



Unhooking tentacles of financial dependency: Challenges and opportunities of public benefit organizations in Nairobi County's informal settlements, Kenya

Timothy Osiru Okatta ^{1*}, Wilkins Ndege Muhingi ², Simon Muthomi ³,
Dancun Onyango Ochieng ², Teresia Ndilu Mutavi ⁴, Violet Nekesa Simiyu ⁵

¹ S. Elizabeth University of Health and Social Sciences, P. O. Box 104. 810 00 Bratislava. Slovak Republic

² St. Paul's University, Limuru, Kenya

³ African Nazarene University, Kenya

⁴ Department of Psychiatry, School of Medicine, College of Health Sciences, University of Nairobi, Kenya

⁵ Kisii University, Kenya

Abstract

This study explored the opportunities and challenges faced by PBOs in implementing financial sustainability strategies in Nairobi informal settlements in Kenya. A concurrent mixed methods approach particularly descriptive in design was adopted on a sample of 304 respondents sampled randomly and purposively. Drawing from Focused Group Discussion Schedules and interview guides that were used to collect data that was subsequently analysed quantitatively and qualitatively using descriptive statistics, inferential statistics and content analysis as per themes respectively, the study demonstrates that a high majority of 90.5 % of PBOs faced challenges in implementing their financial sustainability strategies while 9.5% were not facing challenges in implementing their financial sustainability strategies. Most of the PBOs financial sustainability strategies faced a challenge of lack of commitment, represented by 47.6%, while 38.1% faced lack of capital to establish the financial sustainability strategies. Very few 9.5% revealed slow growth of the financial suitability initiatives while 4.8% attributed to government laws and policies. The obtained p-value = 0.858 was more than alpha (0.05) implying that there was evidence to accept the null hypothesis hence there is no significant difference in the challenges faced by PBO within length of time in implementing financial sustainability strategies. The study concluded that PBOs were not adequately engaging stakeholders in program design, implementation and resource mobilization thus were facing various challenges in implementing financial sustainability initiative.

Keywords: Financial Sustainability; Opportunities; Challenges; Implementation

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* Corresponding author. E-mail address: timothyokatta@gmail.com

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1. Background of the study

In development circles sustainability is a vital issue that carries very high stakes and its pursuit has left an indelible mark on a host of development organizations, specifically on nongovernmental organizations (NGOs) (Devine, 2003). Financial sustainability has always been a dream for every Public Benefit Organization serving in Kenya and by extension in Africa. Non-Governmental Organizations (NGOs) in Kenya mostly depend on foreign funding. Public Benefits Organizations (PBOs) refer to institutions that provide welfare, humanitarian and development services like healthcare, land and housing, education, religion, belief or philosophy, cultural, conservation, environment and animal welfare, research, provision of funds, assets or other resources and consumer rights to the public for free or at a subsidized cost especially in disadvantaged or hardship areas (Waters, 2009). They are organizations that are established to serve the public good, supporting development, social cohesion and tolerance within society; promoting democracy, respect for the rule of law, and providing accountability mechanisms that can contribute to improved governance (GoK, 2013).

Financial sustainability is the ability of a PBO to generate financial resources to meet the organizational needs of the present without compromising the future (Shuatyo, 2014). It also refers to the ability of an organization to seize opportunities and react to emergencies and unexpected challenges while maintaining the day to day operations of the organization (Bowman, 2011).

In a survey conducted in the United States of America (USA) involving 800 PBOs, 75% of the PBOs reported having been affected by dwindling donor funds (Renz, 2010). In addition, 61% of PBOs depending on Federal governments funding reported experiencing funding cuts while 48% of those depending on foundation funding also expressed reduction in funding (Brulle, 2014). Recent recessions in the US have also made declines in philanthropic giving because Americans have less disposable income (Besel, Williams & Klak, 2011).

In Europe PBOs also grapple with financial sustainability challenge and some are dependent on the European Structural funding (Vaceková, & Svidroňová, 2016). In Poland for example, the PBOs have created dependency on European Union structural funds hence lessening their interest to look for other funds or income generation activities and in some ways, this has stalled the development of the NGO sector (Hyanek, 2016). It is however important to note that some PBOs in Europe have embraced innovative diverse fundraising strategies like use of face book, blogs and interactive websites for advertising among other strategies to ensure they become financially sustainable (Dyczkowski, 2014). They have also enhanced their transparency and accountability by publishing their annual financial reports so as to win the trust of the funders thus improving funding rating (USAID, 2010).

According to Wood (2006), in Africa PBOs operate amidst myriad of challenges. The USAID's CSO Sustainability index for Sub Saharan Africa in 2009 that included legal hurdles for example being denied registration, restriction on foreign funding amounts like in Ethiopia, inadequate infrastructure, poor

governance, lack of transparency and accountability, and donor dependency as the major challenges affecting financial sustainability of the PBOs (USAID, 2009). It has also been noted that only a few PBOs are able to generate local income by pursuing economic activities like charging user fees, collecting membership dues, and individual and corporate philanthropy. In East Africa, PBOs face similar operational challenges (Kisinga, & Act, 2014). In Tanzania and Uganda PBOs are vibrant however, they do not have diversified sources of funds thus they are donor dependent while Burundi and Rwanda PBOs face restricted legal frameworks and are also struggling to survive financially (Zulhibri, 2014).

In the year 1960s PBOs became vibrant in Kenya because the government promoted grass roots growth and action to spur socio-economic development, a philosophy referred to as *harambee* (Nganga, 2013). The *harambee* spirit was based on the understanding that one could not be able to carry out plans or actions by him/herself without the support of other members of the community (Omeri, 2014). People were encouraged to form self-help groups to address the social challenges facing them. In 1974 there were merely 125 registered PBOs in Kenya. Since then there has been a notable growth, in 1990 there were over 400, in 2004 they grew to 3,000, by 2007 there were 4,200 registered PBOs while in 2014 there were 7,258 registered and active PBOs in Kenya of diverse categories. These include Community based organizations, Faith based organizations, and International organizations (NGO Coordination Board, 2014). The Kenyan PBOs are 46.7% sustainable this is because a high percentage, 81% of the total funds utilized by the PBOs in financial year 2014 were from external sources while 14% was from local sources and slightly more than half, 60.2% of PBOs reported to have diverse sources of funds (Nyagah, 2015).

Nairobi County is home to two hundred and forty two (242) registered and active PBOs which represent 12% of the total PBOs in Kenya, the County with the highest number of registered PBOs in Kenya (Kaburu, 2014). They have diverse areas of operation including and not limited to health, education, environmental conservation, housing and settlement, refugees issues among others (Mutuvi, 2013). Its population is estimated at 3.1 million people (Kenya National Bureau of Statistics, 2010) and 60-70% of this population is estimated to live in slum like conditions (APHRC, 2014). Nairobi County is also the home of seventy four (74) slums spread in the seven (7) administrative units known as sub-counties (Corbun & Karanja, 2014). Majority of the PBOs in Nairobi serving the disadvantaged and marginalized communities are grappling with the financial sustainability challenge due to the dwindling donor funds caused by dwindling donor funds caused by economic recession, changing donor priorities, minimal stakeholder involvement in program design, implementation and resource mobilization and restrictive government policies, and laws (Osano, 2013).

To effectively and innovatively respond to this situation, the PBOs have initiated financial sustainability projects like sell of branded merchandise, real estate, horticulture, construction of guest houses, resorts and restaurants, consultancy services, micro-financing and horticulture. This is aimed at raising more funds to complement and supplement the dwindling donor funds (Fury, 2010).

2. Theoretical Framework

2.1. Resource dependency Theory

This study was guided by the resource dependency Theory. The theory's fundamental assertion is simply stated by Pfeffer and Salancik (1978), "The key to organizational survival is the ability to acquire and maintain resources" (p. 2). This task is problematic due to environmental conditions of scarcity and uncertainty; broadly speaking, resources are not adequate, stable, or assured. Ultimately, the resource imperative results in the adaptation of organizations to requirements of important resource providers. Understanding the underlying dynamics of resource dependence relies on an open-systems perspective (Katz & Kahn, 1966). Acquiring and maintaining adequate resources requires an organization to interact with individuals and groups that control resources. According to Buckley (1967), "that a system is open means, not simply, that it engages in interchange with the environment, but that the interchange is an essential factor underlying the system's viability" (p. 50).

It should be noted that Organizations are not totally autonomous entities pursuing desired ends at their own discretion. They are constrained by the environment as a consequence of their resource needs. The degree of dependence experienced by an organization of any kind is determined by the importance and concentration of resources provided. Those that rely on few sources for vital inputs become highly dependent on and beholden to those providers for survival (Froelich, 1999).

3. Empirical Literature Review

The PBOs find themselves with an ever increasing agenda of programmes and activities that require consistent and adequate funding. However, they have limited opportunities for generating additional income which may lead to financially unsustainable operations if not checked (Drunker, 1990). According to Renz (2010) in a survey of 800 nonprofits at the end of 2008, 75 percent of nonprofits reported feeling the effects of the downturn, with 52% already experiencing cuts in funding. He adds that the NGOs that rely on government funding-with approximately 61% of nonprofits reporting cuts in government funding- as well those that rely on foundations for monetary contributions with 48% of nonprofits reported cuts in foundation funding (Renz et al., 2010).

In another study of 26 health human services, and community and economic development organizations in Mississippi, Besel, et al (2011) expressed reservations by participants about their organizations' reliance on government funding for their operations. This he attributes to considerable restrictions on how public funds can be utilized and the relatively large amount of time and resources consumed in complying with state and federal requirements. It is also noted that relying very much on government-contract funding may lead to the hiring of sessional staff hence negatively affecting staffing patterns and quality services delivery. In a similar study of the Canadian Red cross in the Toronto region, Akingbola (2004) notes that reliance on contract-based funding led to challenges with employee retention. On one hand contract funding has some benefits (e.g., providing opportunities for new programs), while on the other hand temporary staffing is detrimental in that it affects nonprofit's delivery of services and mission impact This is because it may affect employee recruitment and retention as well as negatively influences employee morale and training practices (Akingbola, 2004). Moreover, constant turnover or continually shifting staff responsibilities to align with short-term contract

requirements occasioned by financial constraints may prove to be expensive to maintain in the long term, and ultimately reduces the effectiveness of the services nonprofits provide to their communities.

As pointed out by Alymkulova and Seipulnik (2005), a sustainable approach to NGO financing is one that avoids dependency on any single source of revenue, external or internal. It is worth noting that it is not easy to determine a formula for the percentages that need to be derived from various sources in order to come up with the optimum mix. These scholars advise that it is vital maintaining a balance between externally and internally generated resources to allow an organization to meet its operating and administrative expenses while maintaining the freedom to determine its program priorities and projects, irrespective of donor preferences (Alymkulova and Seipulnik, 2005).

As Rasler (2007) cited by Omeri (2014) argues, building a truly “sustainable” NGO is a multidimensional challenge entailing both internal factors of strengthening organizational capacity, as well as external factors of establishing a more supportive regulatory environment and secure resources for NGO initiative. Every NGO must achieve organizational, self-governing capacity before it can attempt to achieve financial sustainability. A good legal framework for the NGO sector is therefore a prerequisite condition for both.

According to Rothenberg (2007), there are no quick fixes and magic solutions to financial sustainability of an organization but it is a process that takes time and hard work. He further asserts that continuing to depend on foreign donors is no alternative. To address the resource gap, PBOs need to start self-financing activities, also referred to as “earned income” or “non-profit enterprise”, which are a number of “entrepreneurial” strategies for cost recovery or surplus revenue generation to create NGO own new resources to support programmatic or operational expenses (Boschee, 2001).

Lacking a strategic plan has been found to be one of the challenges encountered in the NGO sector. Studies reveal that few NGOs have strategic plans which would enable them to have ownership over their mission, values and activities. This leaves them vulnerable to the whims of donors and makes it difficult to measure their impact over time (Bray, 2010).

4. Methodology and Materials

The aim of this paper was to explore the challenges and opportunities of Public Benefits Organisations in Nairobi County. This was a descriptive study that employed the concurrent mixed methods approach. The study was carried out in Nairobi City County Informal settlement which was selected due to the fact that it is home to the highest number of slums. The study was carried out between January and August, 2015. The target population was stakeholders of active and registered PBOs serving in Nairobi slums who included: PBO Directors, CDF Coordinators, Suppliers, Service users, and PBO Staff. A sample size of 304 was obtained whereby PBO Directors, Constituency Development Fund Coordinators were sampled purposively while Suppliers, Service users, and PBO Staff were randomly selected for a sample. Discussion and interview methods were used to collect data while questionnaires Focused Group Discussion Schedules and interview guides were

used to collect data. Quantitative and qualitative data was analysed using descriptive statistics, inferential Statistics with the help of SPSS version 22.0 and Content analysis as per themes respectively.

5. Results

Out of a total of 304 questionnaires administered to the stakeholders in this study, a return rate of 87.8% was achieved. The target population was directors, staff, beneficiaries and suppliers as shown in the table because the study objective aimed at examining the challenges and opportunities of Public Benefits Organisations in informal settlements, Nairobi City County, Kenya.

Table 1.1. Response Rate (n=304)

PBO Stakeholders	No. of questionnaire issued	No. of questionnaire returned	% returned
Directors	24	21	87.5%
Staff	84	70	83.3%
Beneficiaries	122	107	89.2%
Suppliers	74	69	96%

The response rate for all the questionnaires for the PBO directors was 87.5%, staff 83.3%, beneficiaries 87.3%, and suppliers 96%. Mugenda and Mugenda (2003) assert that a response rate of above 50% is sufficient for analysis thus the data collected was adequate for analysis, presentation and discussion.

6. Demographic information

This section summarizes the demographic information of the PBOs and their stakeholders. The type of PBOs that participated in the study, length of service in their respective communities, the direct beneficiaries age groups, their gender and duration they have received services from the respective PBOs.

The majority of the PBOs that participated in the study were local based PBOs, 66.7% compared to 33.3% that were International based.

Table 1.3 indicates that 90% of the PBOs that were sampled were facing challenges in implementing their financial sustainability strategies while 9.5% were not facing challenges in implementing their financial sustainability strategies.

Table 1.2. Distribution of the types of PBOs that participated in the study

Type of organisation	Frequency	Percent
Local	14	66.7
International	7	33.3
Total	21	100.0

Table 1.3. PBOs face challenges in implementing financial sustainability strategies

Response	Frequency	Percent
Yes	19	90.5
No	2	9.5
Total	21	100.0

Table 1.4. Nature of challenges facing implementation financial sustainability strategies

Nature of Challenge	Frequency	Percent
Lack of funds for FS initiatives (Funding)	8	38.1
Lack of commitment of stakeholders due to non-accountability (corruption)	10	47.6
Slow growth of FS initiatives (Competition)	2	9.5
Government laws (Regulation)	1	4.8
Total	21	100.0

Table 1.4 and Figure 1.1 show the nature of challenges experienced by the PBOs in implementing the financial sustainability strategies. Most of the PBOs financial sustainability strategies faced a challenge of lack of commitment, this was represented by 47.6%, while 38.1% faced lack of capital to establish the financial sustainability strategies, 9.5% cited slow growth of the financial sustainability initiatives while 4.8% attributed to government laws and policies. These challenges were also noted by Sontag-Padilla et al. (2012) in their research paper dubbed financial sustainability for non-profit organizations. They affirmed that PBOs experience challenges in implementing financial sustainability projects. The paper identifies inadequate information among stakeholders, poor organisation management due inability to hire qualified staff and poor motivation among staff as the challenges affecting implementation of financial sustainability projects. A study by Okatta et al. (2017) demonstrated that most of the beneficiaries were not involved in PBO program design, and implementation and it speaks to why PBOs are experiencing financial and sustainability and related challenges. According to the study 56.1% were not involved while 43.9% were involved in the program design and implementation.

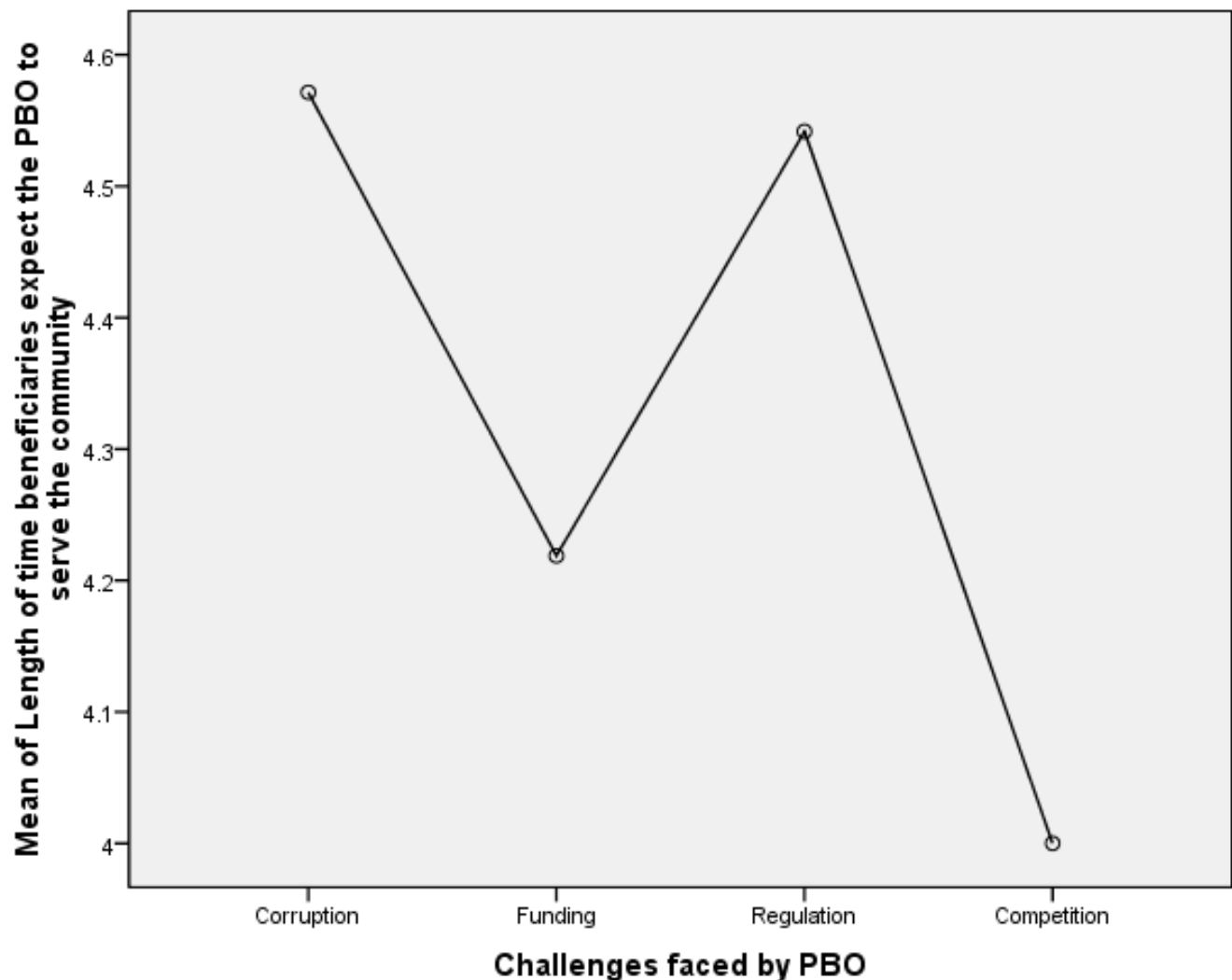


Figure 1.1. Challenges faced by PBO

From the Figure 1.1, the PBOs that had served between 16-20 years had more challenges followed by 6-10 years followed by 1-5 years.

The results from Table 1.5 showed that the p-value = 0.858. Since the p-value is more than alpha (0.05) then this implied that there was evidence to accept the null hypothesis hence there is no significant difference in the challenges faced by PBO within length of time in implementing financial sustainability strategies. This can be verified by the variance test in Table 1.6.

Table 1.5. Analysis of variance of the Challenges faced by PBO

	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	1.299	4	.325	.329	.858
Within Groups	100.701	102	.987		
Total	102.000	106			

Table 1.6. Test of homogeneity of variance of Challenges faced by PBO

Length of time beneficiaries expect the PBO to serve the community	N	Subset for alpha = 0.05	
Tukey HSD ^{a,b} Long-term existence	85	1.95	
11-15 years	5	2.00	
1-5 years	6	2.17	
6-10 years	9	2.22	
16-20 years	2	2.50	
Sig.		.905	

The results from Table 1.6 showed that the p-value = 0.905. Since the p-value is more than alpha (0.05) then this implied that there was no evidence to reject the null hypothesis hence there are no differences in the variances in the challenges faced by PBO within length of time in implementing financial sustainability projects.

As shown in the Figure 1.2, corruption was the most faced challenge and the most spread across the time followed by regulation, followed by funding and lastly completion that was not very much spread across length of time beneficiaries expect the PBOs to serve the community.

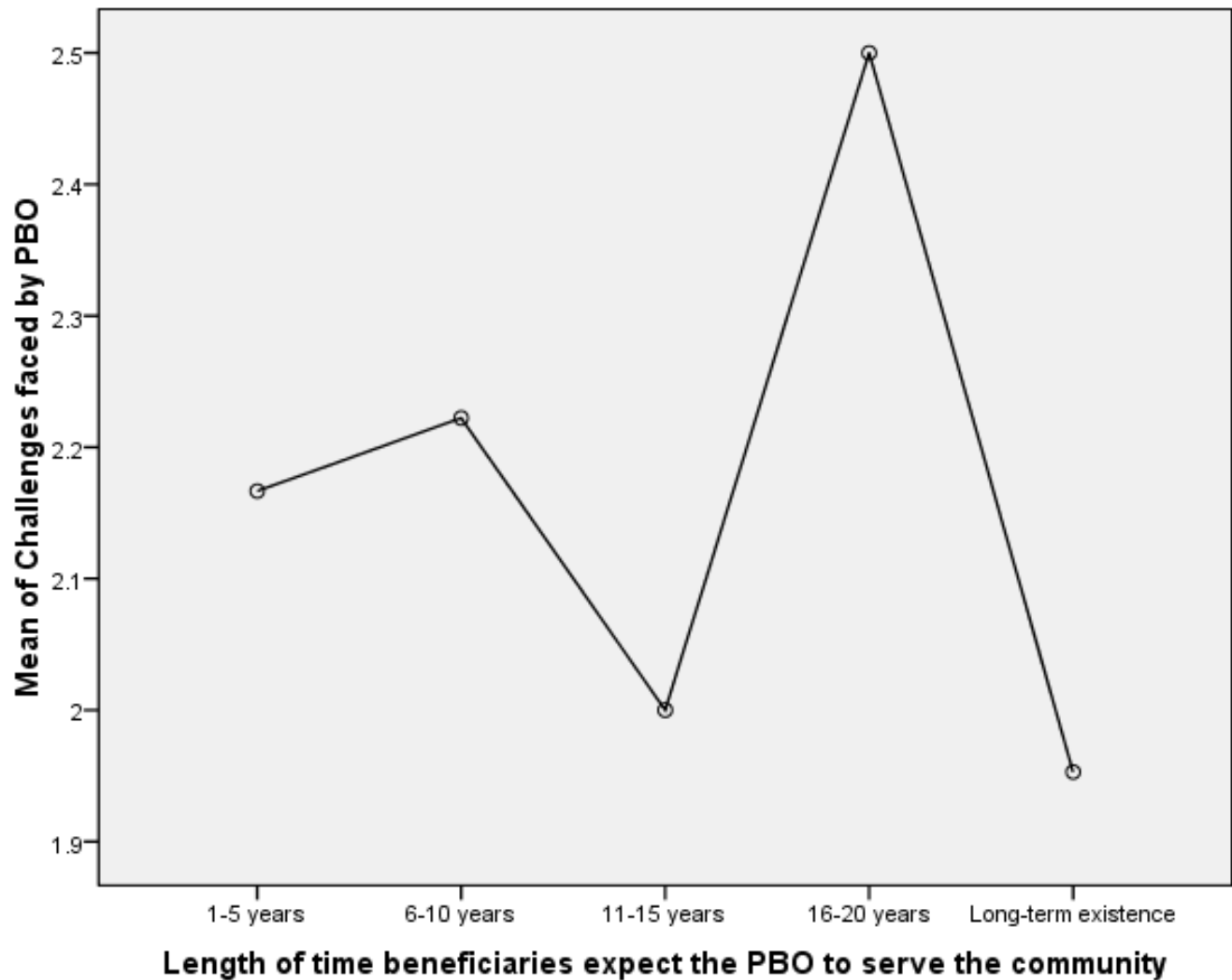


Figure 1.2. Means Plots on Challenges faced by PBO

7. Discussion

Most of the PBOs financial sustainability projects faced challenges of corruption and misappropriation, which was represented by 39.3%. This was consistent with the view held by Kitsing, (2003) in his paper titled Behind corruption: from NGOs to Civil society in Europe. He contends that just like in the public sector, corruption is also rampant in civil society despite the fact that there is an assumption that personnel serving in civil society are more ethical better than people serving in other fields. This study revealed that the staff employed to manage financial sustainability projects would collude with suppliers and get poor quality products which would not fetch good prices in the markets, they would receive payments and not deposit in the project

accounts or use the projects resources for their own benefit. This definitely had negative impacts on the projects which would not thrive given such conditions.

Inadequate funding and lack of capital was another great challenge experienced by the financial sustainability projects which was represented by 29.9%. Boschee (2001) argues that many PBOs talk and plan about self-financing but are not committed to initiating financial sustainability projects. In addition, many PBOs start projects that are capital intensive thus they are unable to successfully run the projects to generate income for the PBOs.

Government laws and policies (regulations) was also cited as a major challenge to PBOs which was represented by 22.4%. The government through its regulations creates a red tape to establishment of business ventures by PBOs. Williams (2006) concurs that the government through its regulation creates obstacles for business ventures initiated by PBOs. Numerous number of licenses, high taxes and unnecessary raids by government officers in business premises were some of the cited challenges caused by government regulation.

Stiff competition of products produced by PBOs is also a challenge faced by financial sustainability projects. This was represented by 8.4%. In his study Oussama et al, (2013) argues that the recession, duplication of services and products and lack of market research as the main factors causing stiff competition of products and services. Stiff competition causes stagnation and poor performance of business ventures initiated by PBOs.

8. Conclusions

The PBOs serving in Nairobi informal settlements have faced numerous challenges while implementing financial sustainability projects. These challenges are attributed to non-involvement of stakeholders in program designing, implementation and resource mobilization which have led to lack of support of the PBO financial sustainability projects which causes lack of stakeholder commitment and ownership. Other factors include inadequate allocation of capital to establish the financial sustainability projects, inadequate capacity to manage the financial sustainability projects leading to wastage and losses.

9. Recommendations

To be able to overcome these challenges there is need for involvement of all the stakeholders when establishing financial sustainability projects, continuous training of the stakeholders on issues related to financial sustainability. This will enhance ownership and support of the financial sustainability projects by the stakeholders. , adequate allocation of funds for financial sustainability projects, expand the market for the commodities or services sold by the PBO to increase the market thus spur the growth of the financial sustainability projects and finally lobby the government to amend the law to enable PBOs to engage in business enterprises.

The PBOs should conduct continuous trainings to their stakeholders on financial sustainability concepts; build capacity of stakeholders to start and support initiatives that will ensure financial sustainability of their

respective PBOs. The PBOs should put in place effective accountability systems to eliminate corruption and pilferage of organizational resources. The PBOs should also ensure they produce products that respond to the needs of their customers so that they attract more volumes of business. They should also invest in product marketing and ensure they expand their market base thus getting more business for their products.

The opportunities that emerge from these challenges include but not limited to; enhancing accountability measures like minimizing contact of cash with the staff, clear record keeping to prevent corruption and misappropriation of financial sustainability project funds, employ highly competent managers and staff to manage the financial sustainability projects, PBOs should allocate or raise adequate resources as capital for business ventures initiated, the PBOs should lobby and petition the government to deregulate the business environment by repealing laws that cause bottlenecks to the business ventures to enable them have a conducive environment for their businesses to thrive. Finally, the PBOs should conduct market research, apply the concept of business intelligence which helps them to collect business data, analyze and make informed decisions.

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