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# FACTORS INFLUENCING FINANCIAL SUSTAINABILITY OF LOCAL NON – GOVERNMENTAL ORGANIZATIONS IN PUNTLAND, SOMALIA

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**Abstract**

*There are approximately 500 NGOs registered in Puntland, but only 24.8% are considered active. Most of them struggle for survival and depend on volatile external funding creates uncertainty and leaves them financially unsustainable. This study sought to determine whether local nongovernmental organizations in puntland were sustainable and focused on three factors influencing financial sustainability of NGOs with regards to sources of finance, income diversification, and strategic financial planning. The study employed a descriptive research design. The target population for this study was the management team of NGO's based in Puntland state of Somalia. Results indicate that there was a positive and significant effect of diversification strategies and strategic management on financial sustainability of LNGOs. This implies that Organizations which had diversified their sources of funds and had strategic plans in place enjoyed more financial sustainability than the organizations that did not. However, a very low and insignificant correlation existed between financial sources and financial sustainability implying that the financial sustainability did not have any dependence on financial sources. The fund sources had no significant effect on sustainability of LNGOs. The study thus recommends increased diversification of income sources as well as strategic financial planning by NGOs in order to improve their financial sustainability.*

Keywords: Strategic Management, Non –Governmental Organisations, Financial Sustainability

## INTRODUCTION

In the decade to the year 2017, there has been an increase in numbers of local non-governmental organizations (LNGOs) operating in many developing countries which are taking active roles and working towards improving livelihoods. Most of them embedded in the communities they serve because of their proximity, both physically and socially to local people. They deliver quality social services to the poorest sector of the society and promote sustainable development (Clark, 1991). These organizations are locally voluntary based groups which entirely independent from government and have primarily humanitarian objective rather than commercial. They reach target groups better than government institutions in developing world. The concept of NGO came into use in 1945 following the establishment of the United Nations Organizations which recognized the need to give a consultative role to organizations which were not classified as neither government nor member states (Willett, 2002).

Apart from regular and mandatory registration, the local NGOs work become free for all business which led to the creation of hundreds of LNGOs which are all claiming to work for the good of the general public. About 500 Local organization, 38 International Organization and 18 UN agencies operated in Puntland since 1998 and most of them are registered Ministry of Planning and International Cooperation (MoPIC) except for the UN agencies which have an agreement with the Puntland Government.

Most of the LNGOs in Somalia and particularly in Puntland are facing with a struggle for survival due to their organizational deficiencies and also due to the limited availability of resources and funds. As Drucker, (1990) pointed out, in most cases, these organizations have to contend with the fact that they have limited income (generating opportunities). There is also a global upsurge in the formation of NGOs (Lekorwe and Mpabanaga, 2006; Scott and Hopkins, 1999). This upsurge comes with competition for funding which in most cases seemingly favors larger NGOs. They mostly depend on and compete for the donor funds and they generally do not have strategies or operations to diversify their sources of funds resulting in office closure by many LNGOs. Although international donors/contributors are the major sources of funding, the level of their contribution has steadily declined. This has affected operations of LNGOs in Puntland.

As a result, this present major challenge to the sustainability of many LNGOs in Puntland have been unable to achieve their objectives; i.e., the ability or capacity of the LNGOs to endure – internal and external factors that affect their operations and survival (Broekhuis & Vos, 2003; Geelsa, 2010).

## STATEMENT OF THE PROBLEM

There is a significant literature gap of studies done in Puntland State of Somalia which is structurally different from the contextual orientation of the studies mentioned here. This is because Somalia is just emerging from war and NGOs are more critical in promotion of societal welfare the rest of the countries that are more economically stable. Accordingly, the sustainability of LNGOs in more critical for Somalia such that a study in Somalia provides additional literature not available in the rest of the countries.

## STUDY OBJECTIVES

The general objective of the study was to determine the factors influencing the financial sustainability of Non-Governmental Organizations (NGOs) in Puntland.

Specifically the study sought to:

1. Determine the effects of income diversification on local NGOs financial sustainability in Puntland State of Somalia.
2. Evaluate the effect of financial sources on financial sustainability of local NGOs in Puntland State of Somalia.
3. Determine the influence of strategic financial planning on the financial sustainability of Local NGOs in Puntland State of Somalia.

## RESEARCH QUESTIONS

1. Does income diversification affect financial sustainability?
2. Does financial sources of finance affect financial sustainability?
3. Does strategic financial planning affect financial sustainability?

## LITERATURE REVIEW

This study was guided by three theories

**Resource Based View-** The resource-based view offers critical and fundamental insights into why firms with valuable and well organized resources may enjoy superior performance (Barney, 1995). It analyses and interprets resources of the organizations to understand how organizations achieve sustainable competitive advantage.

**Portfolio Theory-** Portfolio theory is a mathematical formulation related to the concept of investment diversification, with the aim of selecting assets that collectively involve lower risk than any individual asset. While investigating the relationship between income diversification and financial sustainability for non-profits, the modern portfolio theory suggests that more diversification reduces volatility at the expense of reduced expected income. Income diversification is embedded in the portfolio theory (Kingma, 2003).

**Resource dependence Theory-** Resource dependency theory (RDT), examines the relationship between organizations and the resources they need to operate. The theory is based upon the following belief: organizations are dependent on resources; these resources ultimately originate from the environment of organizations; the environment to a considerable extent contains other organizations; the resources one organization needs are thus often in the hands of other organizations; resources are a basis of power; legally independent organizations can therefore be dependent on each other (Pfeffer & Salancik, 1978).

## CONCEPTUAL FRAMEWORK

In this study, financial sustainability is the hypothesized dependent variable, while sources of finance, diversification and strategic financial planning are the independent variables.

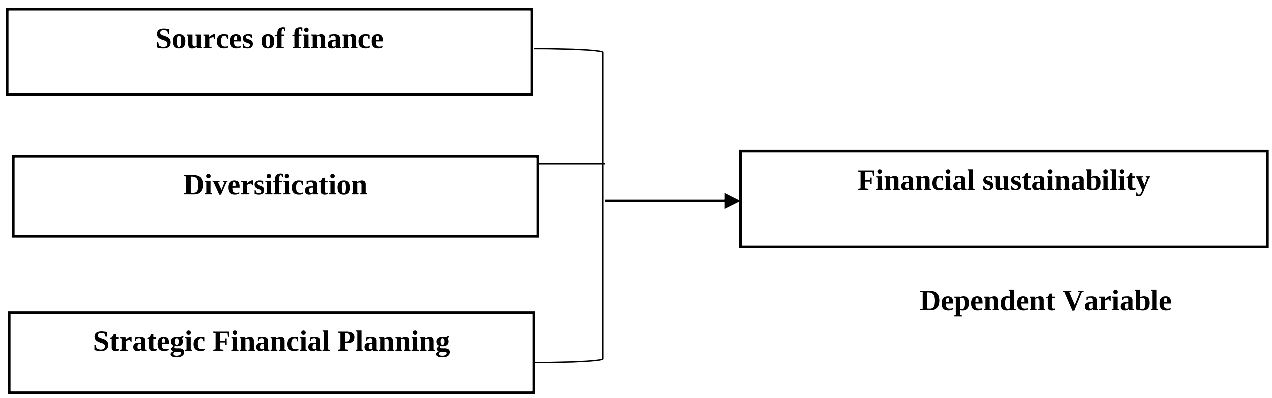


**Figure 1** **Independent Variables**

## RESEARCH DESIGN

The study employed a descriptive research design. The target population for this study was the management team of NGO's based in Puntland state of Somalia. A sample size of 94 obtained using simple random sampling. Questionnaires were used for primary data collection and data analyzed using Statistical Package for Social Science (SPSS V 17.0).

## RESULTS AND DISCUSSIONS

### Diversification of funds

One of the variables involved checking how diversified the income of the LNGO was on a scale of 1 (least diversification) to 5(very high diversification). This was subsequently used in analyzing how diversification affects financial sustainability of LNGOs in Puntland. The study identifies four main diversification strategies. These included social entrepreneurship, fundraising and development planning, tapping international funding streams and owning and managing businesses. Figure 2 shows the relationship.

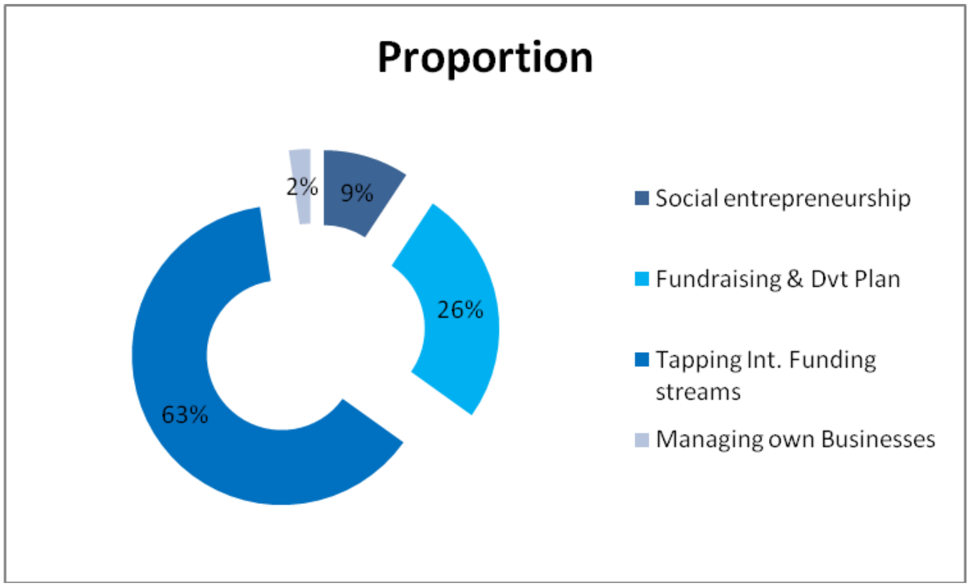


**Figure 2: Diversification strategies employed by NGOs**

As shown in figure 2, majority of the LNGOs identified with tapping international funding streams (62.8%), with fundraising and development planning being the second most applied strategy at 25.6%. Other strategies included social entrepreneurship (9.3%) and Owning and managing businesses (2.3%)

On the extent to which the diversification strategies had been employed by the organizations, the levels of involvement in income generating activities, seeking multiple donor funding, having a broad funding base were measured. On a Likert scale of 1 to 5 with 1= Strongly Disagree (SD), 2=Disagree (A), 3=Neutral (N), 4=Agree (D) and 5= Strongly Agree (SD), respondents were required to identify the levels of their organization's involvement in the identified diversification strategies.

**Table 1: Income diversification strategies**

| | Income diversification | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Strongly Agree | | Agree | | Neutral | | Disagree | | Strongly Disagree | | Mean | stdev |
| | F | % | F | % | F | % | F | % | F | % | | |
| **Income generating activities established** | 25.0 | 29.1 | 21.0 | 24.4 | 10.0 | 11.6 | 27.0 | 31.4 | 3.0 | 3.5 | 4.5 | 0.9 |
| **Multiple donors sought** | 12.0 | 14.0 | 40.0 | 46.5 | 22.0 | 25.6 | 9.0 | 10.5 | 3.0 | 3.5 | 3.6 | 1 |
| **Multiple sources increased financial sustainability** | 53 | 61.6 | 26 | 30.2 | 2 | 2.3 | 2 | 2.3 | 3 | 3.5 | 4.4 | 0.9 |
| **Organization has broad funding base** | 10 | 11.6 | 12 | 14 | 21 | 24.4 | 20 | 23.3 | 23 | 26.7 | 2.6 | 1.3 |

On the establishment of income generating activities, and as shown in table 1, 53.5% of the respondents (Strongly) agreed to have had this establishment as a means of their diversification strategy while 34.9% (strongly) disagreed. 11.6% remained neutral. In seeking multiple funds, 60.5% of the respondents (Strongly) agreed to be using this diversification strategy while 14% (strongly) disagreed as 25.6% were neutral. Results also indicate that fewer organizations (25.6%) had a broad funding base compared to 50% of the organizations which disagreed to having a strong funding base. 24.4% were not sure of the level of their funding bases.

Taken on an aggregate basis, the diversification of the sources of funding by the LNGOs was evaluated. In line with this, the descriptive findings are shown in table 2.

The findings in Table 2 show an average low level of diversification. This could be attributed to the low level of resources in the Puntland state of Somalia leading to overreliance on donor funds or a single stream of funds. When standard deviation and the mean are compared, they provide a CV value of 0.1566. This is not as high as that of sustainability.

**Table 2: Descriptive Statistics on Diversification of Funds**

| | |
|---|---|
| Mean | 0.12240 |
| Median | 0.12127 |
| Standard Deviation | 0.01917 |
| Range | 0.08053 |
| Count | 87 |
| Confidence Level (95%) | 0.00409 |

This can be compared to the findings of Ochieng (2016) who noted that although NGOs rely on a wide array of diversified sources of NGO funds, self-financing contributed 49.3% of the funding of NGOs in Nairobi Kenya. This implies that besides identifying varying funding sources, an NGO is likely to be more sustainable if it relies on its own internal sources of funding. Its activities are in this manner unlikely to be disrupted by changes in external sources of funding.

**Sources of Funds**

In analyzing the effect of sources of finance on financial sustainability of LNGOs in Puntland, the study sought to establish the following; the NGOs' sources of funds, the proportion of funds derived from these sources, the level of dependence on these sources and the effect of the 3 above on financial sustainability.

Five main sources of finance were identified which included: Local government institutions, local private companies, Community donations, International donors and others. As shown in table 3, it was apparent that the major source of funding was the international donors with averagely 66.3 % of the LNGOs' funds drawn from this source, followed by community donations with averagely 13.8% of funds drawn from this source. The third ranked source of funding was the local private companies with an average of 10.1% followed by other source and local government institutions at slightly above 5% each. It also emerged that some LNGOs drew 100% of their funds from one particular source. These sources included Local private companies, International donors and other miscellaneous sources.

**Table 3: Dependence on various sources of finances**

| **Sources of finance** | Strongly Agree | | Agree | | Neutral | | Disagree | | Strongly Disagree | | Mean | stdev |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | F | % | F | % | F | % | F | % | F | % | | |
| **NGO Dependent on Donor funding** | 59 | 68.6 | 17 | 19.8 | 6 | 7 | 2 | 2.3 | 2 | 2.3 | 3.4 | 1.3 |
| **Survival Depends on money raised per year** | 40 | 46.5 | 28 | 32.6 | 8 | 9.3 | 8 | 9.3 | 2 | 2.3 | 4.1 | 1.1 |
| **Major source of finance is internal** | 17 | 19.8 | 15 | 17.4 | 16 | 18.6 | 23 | 26.7 | 15 | 17.4 | 3.0 | 1.4 |
| **Foreign funding not sustainable** | 38 | 44.2 | 33 | 38.4 | 9 | 10.5 | 3 | 3.5 | 3 | 3.5 | 4.2 | 1.0 |

There was a huge variation however in the proportion of funds received from the highlighted sources as shown by the values of the coefficient of variation and the standard deviations of the proportions from the mean with the deviations being higher than the means, except for the international donor source.

The variability in the distribution of funds from the identified sources is well illustrated by figure 3 which is a boxplot showing the proportion of funds derived from five sources where 1a=local government institutions, 1b= local private companies, 1c= Community donations, 1d= International donors while 1e=other sources. The boxplot gives the values of the three quartiles for each of the sources of funds. On local government institutions, the median bar indicates that up to 50% of the NGOs did not receive any funds from this source while the rest received less than 10%.

From local private companies, results indicate that 25% of the NGOs did not receive any funds from this source, up to 50% of the NGOs received less than 5% of their funds from this source while up to 75% of the NGOs derived approximately 10% of their funds from this source. There was dispersion in the proportion of funds derived from the third source which is community donations. 25% of the NGOs derived no funds from this source, the next 25% received up to 10% of their funds from this source while the third quarter (75%) received up to 20% of their funds from this source. The International donor was the main source with NGOs deriving higher proportions of their funds from this source with the 1st quartile being 57%, the 2nd quartile (median) being approximately 67% and the 3rd quartile being above 80%, all indicating that higher proportions of funds were derived from this source. On other sources of funds, more than 90% of the respondents did not derive funds from other sources.

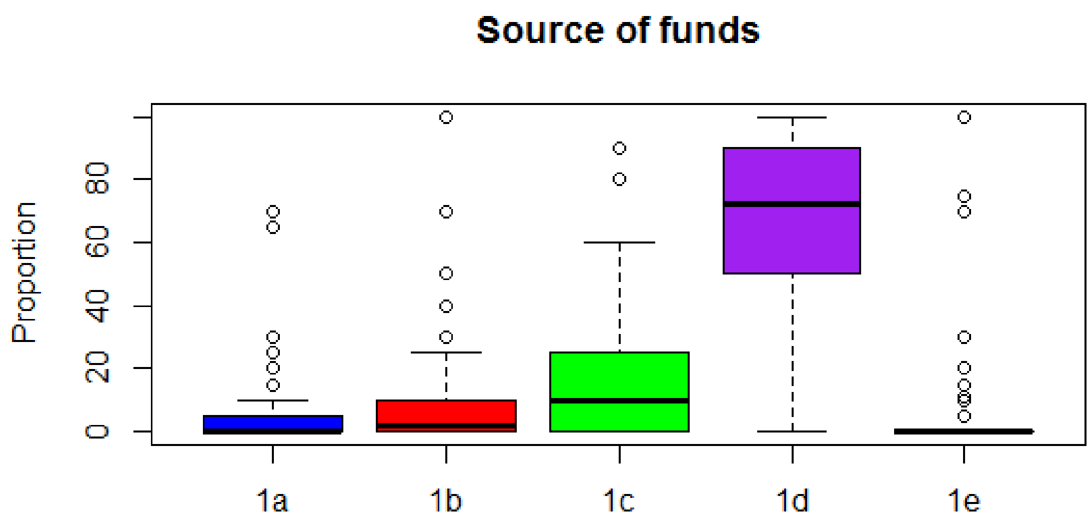


**Figure 3: Proportion of funds drawn from different sources**

Interest was also drawn to the level of dependence that LNGOs had on different financial sources. In measuring this, respondents were required to rate in a Likert scale of 1 to 5 with 1= strongly disagree and 5=Strongly Agree, their level of dependence on: Donor funding, amount of money raised in a year, internal support and foreign donors. As shown in Table 3, on LNGOs depending on donor funding, majority (68.6%) of the respondents strongly agreed while 19.8% agreed. Only 4.6% of the respondents disagreed with this view while 7% remained neutral. Respondents were also asked to rate their level of agreement to the proposition that their NGO's survival depended on money raised per year.

There was a general agreement to this statement (mean=4.1±1.1) with 79.1% agreeing with the statement, 9.3% remaining neutral while 11.6 disagreed with the statement. On major source of finance being internal, the response seemed to be neutral (mean=3.0±1.4) with 37.2% agreeing, 18.6 remaining neutral and 44.1% disagreeing. Despite having highlighted the international donor as the main source of funding, results indicate that this source was not sustainable nonetheless. Majority of the respondents (82.6%) agreed to a lack of sustainability of foreign funding, 10.5% remained neutral while only 7% disagreed.

When taken on an aggregate basis, the descriptive statistics are provided in Table 4. The table shows the mean, median and standard deviation of the values derived from the likert scale on a 95% confidence interval.

**Table 4: Sources of LNGO finances of LNGOs**

| | |
|---|---|
| Mean | 2.62164 |
| Median | 2.89037 |
| Standard Deviation | 0.95879 |
| Range | 3.63759 |
| Count | 87 |
| Confidence Level (95.0%) | 0.20435 |

The findings in table one indicate an above average availability of sources of funding from all the considered sources. This represents an average of 2.6 out of 5 which translates to 52%. This value can be compared with the standard deviation of 0.95879 to provide a coefficient of variation of 0.2647. This implies that for every one dollar of funding available, there is expected to be a volatility of 0.3687 in such funding for the local non-governmental organizations. This points to not only a slightly above average level of funding, but also an extremely high level of volatility in funding that puts into question the overall level of sustainability.

This can be compared to the findings of Ochieng (2016) who noted that although NGOs rely on a wide array of diversified sources of NGO funds, self-financing contributed 49.3% of the funding of NGOs in Nairobi Kenya. This implies that besides identifying varying funding sources, an NGO is likely to be more sustainable if it relies on its own internal sources of funding. Its activities are in this manner unlikely to be disrupted by changes in external sources of funding. This can be contrasted with the findings of Ali (2012) who showed that donor relationship management contribute most to financial sustainability of Non -Governmental organisations followed by strategic financial management then income diversification while own income generation contributed the least to financial sustainability of nongovernmental organizations. The implication of the contradictory findings is that the factors that influence sustainability of NGOs depend on the operational and regulatory environment.

**Strategic Management**

Strategic Management levels were also evaluated in the study. From this perspective, the study sought to establish the following; whether organizations were able to go on with their activities even if donor funds ceased, whether organizations were able to manage their own activities even if foreign managers left, whether organizations had laid down succession plans, whether organizations had adequate allocations of financial resources for all their activities, whether organizations had financial sustainability plans and the effect of the above on their financial sustainability.

A Likert scale of 1 to 5 with 1= Strongly Disagree (SD), 2=Disagree (A), 3=Neutral (N), 4=Agree (D) and 5= Strongly Agree (SD), was used to identify the extent to which the strategic planning indicators existed in the organizations. On whether organizations were able to go on with their activities even if donor funds ceased and as shown in table 5, 40.7% of the respondents (Strongly) agreed to have this plans in place while 47.6% (strongly) disagreed. 11.6% remained neutral. On whether organizations were able to manage their own activities even if foreign managers left, majority (38.9%) of the respondents (strongly) agreed, 24.5% (strongly) disagreed while 26.7% remained neutral.

**Table 5: Analysis of Strategic planning**

| **Strategic Financial Planning** | Strongly Agree | | Agree | | Neutral | | Disagree | | Strongly Disagree | | Mean | stdev |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | F | % | F | % | F | % | F | % | F | % | | |
| **Able to go on without donor funds** | 27 | 31.4 | 8 | 9.3 | 10 | 11.6 | 23 | 26.7 | 18 | 20.9 | 3 | 1.6 |
| **Able to manage activities without foreign managers** | 14 | 16.3 | 28 | 32.6 | 23 | 26.7 | 12 | 14 | 9 | 10.5 | 3.3 | 1.2 |
| **Succession plan laid** | 16 | 18.6 | 17 | 19.8 | 28 | 32.6 | 20 | 23.3 | 5 | 5.8 | 3.2 | 1.2 |
| **Adequate allocation of finance to all activities** | 13 | 15.1 | 13 | 15.1 | 8 | 9.3 | 29 | 33.7 | 23 | 26.7 | 2.6 | 1.4 |
| **Financial sustainability plan exists** | 9 | 10.5 | 15 | 17.4 | 4 | 4.7 | 50 | 58.1 | 8 | 9.3 | 2.6 | 1.2 |

Results also indicate that majority organizations (38.4%) had a succession plan in place compared to 29.1% of the organizations which disagreed to having It. 32.6% were not sure of whether the plan existed or not. In the respondents' opinion on whether there was an adequate allocation of financial resources for all activities in their

NGOs, majority (60.4%) of the respondents (strongly) disagreed, 30.2% (strongly) agreed while 9.3% remained neutral. On whether organizations had a financial sustainability plan, majority (67.4%) of the respondents (strongly) disagreed, 27.9% (strongly) agreed while 4.7% remained neutral.

Taken together, table 6 provides the aggregate descriptive statistics of the strategic planning eves among the LNGOs in Puntland State of Somalia at 95% confidence interval.

**Table 6: Strategic Planning of LNGOs**

| | |
|---|---|
| Mean | 2.61978 |
| Median | 2.83321 |
| Standard Deviation | 0.82406 |
| Range | 2.89037 |
| Count | 87 |
| Confidence Level (95.0%) | 0.17563 |

The descriptive statistics findings indicate that strategic planning is embraced by LNGOs to an above average level of 2.6 out of a possible 5 which is around 52%. The values are however skewed to the left given that the mean is lower than the median. This is an indication just that strategic management plays less of a prominent role among fewer LNGOs than most. When the mean is compared with the standard deviation of 0.82406 from table 6, a coefficient of variation of 0.3146. This implies that for every 1 unit of strategic management, there is expected to be a volatility of 0.3146 units.

The findings can be compared to those of Muriithi (2014) who for the Kenyan environment finds out that management strategies play a significant role in sustainability of NGOs. She provides evidence that sustainability of NGOs is influenced positively by a number of management factors and management capabilities. These included proper governance structures, top management that understands the purpose of the organization and take the lead in its achievement, a leadership with all the required qualification, skills, competence and experience, a management that adopts staff policies that motivate and retains employees within the organization. Leadership approaches adopted also helped the organization to meet its objectives.

**Inferential Statistics**

This section provides the findings from the inferential statistics obtained from running the multiple linear regression specified in chapter 3.

$$Y = \beta_1 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + e$$

To adequately evaluate the findings, tests of causality using the regression as well as tests of association using coefficient of correlation are use. This was done for the relationship between the dependent variable and each of the independent variables as well as for the overall multiple linear regression model. The findings are discussed in the ensuing subsections.

### Regression Model Output and Specification Tests

Before relying on the findings from the regression, a model specification test was carried out to check out the goodness of fit of the model. The findings are indicated in Table 7

**Table 7: Model Goodness of Fit Test**

| | | | | | |
|---|---|---|---|---|---|
| R-Square | 0.71314 | | | | |
| Adjusted R Square | 0.69081 | | | | |
| Standard Error | 0.58803 | | | | |
| Observations | 87 | | | | |
| ANOVA | | | | | |
| | *df* | *SS* | *MS* | *F* | *Signf F* |
| Regression | 3 | 29.7008 | 9.9003 | 28.6315 | 0.000000 |
| Residual | 83 | 28.7000 | 0.3458 | | |
| Total | 86 | 58.4008 | | | |

Two test statistics were used in checking the goodness of fit of the multiple linear regression model. These were the coefficient of determination (R-Square) and the F-test. With respect to the R-square, the regression output provides a value of 0.71314 at 95% confidence interval. The implication of this is that 71.31% of the changes in the dependent variable (financial sustainability) are explained by the changes in the independent variables specified in the model i.e. $X_1$ (Diversification of funds), $X_2$ (Fund sources) and $X_3$ (strategic Management). This implies that 28.69% of the changes in financial sustainability of LNGOs are explained by factors beyond the three independent variables. These are captured in the random disturbance term specified in the multiple linear regression model. This is considered consistent with literature because Cronbach and Shavelson (2004) assert that social science studies do not capture all relevant factors in their study models and must by necessity have a random error term.

With respect to the F-test, the regression output provides an F-value of 28.63. This is greater than the significant value of 0.0000 at 95% confidence interval. Accordingly, the null hypothesis that the model does not fit the data is rejected and a conclusion that the model is suitable for analysis arrived at. This corroborates the findings from the coefficient of determination test and allows the study to examine the interrelationships between financial sustainability of LNGOs and their various characteristics funds diversification, sources of funds as well as strategic management.

In addition to the tests of the goodness of fit, the study evaluated the independence of the variables using the chi-square test. The findings are indicated in table 8.

**Table 8: Chi square test on financial sustainability and the 3 independent variables**

| **Chi square test of independence** | | | |
|---|---|---|---|
| **DV** | | | |
| | **$\chi^2$ Value** | **Degrees of freedom (df)** | **p-value** |
| **Financial sources** | 19.31 | 12 | 0.08131 |
| **Diversification strategies** | 60.405 | 12 | 1.904e-08 |
| **Strategic planning** | 130.12 | 4 | < 2.2e-16 |

These findings by the chi square test of independence between financial sustainability and the three independent variables i.e. financial sources, diversification strategies and strategic planning indicators. As shown in table 8, results indicate that there was no significant relationship between financial sources and financial sustainability at P=0.05 $\chi^2$ (19.31, 12). However, there were significant relationships between diversification strategies and financial sustainability at P=0.001 $\chi^2$ (60.405, 12) as well as between strategic planning and financial sustainability at P=0.001 $\chi^2$ (130.12, 12).

After the diagnostic tests above, the regression of financial sustainability (Y) on funds diversification ($X_1$), Sources of funds ($X_2$) and strategic management ($X_3$) was undertaken. The regression output findings are shown in table 9. This was done at 95% confidence interval.

**Table 9: Regression Output Statistics**

| ***Variable*** | ***Coefficients*** | ***Std Error*** | ***t Stat*** | ***P-value*** | ***Lower 95%*** | ***Upper 95%*** |
|---|---|---|---|---|---|---|
| Intercept | 1.59766 | 0.30796 | 5.18794 | 0.00000 | 0.98515 | 2.21018 |
| $X_1$ | 12.90778 | 3.32686 | 3.87986 | 0.00021 | -13.79927 | 35.77699 |
| $X_2$ | 10.98886 | 12.46286 | 0.88173 | 0.38047 | 6.29078 | 19.52477 |
| $X_3$ | 0.54019 | 0.06615 | 8.16615 | 0.00000 | 0.40862 | 0.67176 |

The table 9 provides the regression statistics with t-values and their corroborating p-values. The specified model is stated as:

$Y = 1.59766 + 10.98886X_1 + 12.90778X_2 + 0.54019X_3$

To corroborate the findings from the regression analysis, correlation analysis was also carried out. An analysis of the three main independent variables against the dependent variable reveals that indeed a relationship existed. The results are summarized in table 10 and 11

**Table 10: Correlation on financial sustainability and the 3 independent variables**

| | Financial sources | Diversification strategies | Strategic planning | Financial sustainability |
|---|---|---|---|---|
| **Financial sources** | 1.000000000 | | | |
| **Diversification strategies** | 0.205199439 | 1.000000000 | | |
| **Strategic planning** | 0.001427371 | 0.6190750*** | 1.000000000 | |
| **Financial sustainability** | 0.016676532 | 0.6157166*** | 0.835335996*** | 1.000000000 |

A spearman's rank correlation coefficient reveals that there was a positive ($\rho$ = 0.6) and significant correlation (p= 0.001) between the diversification strategies and financial sustainability as well as between strategic planning and financial sustainability ($\rho$ = 0.84, P=0.001). This consequently implied that Organizations which had diversified their sources of funds and had strategic plans in place enjoyed financial sustainability than the organizations that did not. A different pattern is however displayed between financial sources and financial sustainability. Results indicate very low and insignificant ($\rho$ = 0.02, P=0.001) correlation between this factor and financial sustainability implying that the financially sustainability did not have any statistically significant dependence on financial sources.

**Table 11: P-values for correlation on financial sustainability and the 3 independent variables**

| | Financial sources | Diversification strategies | Strategic planning | Financial sustainability |
|---|---|---|---|---|
| **Financial sources** | < 2.2e-16 | | | |
| **Diversification strategies** | 0.05805 | < 2.2e-16 | | |
| **Strategic planning** | 0.9896 | 2.106e-10 | < 2.2e-16 | |

| | | | | |
|---|---|---|---|---|
| **Financial sustainability** | 0.8789 | 2.805e-10 | < 2.2e-16 | < 2.2e-16 |

The output in tables 9, 10 and 11 are discussed for each of the variables in the following sub-sections. They are in all cases compared to similar studies in other countries notably Muriithi, (2014); Okorley and Nkrummah (2012); Njoroge (2012); Ali (2012) and Ochieng (2016).

**Effect of Income Diversification on Financial Sustainability of NGOs**

Before considering the overall regression and correlation between financial sustainability and diversification, the subcomponents were also considered. This included calculations of the spearman's rank correlation coefficient ($\rho$) between establishment of income generating activities and financial sustainability, seeking multiple donors and financial sustainability and having a broad funding base and financial sustainability. Tables 12 and 13 summarize the results. Correlation coefficients were also calculated between the financial sources themselves

.

**Table 12: Spearman's rank correlation on diversification strategies and financial sustainability**

| | **Income activities** | **Multiple Donors** | **Broad fund Base** | **F. sustainability** |
|---|---|---|---|---|
| **Income activities** | 1.0000000 | | | |
| **Multiple Donors** | 0.2978351*** | 1.0000000 | | |
| **Broad fund Base** | 0.6351653*** | 0.2104731 | 1.0000000 | |
| **F. sustainability** | 0.6820337*** | 0.2502778** | 0.7406062*** | 1.0000000 |

Results indicate that there was a positive and significant (P=0.01) correlation between establishment of income generating activities and seeking multiple donors. Significant correlation (P=0.001) also existed between establishment of income generating activities and having a broad funding base implying that the more an organization engaged in multiple income generating activities, the broader the organization's funding base would be and vice versa. In terms of correlation with the dependent variable, there was a positive and significant ($\rho$ = 0.68, P=0.001) correlation between establishment of income generating activities and financial sustainability, also implying that the more an organization engaged in multiple income generating activities, the more its financial sustainability would be.

For the correlations on seeking multiple donors, results indicate that there was a low positive ($\rho$ = 0.2) and insignificant correlation between seeking multiple donors and having a broad funding base. This implied that seeking multiple donors did not necessarily translate to having a broad fund base. On seeking multiple donors versus financial sustainability, there was a low positive ($\rho$ = 0.25) but significant (P=0.05) correlation.

This consequently implied that Organizations which sought multiple donors, to a little extent enjoyed financial sustainability than the organizations that did not. A similar pattern is displayed between having a broad funding base and financial sustainability. Results indicate a high positive (0.74) and significant (P=0.001) correlation between having a broad funding base and financial sustainability implying that the broader an organization's fund base is, the more be financially sustainable it would and vice versa.

**Table 13: P-values for the spearman's Rank correlation coefficient**

| **P-values for the spearman's Rank correlation coefficient** | | | | |
|---|---|---|---|---|
| | Income activities | Multiple Donors | Broad fund Base | F. sustainability |
| **Income activities** | 2.2e-16 | | | |
| **Multiple Donors** | 0.005351 | 2.2e-16 | | |
| **Broad fund Base** | 5.082e-11 | 0.05176 | 2.2e-16 | |
| **F. sustainability** | 4.832e-13 | 0.02012 | 3.636e-16 | 2.2e-16 |

When a regression of financial sustainability on fund diversification was done, the findings are shown in table 14. The findings in table 14 show that financial sustainability has a positive effect on financial sustainability of LNGOs as indicated by a t-statistic that is greater than 2.000 and a P value that is less than 0.05 at 95% confidence interval. Given that the model fits the data as indicated by the statistically significant F of 5.10243 which is greater than the critical value of 0.02645.

**Table 14: Regression Statistics on Financial Sustainability on Diversification**

| | *Df* | *SS* | *MS* | *F* | *Sigf. F* |
|---|---|---|---|---|---|
| Regression | 1 | 3.03094 | 3.03094 | 5.10243 | 0.02645 |
| Residual | 85 | 50.49172 | 0.59402 | | |
| Total | 86 | 53.52267 | | | |

| | *Coefficients* | *Std Error* | *t Stat* | *P-value* | *Lower 95%* |
|---|---|---|---|---|---|
| Intercept | 2.04432 | 0.25038 | 8.16494 | 0.00000 | 1.54650 |
| $X_1$ | 0.22467 | 0.09946 | 2.25885 | 0.02645 | 0.02691 |

This corroborates the overall findings indicated in table 9 which show that diversification has a positive and significant effect on sustainability of LNGOs are shown by a coefficient value of 12.90778 from the regression output. This provides a P-value of 0.00021 which at 95% confidence interval is less than the critical p-value of 0.05. Accordingly, the null hypothesis that fund diversification does not significantly affect financial sustainability of LNGOs is reflected with the conclusion that they positively affect such sustainability. This finding is corroborated by a t-value of 3.8799 which is greater than the critical value of 2.0000 at the 0.05 level of significance.

The findings above are also corroborated with those from table 10 and 11. From table 10, a coefficient of correlation between financial sustainability and diversification shows a value of 0.6157. This implies that the causation shown between financial sustainability and funds diversification indicated by the statistically significant p-value and t-values is supported by a strong measure of association between the two as indicated by the strong positive correlation between diversification and financial sustainability. The p-value of 0.000 in table 11 showing independence between these two variables totally confirms the positive effect of diversification on financial sustainability of LNGOs in the Puntland State of Somalia.

The findings from this study can be compared to those of Okorley and Nkrumah (2012) who in Ghana indicate that availability of funds has a significant effect on sustainability of funds. However, their study fails to interrogate the nature of the funds as has been done in this study. Njoroge (2012) notes that NGO funding is contrained by numerous economic factors which may point to the need for diversification. Njoroge (2012) in fact recommends that NGOs should come up with income diversification strategies to enhance their financial sustainability.

**Effect of Financial Sources on Financial Sustainability of NGOs**

Before considering the overall regression and correlation between financial sustainability and fund sources, the subcomponents were also considered. A spearman's rank correlation coefficient was used as a test for correlation between financial sources and financial sustainability as table 15 and 16 show. This included calculations of the spearman's rank correlation coefficient ($\rho$) between dependence on donor funding and financial sustainability, dependence on money raised per year and financial sustainability and dependence on internal support and financial sustainability.

**Table 15: Spearman's correlation coefficients between financial sources and financial sustainability**

| | Donor funding | Money per year | Internal support | F. sustainability |
|---|---|---|---|---|
| **Donor funding** | 1.0000000 | | | |
| **Money per year** | 0.4462906*** | 1.0000000 | | |
| **Internal support** | -0.3031651** | -0.3879539*** | 1.0000000 | |
| **F. sustainability** | -0.4468772*** | -0.4076210*** | 0.6175234*** | 1.0000000 |

Correlation coefficients were also calculated between the financial sources themselves. Results indicate that there was a positive and significant (P=0.001) correlation between dependence on donor funding and dependence on money raised per year. Negative but significant (P=0.05) correlation existed between dependence on donor funding and major source being internal implying that the more an organization depended on its own internal funding, the lesser it depended on donor funding and vice versa. In terms of correlation with the dependent variable, there was a negative and significant (P=0.001) correlation between dependence on donor funding and financial sustainability, implying that the more an organization was dependent on donor funding, the lesser its financial sustainability would be.

**Table 16: P-values for the spearman's Rank correlation coefficient**

| **P-values for the spearman's Rank correlation coefficient** | | | | |
|---|---|---|---|---|
| | Donor funding | Money per year | Internal support | F. sustainability |
| **Donor funding** | 2.2e-16 | | | |
| **Money per year** | 1.656e-05 | 2.2e-16 | | |
| **Internal support** | 0.004548 | 0.0002236 | 2.2e-16 | |
| **F. sustainability** | 1.609e-05 | 9.803e-05 | 2.405e-10 | 2.2e-16 |

For the correlation between dependence on money raised per year and financial sustainability, results indicate that there was a negative and significant (P=0.001) correlation between dependence on money raised per year and financial sustainability. This consequently implied that Organizations whose survival largely depended on the amount of money they raised per year were less financially sustainable than the organizations that less depended on it. A different pattern is however displayed between dependence on internal sources of finance/support and financial sustainability. Results indicate a positive and significant (P=0.001) correlation between depending on internal sources of finance/support and financial sustainability implying that the more an organization depended on its own internal funding/support, the more it would be financially sustainable and vice versa.

When a regression of financial sustainability on fund diversification was done, the findings are shown in table 17.

**Table 17: Regression Statistics on Financial Sustainability on Fund Sources**

| | *Df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 1 | 0.00249 | 0.00249 | 3.96 | 0.0950 |
| Residual | 85 | 53.52017 | 0.62965 | | |
| Total | 86 | 53.52267 | | | |
| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* | *Lower 95%* |
| Intercept | 2.58632 | 0.15447 | 16.74347 | 0 | 2.279194 |
| $X_2$ | -0.00509 | 0.08089 | -0.06294 | 0.949961 | -0.16593 |

The findings in table 17 show that financial sustainability has no significant effect on financial sustainability of LNGOs as indicated by a t-statistic of 0.00509 which is less than 2.000 and a P value of 0.949961 which is greater than 0.05, the critical value at 95% confidence interval. Given that the model fits the data as indicated by the statistically significant F of 3.96. This corroborates the overall findings indicated in table 9 which show that fund sources do not matter and that they have no significant effect on sustainability of LNGOs are shown by a coefficient value of 10.9889 from the regression output. This provides a P-value of 0.38047 which at 95% confidence interval is more than the critical p-value of 0.05. Accordingly, the null hypothesis that fund sources does not significantly affect financial sustainability of LNGOs is not rejected with the conclusion that they have no effect on such sustainability. This finding is corroborated by a t-value of 0.88173 which is greater than the critical value of 2.0000 at the 0.05 level of significance.

The findings above are also corroborated with those from table 10 and 11.From table 10, a coefficient of correlation between financial sustainability and fund sources shows a value of 0.0166. This implies that the lack of causation shown between financial sustainability and funds fund sources indicated by the statistically insignificant p-value and t-values is supported by a very weak measure of association between the two as indicated by the weak positive correlation between fund sources and financial sustainability. The p-value of 0.000 in table 4.18 showing independence between these two variables totally confirms the lack of effect of fund sources on financial sustainability of LNGOs in the Puntland State of Somalia.

The findings from this study show the relative unimportance of income sources in sustainability of NGOs. This is contrary to the findings of Ali (2012) who showed that financing sources determine the sustainability of NGOs in Kenya. This was in addition to other factors that included donor relationship management, strategic financial management and own income generation which contributed towards financial sustainability of nongovernmental organizations to varying degrees.

**Effect of Strategic Management on Financial Sustainability of NGOs**

Before considering the overall regression and correlation between financial sustainability and strategic management, the subcomponents were also considered. A spearman's rank correlation coefficient was used to test for correlation between Income diversification and financial sustainability. This included calculations of the spearman's rank correlation coefficient ($\rho$) between establishment of income generating activities and financial sustainability, seeking multiple donors and financial sustainability and having a broad funding base and financial sustainability. Tables 18 and 19 summarize the results.

Correlation coefficients were also calculated between the financial sources themselves. Results indicate that there was a positive and significant (P=0.01) correlation between establishment of income generating activities and seeking multiple donors. Significant correlation (P=0.001) also existed between establishment of income generating activities and having a broad funding base implying that the more an organization engaged in multiple income generating activities, the broader the organization's funding base would be and vice versa. In terms of correlation with the dependent variable, there was a positive and significant ($\rho$ = 0.68, P=0.001) correlation between establishment of income generating activities and financial sustainability, also implying that the more an organization engaged in multiple income generating activities, the more its financial sustainability would be.

**Table 18: Spearman's rank correlation on diversification strategies and financial sustainability**

| | Income activities | Multiple Donors | Broad fund Base | F. sustainability |
|---|---|---|---|---|
| **Income activities** | 1.0000000 | | | |

| | | | | |
|---|---|---|---|---|
| **Multiple Donors** | 0.2978351*** | 1.0000000 | | |
| **Broad fund Base** | 0.6351653*** | 0.2104731 | 1.0000000 | |
| **F. sustainability** | 0.6820337*** | 0.2502778** | 0.7406062*** | 1.0000000 |

For the correlations on seeking multiple donors, results indicate that there was a low positive ($\rho$ = 0.2) and insignificant correlation between seeking multiple donors and having a broad funding base. This implied that seeking multiple donors did not necessarily translate to having a broad fund base. On seeking multiple donors versus financial sustainability, there was a low positive ($\rho$ = 0.25) but significant (P=0.05) correlation. This consequently implied that Organizations which sought multiple donors, to a little extent enjoyed financial sustainability than the organizations that did not. A similar pattern is displayed between having a broad funding base and financial sustainability. Results indicate a high positive (0.74) and significant (P=0.001) correlation between having a broad funding base and financial sustainability implying that the broader an organization's fund base is, the more be financially sustainable it would and vice versa.

**Table 19: P-values for the spearman's Rank correlation coefficient**

| **P-values for the spearman's Rank correlation coefficient** | | | | |
|---|---|---|---|---|
| | Income activities | Multiple Donors | Broad fund Base | F. sustainability |
| **Income activities** | 2.2e-16 | | | |
| **Multiple Donors** | 0.005351 | 2.2e-16 | | |
| **Broad fund Base** | 5.082e-11 | 0.05176 | 2.2e-16 | |
| **F. sustainability** | 4.832e-13 | 0.02012 | 3.636e-16 | 2.2e-16 |

When a regression of financial sustainability on fund diversification was done, the findings are shown in table 20. The findings in table 20 show that financial sustainability has a positive and significant effect on financial sustainability of LNGOs as indicated by a t-statistic of 2.96478 which is more than the critical value of 2.000 and a P value of 0.01658 which is less than 0.05, the critical value at 95% confidence interval. Given that the model fits the data as indicated by the statistically significant F of 3.47 against a critical value of 0.06583, this corroborates the overall findings indicated in table 9. Those findings in table 9 in line with those in table 18 show that strategic management has a statistically significant positive effect on sustainability of LNGOs are shown by a coefficient value of 0.54019 from the regression output. This provides a

P-value of 0.0000 which at 95% confidence interval is more than the critical p-value of 0.05. Accordingly, the null hypothesis that strategic management does not significantly affect financial sustainability of LNGOs is rejected with the conclusion that it has a positive effect on such sustainability. This finding is corroborated by a t-value of 8.16615 in the main regression in table 9 which is greater than the critical value of 2.0000 at the 0.05 level of significance.

**Table 20: Regression Statistics on Financial Sustainability on Strategic Management**

| | *Df* | *SS* | *MS* | *F* | *Significance F* |
|---|---|---|---|---|---|
| Regression | 1 | 2.10099 | 2.10099 | 3.47294 | 0.06583 |
| Residual | 85 | 51.42168 | 0.60496 | | |
| Total | 86 | 53.52267 | | | |
| | *Coefficients* | *Standard Error* | *t Stat* | *P-value* | *Lower 95%* |
| Intercept | 1.21420 | 0.73666 | 1.64826 | 0.10299 | -0.25047 |
| A | 14.37324 | 4.84799 | 2.96478 | 0.01658 | -0.96166 |

The findings above are also corroborated with those from table 10 and 11. From table 10, a coefficient of correlation between financial sustainability and fund sources shows a value of 0.83534. This implies that the positive causation shown between financial sustainability and strategic management indicated by the statistically significant p-value and t-values is supported by a very strong measure of association between the two as indicated by the strong positive correlation between strategic management and financial sustainability. The p-value of 0.000 in table 4.18 showing independence between these two variables totally confirms the effect of strategic management on financial sustainability of LNGOs in the Puntland State of Somalia.

Ali (2012) places a lot of emphasis on strategic management as a contributing force towards sustainability of NGOs in Kenya. The study recommends that in order to ensure that the NGOs remain sustainable; they should procure employees that are competent in strategic planning, plan implementation and financial analysis. The NGO management should increase their income sources from their usual ones. It further suggests that strategic management of donor relationships is key towards ensuring financial sustainability of NGOs.

## Discussion of Findings in relation to Research Questions

The study avails results based on its findings which have been used to provide information deemed to be capable of enhancing inventory management of supermarkets. The supermarkets substantially benefit from effective management arising from the consciously chosen inventory management activities which enables them to ensure that required items are available to their customers at all times and at reasonable prices.

One of the core competences in the supermarkets' inventory management basic framework is efficient and timely flow of information within the firm and between the firm and their suppliers respectively. This competency among others is sought by the supermarkets to enable them to meet the needs of their customers both in the short-term and in the long-term. Information accuracy and its flow among supply chain partners is crucial for the efficient and effective functioning of the supermarkets' inventory management.

This is so as to hedge the supermarket against the bull-whip effects among other drawbacks of inaccurate flow of information thereby enhancing better communication within the purchasing departments and their suppliers. This enables the firm to know their suppliers' future growth plans and the future product design capacity which enables the supermarkets to propose to their suppliers new products that can be delivered to them in response to changing customer needs.

## SUMMARY OF FINDINGS

### The effect of income diversification on financial sustainability of NGOs in Puntland

The first objective was to "determine whether income diversification effects on financial sustainability of LNGOs in Puntland. Income diversification is one of the key factors for financial sustainability of LNGOs and very few of of them had diversified income The study findings showed that income diversification strategies of funding enhanced financial sustainability at the organization. About 53.5% of the respondents (Strongly) agreed to have had this establishment as a means of their diversification strategy.

These strategies included tapping international funding streams, managing own business, social entrepreneurship, fundraising and developing plan and owing. This is in in agreement with Alymkulova and Seipulnik (2005) and Boas (2012) that the most sustainable financing strategy is to diversify income sources. Alter (2007) pointed out that declining funding had increased the number of nonprofits incorporating income-generating activities into their organizations. Lewis (2011) also is in agreement with boos (2012) and Alymkulova and Seipulnik (2005) ) that the best strategy for NGOs is to diversify income sources.

The findings indicate that diversification has a positive and significant effect on sustainability of LMGOs in Puntland state of Somalia. This applies to both the simple linear regression as well as the multiple linear regressions although the explanatory power of the model improves when the other two factors are added onto the model.

### The effect of financial sources on financial sustainability of NGOs in Puntland

The second objective was to determine whether financial source have effect on financial sustainability of LNGO. The study further revealed that source of finances affect financial sustainability of NOGs in Puntland. International donors (63%) are the major sources of LNGOs' funding in the Puntland state of Somalia. High dependence of donor funding does not guarantee financial.

The descriptive and inferential findings contradict those of fund diversification. Use both simple linear and multiple linear regression, the study fails to reject the null hypothesis that the type of funding accessed utilized has no significant influence on the financial sustainability of the LNGOs. This implies that the most important consideration in sustainability of the NGOs is the funding, the source of such funding notwithstanding. If considered together with objective 1 and 3, it can however be concluded that the explanatory power of the regression model is improved when the type of funding is included in the model to explain sustainability.

### The effect of strategic planning on financial sustainability of NGOs in Puntland

The third objective low at how strategic financial planning affects financial sustainability of LNGOs. The study further found that absence of Strategic Planning was one of the challenges encountered in the NGO sector. Few NGOs have strategic plans which would enable them to have ownership over their mission.

From an inferential perspective however, the study found out that strategic management plays a positive and significant effect on the financial sustainability of LNGOs in Puntland state of Somalia. This is because the null hypothesis was rejected for both the simple linear form and the multiple linear regression form of the research model. This factor was accordingly found to positively affect the sustainability of the LNGOs.

## CONCLUSIONS

Based on the results of the study, it was observed fund diversification and strategic management were having a significant effect on the financial sustainability of the local NGOs. The source of funding was however found not to be important in determining the financial sustainability of the LNGOs. Therefore, organizations that diversify their sources of funds and had strategic plans in place enjoyed financial sustainability than the organizations that did not. Also organization whose major source of funding is internal is more sustainable. Thus, a very low and insignificant correlation between financial sources and financial sustainability implying that the financial sustainability did not have any dependence on financial sources. Finally, it can be concluded that income diversification, and strategic financial planning were all significant factors of financial sustainability of the local NGOs in Puntland.

## RECOMMENDATIONS

The recommendations in this study are considered as both policy recommendations as well as recommendations for further study given the limitations of this study.

**Policy Recommendations**

Based on the conclusions of the study, it is recommended that local NGOs should diversify their source of funding in order to avoid dependence on one single source of revenue whether external or internal. The study also acknowledges that developing and executing financial strategies and allocation of funds for local NGO activities enhances sustainability. Finally local NGOs, those seek multiple sources of fund, have capital reserves will lead them became independent and more financially sustainable.

**Suggestions for Further Research**

The study experienced some limitations in the study given the lack of financial records among many local Non-governmental organizations. It is therefore recommended that a further study be undertaken using secondary data based on LNGO financial statements to evaluate the factors that determine their financial sustainability. This is important because it would take into account the time series patterns of sustainability as well as the determinant factors. It would also be less reliant on the opinions of the managers of LNGOs which can be subjective.

It is also recommended that a similar study be carried out for al, the states in Somalia. This is because whereas the findings in this study are likely to be generalizable for Puntland State of Somalia, they may not apply to the rest of the states in Somalia. This is because of their relative differences in culture, political orientation as well as economic positioning.

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