 4 staff and one overseer. So the research included all the 4 staff in each centre and the Overseers.

3.6 Data Collection Methods

Data collection methods according to Sekaran (2003) are classified in to primary and secondary with both qualitative and quantitative methods. Primary data is collected fresh for the first time and is original while secondary data are already collected by other researchers and have passed through the statistical process. These include interviewing, administering questionnaires, observation of both people and phenomenon.

For the purpose of this research, three methods of data collection were used.

- Questionnaires were administered to CDOs in order to collect factual data and to obtain accurate and relevant information to the study. Questionnaires when well designed are easy to code and analyze since the categories of responses are pre classified using the scale.

- Face-to-face interviews were also applied to Overseers and the Partnership Facilitator. The intention here was to get personal opinions, observe and record actions and expressions of the respondents
- Documentary review was another method used in data collection**.** The researcher looked at some financial documents so as to get a true picture of the financial position of the different centers. These documents included; monthly financial reports and annual plans & budgets. The documents were reviewed to get information on; annual total incomes, incomes from other donors/sources besides C.I, budget percentage expense on school fees and salaries, number of children in primary and post primary sections, income from church and beneficiary contributions.
- Observation method was also applied in that the researcher visited the different centers and looked at the different Income generating projects which these centers owned, the general administration of the programs to monitor beneficiary participation and also the expressions of the respondents during interviews.

3.7 Data Collection Instruments

The instruments used in collecting data were:

- Interview guide for Overseers, Project Directors and the Partnership Facilitator.

The interview guides were administered to the above respondents because the research required specific opinions from them as managers, and given the fact that they face differing styles of administration because of their different settings contexts. Some of their responses were later quoted in the data presentation to add weight to the validity of particular recommendations.

- Questionnaires were administered to Child development Officers because the researcher wanted to capture specific, accurate and relevant specific information from them and this could be grouped and coded. Secondly the CDOs are many so interviewing them is costly and time consuming, so questionnaires can help gather information from large numbers of people with minimum risk of error.
- A documentary review checklist is relevant to capture data from archives and available statistics which the researcher may deem necessary and relevant. The researcher used a checklist with items that measured the critical indicators of the dependant variable i.e. financial sustainability and the independent variables i.e. financial base, financial controls and capacity building.

  A review of financial documents was done in order to capture statistical information which may not require either an interview or a questionnaire. It also helps to capture historical data which is used in forming the baseline. Further still, some information such a status of income and expenditure trends can only be captured accutarely using documentary review.

3.8 Pre-Testing of instruments (Validity & Reliability)

Validity according to Basheka (2009) is a test of the accuracy for the data collection instruments. It also checks to confirm if the operationalisation is bringing out the right indicators. Reliability on the other hand is about consistency, it tests to confirm that the instrument when used over and over with the same kind of respondents and under the same circumstances will not give differing results, Nardi (2003), Trochim (2002).

In order to test the validity and reliability of the data collection instruments i.e. questionnaire guides and interview schedules, a pilot study was carried out among 3 projects. This was a measure taken to ensure quality control so as to achieve maximum reliability of data. A quarter ¼ of the population was selected to help pre test the questionnaires, this comprised of six staff members and three overseers, the respondents pointed out which questions were vague, repeated, unclear, and so the necessary adjustments were made on the research instruments before the actual research was done. The adjustments included clarification of some questions, correction of spelling and grammatical mistakes, further summary and coding of particular questions and rephrasing of the introductory part of the interview schedule.

3.8 Procedure of Data Collection.

The data collection began with a pilot study so as to test the data collection instruments. This was preceded by distribution of questionnaires to staffs after making the adjustments, then interviews of the overseers and finally interviewing the key informant

A documentary review of the financial documents was done to provide a back up for data collected from interviews and questionnaires. Documents reviewed included annual plans and budgets, financial reports and vouchers.

3.9 Data Analysis

Data analysis involved coding the responses from questionnaires, summarizing the findings and making a logical interpretation of it. Results from interviews were also summarized and interpreted accordingly. Semi structured and unstructured questions were analyzed manually.

A descriptive analysis of responses from interviewees was made and compared with the findings from questionnaires and conclusions drawn thereafter.

The researcher also used Statistical Packages for Social Scientists (SPSS) to show the extent and nature of the correlation between the dependent and the independent variables. Analysis of variables (ANOVA) tables was used to establish the level of relationship between the dependant variable; financial sustainability and the independent variables i.e. financial controls, financial base and capacity building.

The data was presented with the use of tables, pie charts, bar graphs and descriptive summaries.

3.10 Measurement of Variables

Measurement according to Bailey (2000; 133) is the process of determining the values or levels either qualitatively or quantitatively of a particular attribute for a specific unit of analysis. It is important for classification of variables for easy analysis.

In this research, all four scales of measurement were applied. That is nominal, ordinal, interval and ratio. The nominal scale was used to determine the sex of the respondent, while ordinal will be used to rank aspects like level of education and job hierarchy. Some variables were measured at ratio scale for instance establishing the percentage of local contribution to the total budget under the financial base. He indicators of financial sustainability were measured using the five likert scale ranging from strongly agree to strongly disagree.

This chapter (three) dealt with the methodology to be used in data collection, and analysis, the next chapter (four) shows the actual data collected, a summary of the findings and their interpretation in relation to the study of factors affecting financial sustainability, it proves to us whether these factors actually affect financial sustainability and if so, to what extent?

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.0 Introduction

This chapter dealt with the presentation of the data collected during the course of study. The responses from the four different categories of people; Project Directors, Overseers, Partnership facilitator and Child Development Officers (staff members) were analyzed subject to the statistical tools to enable the research questions to be answered.

4.1 Response Rate

Saunders, Lewis and Thornhill (2003) asserted that the most important aspect of a probability sample is that it represents the population. A perfect representative sample should reflect the exact characteristics of the population from which it has been taken. However in any study, there are usually non respondents.

Newmann (2000) says a researcher should be able to ascertain the active response rate. The following formulae is given

ARR=Total No of respondents /Total No in sample - non responses (ineligible/unreachable)

Table 3: Response rates

Category of respondents	Population	Sample size	Response rate
Overseers	**20**	**12**	**8**
Partnership Facilitators	**1**	**1**	**1**
Project Directors	**20**	**12**	**12**
CDOs	**60**	**36**	**34**
Total	**101**	**61**	**55**

In this study, the total population was 101, and the sample size was 61. 9/13 respondents were interviewed while 46/48 respondents returned the questionnaires. Thus the active response rate was :

ARR=101/(61-6)

ARR = 101/ (55)*100

ARR =1.836

Table 4: Age distribution for CDOs

The results showed the age distribution of the respondents that were included in the study. The frequency tables and graphs were used to reflect the age characteristics of the respondents.

Age group	**Frequency**	**Percentage (%)**
26-30 years	4	33.3
31-35 years	6	50.0
36-40 years	2	16.7
Total	**12**	**100.0**

Source: Primary data

Table 4 above shows that most of the C.D.Os were in the age category 26-30 years (66.6 %). Most of the respondents in this category are young, energetic and sober minded and thus can effectively perform their duties with ease. Further still they are in position to perceive, inter prete and apply the necessary financial concepts to make the organization run effectively. The graph below shows a visual display of the above.

Table 5: Age distribution for Project Directors

Age group	Frequency	Percentage (%)
26-30 years	4	33.3
31-35 years	6	50.0
36-40 years	2	16.7
Total	**12**	**100.0**

Source: Primary data

It should be noted that 50% of the project directors were in the age groups i.e. 31-35. This is an indicator that they have work and management experience and so they are able to manage projects. According to Midwest Hosta (2008) regarding age and performance at work, there is a general belief that job performance declines with increase in age. It's argued that much as older people are more stable at work, they are liable to unavoidable absences such as poor health and social responsibility. It's also assumed that one's skills in aspects of speed, agility, memory and strength decay over time. There is also boredom over performing the same skill over and over and all this negatively affects production.

Majority of employees in C.I funded projects as indicated in table lay in age group 31-35 and below with a few above 35 and non above 40. So they are all in a very productive age group. However, some have been employed for over 8 years and so they could be suffering work fatigue as Hosta (2007) argues.

4.2 Training in CDC management for Project Directors.

Question regarding the training of the Project Directors were analyzed as below.

Table 6: Training in CDC Management

	Frequency	**Percentage (%)**	**Cumulative Percent**
Yes	12	100.0	100.0

Source: Primary data

Its significant from the above results that all the Project Directors had had training in CDC Management which ideally indicates that they are competent in what they are doing.

4.3 **Training in financial Management**.

Also a question to the project directors about their training in Financial Management was posed and the results tabulated below.

Table 7: Training of the Project Directors in Financial Management

	Frequency	**Percentage (%)**	**Cumulative Percent**
Yes	10	83.3	83.3
No	2	16.7	100.0
Total	**12**	**100.0**	

Source: primary data

It’s also important to note that 83.3% of the project managers had had training in Financial management which is a panacea if these projects are to be financially well run.

Table 8: Training of the CDOs in Financial Management

	Frequency	Percentage (%)	Cumulative Percent
Yes	12	85.7	85.7
No	2	14.3	100.0
Total	14	100.0	

Source: primary data

It is notable from the above results that 85.7% of the Child Development Officers had relevant training in financial management which clearly depicts good skills in the area of financial management for these Projects as was the case for project managers.

Staff in C.I aided organizations all receives general orientation training about project management which includes financial management, however Valderama (1999) emphasizes the need for empowerment in aspects like consensus building, interaction, networking and influencing policy if CDCs are to remain competitive.

4.4 The financial base and Financial Sustainability.

Table 9: Alternative funding/networking partners and financial sustainability

	If Compassion stopped Funding, do you have alternatives		**Any other partners who subsidize goods/services to enable cut costs**	
	Frequency	Percentage (%)	Frequency	Percentage (%)
Yes	2	16.7	6	50.0
No	10	83.3	6	50.0
Total	12	100.0	12	100.0

Source: Primary data

Results from the table above show that most (83.3%) of the projects don't have alternative sources of funding apart from Compassion International. On the other hand, half of the projects had partners or service providers that offer them subsidized services.

To test the relationship between the presence of a financial base and how it affects the financial sustainability of the projects, a regression was run using financial sustainability as the dependent variable. The following ANOVA table illustrates the results.

Table 10: ANOVA table for Alternative funding sources and Financial Sustainability

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.067	1	1.067	6.667	.027
	Residual	1.600	10	.160		
	Total	2.667	11			

Source: Primary data

a Predictors: (Constant), If Compassion International stopped funding, any alternative?

b Dependent Variable: Is the project sustainable?

From the ANOVA Table and table of coefficients, results give a 0.027 level of significance which is far below the standard two-sided value of 0.05 meaning that the two variables are positively correlated. Since only two out of the 12 centers had an alternative continuity strategy in case C.I pulled out, this is a clear indicator that the programs are not sustainable.

Table 11: ANOVA table for networking partners and financial sustainability:

Model		Sum of Squares	Df	Mean Square	F	Sig.
	Regression	1.333	1	1.333	8.000	.018
	Residual	1.667	10	.167		
	Total	3.000	11			

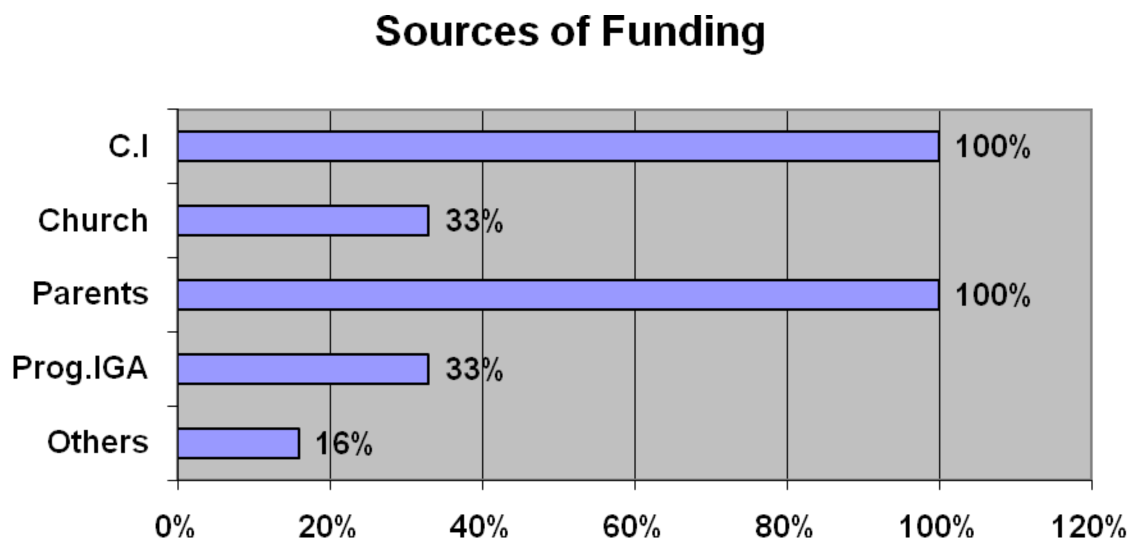
Source: Primary data

a Predictors: (Constant), Any other partners who subsidize goods/services to enable cut costs?

b Dependent Variable: Is the project sustainable?

The above table of coefficients shows a 0.018 level of significance. This is way below the standard of 0.05, this means that there is a positive correlation between the two variables; financial sustainability and having networking partners who can offer free or subsidized services. These may include medical care, supply of scholastic materials or food items to be consumed at the centre. This means that for the centers to be financially sustainable there is need for them to have networking partners who can offer or subsidized services in order to cut costs and thus financial sustainability.

Fig 2: Shows different sources of funding for CDCs



Source:Primary data

As indicated in the graph all projects receive regular funding from Compassion International and also a contribution from the parents. Other funding sources include church contributions, project income generation programs and other donations. However only two churches receive contributions from the church and only two churches generate their own incomes. The parents contributions though received by all churches is usually very small and makes up for about 5% of the budget. So there is a lot of dependency on one donor.

From the reviewed literature, below are varying opinions from different authors. Transform & Kubatsu urge NGOs to have multiple donors so as to ensure financial security and thus sustainability, Angey & Nilson (2004) and Karuhanga's experience seems to confirm the above assertion. Brundley (2005) and Amec (2004) on the other hand argue that besides having multiple donors, they need to be handled delicately with accountability and transparency in order to retain them. ASDI however argues that NGOs should pursue cost recovery in order to retain some level of autonomy from donors while Mutakyahwa (2005) advises on fund raising as a means of generating local revenue.

C.I funded programs are yet to explore most of these avenues, however the challenge with fund raising is that its not applicable in a development program, rather it works for one time projects like weddings and functions.

user fees from the local people and is this has greatly contributed to its financial sustainability.

4.2 How Financial Controls affect Financial Sustainability

Table 12: ANOVA Table for Project Directors' ability to interpret a financial report and financial sustainability:

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.067	1	1.067	6.400	.035
	Residual	1.333	8	.167		
	Total	2.400	9			

Source: Primary data

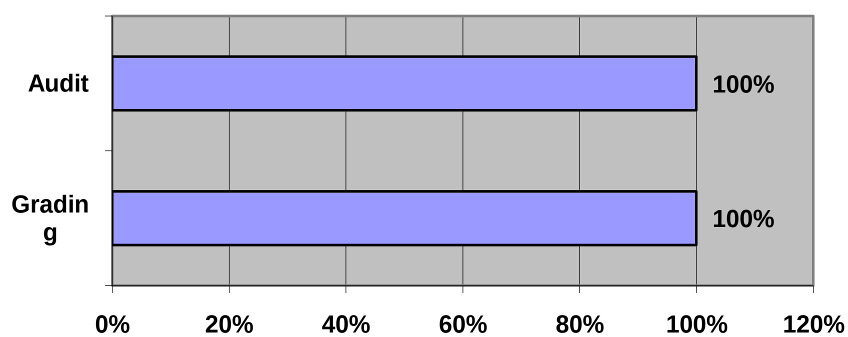
a Predictors: (Constant), Can you write a financial report?

b Dependent Variable: Is your organisation financially sustainable?

Regarding the effect of Financial Controls on Financial sustainability, questions to the Project Directors about their ability to interpret financial reports as a measure of financial controls measured against whether their organizations are financially sustainable. The results from the ANOVA table indicate a 0.035 level of significance at 1 degree of freedom. The level of significance is below the standard value of 0.05 meaning that financial sustainability is positively associated with the financial controls that the Project Directors posses.

In other words, the more financial controls the project managers put in place, the more likely they are to effect financial sustainability of their projects.

Fig 3: Shows Project Grading and Auditing.



Source: Primary data

All the Project Directors answered in affirmative when asked whether their Projects were audited on a regular basis which is once a year. They are also graded according to finance and program Key Result Areas (KRAs) every year, and this was evidenced by the records in the financial files. So this means that the financial controls are in place.

2.3.4 Sahley (1995) talks about the grant mentality that makes NGO managers laxed and extravagant in handling finances. Ministry of Local Government (2003) and Transform and Kubatsu (2003) recommend internal controls that are aimed at protecting funds and assets. Bamberger (1996) on the other hand emphasizes cost recovery while UNEP (2007) says it's about effective resource utilization. From the above findings, C.I programs seem to implement the above recommendations especially internal controls and effective resource utilization. However cost recovery is not implemented and many staff have a grant mentality and job security, so they see no need to perform competitively.

4.3 How Capacity building affects Financial Sustainability

Table 13: Training in CDC Management and Financial Management of the Project Directors and financial sustainability.

	Trained in CDC Management		**Trained in Financial Management**	
	Frequency	**Percentage (%)**	**Frequency**	**Percentage (%)**
Yes	11	91.7	10	100
No	1	8.3	2	0.0
Total	12	12	12	100.0

Source: primary data

The results from the above table show that almost all (91%) Project Directors had had training in CDC Management as well as financial management. A regression was run of the training attained against financial sustainability of the project.

Table 14: ANOVA Table for Project Directors' training in finance & CDC management and Financial sustainability.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.267	2	.133	.500	.622
	Residual	2.400	9	.267		
	Total	2.667	11			

Source: primary data

a Predictors: (Constant), Training in Financial Management, Training in CDC Management?

b Dependent Variable: Is your organization financially sustainable?

Table 15: Table of Coefficients:

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	1.200	.611		1.964	.081
	Training in CDC Management?	1.418E-16	.730	.000	.000	1.000
	Training in Financial Management	.400	.542	.316	.739	.479

Source: Primary data

a Dependent Variable: Is your organization financially sustainable.

b Predictors: (constant) Do the Project Directors have training in CDC management and finance.

From the ANOVA Table and table of coefficients, results give a 0.622 level of significance which is above the standard two-sided value of 0.05 meaning that the two variables are not positively correlated. Despite the fact that almost all of them had attained training in both CDC Management and Financial Management doesn't necessitate their ability to ensure financial sustainability for their programs.

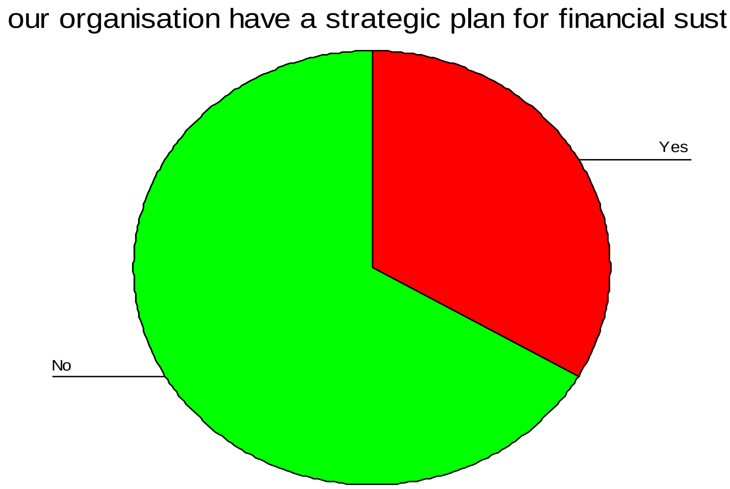
On the overall, according to the Project Managers, the capacity building initiatives offered do not have a significant impact on the financial sustainability of the project.

Table 16: shows the level of community involvement and contribution to the CDC.

	Variable	Freq	Percentage	Valid %	Cumm. %
Valid	Contribute financially to children's welfare	8	66.7	66.7	66.7
	Planning & budgeting	4	33.3	33.3	100
	Total	12	100	100	

Source: Primary data

As per the above illustration, in all Centers, the community and beneficiaries are involved in the running of the program, they participate in planning and budgeting and make a financial contribution as well and this is important for ensuring continuity and sustainability of the



program.

Figure 4
yes=30% no=70%

Figure 4: Plan for financial sustainability.

The pie chart above shows that over 70% of the leaders have no documented plan for financial sustainability. So incase the Compassion international donors pull out, they have no other alternative but to close down.

Table 17: Annual incomes of 6 CDC and total percentage expenditure on fees and salaries.

Child Development Centre(CDC)	Children below S.1	Children in post primary	Total annual income	Budget % spent on fees	Budget % spent on salaries	% of Non C.I income
Agape	40	250	107,400,000	50	30	4
Mackay	168	81	97,640,000	30	40	7
Ntinda	120	120	101,100,000	45	30	15
Bugolobi	102	160	89,521,700	48	28	2
Kyambogo	72	204	106,360,000	43	41	8
Nakulabye	106	201	110,520,000	70	21	7

Source: Annual plans and budgets of the different CDCs for the financial year 2008-2009

Table 4.13 above is a summary of the annual incomes and major expenditures for the CDCs under review. This has major indicators for financial sustainability, for instance 5/6 of the CDCs have a greater number of children in post primary than in primary section. This implies that the budget percentage going towards tuition fees is quite high, so they are not in position to effectively implement, other programs because of limited funds. Average expenditure on school fees is 45% for most of the centers with Nakulabye CDC spending over 70% on fees. Mackay CDC which has the lowest expenditure of 30% on fees, spends 40% of its annual income on salaries. This leaves a very small balance for other development programs. This means that the program implementation is not effective due to limited finances and thus programs are not sustainable.

Colomn 6 of table 4.13 shows that nearly all the CDCs have over 90% of their income coming from one source which is Compassion International, because their other sources account for less than 10% of their total income. This is not viable for financial sustainability because in case C.I pulls out, they will not be in position to continue in operation.

Based on the findings from chapter four above, the following conclusions and recommendations were drawn for the programs to adopt in order to help them improve their financial status and thus be financially sustainable in the long run. Details of conclusions and recommendations are presented in the following chapter (five).

Bamberger et al (1996) argue that many NGOs have learnt to invest in human capital while establishing the basic infrastructure. Jurichico (2002) also emphasizes the importance of investing in human capital. This is very critical in NGO management since they greatly rely on human resources.. Nanang (2008) on the other hand emphasizes the need for partnership, training, giving beneficiaries opportunity to make decisions, have more control and thus gain ownership of the program.

C.I has invested a lot in training; however most of the trainings held in Kampala cluster do not address the finance management function. They are biased towards health and sponsor relations. Secondly, due to the high staff turn over experienced by the organization, there is a continuous need for training new people which is very costly.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS.

5.0 Introduction:

Based on the findings from the summaries and analysis in chapter four, the following conclusions were drawn concerning the relationships between the dependant variable which is financial sustainability and whether or not its affected by the three independent variables broadly identified as financial controls, financial base and capacity building.

5.1 Summary of findings

5.1.1 Financial Controls and Financial Sustainability:

Statistics from chapter four on training indicate that all Project Directors and CDOs got orientation training in CDC management which included a package in financial management, this is also confirmed by the Partnership facilitator who stated that staff have sufficient training in financial management. However, despite the training, results indicate that the CDCs are not financially sustainable, and so there is no co-relation between training and financial sustainability. This is indeed true; however, one may need to get deeper to analyze the type, quality and timing of the training in relation to financial sustainability. There is need for the Finance department at C.I to invest more in refresher training especially for older staff in order to ensure effective service delivery and thus sustainability.

Well as controls do exist to protect and are well known to all the staff, they have major loop hole sand can thus be easily exploited. \for instance many CPC members are do not understand financial transactions or even inter prêt financial reports yet they play the role of the internal audit system.

In response to the credit crunch, many CDCs decided to do away with the 4th staff as a means of cost controls. However, this also created a challenge as far as segregation of duties is concerned. Now that staff are only three, some roles have to be done by the same person which contravenes the rules of accounting but because of limited staff, the organization has no choice but to rely on the integrity of its employees.

Budget management in many CDCs is still lacking. Well as all the centers draw budgets at the start of the financial year and these are approved by the CPC and PF, many staff go ahead to implement programs that are not budgeted for, at times they spend far above the budgeted amounts without approval of the signatories.

Project Director are considered to be the accounting officers for the CDC and are thus charged with the responsibility of auditing the CDO-Finance before the external auditors, and findings show that there is a positive correlation between financial controls and financial sustainability. However, when the different Project Directors where asked about their ability to interpret a financial report, only 6/12 answered in affirmative and yet, the state of the financial report is a very important indicator of effective financial management in any organization, so this means they cannot institute effective measures to protect Centre financial assets.

The researcher also observed that some of the respondents employed as CDO- Finance or to supervise finance do not have an educational background in that area. Some of them qualified as teachers or social workers yet they are now practicing finance without a finance background. This has paused a challenge were these people are incompetent because they do not have the necessary skills for the job.

C.I is a Christian NGO and works with born again Christians who are assumed to have a high level of integrity and are thus expected to be good stewards of financial and other resources. Secondly, C.I audits and grades its funded programs annually. The Partnership Facilitator confirms that there are enough controls to safe guard project resources. However, experience has proved that some of the Christians lack integrity and secondly, an audit done once a year may not be effective in correcting the damage that may have accumulated over twelve months.

The research found out that some of the CPC members are ignorant of their roles, they do not have the full information they need to practice the checks and balances. Voucher and cheque signatories go ahead to approve items with exaggerated prices or expenditures outside the budget, the verifiers do not bother to verify items purchased but just go ahead to sign.

5.2 Financial Base and Financial Sustainability:

As table 4.2 in chapter 4 indicates, all Centers receive funding from C.I and parents contribution. However only two churches receive a financial contribution from the church and generate their own income. This puts the other Centers at a great risk via financial sustainability because they rely on one donor and the local contribution does not comprise even a tenth of the whole budget.

As a matter of policy, beneficiaries contribute towards the centers and this contribution is utilized for development and construction purposes. However, this contribution makes up a very small percentage of the budget and is nearly insignificant. Some Project Directors when asked about their strategy for financial growth said they would increase parents' contribution. However, this is not a viable source because these parents are very poor and are meant to be the beneficiaries from the programs.

One church leader urged that they had plans of starting a micro finance programs as a means of sustainability but none of these is in place as yet and when asked about the source of funds for these micro finance programs he had no clear plan.

Table 4.6 looked at the possibility of program continuity in case C.I stopped funding, however, only two centers i.e. 16% proved that they could continue without C.I funding because they had other sources of funding, the rest had non which means they are not financially sustainable. So this means there is no financial sustainability for these centers.

The leaders do not have a strategic plan for financial sustainability for their centers besides dependence on compassion International. Both Overseers and Project Directors need to come up with a strategic plan for financial sustainability besides dependence on C.I donors, there is need to broaden their scope and look for other sources of funds.

Results from the observation checklist indicate that each year, expenditure on staff salaries and school fees increases. On the contrary, individual project income is relatively constant and sometimes declines especially when some children are discontinued from the program. So this shows an urgent need for Centers to find multiple donors or to generate their own incomes in order to continue operating effectively and to be relevant to the beneficiaries

5.3 Capacity Building and Financial Sustainability:

The Partnership Facilitator appreciates that Centers in Kampala are not performing well financially given the quality of their monthly financial reports and results from annual audits and grading where majority projects fall under grades B and C instead of A which is the ideal. However, to him the challenge is not with training, he believes that center staffs have got sufficient training to do a good job but the challenge is with them to apply the skills effectively. This is contrary to what the staff have to say, to them orientation training was insufficient, it was very summarized and the concepts were very unfamiliar and the group was so big, so they insist that there is need for refresher training an area the finance department has not explored.

Training in financial management is key; however, much as Compassion has held several trainings in other program aspects such as health and communication, the finance aspect has been greatly neglected. The last financial training held in Kampala cluster was in 2004 and a lot has changed including policy, systems and staff turnover. Therefore, refresher training is long over due.

The findings also showed that majority of the staff i.e. 84% have no training in fundraising and And yet this is very crucial for financial sustainability and reducing on dependency on a single donor who may choose to pull out any time. According to the Partnership Facilitator's annual report financial year 2005-2006, C.I had closed partnership with six churches in that financial year. As a result, five out of the six churches had to close their Centers for lack of funding, only one had continued operations but still on a smaller scale, so the rest of the children who could not be relocated lost their sponsorship and some had to drop out of school. So these Centers need to train their staff in fundraising skills so as to enable them acquire funds else where and thus enable sustainability for the program.

5.4 Summary of Findings

In conclusion, statistics from chapter four indicate when all the factors are put together and considered for financial sustainability, the Centers are not financially sustainable. The ANOVA tables show a positive correlation between all the factors i.e. financial controls, financial base and capacity building as having a positive influence on financial sustainability. So if C.I funded centers and other NGOs invested in developing these aspects they would become sustainable in the long run.

5.5 Recommendations.

5.5.1 Broadening the financial base.

Project Directors and Overseers need to be more innovative so as to find alternative means of funding CDSP programs instead of banking on C.I alone whose funding is very insufficient. They should work towards making the centers self sustaining by generating their own revenue. Through the skills programs, children can make items like uniforms, soap, furniture, pastries that can be marketed in the nearby schools, other centers and the community.

They can also hire out their assets at a fee to raise revenue. Items like office space, chairs, sports equipment can be hired out for revenue generation.

Compassion International has supported the CDCs in registering as Community Based Organizations (CBOs) in order to enable them tap funding from other organizations as long as there is no double sponsorship of individual children. So CDCs need to work more aggressively to take advantage of several funding opportunities offered by other organizations so as to broaden their financial base.

Compassion through its Complimentary Interventions (CIVs) encourages CDCs to write proposals for funding specific needs which may be too expensive to be funded through the regular budgets. So, CDCs should take advantage of this opportunity to supplement their tight budgets.

With the growth of the middle class in Uganda, and much publicity on child advocacy, CDCs should encourage local sponsorship and fundraising for program activities among church members, community and among the corporates.

Besides the financial contributions, beneficiaries can be encouraged to contribute in kind towards the programs in order to cut costs and even enhance ownership and accountability. Caregivers can contribute labour, development ideas, food items, and skills training for the children.

5.5.2 Implementation of financial controls.

There is an urgent need to review the recruitment process. Since the recruitment is left entirely to the church partners, experience shows that some of them friends and relatives irrespective of their qualifications. Many of these have prove to b e incompetent, embezzled huge sums of money and yet the church leadership lacks the capacity to discipline them because of their strong links to the dioceses. There is need for both partners to participate and make the requirements more stringent so as to eliminate incompetent candidates.

The C.I audit team is understaffed and can only afford to visit each program for one day in a year. There is need to empower the church CPC. They need to have at least an O, level background;

sufficient financial training and confidence boosting to enable them address cases of fraud and not be intimidated by staff.

The Umbrella partners such as the Diocesan secretary need to supervise the programs more closely monitor the centre day programs; have regular meetings with Overseers to ensure that programs are running smoothly.

Compassion designed well-documented finance guidelines and a manual for the implementation of finance programs in the implementation of the programs. However, much as all the CDCs have these documents, very few of them refer to them in their day-to-day work. Therefore, PFs need to do a follow up and ensure that the guides are well understood and implemented effectively.

There is great need for positive motivation for CDCs that make efficient and effective use of resources as a boost for better performance. The staff should be rewarded with special recognition, promotions, salary increments special grants in appreciation for their great service.

5.5.3 Capacity building.

There is a great need for training of all project staff and even CPC members in financial management especially in the area of report writing, checks and balances and use of the finance manual from C.I. But this training should mainly target the overseers and Project Directors who are supervisors and accounting officers.

There is need for greater caregiver and community involvement in these programs. Much as the findings in chapter four show caregiver and community involvement in the programs, in most cases parents are called upon to meet there financial obligations to the program and also to attend meeting where they are informed of the new changes, however, they do not actively participate in the actual planning and implementation of the programs. So they should be given opportunity contribute development ideas, bring items in kind as a way of cutting costs and empower them to be part of and to own the program.

The staff and CPC need to be empowered with skills in fund raising, proposal writing identification of potential funding opportunities. This will reduce on the donor dependency and help increase program revenue.

Compassion International usually designs its programs and sends them to the churches to implement. However, there is a greater need to engage the church implementers in the design of the programs, in order to enhance ownership and accountability.

Well as CDCs are contributing to the well being of low income families and have supported many children through school, there is a need for a change in approach. Many beneficiaries do not seem to comprehend the long term outcomes of the program such as education development, Christian growth, social and health development. To them, hand outs like soap, Vaseline, books and food make more sense and without these, many of them drop out of the program. So there is a need to educate the beneficiaries on what the program is about, its boundaries and where possible enhance the house hold incomes by supporting them in business rather than giving them hand outs.

Registration of children could be done in phases so as to avoid the financial trap that many older programs are plugged in to. If a program registers 50 children aged 3-5 in an interval of two years, they will join secondary section at different times and so, funds for the younger children will help support the older ones.

5.5 Areas recommended for further research

5.5.1 Capacity building and NGO sustainability.

Capacity building is a very important aspect of sustainability. With the current economic crunch, every NGO has to find ways of strengthening the net in order to survive and work effectively. Staff and beneficiaries need to be empowered in terms of effective/ efficient delivery but especially in terms of resource mobilization.

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APPENDICES

Appendix 1: Questionnaire

Appendix 2 Interview Schedule

Interview Guide for Church Leaders/ Overseers

Capacity building

1. For how long have you been an overseer?

2. What plan does the church have towards improving the incomes of the families of registered children or the community?
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3. Do you have a strategy/ plan for staff retention?
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4. What role do the community and caregivers play in the running of the CDC
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5. Do you have incentives for staff that excel in financial management?
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Financial Controls

6. Do you keep track of the financial management system in the CDC?

7. What is your role in the financial transactions of the CDC?
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   ………………………………………………………………………………………
8. What checks and balances do you have in place to safeguard program funds?
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9. Can you interpret a financial report?

Financial base

10. Besides Compassion International (C.I), which other source of funding does your program have?
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11. If C.I was to stop its funding, does the church have an alternative funding strategy to enable the program continue?
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12. What resource contribution does the church make towards the CDC?
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13. Does the CDC generate its own revenue?

a) Yes b) No

13 (b) If yes what are some of its sources of income?

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14. Has the CDC ever received funding from a written proposal to C.I or else where?

a) Yes b) No

14 (b) What was it about?

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15. Do you have networking partners who can offer you free or subsidized goods/services so as to cut costs?
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16. What recommendations would you give to CDCs to help them achieve financial sustainability?
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Interview guide for Project Directors

Capacity building

1. Age group: a) 20-25 b) 26-30 c) 31-35 d) 36-40 e) 41-45

1. How many years of managerial experience do you have?

2. Did you receive orientation training for CDC management?

3. Have you ever received any other training in financial management? What was it about?
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4. Is the community involved in your ministry?

(b) What role does the community and care givers play in the running of the CDC?
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6 Does your organization have a strategic plan for financial sustainability?
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Financial Base

6. If C.I was to stop its funding, does the church have an alternative funding strategy to enable the program continue?

7. Besides Compassion International (C.I), which other source of funding does your program have?

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8. What resource contribution financial or otherwise does the church make towards the CDC?
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9. Has the CDC ever received funding from a written proposal to C.I or else where?
9 (b) If yes, what was it/they about?
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10. Do you have networking partners who can offer you free or subsidized goods/services so as to cut costs?
    (b) If yes, please list them and the services they provide?
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    …………………………………………………………………………………………
11. Do you have training in proposal writing/Fundraising.

12. What plans does the CDC have for generating its own revenue?
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    …………………………………………………………………………………………………
    ……………………………………………………………………………
13. What plans does the CDC have for increasing its income?
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Financial Controls

14. What is your role in the financial transactions of the CDC?
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    …………………………………………………………………………………………………
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15. Can you write a financial report?

16. As the chief custodian, what measures do you use to control/ safeguard cdc funds & resources?
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Interview guide for Partnership Facilitator (compassion International)

Capacity Building

1. Did you receive training for program facilitation?

2. What's your opinion on the financial performance of the CDCs you supervise?

3. Do you think the staffs have sufficient training in financial management?

4. Does C.I have a strategic plan for the growth and sustainability of its funded projects.

Financial Controls

5. What plans do you have in place to improve the financial management system of CDCs

6. Do you follow the monthly reports of the CDCs you supervise?

7. Are the financial controls by instituted by C.I sufficient to safe guard project resources?

Financial Base

8. Has the staff been trained in fund mobilization?

9. What is the C.I policy on CDCs getting multiple donors?

10. What strategies does C.I have in maintaining good donor relations and accountability?

11. What recommendations do you give to partners to help increase CDC incomes?

Questionnaire for CDO

My name is Namakula Edith, a Student at Uganda Management institute. I am carrying out a research about financial sustainability of NGOs using Compassion International funded programs in Kampala as a case study. Findings from this research will be used to help CDCs in financial management. I am requesting you to be a part of this research by filling in this questionnaire. Confidentiality is guaranteed and your honest opinion will be highly appreciated**.** Thank you for your participation

1. Age group: a) 20-25 b) 26-30 c) 31-35 d) 36-40 e) 41+

2. How long have you worked as CDO Finance?

   a) 0-1 year b) 1-2 years c) 2-3 years d) 3 years+

3. What are your highest academic qualifications?

   a) Degree b) Diploma c) Certificate

1. Capacity building

4. Have you ever received any other training in financial management?

   A) Yes b) No

6. If yes in 5 above, Please specify.
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   ………………………………………………………………………………………
   ………………………………………………………………………………………

5. In which areas of your work do you need training in order to perform better?
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Financial Base

6. Do you have training in fundraising?

   a) Yes b) No

7. Do you have training in proposal writing?

   a) Yes b) No

8. What plans do you have for increasing the income of your CDC?
   ……………………………………………………………………………….
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Financial Controls

9. What is your role in the financial transactions of the CDC?
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   ……………………………………………………………………………………………………
   ………………………………………………………………………
10. Can you effectively write a financial report?

11. Does your CDC apply the C.I assets and finance policies/ regulations?

12. Are they realistic/ applicable? Please explain your response.

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13. When was the last time your CDC was audited?

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14. What recommendations do you have for improving the financial management system of your CDC and others in general?
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    ……………………………………………………………………………………………………
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