EFFECT OF DIVERSIFICATION OF REVENUE STREAMS ON THE FINANCIAL SUSTAINABILLITY OF NON-GOVERNMENTAL ORGANISATIONS IN KENYA.

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A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF ENTREPRENEURSHIP AND ECONOMICS SCHOOL OF BUSINESS IN PARTIAL FULFILMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF THE COOPERATIVE UNIVERSITY OF KENYA.

NOVEMBER, 2023

DECLARATION

Declaration by the Candidate

This project is my original work and has not been submitted for a degree or other award from any other university.

Sign …………………………………   Date ……………………………

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Declaration by the Supervisors

We certify that the work reported in this project was completed by the candidate under our supervision and submitted with our approval as the university supervisors

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DEDICATION

I dedicate this project to my Husband Francis Luyayi for his continued support and my sons Warren and Axel for their inspiration to work harder.

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ABSTRACT

The financial sustainability of NGOs is crucial for their continued impact and operations. With decreased donor funding there is need for NGOs to expand their involvement in diversifying their revenue streams. This study mainly sought to determine the effect of diversification of revenue on the financial sustainability of NGOs in Kenya. Specifically, the study investigated the effect of source specific grants, evaluated the role of fee-based services, investigated the extent to which revolving funds interest income affects financial sustainability and assessed the effect of revenue from sale of products and services on financial sustainability of NGOs in Kenya. Three theories guided the study and they included; Resource-Based View, Institutional Theory and Resource Dependency Theory. The study applied descriptive research design and a target population of 511 NGOs based in Nairobi County. Using stratified sampling technique, NGOs dealing with poverty alleviation were selected where a sample size of 52 was used. Questionnaires which were the main data collection tool were issued to 52 financial managers from the 52 NGOs. In addition, the study carried out reliability tests and the Cronchbach value was found to be 0.713, thus, the instrument was considered appropriate. Both descriptive and inferential statistics were used to present the analysed data. Results revealed that grants, fee-based services, Interest Income from revolving funds and revenue from sale of products and services positively influenced financial sustainability of NGOs. The findings revealed that an increase in any of these revenue streams (Source Specific Grants, Fee Based Services, Interest Income from Revolving Funds and Revenues from Sale of products and services) resulted to increase in financial sustainability of NGOs while a decrease of the same was related to lower financial sustainability of NGOs. The conclusion of the study showed that all revenue streams under study affected financial sustainability, therefore, NGOs were more likely to be sustainable when there was income diversity. This study recommends that NGOs should develop appropriate governance structures to implement their financial strategies to increase their revenues and promote policies that facilitate self-financing and fundraising in order to achieve high financial performance. Finally, the study suggests that further research is needed to determine whether similar results can be achieved by other NGOs based outside Nairobi and public institutions such as universities, that have been recently reported to face financial challenges.

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LIST OF ABBREVIATIONS AND ACRONYMS

ACBF - African Capacity Building Foundation

AMREF- African Medical and Research Foundation

IMF- International Monetary Fund

KNBS - Kenya National Bureau of Statistics

NGO – Non-Governmental Organization

UNDP - United Nations Development Programme

USA- United States of America

WHO -World Health Organization

CHAPTER ONE

INTRODUCTION

1.0 Introduction

This chapter is a comprehensive overview of the research project. It sets the stage for the study by providing a clear background and context of the topic, the research problem, and establishing the study's significance. It aims to highlight about the importance of understanding the financial sustainability of NGOs and the role that revenue diversification plays in achieving it. Additionally, it outlines the objectives of the study, research questions, limitations and scope of the study. It serves as a roadmap for the entire research project and a foundation for the analysis and findings to come.

1.1 Background of the Study

Globally, many NGOs have been facing financial instability, which raises concerns about their long-term sustainability. This vulnerability was clearly exposed during the recent COVID-19 pandemic that disrupted global economic and financial systems and affected funding for NGOs. According to Centre for Effective Philanthropy (2021), 44% of NGOs in the USA experienced financial difficulties. In Europe, countries such as Spain and Greece have witnessed a rise in NGOs facing financial challenges due to economic downturns (Dolan, 2017). In 2017, the Open Society Foundations (OSF) announced its decision to cease operations in Hungary, which resulted in the closure of NGOs that were heavily dependent on OSF funding. This decision was made in response to the Hungarian government's crackdown on civil society organizations and their perceived influence on political affairs. As a result, NGOs like the Hungarian Civil Liberties Union and the Hungarian Helsinki Committee were forced to close their operations due to the loss of financial support from OSF (Grossi, 2017)

According to Olufadewa (2021), an estimated 25% of NGOs in Africa have shut down due to financial challenges. Sustainability of civil society organizations in the region has had financial challenges, with 60% of NGOs reporting financial constraints. In the contemporary African landscape, NGOs constitute a significant component of the expansive "development machinery." This intricate web encompasses official entities, professionals, advisors, researchers, and a diverse array of experts who provide valuable complementary development interventions governments in the continent.

In Kenya, the financial sustainability of NGOs remains a pressing concern, 67% of NGOs in the country faced financial instability and struggled to meet their financial obligations, furthermore, while there were approximately 15,000 registered NGOs, over 4,000 NGOs were deregistered due to financial viability issues (Despard, 2022). These statistics highlight the immediate need for research on revenue diversification strategies to address the current financial challenges faced by NGOs in Kenya. Diversification of revenue streams by tapping in a variety of funding sources, such as donor grants, fee-based services, revenue from product sales and services, and revolving funds interest income, to NGOs can reduce their dependency on a single source and build a more sustainable financial base (Rocafort, 2019).

1.1.1 Global Perspective on Revenue Diversification and Financial Sustainability

NGOs across different countries have recognized the importance of diversifying their revenue streams to ensure financial sustainability and reduce dependency on a single funding source. 80% of NGOs are actively seeking to diversify their revenue sources to sustain their programs and operations (Lahouel, 2020). This global perspective highlights the significance of exploring revenue diversification strategies in enhancing the financial sustainability of NGOs in Kenya. Statistics shows the need for revenue diversification in the NGO sector (Amagtome, 2020). 67% of NGOs rely primarily on individual donations and grants, with limited diversification in revenue streams.

The need for diversified revenue streams has emerged as a key strategy for NGOs to mitigate financial risks and enhance their resilience. According to Abiddin (2022) global development assistance to NGOs declined by 4% between 2016 and 2022, highlighting the need for NGOs to explore alternative funding sources. Traditionally, the majority of research in this domain has centered on exploring funding sources and strategies for financial sustainability, with an emphasis on donor funding (Patel, 2016). However, in an era characterized by evolving donor priorities, economic uncertainties, and emerging challenges, NGOs are increasingly compelled to seek alternative and diversified revenue streams to secure their long-term viability.

The motivation for diversifying revenue streams stems from the realization that overreliance on a single funding source can render NGOs vulnerable to shifting donor preferences or external shocks (Gumbiner, 2021). As Patel (2016) notes, donor funding can be volatile and subject to changing geopolitical dynamics, underscoring the importance of exploring a broader spectrum of financial sources. Moreover, the significance of revenue diversification becomes even more pronounced in times of crises, such as the COVID-19 pandemic, where traditional fundraising methods like events and public gatherings were severely impacted (Funding Centre, 2020).

1.1.2 Regional Perspective on Revenue Diversification and Financial Sustainability

In Africa, NGOs have been increasingly exploring revenue diversification strategies (Prizzon, 2022) 68% of NGOs in East Africa, rely heavily on donor funding, emphasizing the need for diversification to mitigate the risks associated with dependency on a single funding source (Prizzon, 2022). Revenue diversification has become a key focus for African NGOs, with a growing emphasis on generating income from grants, fee-based services, revolving funds interest income, Revenue from product sale and service (Seibel 2020). These trends highlight the relevance of examining how revenue diversification affected financial sustainability of NGOs in Africa.

In the realm of NGOs operating within the African continent, the pursuit of financial sustainability has become an increasingly complex challenge. As NGOs grapple with fluctuating donor priorities, economic uncertainties, and changing regulatory landscapes, the imperative to diversify revenue streams has gained prominence. While donor funding has historically been a significant source of income for African NGOs (Moyo & White, 2019), the need for alternative and diversified revenue sources has become particularly pressing to ensure their resilience in an ever-evolving environment.

The African region's distinct social, economic, and political dynamics call for an in-depth exploration of revenue diversification practices tailored to its unique context.

The African perspective holds potential for shedding light on best practices, innovative approaches, and potential challenges associated with revenue diversification strategies in NGOs. As African NGOs navigate the complexities of resource mobilization, understanding the strategies that effectively enhance financial sustainability can offer valuable insights for organizational leaders, policymakers, and stakeholders. The regional context contributes to the broader discourse on revenue diversification while providing a background that resonate with the specific challenges and opportunities faced by African NGOs (Telwala, 2023).

1.1.3 Local Perspective on Revenue Diversification and Financial Sustainability

According to Twikirize, (2017) NGOs play a significant role in tackling issues of economic, social and environment. However, their financial sustainability is often compromised by over-reliance on a single source of funding, typically grants and donor assistance. 73% of NGOs in Kenya rely on external funding sources, highlighting the need for revenue diversification to enhance financial sustainability (Wangu, 2020). Additionally, a study revealed that 37% of NGOs in Kenya have implemented revenue diversification strategies beyond grants and donor funding (Egger & Schopper,2022). Furthermore, the risks associated with dependence on a single funding source are evident in the fluctuating nature of grants and donor assistance. Economic and political changes, as well as shifts in donor priorities, can abruptly disrupt the financial sustainability of NGOs (Gupta & Sharma, 2021). Revenue diversification, as a strategic response, is gaining power as it allows NGOs to tap into a broader spectrum of income streams, including fee-based services and sale of products and services (Brown, Clark & Davis, 2019).

Total funding received by NGOs in Kenya experienced fluctuations in the year 2021, with a decrease in government funding and donor contributions (Munguti, 2023). The landscape of donor funding witnessed shifts, prompting Kenyan NGOs to explore alternative avenues for income generation to reduce their dependency on external sources (Ondieki, 2019). This search for diversified revenue streams is underscored by the recognition that an overreliance on a single funding source can leave NGOs vulnerable to financial uncertainties and constraints. While the regulatory environment for NGOs in Kenya has undergone changes over time, such as the enactment of the Non-Governmental Organizations Co-ordination Act of 1990 (Republic of Kenya, 1990), the imperative to strategically diversify revenue sources remained a key priority. Additionally, the impact of unforeseen events, such as the global COVID-19 pandemic, has further magnified the need for NGOs in Kenya to adapt their financial strategies. The pandemic led to disruptions in funding flows and compelled NGOs to swiftly reassess their revenue models to navigate the rapidly changing circumstances (Muthoni, 2022)

Furthermore, Kenya, in consonance with similar countries, is increasingly perceived as relatively affluent and potentially less reliant on international donor funding. The focus of major donors predominantly gravitates toward nations in states of emergency. Thus, Kenya is confronted with the responsibility of sustained endeavours for social development and poverty eradication, largely independently. Within Kenya's context, NGOs grapple with multifaceted challenges related to the sustainability and replicability of their projects. Abdirizak (2021) posits that achieving a balance between externally and internally resources generated is pivotal. This equilibrium enables the organization to cover both operating and administrative costs while maintaining autonomy in determining program priorities and projects regardless of donor preferences.

1.1.4 Diversification of Revenue Streams

The significance of diversification lies in its potential to mitigate the risks associated with overreliance on a single source of funding and enhance the financial sustainability of NGOs (Anheier & Ben-Ner, 2017). According to Odhiambo (2019), 89% of NGOs in Kenya rely on donor funding as their primary revenue source, indicating a high level of dependency. Historically, the trajectory of revenue diversification in NGOs is intertwined with changing donor expectations and the broader landscape of global development. As the concept of sustainable development gained prominence, donors began to emphasize the importance of NGOs' financial self-sufficiency. This shift encouraged NGOs to move beyond traditional funding sources and explore income-generating activities that aligned with their mission and expertise. NGOs started engaging in social enterprises, fee-based services, and the sale of products to complement their funding base (Ebrahim & Rangan, 2018). This transformation reflected a broader realization that NGOs could leverage their resources and capabilities to create both social impact and financial sustainability.

The historical journey of revenue diversification also encompasses the incorporation of technology and innovative approaches to fundraising. With the rise of digital platforms and social media, NGOs gained new avenues to reach potential supporters and donors worldwide. Crowdfunding, online campaigns, and peer-to-peer fundraising emerged as effective tools for diversifying revenue streams (Klugman & Demirgüç-Kunt, 2018). This technological shift facilitated greater donor engagement and facilitated the flow of funds from a wider range of sources. As NGOs continue to adapt to the changing landscape of funding and philanthropy, revenue diversification serves as a foundation for adaptability to the changing dynamics.

1.1.5 Financial Sustainability

Financial sustainability in the NGO sector has emerged as a central concern, with NGOs striving to secure stable funding sources to maintain their operations and fulfil their missions (Miller 2017). Financial sustainability is a crucial aspect of NGOs worldwide, as it determines their ability to achieve their missions and serve their target populations effectively. Over the past decade, the importance of financial sustainability in the NGO sector has gained increasing attention due to the challenges posed by economic fluctuations, donor priorities, and evolving global dynamics (Mikeladze, 2018). This myopic reliance on a narrow funding base can lead to vulnerabilities during economic fluctuations and donor shifts. Without adequate financial sustainability, NGOs may struggle to fulfil their objectives and deliver sustainable impact in the communities they serve.

Globally, NGOs face diverse financial challenges. The rise of populist politics in many countries has led to reduced government funding for NGOs, (Obuch, 2020). Moreover, the COVID-19 pandemic has exposed vulnerabilities in NGO financial sustainability, with disruptions in fundraising activities and increased demand for services (UNDP, 2020). For example, the Hungarian government, led by Prime Minister Viktor Orbán's Fidesz party, was criticized for reducing financial support to NGOs critical of the government's policies. In 2017, the Hungarian Parliament passed the "Stop Soros" law, which imposed restrictions on NGOs that received foreign funding, affecting NGOs like the Open Society Foundations (UNDP, 2020).

Africa represents a unique context for NGOs financial sustainability. The region has a rich tapestry of NGOs engaged in various sectors, from poverty alleviation to healthcare to education and environmental conservation. However, African NGOs often grapple with issues such as donor dependency and limited access to financial resources (Mugaju & Kizito, 2021). Grameen Foundation is an NGO in Uganda which supports poverty alleviation through microfinance and digital financial services. They provide financial tools and training to help various groups in the community build financial stability. Besides reaching underserved populations, the Grameen Foundation also faces financial instability due to fluctuations in donor funding (McCole, 2018)

Kenya has a thriving NGO sector that plays a vital role in addressing social and economic challenges. However, the Kenyan NGO landscape has witnessed shifts in funding sources, with increased emphasis on domestic resource mobilization and philanthropy (Komen & Muiruri, 2019). Traditionally, many Kenyan NGOs relied heavily on international donors and development agencies for financial support. These donors often provided substantial funding for projects and programs focused on a range of social and development issues. However, this heavy reliance on external funding has made Kenyan NGOs vulnerable to shifts in donor priorities and fluctuations in foreign aid. (Komen & Muiruri, 2019).

1.1.6 Non-Governmental Organisations

NGOs play a very important role in tackling social, environmental, and humanitarian concerns in society. They are independent, private organizations that operate separately from government institutions, focusing on areas such as advocacy, service delivery, and community development (Anheier & Ben-Ner, 2017). The number of NGOs keep increasing over the years and as of 2022, there were approximately 17,000 registered NGOs in Kenya (Kenya NGO Coordination Board, 2022). NGOs play a significant role in contributing to the Kenyan economy. Their contributions go beyond the social and developmental impact they create. According to a report by the KNBS (2022), the NGO sector in Kenya in the financial year 2021/22, NGOs made a significant contribution of Ksh 175.9 billion to Kenya's economy, concurrently providing employment to around 71,096 individuals.

A number of NGOs in Kenya have closed down and external factors such as economic downturns, shifts in donor preferences, and global crises, like the COVID-19 pandemic, can further strain the sustainability of NGOs sources (Amutabi, 2017). A notable portion of NGOs is characterized by their small size, recent establishment, and absence of assured long-term prospects. This predicament is particularly prevalent among local or national NGOs, grappling with the establishment of robust and effective management systems for ensuring good governance. These entities are in a stage of development where the establishment of efficient systems is ongoing, and their viability hinges considerably on the availability of donor funding. A challenge linked to legitimacy is also observable, whereby NGOs might be conveniently established. This hinges on the persuasiveness of their proposals to potential donors. Such NGOs, being inherently fragile, are susceptible to discontinuity (Republic of Kenya, 2022).

1.2 Statement of the Problem

For NGOs to operate and survive over the long term, achieving financial sustainability is essential. Even in the face of changing funding conditions, financial sustainability allows for the ongoing delivery of services to constituents (Svensson, 2018). NGOs in Kenya now face difficulties getting substantial, appropriate, and continuous funding for their programs, which frequently causes project delays. Numerous local NGOs struggle to mobilize resources and frequently rely on aid from donors rather than looking for local financing alternatives. Because of this reliance on outside financing sources, intervention priorities may change to suit donor preferences (Nyanje, 2018). Global problems, such as Economic recessions, Health pandemics like the recent COVID 19 and political crises such as the Russian-Ukraine conflict which have reduced donor donations, have made the issue worse. A common lack of financial sustainability across many Kenyan NGOs is highlighted by strict financing requirements, problems with financial management systems, and governance concerns, all of which make it difficult for NGOs to acquire external money (Githaiga, 2022).

Kenya's NGOs have been the subject of several locally focused research studies. Although these studies gave a substantial contribution to the understanding of factors influencing NGOs' financial sustainability, they tended to be more programmatic in nature than strategic in a way that could have influence in decision making towards diversification of revenue streams (Rotich & Mwangi, 2020). Even though these studies only skimmed the surface of financial sustainability, the shifting financing dynamics driven by dwindling donor support demand a more robust investigation into the effect of revenue diversification. Further the lack of awareness of the limitation's regulatory framework for NGOs in the context of non-profit organizations in Kenya, hinders many NGOs from venturing into creative revenue diversifications strategies that may appear to be for-profit activities. Therefore, it is crucial to investigate how diversified revenue streams influenced financial sustainability of NGOs to provide evidence-based insights and recommendations for enhancing their financial resilience and long-term sustainability (Asogwa, 2022). Therefore, this research sought to investigate the effect of diversification of revenue streams on the financial sustainability of NGOs in Kenya.

1.3 Objectives of the study

1.3.1 General Objective

The main objective of the study was to determine the effect of diversification of revenue streams on the financial sustainability of NGOs in Kenya.

1.3.2 Specific Objectives

1. To investigate the effect of source specific grants on the financial sustainability of NGOs in Kenya.
2. To evaluate the role of fee-based services on the financial sustainability of NGOs in Kenya.
3. To investigate the extent to which revolving funds interest income affects the financial sustainability of NGOs in Kenya.
4. To assess the effect of revenue from sale of products and services on the financial sustainability of NGOs in Kenya.

1.4 Research Questions

1) What is the effect of source specific grants on financial sustainability of NGOs in Kenya?
2) What is the role of fee-based services on financial sustainability of NGOs in Kenya?
3) To what extent does revolving funds interest income affect the financial sustainability of NGOs in Kenya?
4) How does revenue from sale of products and services contribute on the financial sustainability of NGOs in Kenya?

1.5 Significance of the study

The study on the effect of diversification of revenue streams on the financial sustainability of NGOs in Kenya would be of great importance for multiple stakeholders.

1.5.1 NGO's

It contributes to the understanding of financial sustainability in the NGO sector by examining the effect of revenue diversification strategies. This knowledge is crucial as NGOs worldwide face challenges in securing stable funding sources and maintaining their operations over time (Biekpe, 2018). By investigating the effect of revenue diversification on financial sustainability, this study provides insights into effective funding models that can enhance the resilience and longevity of NGOs. This research significantly enriches the comprehension of financial sustainability within the NGO sector by delving into the outcomes of revenue diversification strategies. This contribution holds particular importance given the persistent global challenges encountered by NGOs in securing consistent funding sources and ensuring their sustained operations (Biekpe, 2018).

1.5.2 Government

This lies in its potential implications for policymaking and support for the NGO sector. As noted by Mihando & Lough (2019), governments are significant players in creation of an enabling environment for NGOs to thrive and achieve financial sustainability. This study's findings can inform evidence-based policies and initiatives aimed at promoting revenue diversification among NGOs. By understanding the effect of revenue diversification on NGO financial sustainability, the government can develop targeted interventions to support NGOs in overcoming challenges and maximizing opportunities in diversifying their revenue sources

1.5.3 Donors

Donors are major contributors to the funding of NGOs. Findings from this study can help donors make more informed decisions regarding their funding strategies. This study's findings will also contribute to the development of more targeted funding approaches that enhance the financial sustainability and long-term viability of NGOs. Donors can adapt their approaches to better align with the revenue diversification needs of NGOs, thereby fostering more resilient and self-sustaining NGOs.

1.5.4 Scholars

The findings from this study will be added to the existing body of knowledge. That is, by exploring the effect of revenue diversification on the financial sustainability of NGOs, scholars can gain a deeper understanding of the factors that influence the financial sustainability of NGOs and the strategies that can enhance their resilience. The findings of this study will provide insights into the importance of diversifying revenue streams and the potential benefits it can bring to NGOs in terms of sustainability and resource mobilization. Scholars can build upon these findings to further their research in other similar contexts. Furthermore, this study's examination of the correlation between revenue diversification and financial sustainability within Kenyan NGOs contributes to the existing knowledge base by shedding light on contextual details.

1.6 Scope

This study primarily focused on examining the relationship between revenue diversification strategies and financial sustainability of NGOs. The study investigated the effect of individual donation, fee-based services, revolving fund interest income and sale of product and services as independent variables and their effect on financial sustainability as a dependent variable. The geographical area of focus was Nairobi County. The study took approximately one month. The study was guided by Resource Dependency, Institutional and Resource Based View theories.

1.7 Limitations of the Study

One limitation was the reliance on self-reported data from NGOs, which can introduce response bias or reporting inaccuracies. To mitigate this limitation, researcher collected data using professionally designed and tested closed ended questionnaire to enhance objectivity. In addition, data availability and access to financial records posed a limitation, especially if NGOs are hesitant to share sensitive financial information. To overcome this, researcher assured respondents of confidentiality and anonymity, established trust, and clearly communicated the importance and potential benefits of the study to encourage their participation and cooperation. Lastly NGOs are varied in terms of sectors and types and some of the unique information may not be generalised to represent a wide range of NGOs, to overcome this the researcher used a standardised questionnaire for all NGOs to capture as much related information as possible for generalisation.

1.8 Definition of key terms

African Medical and Research Foundation (AMREF)- It is a health development Non-Governmental Organization whose focus is to improve the health of disadvantaged groups, promote the quality of their lives and eradicate poverty in Africa.

Diversification - Refers to the strategy of expanding and varying NGOs sources of income to reduce reliance on a single revenue stream (Pham, 2017). In this context it involves seeking and developing new revenue sources from sales of products, revolving funds, fee based services and events.

Fee-based services - Refers to the provision of specific services by (NGOs) in exchange for a fee or payment from beneficiaries, clients, or customers designed to generate income to support the NGOs operations and sustainability (Domeher & Abdulai, 2019). In this context, they include consulting services, training programs, workshops, healthcare services, educational programs.

Grants- This are funds provided by external entities, such as government agencies, foundations, or international organizations, to support specific projects, programs, or initiatives undertaken by NGOs. (Ali, 2018). They serve as a significant source of income for NGOs, enabling them to implement their mission-driven activities and achieve their goals

Health- The ability of the NGO to meet its finance needs, sustain operations, and achieve long-term financial sustainability (Kim & Nofsinger, 2018). In this context it means the ability of NGO to withstand economic uncertainties and have sufficient cash flow.

Kenya Women Finance Trust (KWFT)- It is a micro-finance institution that provides financial services for women in Kenya.

Revolving fund- Revolving funds are used to provide financial support, usually in the form of loans to individuals, groups, or communities to initiate income-generating projects or undertake development activities. (Mudavanhu, 2016). The repayment of these funds allows the NGO to sustain its operations and continue supporting future projects.

Sale of products - NGOs may develop and sell a wide range of products, such as handicrafts, apparel, artwork, books, or other items that are aligned with their mission and values (Saxena, 2021). The items sold generate income.

Streams- It refer to the various sources of income or funds that an NGO generates from its activities and operations (Osterwalder,2014). In this context it means revenue coming from different sources such as grants, sales of products, Fee based services and events.

Sustainability – It refers to the ability of an NGO to effectively manage its financial resources in a manner that ensures its long-term viability and the achievement of its mission and goals.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter aims to provide a comprehensive understanding of the existing knowledge, research and gaps related to this study. It will examine relevant studies, theories, and empirical evidence concerning the effect of revenue diversification on the financial sustainability of NGOs in Kenya. By reviewing the available literature, this chapter seeks to identify key factors, challenges, and opportunities associated with diversifying revenue streams in the context of NGOs in Kenya. The findings from this literature review serve as a foundation for the subsequent analysis and discussion of the research findings in the study.

2.1 Empirical Review

2.1.1 Source specific grants as a Source of Funding for NGOs

Yan, Mmbaga & Gras, (2023) conducted a cross-sectional survey that aimed to explore the prominence of Grants as a source of revenue diversification strategy for NGOs in Canada. The study population was 52,943 NGOs with a sample size of 5,486 NGOs. The researchers utilized qualitative interviews and quantitative financial record analysis. Results revealed that donor funds constituted a substantial portion of funding for NGOs, with variations based on the size and focus of the NGOs stating that larger NGOs tended to rely more on donations for their operations. Donor grants serve as a pivotal revenue source for NGOs, supporting their financial sustainability and ability to fulfill their mission. Hung & Hager, (2019) in their study encompassing US, explored the impact of donations on NGOs' financial sustainability with a target population of 296 NGOs and a sample size of 40 NGOs. The researchers employed a mixed-methods approach, blending surveys and financial data analysis. The study revealed a remarkable trend, NGOs receiving substantial donations experienced an average annual growth rate of 15%, emphasizing the significant role of donor grants in fostering financial resilience.

Mathieu (2017) conducted a mixed-methods study to assess the impact of donations as a funding source for NGOs with sample size of 170 NGOs from Sub Saharan Africa. The findings emphasized the essential role of donations, while also highlighting challenges related to donations access and management. The study recommended capacity-building initiatives to enhance NGOs' donations management skills and maximize the impact of donor funding in ensuring financial sustainability. Additionally, Otaru, Susan & Adeyeye, (2021) conducted an empirical investigation in Nigeria. The study aimed to uncover the nexus between donations and the financial sustainability of NGOs within the region. The study employed purposive sampling to choose a sample of 118 staff members from 50 NGOs as the study's sample size. The researchers utilized qualitative interviews and financial record analysis. Findings unveiled a consistent pattern NGOs that established strong donor relationships were more likely to achieve sustainable financial outcomes, highlighting the distinct regional dynamics of donations.

Mureithi, (2019) conducted study in Kenya that delved into the specific role of donor funds in enhancing the financial sustainability of NGOs in Kenya. The study focused on the target population of 550 Poverty alleviation NGOs located in Nairobi County that are involved in poverty alleviation activities. The researchers employed a systematic sampling approach to select respondents, which involved studying every 6th organization in the population, resulting in a sample size of 15 percent. Both Qualitative and quantitative methods were used and questionnaires were used to collect data. The findings of this study pointed to the significant contribution of donations to the financial sustainability of Kenyan NGOs. However, it also shed light on challenges such as donor dependency and stringent reporting requirements that NGOs encountered while managing donor funds. Further, Kinyanjui, (2021) undertook a local exploration of donations impact on Kenyan NGOs' financial sustainability. The study employed descriptive method of research with a target population of 1213 NGOs in Nairobi. Sample size totaled to 302 NGOs of which 264 were the respondents. questionnaires were used as the primary source of data. The study incorporated both quantitative and qualitative methodologies, combining surveys and in-depth interviews. The study findings showed that NGOs that diversified their sources across individual donors, corporate partners, and diaspora contributions demonstrated increased financial firmness, fueling growth and enabling NGOs to continue their impactful work.

2.1.2 Fee-Based Services

A study by Abiddin (2022) examined the utilization of fee-based services among NGOs in Australia. The sample size was 54 NGOs. The research employed a mixed-methods approach, combining surveys and case studies of NGOs like The Smith Family in Australia. The study aimed to understand the contribution of fee-based services to NGOs' financial sustainability and their role in expanding programmatic reach. Findings indicated that fee-based services constituted approximately 28% of the total revenue for these NGOs, with training programs, consulting, and educational workshops being the most common services offered. NGOs that effectively integrated fee-based services reported increased financial viability and a broader impact on their target communities.

Babu & Franzel (2021) investigated fee-based services' adoption and impact among NGOs in Uganda. The target population was 204 NGOs with a sample size of 136 NGOs. The researcher Through qualitative interviews and case studies, the researchers examined NGOs such as AMREF Health Africa, providing health training and consultancy services, and the African Medical and Research Foundation in Uganda. The study aimed to uncover the motivations and challenges of implementing fee-based services in the region. The findings highlighted that while fee-based services contributed to revenue diversification, NGOs faced obstacles such as resource constraints and competition from for-profit entities. Nonetheless, fee-based services enabled NGOs to leverage their expertise for financial gain and extend their reach to more beneficiaries.

Simiyu & Sambu, (2021). conducted a study on YEI an NGO based in Kisumu. They used surveys and data analysis to assess the financial impact of fee-based services. The findings indicated that fee-based services contribute significantly to the NGO's overall revenue. For instance, fee-based training programs and vocational courses accounted for approximately 15% of YEI's total income. This revenue stream not only enhances financial sustainability but also enables YEI to expand its outreach and provide more opportunities for youth in Kisumu County. YEI operates in Kisumu County and offers a range of fee-based services aimed at empowering local youth through skill-building workshops, vocational training, and career counseling. These services cater to the educational and career development needs of young individuals in the region

2.1.3 Interest Income from Revolving Funds

Churchill, (2020) examined the role of microfinance programs in generating income for NGOs. Their research aimed to comprehensively understand the contribution of revolving funds to the financial stability for NGOs operating in Germany and surrounding countries. Employing a cross-sectional survey design, the study gathered data from diverse NGOs across 109 countries with a target population of 1595 NGOs. The study's findings revealed that microfinance programs constituted an average of 12% of NGOs' total revenue, with variations influenced by the size and focus of the NGO. Interestingly, the study highlighted that smaller NGOs tended to rely more heavily on revolving funds as a source of income. Churchill (2020) sampled Empower Women Foundation which focused on empowering women from economically disadvantaged backgrounds through skill development and income-generating activities. According to the research, the NGO, "Empower Women Foundation" was found to generate income from revolving funds programs by providing small loans to women entrepreneurs, enabling them to start or expand their businesses. The findings showed that the loans were repaid with interest, contributing to the NGO's revenue and its mission of women's empowerment and poverty alleviation.

A study conducted in South Africa by Wright (2018) sought to explore the role of microfinance programs as a source of income for NGOs. The researcher sampled 60 NGOs, their primary objective was to investigate the extent to which microfinance initiatives contribute to the financial sustainability of NGOs operating in South Africa. To achieve this, the researchers employed a mixed-methods research approach, combining both quantitative surveys and qualitative interviews with representatives from various NGOs. The study focused on a diverse range of NGOs across different sectors in South Africa, aiming to capture a comprehensive understanding of the impact of microfinance on their revenue streams. Through the quantitative surveys, the researchers collected data on the financial contributions of microfinance programs to the overall income of participating NGOs. Additionally, qualitative interviews provided valuable insights into the strategies and challenges faced by these NGOs in utilizing microfinance as a source of revenue.

The findings of the study indicated that microfinance programs play a significant role in generating income for NGOs in South Africa. On average, microfinance accounted for around 15% of the total revenue of the participating NGOs. This highlights the potential of microfinance as a sustainable funding source for NGOs in South Africa. The study emphasized the importance of effective collaboration with microfinance institutions and strategic planning to maximize the financial benefits of these programs for NGOs.

Ndung'u, (2021) focused on the role of microfinance programs in generating income for NGOs, specifically examining the case of Kenya Women Finance Trust (KWFT). The primary objective of the research was to explore the extent to which microfinance initiatives contribute to the financial sustainability of KWFT and similar NGOs in Kenya with 50 respondents from KWFT as the sample. The researcher adopted a case study design, closely examining the operations and financial records of KWFT. Through a combination of quantitative data analysis and qualitative interviews with key stakeholders, the study aimed to provide an in-depth understanding of how revolving funds impact KWFT's revenue streams and overall financial health. The target population of the study consisted of Kenya Women Finance Trust, a leading microfinance institution in Kenya that focuses on providing financial services to women entrepreneurs and low-income households. According to Ndung'u, (2021) KWFT offers a range of microfinance products, including microloans, savings accounts, and insurance, aimed at empowering women and promoting economic development. The study's findings revealed that microfinance programs play a significant role in generating income for KWFT. On average, microfinance initiatives contributed to approximately 40% of KWFT's total revenue. This emphasizes the critical importance of microfinance as a core revenue stream for the micro-finance. The study also highlighted the positive impact of revolving funds on the economic empowerment of women and the overall socio-economic development of the communities served by KWFT (Ndung'u, 2021).

2.1.4 Revenue from sale of products and Services

Domenico, (2020) conducted a study in UK to explore the role of revenue from the sale of products as a source of income. The study was to assess the financial contributions of product sales to NGOs' sustainability. The research design employed a mixed-methods approach, combining quantitative surveys and qualitative interviews with NGO Leads. The population of interest included NGOs operating in different sectors across UK. Of the 288 NGOs sampled, the findings revealed that revenue from the sale of products constituted a significant income stream for NGOs in UK. On average, product sales contributed to approximately 20% of the total revenue for participating NGOs. The study highlighted the importance of product diversification, marketing strategies, and market demand in generating sustainable income for NGOs and concluded that revenue from the sale of products can play a vital role in supporting NGOs' financial sustainability and their ability to achieve their missions.

Philip Mirvis & Bradley Googins, (2018) conducted a study for NGOs in 19 Sub Saharan Africa targeting 384 NGOs focusing on the role of revenue from the sale of products and services as a source of income. The researchers employed a qualitative research design and conducting in-depth interviews with NGOs operating in social enterprises. The study aimed to explore how revenue from the sale of products contributes to the financial sustainability of NGOs. The findings highlighted that revenue from the sale of products plays a substantial role in supporting the financial sustainability of NGOs in Sub Saharan Africa. On average, product sales contributed to about 20% of the total income for participating NGOs. The study emphasized the importance of aligning product offerings with the NGOs mission and values to ensure market success and sustained revenue generation.

Matayo, (2023) conducted a study that aimed to analyze how revenue from the sale of products contributes to the financial sustainability of Kenyan NGOs. The researchers adopted a case study approach, investigating Rafiki Crafts, an NGO that produces and sells handmade crafts created by local artisans situated in the regions of Machakos and Kajiado in Kenya. The findings revealed that product sales played a crucial role in sustaining Rafiki Crafts' operations they indicated that all of the respondents shared the view that design plays a crucial role in enhancing both product quality and service improvement. Revenue from the sale of products constituted approximately 30% of the NGO's total income. The study emphasized the organization's impact on empowering local artisans and fostering community development through the sale of their crafts. The study concluded that revenue from the sale of products can significantly contribute to the financial sustainability of NGOs, especially those engaged in promoting local entrepreneurship and cultural preservation.

2.2 Theoretical review

The theoretical review in this study underpins the exploration of revenue diversification strategies for enhancing the financial sustainability of NGOs. Drawing on established theories such as Resource-Based View (RBV), Institutional Theory, and Resource Dependency Theory, this section sets the stage for understanding how NGOs strategically manage their revenue sources to ensure long-term viability and independence. The subsequent analysis of these theories will shed light on the intricate interplay between external influences, internal capabilities, and financial sustainability within the context of NGOs.

2.2.1 Resource Dependency Theory

Resource Dependency Theory, a seminal framework in organizational sociology, postulates that organizations are not self-sufficient entities but rather rely on external resources to survive and thrive (Pfeffer & Salancik, 1978). Pioneered by Pfeffer and Salancik in the 1970s, this theory contends that organizations establish interdependencies with external entities, such as suppliers, clients, regulators, and other organizations, to access essential resources like funding, information, and legitimacy. It emphasizes that organizations' behaviour is influenced by their need to secure and maintain these crucial resources, leading to strategic decisions and adaptations to accommodate external dependencies. The theory offers a lens through which to understand how organizations navigate a complex network of relationships to ensure their survival and achieve their objectives.

The theory sheds light on the practical challenges' organizations face in resource acquisition and management. It underlines the importance of diverse resource portfolios to mitigate risks associated with overreliance on a single source. However, critics argue that the theory might oversimplify the dynamics of resource dependence by focusing solely on external factors, potentially neglecting the influence of internal factors and an organization's ability to shape its environment (Hannan & Freeman, 1984). Additionally, the theory's emphasis on resource acquisition aligns with the growing recognition of the dynamic nature of funding sources in the non-profit sector. NGOs often navigate a complex landscape of funding opportunities, necessitating flexibility in their resource strategies to remain financially sustainable.

Resource Dependency Theory offers valuable insights into the revenue streams of NGOs. It underlines how NGOs' financial sustainability is intricately tied to their ability to manage and diversify their resource dependencies. By applying this theory, the study can examine how NGOs strategically interact with donors, governments, and other stakeholders to secure funding, navigate regulatory landscapes, and establish partnerships. Moreover, the theory's recognition of the potential tensions between NGOs and their resource providers aligns with the study's exploration of the challenges and opportunities NGOs face in generating income while adhering to external regulations and donor preferences. Thus, Resource Dependency Theory provides a robust framework to analyse the complex interplay between NGOs and their resource environment, enhancing our understanding of the factors that shape their revenue generation strategies

2.2.2 Institutional Theory

Institutional Theory, states that organizations are significantly influenced by the broader institutional environment where they operate (DiMaggio & Powell, 1983). Proposed by DiMaggio & Powell, (1980s) this theory suggests that organizations conform to prevailing norms, values, and practices to maintain legitimacy and ensure their survival. It emphasizes that institutions, which include formal regulations, cultural norms, and social expectations, shape organizational behaviour and decision-making. It emphasizes that institutions exert a powerful influence on organizational logics and power dynamics, shaping organizational behaviours and interactions (Johnson, 2021). Organizations tend to adopt comparable structures due to three distinct forms of pressure. Coercive pressures originate from legal obligations or the influence of organizations on which they rely. The inclination to imitate successful models, termed mimetic pressures, emerges when facing significant uncertainty. Lastly, pressures to conform to established norms and conventions, known as normative pressures, stem from the shared beliefs and practices of professional associations and groups integrated into the organization through hiring procedures (DiMaggio & Powell, (1980s).

One of its strengths lies in its recognition of the role of societal norms and expectations in shaping organizational behaviour. The theory has proven useful in explaining why organizations tend to adopt similar practices even in the absence of direct competitive pressures. However, critics argue that the theory might oversimplify the relationship between organizations and institutions, downplaying the agency and strategic decision-making capacity of organizations (Scott, 2014). Additionally, Institutional Theory's focus on conforming to existing norms might hinder innovation and change within organizations, as they prioritize legitimacy over adaptation. Furthermore, Institutional Theory's applicability has been observed across various sectors and industries, demonstrating its versatility in understanding how organizations respond to external pressures (Meyer & Rowan, 1977). Nonetheless, the theory's potential drawbacks, including its limited attention to variations in organizations' strategic choices, highlight the need for a nuanced perspective that considers both institutional pressures and internal agency in shaping organizational behaviour This dual consideration could offer a more comprehensive understanding of how organizations navigate the complex interplay between societal norms, strategic decisions, and their pursuit of financial sustainability (Scott, 2014).

This study employs Institutional Theory to gain insights into how NGOs formulate revenue generation approaches. By leveraging this theory, the research explores how NGOs navigate external pressures, societal norms, and expectations in their quest for financial sustainability. The theory's focus on legitimacy-seeking behaviour aligns with the study's aim to understand how NGOs adapt their income-generating strategies to gain acceptance and support from stakeholders. Furthermore, Institutional Theory's emphasis on the role of symbolic actions and legitimation processes resonates with the study's investigation into how NGOs communicate their mission and impact to attract financial resources. Overall, Institutional Theory offers a robust framework for comprehending the complex interplay between NGOs, their institutional environment, and revenue generation strategies ((Meyer & Rowan, 1977).

2.2.3 Resource Based View (RBV)

The Resource-Based View (RBV) is a strategic management theory that emphasizes the internal resources and capabilities of an organization as the primary drivers of competitive advantage and superior performance (Barney, 1991). According to RBV, an organization's unique bundle of valuable, rare, inimitable, and non-substitutable resources can lead to sustained competitive advantage. This theory contends that firms should identify and develop their distinctive resources, such as human capital, technological expertise, brand reputation, and organizational culture, to gain an edge in the market. RBV suggests that these internal resources are the foundation for creating value, achieving differentiation, and achieving long-term success.

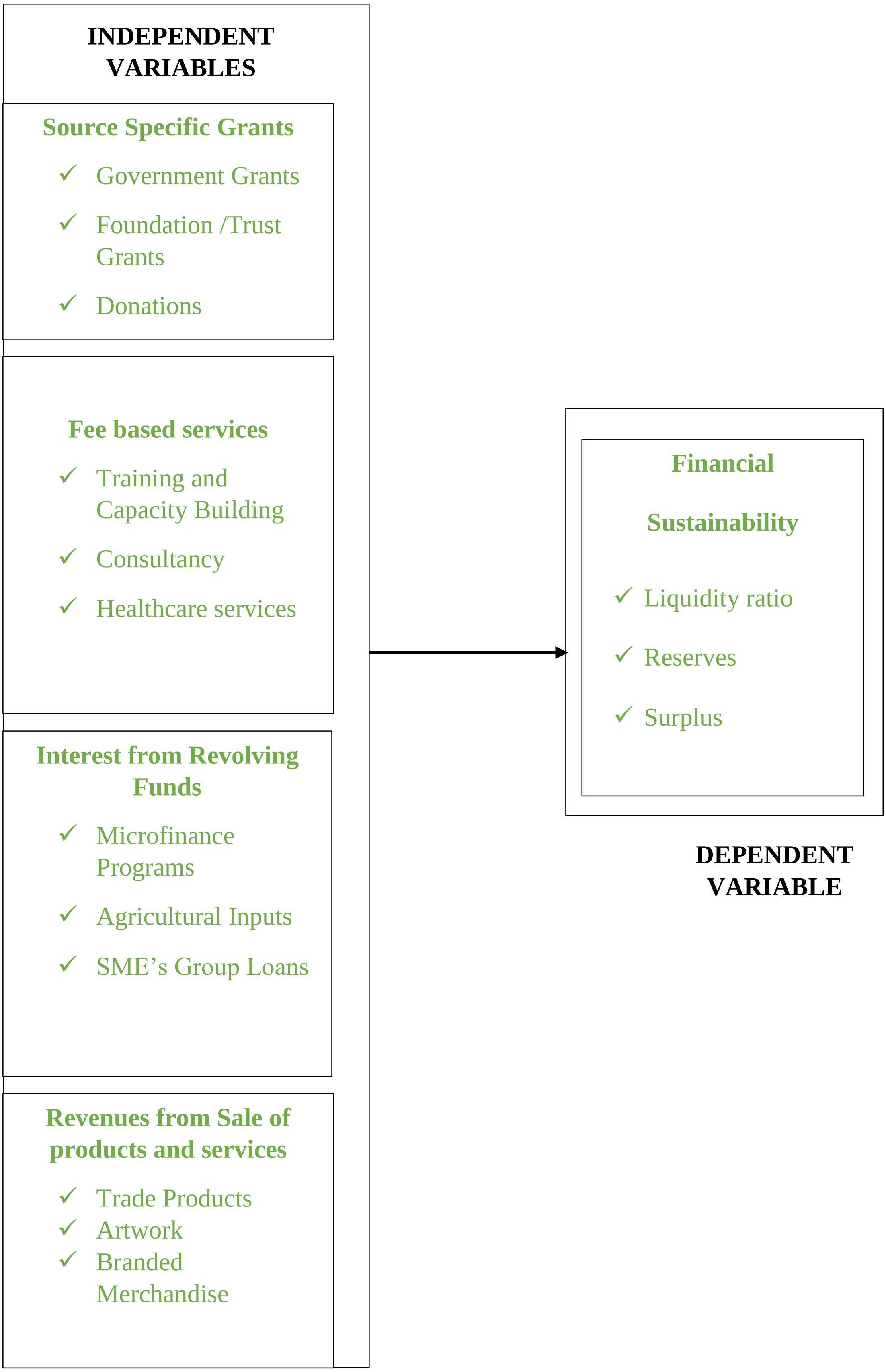
One of its strengths is its emphasis on the internal strengths of organizations, highlighting the importance of fostering capabilities that are difficult for competitors to replicate (Barney, 1991). However, critics argue that RBV might overlook the external factors and market dynamics that influence an organization's performance. Additionally, some scholars contend that the RBV framework lacks clear guidelines for identifying and valuing resources, making it challenging to apply in practical decision-making contexts. Another criticism is that RBV might not fully account for the role of industry structure and competition in shaping a firm's success, potentially limiting its explanatory power.

RBV theory is key in this study as it explains how NGOs strategically employ their internal resources for competitive fundraising and income generation. RBV enables an exploration of how NGOs' distinct assets, like reputation and expertise, attract donors and partners, fostering financial sustainability. RBV's focus on sustainable competitive advantage aligns with the research's long-term financial sustainability goals. RBV's emphasis on sustained competitive advantage closely aligns with the research's overarching goal of understanding and promoting long-term financial sustainability within the NGO sector. Furthermore, RBV's call for efficient resource allocation resonates with the imperative for NGOs to manage their resources judiciously, ensuring optimal utilization for achieving enduring financial health.

2.3 Conceptual framework

As per Mugenda and Mugenda (2013), constructing the conceptual framework involves conceptualizing ideas about the relationships between variables used in research and presenting these relationships visually. The conceptual framework depicted in Figure 2.1 illustrates the connections between independent and dependent variables of this research.

Figure 2. 1: Conceptual Framework



Source: Researcher (2023)

2.3.1 Source Specific Grants

Government grants are direct financial contributions provided to NGOs by governmental entities. These grants may include funding from national, regional, or local government sources intended to support various programs, projects, or initiatives conducted by NGOs (Frumkin & Kim, 2018). These grants are quantified as the total monetary value received by NGOs from government agencies for specific purposes. The relationship between government grants and the financial sustainability of NGOs is hypothesized to be positive. It is expected that NGOs receiving higher levels of government grants will experience improved financial sustainability due to the substantial and often consistent nature of these funding sources. This is based on the assumption that government grants provide a stable and predictable income stream that can enhance the ability of NGOs to plan and implement their activities effectively, leading to greater financial sustainability over time (Sanders & Tsoi, 2019, Robertson, 2021).

Foundation or trust grants are monetary contributions provided by private foundations or trusts to NGOs. These grants are often aimed at supporting specific causes or sectors aligned with the foundation's philanthropic goals (Seelos & Mair, 2020). The operationalization involves quantifying the monetary value of grants received from foundations or trusts. The relationship between foundation/trust grants and the financial sustainability of NGOs is hypothesized to be positive. NGOs that receive substantial foundation/trust grants are likely to have diversified funding sources, which can contribute to financial sustainability. These grants are expected to enhance financial sustainability by allowing NGOs to access resources beyond traditional avenues like government funding or donations, thereby increasing their ability to withstand financial challenges and adapt to changing circumstances (Brown, 2021).

Donations are voluntary contributions made by individuals, corporations, or other entities to support the activities of NGOs. The operationalization of this indicator involves quantifying the total amount of monetary gifts or in-kind contributions received by NGOs (Anheier, 2019). The relationship between donations and the financial sustainability of NGOs is hypothesized to be positive. NGOs that receive significant donations are likely to have a broader base of support, reducing their dependence on a single source of funding. This diversification of income is anticipated to enhance financial sustainability, as donations can provide flexible resources that NGOs can allocate based on their evolving needs. Additionally, higher levels of donations may signify strong community or stakeholder engagement, which can positively influence the perception and reputation of NGOs, potentially attracting more funding and support (Jones, 2018).

2.3.2 Fee Based Services

Training and capacity building services are operationalized as the educational programs, workshops, and skill development initiatives offered by NGOs to external stakeholders. These services are quantified based on the number of training sessions conducted, the total participants involved, and the associated fees charged (Bingley, 2019). The relationship between training and capacity building services and the financial sustainability of NGOs is hypothesized to be positive. NGOs that generate revenue through training programs are likely to experience enhanced financial sustainability due to the direct income generated from these fee-based services. Moreover, such services can contribute to the reputation and expertise of NGOs, potentially attracting more clients and participants, thereby strengthening financial resources and overall sustainability (Grant, 2021).

Consultancy services are operationalized as specialized advisory, research, or expert services provided by NGOs to individuals, organizations, or government entities. These services are quantified based on the number of consultancy contracts secured, the nature of projects undertaken, and the corresponding fees earned (Burt, 2020). The relationship between consultancy services and the financial sustainability of NGOs is hypothesized to be positive. Generating revenue through consultancy allows NGOs to leverage their expertise for financial gain. This income can contribute to financial sustainability by providing additional resources that can be reinvested in core mission activities. Moreover, successful consultancy engagements can enhance the reputation of NGOs, potentially attracting more clients and opportunities, thus further enhancing financial sustainability (Adams & White, 2019).

Healthcare services are operationalized as medical, preventive, or therapeutic interventions offered by NGOs. These services can range from clinics and medical camps to health screenings and wellness programs (Anderson, Cotter, & Vydra, 2020). Quantification involves measuring the number of patients served, types of services provided, and associated charges. The relationship between healthcare services and the financial sustainability of NGOs is hypothesized to be positive. Generating income through healthcare services contributes to financial sustainability by providing a direct revenue stream. Additionally, these services can promote the visibility and credibility of NGOs within their communities, potentially attracting more patients and clients. The positive impact on financial resources and community engagement can contribute to the overall financial sustainability of NGOs (Anderson, 2020).

2.3.3 Interest Income from Revolving Funds

Microfinance programs involve the provision of small loans, savings, and financial services to low-income individuals or communities (Morduch, 2019). In the context of this study, interest income from revolving funds is operationalized as the earnings generated from the interest charged on microloans disbursed to beneficiaries. This indicator can be quantified by calculating the total interest income accrued from the microfinance portfolio. The relationship between interest income from microfinance programs and the financial sustainability of NGOs is hypothesized to be positive (Lee & Kim, 2021). Microfinance programs often generate substantial interest income, which can serve as a consistent and reliable revenue source for NGOs. This income can contribute to the financial sustainability of NGOs by providing additional funds for organizational operations, program expansion, and community development. Furthermore, successful microfinance programs can lead to increased community engagement, improved economic conditions for beneficiaries, and enhanced social impact, all of which can positively influence the financial sustainability of NGOs (Williams, 2020).

In the context of agricultural development initiatives, interest income from revolving funds can be operationalized as the earnings generated from loans or credit extended to farmers for the purchase of agricultural inputs, such as seeds, fertilizers, and equipment. This indicator can be quantified by calculating the total interest income obtained from agricultural loans disbursed to farmers (Andrea, 2023). The relationship between interest income from agricultural inputs and the financial sustainability of NGOs is also hypothesized to be positive. Agricultural lending can be a profitable venture, as it addresses a critical need in rural communities. The interest income generated from agricultural loans can contribute to the financial sustainability of NGOs by providing resources to support ongoing agricultural programs, expand outreach to more farmers, and invest in innovative agricultural technologies. Additionally, successful agricultural programs can lead to increased food production, improved livelihoods, and enhanced community well-being, all of which can contribute to the overall financial sustainability of NGOs (Anderson, 2019).

Under Small and Medium Enterprises (SMEs) Revolving Funds Interest Income, can be operationalized by examining the extent to which NGOs provide financial support to SMEs through revolving fund mechanisms (Rubunda, 2023). This indicator quantifies the interest income generated from loans disbursed to SMEs. The loans are aimed at supporting the growth and development of SMEs, particularly in sectors aligned with the NGOs' mission. The interest income generated from these loans reflects the financial sustainability potential of NGOs. The hypothesis is that a positive relationship exists between the interest income derived from supporting SMEs and the financial sustainability of NGOs. The interest income generated from loans extended to Small and Medium Enterprises (SMEs) through revolving funds positively contributes to the financial sustainability of NGOs. The revenue generated from interest payments on these loans provides NGOs with a consistent and diversified source of income (Balana,2023).

2.3.4 Trade Products and Services

The operationalization of the independent variable "Revenues from Sale of products and services" into the indicator of trade products refers to the income generated by NGOs through the sale of tangible goods (Carter 2019). In this context, trade products could include items such as handicrafts, clothing, or other items produced or sourced by the NGO. The revenue generated from the sale of these trade products constitutes a direct financial contribution to the organization. This indicator can be quantified by calculating the total revenue earned from the sale of trade products. The relationship between revenues from trade products and the financial sustainability of NGOs is hypothesized to be positive. The sale of trade products not only provides an additional income stream but also fosters economic self-sufficiency. Successful trade product initiatives can contribute to the financial sustainability of NGOs by diversifying their revenue sources, reducing reliance on external funding, and enabling the organization to invest in its programs and initiatives (White, 2020).

In the context of artwork, Trade Products and Services, as an independent variable, can be operationalized by assessing the extent to which NGOs engage in the sale of artistic creations, such as paintings, sculptures, or crafts (Mahlaba, 2018). This indicator quantifies the revenue generated from the sale of artwork produced either by the NGO itself or by collaborating artists. The hypothesis is that the sale of artwork contributes positively to the financial sustainability of NGOs. The sale of artwork, as a form of Trade Products and Services, positively correlates with the financial sustainability of NGOs. By offering unique and creative products, NGOs tap into a niche market and generate a diversified revenue stream. The sale of artwork contributes directly to the NGOs' income (Suciu & Năsulea, 2019).

Under branded merchandise, Trade Products and Services can be operationalized by examining the sale of items featuring the NGO's logo, slogan, or other identifying marks. This includes products like T-shirts, mugs, bags, and other promotional items (Carter 2019). The indicator assesses the revenue generated from the sale of such branded merchandise. The hypothesis is that the sale of branded merchandise positively influences the financial sustainability of NGOs. The sale of branded merchandise serves as a revenue diversification strategy that enhances the financial sustainability of NGOs. Branded merchandise not only generates direct income but also acts as a marketing tool that raises awareness about the NGO's mission and activities. The purchase of branded items by supporters contributes to fundraising efforts while also creating a sense of belonging and engagement among donors. The revenue generated from branded merchandise can be utilized to fund various projects and initiatives, thereby strengthening the overall financial stability of NGOs (Watson, 2022).

2.3.5 Financial Sustainability

The operationalization of the dependent variable "Financial Sustainability" into the indicator of liquidity ratio involves assessing the organization's ability to meet short-term financial obligations (Johnson, 2020). This can be quantified using metrics such as the current ratio or the quick ratio, which measure the availability of liquid assets to cover current liabilities. The relationship between liquidity ratio and financial sustainability is hypothesized to be positive. Higher liquidity ratios indicate that an NGO possesses sufficient short-term resources to meet its financial commitments. This enhances the NGO's capacity to operate smoothly, withstand financial shocks, and seize new opportunities, contributing to overall financial sustainability (Garcia, 2021).

Operationalizing the dependent variable "Financial Sustainability" into the indicator of reserves entails analysing the rate at which an NGO's financial reserves are expanding over time. This can be quantified using metrics such as the annual growth rate of total financial reserves (Patel, 2019). The hypothesized relationship between financial reserves and financial sustainability is positive. Sustained growth in reserves indicates that an NGO is effectively mobilizing resources and investing in its mission-driven activities. A growing reserve base provides the NGO with the means to expand its programs, reach more beneficiaries, and generate additional income, thus strengthening its financial sustainability (Roberts, 2019).

The operationalization of the dependent variable "Financial Sustainability" into the indicator of profitability or surplus involves assessing the NGOs ability to generate positive financial outcomes from its operations (Kaye & Liao, 2018). Metrics such as net profit margin or surplus as a percentage of revenue can be used to quantify this indicator. The hypothesized relationship between profitability/surplus and financial sustainability is positive. A higher level of profitability or surplus indicates that an NGO's revenue exceeds its expenses, allowing it to reinvest in its mission, build reserves, and ensure financial sustainability over time. Profitable operations contribute to the NGO's long-term financial sustainability and its ability to weather economic challenges (Wang, & Hsieh, 2020).

2.4 Summary of literature

The literature review provides a comprehensive overview of revenue diversification strategies in NGOs. Yan, Mmbaga & Gras (2023) highlight the significance of donor funds for NGOs' financial sustainability, particularly for larger NGOs while Hung & Hager (2019) underline the positive correlation between substantial donations and NGOs' growth. Mathieu (2017) emphasize the importance of donations while pointing to challenges in access and management while on the other hand, Otaru, Susan & Adeyeye (2021) stress the impact of strong donor relationships on sustainable financial outcomes. Mureithi (2019) emphasize the role of donations in Kenyan NGOs' financial sustainability, also acknowledging challenges like donor fund dependency while Kinyanjui (2021) illustrate diversified funding sources enhancing Kenyan NGOs' financial sustainability. The study by Abiddin (2022) highlights fee-based services' contribution to UK NGOs' financial resilience while Babu & Franzel (2021) highlight the adoption of fee-based services in Ugandan NGOs, noting resource constraints. Simiyu & Sambu (2021) stress the financial impact of fee-based services for Kenyan NGOs and Churchill (2020) identify microfinance programs' contribution to UK NGOs' income. Philip Mirvis & Bradley Googins (2018) show the role of product sales in Sub Saharan African NGOs' financial sustainability while Matayo (2023) underscore the crucial role of product sales for Kenyan NGOs like Rafiki Crafts. The studies collectively highlight diverse strategies for NGOs to enhance financial sustainability, while also revealing gaps in contextual analysis, multi-source interactions, and challenges.

2.5 Critique of literature

Yan, Mmbaga & Gras's (2023) showcases the substantial role of donations as a funding source, particularly for larger NGOs, underscoring the importance of such income diversification strategies for enhancing financial sustainability. However, it focuses on the Canadian context, and therefore its findings may not be directly applicable to NGOs in other regions. Hung & Hager, (2019) on the other, by demonstrating a direct link between substantial donations and higher average annual growth rates, but their study leaves room for investigating potential variations or interactions with other revenue sources that NGOs might employ for diversification. The mixed-methods approach Mathieu (2017) employed in his study allows for a comprehensive understanding of grants' impact on NGOs from Sub Saharan Africa. Nevertheless, the study focuses on Sub Saharan Africa, which might limit its generalizability to NGOs in other geographical regions. Otaru, Susan & Adeyeye, (2021) empirical investigation offers insights into the connection between donations and the financial sustainability of NGOs in Nigeria. While the study presents findings specific to the Nigerian context, a broader comparison with similar studies in different regions could offer a more comprehensive understanding of the impacts of donations on NGOs' financial sustainability. Mureithi ‘s (2019) systematic sampling approach and the focus on Nairobi County provide context-specific insights into donor fund dependency and challenges faced by Kenyan NGOs. However, the study primarily concentrates on poverty alleviation NGOs, potentially limiting the generalizability of findings to NGOs in other sectors. Finally, Kinyanjui's (2021) study's combination of quantitative and qualitative methodologies enhances the comprehensiveness of its findings and showcases the positive effect of diversified funding sources on NGOs' financial firmness. However, the study does not take into consideration future dynamics such as unpredictable socio-economic changes.

Abiddin (2020) study of fee-based services among NGOs in Australia using mixed-methods approach, combining surveys and case studies, allows for a holistic exploration of fee-based services. However, a deeper exploration of challenges faced by NGOs in effectively integrating fee-based services could enhance the practical applicability of the research. On the other hand, Babu & Franzel (2021) research in Uganda utilized qualitative interviews and case studies of NGOs like AMREF Health Africa providing insights into the motivations, challenges, and outcomes of implementing fee-based services. While the study acknowledges challenges faced by NGOs in adopting fee-based services, a more extensive discussion of strategies or best practices to address these challenges could offer valuable guidance to NGOs seeking to diversify their revenue through fee-based services. Simiyu & Sambu, (2021) study focused on analyzing surveys and data highlighting how fee-based services can significantly enhance financial sustainability. The study centers on one specific NGO and may not capture the broader range of experiences and challenges that other NGOs might face.

Churchill’s (2020) cross-sectional survey design and the wide range of NGOs from 109 countries contribute to a holistic understanding of the contribution of revolving funds to financial sustainability. However, a more in-depth exploration of the barriers that NGOs face in implementing and managing revolving funds could provide practical insights for NGOs considering similar strategies. Wright (2018) research encompassing a diverse range of NGOs across sectors ensure there is a comprehensive understanding of both financial impact and the operational challenges faced by NGOs utilizing revolving funds as a revenue source but a more detailed breakdown of the variation among different types of NGOs could provide a richer understanding of initiatives in different contexts. Additionally, Ndung’u (2021) case study of Kenya Women Finance

Trust. offers an in-depth exploration of the role of revolving fund play in generating income for NGOs However, a broader comparison with other NGOs could enhance the generalizability of findings and the understanding of sector-wide trends and challenges

Domenico’s (2020) study offers valuable insights into the role of revenue from the sale of products as a source of income for NGOs. The focus on diverse sectors across the UK enhances the study's applicability to a range of NGOs. While the study emphasizes the significance of product sales as an income stream, it could benefit from delving deeper into specific challenges that NGOs might face in effectively marketing and selling their products. Philip Mirvis & Bradley Googins (2018) emphasis on aligning product offerings with the NGOs' mission and values highlights a strategic approach to revenue diversification but the study focuses on Sub Saharan Africa, which might limit the generalizability of findings to other regions. Matayo (2023) case study provides a deep exploration of how revenue from the sale of products contributes to the financial sustainability of Kenyan NGOs however exploring the scalability and replicability of this revenue strategy in different sectors or regions could enhance the study's applicability to a wider range of NGOs.

2.6 Research gaps

Yan, Mmbaga & Gras, (2023) study focused on the Canadian context, and therefore its findings may not be directly applicable to NGOs in other regions while Hung & Hager, (2019) study solely explores the impact of donations on financial sustainability, it leaves room for investigating potential variations or interactions with other revenue sources that NGOs might employ for diversification. Mathieu (2017) study focuses on Sub Saharan Africa, which might limit its generalizability to NGOs in other geographical regions. On the other hand, Otaru, Susan & Adeyeye, (2021) study presents findings specific to the Nigerian context, a broader comparison with similar studies in different regions could offer a more comprehensive understanding of the impacts of donations on NGOs' financial sustainability. Mureithi, (2019) study primarily concentrates on Poverty alleviation NGOs in Nairobi County, potentially limiting the generalizability of findings to

NGOs in other sectors or regions in Kenya. Kinyanjui, (2021) study is geographically limited to Nairobi, the study does not take into consideration of future dynamics such as unpredictable socio-economic.Abiddin (2022) study is focused on the Australian context, which limits the generalizability of findings to NGOs in other countries while Babu & Franzel (2021) study acknowledges challenges faced by NGOs in adopting fee-based services, a more extensive discussion of strategies or best practices to address these challenges could offer valuable guidance to NGOs seeking to diversify their revenue. On the other hand, Simiyu & Sambu, (2021) study centers on one specific NGO and may not capture the broader range of experiences and challenges that other NGOs might face in implementing fee-based services.

Churchill (2020) study focuses on a specific geographical area (Germany and surrounding countries), potentially limiting the generalizability of findings to other regions. A more in-depth exploration of the challenges or barriers that NGOs face in implementing and managing microfinance programs could provide practical insights for NGOs considering similar strategies while Wright (2018) study's findings highlight the average contribution of microfinance programs to NGOs' total revenue, but a more detailed breakdown of the variation among different types of NGOs could provide a richer understanding of the factors that influence the success of microfinance initiatives in different contexts. On the other hand, Ndung'u (2021) study focuses specifically on KWFT, a broader comparison with other microfinance initiatives in Kenya or similar NGOs could enhance the generalizability of findings and the understanding of sector-wide trends and challenges. Domenico (2020) study emphasizes the significance of product sales as an income stream, it could benefit from delving deeper into specific challenges that NGOs might face in effectively marketing and selling their products. On the other hand, Philip Mirvis & Bradley Googins (2018) study focuses on Sub Saharan Africa, which might limit the generalizability of findings to other regions. and Matayo (2023) study effectively highlights the case of Rafiki Crafts, Exploring the scalability and replicability of this revenue strategy in different sectors or regions could enhance the study's applicability to a wider range of organizations.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter serves as a crucial framework for understanding systematic approach undertaken to gather, analyze, and interpret data in order to address the research objectives. In this chapter, the research design, data collection methods, instrumentation, and analytical techniques are comprehensively outlined, providing readers with a clear roadmap of the processes employed to explore the research questions. By delving into the intricacies of the chosen methodology, this chapter outlines the rigor of the study and also offers insight into the validity and reliability of the findings. Through a thoughtful exposition of the methodological choices made, this chapter establishes a solid foundation upon which the subsequent analysis and interpretation are built, ensuring the integrity and scholarly value of the research endeavor

3.1 Research Design

Islamia (2016) defines a research design as a structure or a plan of the proposed research work. There are several research designs, depending on the problem the research is intending to study; such as descriptive survey, cross-sectional design, experimental, case study design. This study employed descriptive design. Descriptive research involves the systematic collection, organization, and presentation of data to provide an accurate portrayal of the phenomena under investigation (Mugenda and Mugenda, 2019). In this study, the descriptive design facilitated a clear and detailed overview of the diverse methods NGOs use to generate income.

3.2 Target Population

A target population is precisely defined as a set of people, organizations, units, or events, collection of things or households that are being investigated (Mugenda and Mugenda, 2019). The study targeted 511 NGOs operating in Nairobi County Kenya dealing with poverty alleviation and which were officially registered with the Kenya NGO Coordinating Board, (2022). This is because registered NGOs are legal entities in Kenya and they file financial returns to the NGO Coordinating Board therefore information and data for these NGOs can be considered official and can be verified. The target population was made up of individuals who were the financial managers drawn from the 52 selected NGOs in Nairobi County, making a total of 52 respondents of the study.

Secondly, Nairobi as the capital of Kenya, serves as a hub for a wide range of NGOs with varying sizes, missions, and revenue generation strategies. This concentration offered an opportunity to capture a diverse and representative sample of NGOs, allowing for a comprehensive analysis of different approaches to revenue generation within the NGO sector. This selection criterion contributed to a more accurate representation of NGOs engaged in diverse sectors and activities, thereby increasing the study's external validity.

3.3 Sampling Design and Sample size

3.3.1 Sampling Design

Sampling design can be defined as the process of selecting a group that will be used to collect data in research (Denscombe, 2017). The purpose of sampling is to obtain a representative subset of a larger population on when faced with limitations of time, resources, and feasibility (Denscombe, 2017). This study employed stratified sampling where only NGOs dealing with poverty alleviation were engaged. Further, simple random sampling was applied to select NGOs from the Strata since there were numerous active and registered NGOs in the area. Simple random sampling involves selecting a group of subjects, or a sample, from a larger population or target group, where each individual will be chosen entirely by chance, and every member of the population will have an equal probability of being included in the sample (Cooper and Schindler, 2003). Convenience sampling was adopted to select respondents of this study who were the finance managers of the sampled NGOs. This is because the finance managers were the most knowledgeable and were found to have access to the information that the study was interested in.

3.3.2 Sample Size

The sampling frame, included a list of 511 NGOs operating in Nairobi dealing with poverty alleviation. Mugenda and Mugenda (2013) suggested that a sample size equivalent to 10% of the total population is deemed sufficient for a descriptive study. Hence, the present study opted for a sample size of 52 respondents whereby in each NGO selected was represented by one finance manager. See Appendix 6 with the sampling frame for NGOs in Nairobi County selected for this study.

3.4 Data Collection instrument

Data collection is the process of collecting and analysing data on relevant variables in a methodical way so that one can test hypotheses respond to specific research questions, and assess results (Islamia, 2016). A questionnaire comprising of closed-ended questions was developed to gather quantitative information from the finance managers. The structured questionnaire allowed for efficient and effective contact with the individuals, enabling the researcher to collect data rapidly and accurately.

3.5 Data collection procedure

Questionnaires were distributed to the respondents within a reasonable timeframe of one month. Questionnaires provide a structured and standardized approach to data collection, enabling a systematic gathering of information from a large number of respondents in a consistent manner (Babbie, 2016). In ensuring the legitimacy of the study, the researcher sought for permission from the selected NGOs and a research permit was sought from NACOSTI. The researcher also provided personal contact information to the respondents to facilitate communication.

3.6 Pilot study

A pilot study to pre-test the tools was conducted on 5 selected NGOs based in Langata Sub County where respondents who had knowledge about the field were engaged to ensure that the questions were relevant, comprehensive and clarity. For any statements, questions or indicators that were found unclear were edited to represent the variable being measured accordingly. The 5 NGOs involved in the pilot study were not part of the sampled NGOs in the actual study.

3.6.1 Reliability of instruments

Drost, (2011) describes reliability as the ability of a measuring instrument to consistently measure a construct under different conditions to come up with similar results, specifically the extent to which it contains measurement errors. This study measured reliability by a Cronbach's Alpha Reliability Analysis. Della Porta and Keating (2008) stated that for a research instrument to be considered reliable, it should have a reliability coefficient that is greater than 0.7 while on the other hand, if the coefficient is less than 0.7, the instrument is said to be unreliable, hence, the tool would require some improvement. In this study, the reliability of the instruments was measured by running the data through the Statistical Package for the Social Sciences (SPSS-version 21) and a Cronbach's reliability coefficient of 0.713 was established, which was considered appropriate.

3.6.2 Validity of Instruments

Similarly, Drost (2011) defines validity as the extent to which a measuring instrument measures what it is intended to measure. This study focused on content, construct and face validity. Content validity involves assessing whether the items in the instrument adequately represent the content being measured, it was ensured by matching the research questions with items in the data collection instruments. Construct validity, on the other hand, examines whether the instrument accurately measures the underlying theoretical domains it intends to assess, this was tested through exploratory factor analysis. Face validity, focuses on the instrument's apparent clarity and relevance to participants, this was done during the pilot test (Mugenda & Mugenda, 2019). The three types of validity were tested because this study collected data from different NGOs and therefore the need for data collection tool to be tested in three aspects.

3.7 Data Analysis and Presentation

The data analysis process begun by editing and coding the data to facilitate computer input. Descriptive statistics were applied in summarizing the data. Results were presented in the form of frequency tables.

In this study, quantitative data was obtained and using the analytical tool SPSS-version 21. According to Colquhoun, (2014) the accessibility and user-friendly interface of SPSS-version 21 makes it a valuable tool in conducting robust statistical analyses and advancing research methodologies.

For inferential statistics, the technique utilized in this study was regression where; the coefficient of determination (R-squared) was determined which indicated the proportion of the variance in the dependent variable (financial sustainability) and independent variables (revenue streams) in the regression model. The R-squared ranges from 0 to 1, whereby; at 0- the independent variables do not explain any of the variance in the dependent variable, while at 1- the independent variables describe all of the variance perfectly. A higher R-squared value indicates a better fit of the regression model to the data.

3.7.1 Analytical Model

An analytical model is a structured framework used to represent and analyse complex systems or phenomena mathematically, enabling researchers to study relationships, interactions, and potential outcomes based on defined variables and assumptions (Hosseini, 2019). In this study, theoretical models were employed to establish and illustrate the functional relationships between variables, if such relationships exist. These models assisted the researcher in statistically assessing the effect of the independent variable on the dependent variable. The analysis techniques used in this study included linear regression analysis and the formulation of a multiple regression equation. These methods helped to determine the extent to which the independent variable contributes to the variation in the dependent variable. Pearson correlation analysis was conducted to assess the correlation between variables. This helped determine if there were strong correlations between predictor variables, which may affect the accuracy of the regression analysis as below:

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon$$

Where;

Y is the variable (Financial sustainability)

$\beta 0$ is the regression constant,

$\beta 1$, $\beta 2$, $\beta 3$ and $\beta 4$ are the coefficients of independent variables,

X1 is Grants,

X2 is Fee based services,

X3 is Interest income from Revolving Funds,

X4 is Revenues from Sale of products and services;

ε is the error term

3.7.2 Variables' measurements

Variables' measurements refer to the process of quantifying and assigning numerical values to the characteristics, attributes, or properties of the elements or subjects being studied, enabling researchers to analyze and compare these features (Hair, 2022). The study addressed the measurement of key outcome and predictor variables. The predictor variables included Grants, Fee based services, Revolving Funds Interest Income, and Revenues from Sale of products and services while key outcome variable (financial sustainability) was indicated by surplus or profits. The researcher manipulated or measured these variables to determine their effects on financial performance of NGOs.

Table 3.1 outlines the variables, their corresponding symbols, and the methods by which they were measured.

3.7.3 Variables in the model

The table 3.1 below presents the variables in the model.

Table 3. 1: Variables in the model

Variable	**Symbol**	**Type of data**	**Measurement**
Financial Sustainability	Y	Liquidity Ratios Financial Reserves Surplus funds	Ratio scale/ Interval scale
Source specific grants	**X1**	Revenue from different types of grants	Interval scale
Fee based services	**X2**	Revenue from different types of Services offered	Interval scale
Revolving Funds Interest Income	**X3**	Amount of interest earned	Interval scale
Revenues from Sale of products and services	**X4**	Amount of revenue generated from sales	Interval scale

3.7.4 Diagnostic Tests

The assumptions drawn from the Classical Linear Regression Model (CLRM) must not be violated while estimating the empirical model. The estimates generated might not be Best Linear Unbiased Estimates (BLUE) if CLRM assumptions are violated. Thus, this study conducted the tests for normality, linearity, multicollinearity and heteroskedasticity to guarantee that there was no violation. (Fadhili et al. 2011).

3.7.4.1 Normality test

This study used the normality test in ensuring that any assumptions on normality were not in violation at any phase. Normality was based on numerical method or graphically. This study utilized the Shapiro Wilk method in testing for normality whereby a variable was said to be not normally distributed if p value is < 0.5 or 5% data. The study considered normality P-P plot which applies normal probability plot in order to find out whether data spreads outside the diagonal line therefore, violating the set normality assumption. In this study, the results revealed that data was normally distributed along the diagonal line, therefore, data used in the study was considered to be normally distributed see figure 4.1.

3.7.4.2 Multicollinearity test

This is a reference to the unacceptably high correlation between the independent variables, which makes it difficult to distinguish between the impacts of the many independent variables (Gakuu, 2018; and Daoud, 2017). With the help of tolerance and the Variance Inflation Factor (VIF), a multicollinearity test was conducted. Large VIF and low tolerance values indicate the existence of multicollinearity.

3.7.4.3 Heteroscedasticity test

The study observed variance of the error term in the model. This is because the variable variance could lead to the problem of heteroscedasticity. In case, estimators of the model are inefficient but remain consistent and unbiased the results are considered not reliable. To remove the heteroscedasticity of the model, white diagonal measure was used. This kind of treatment helped to correct the variance of the error term found in the model.

3.8 Ethical Consideration

The study was handled properly and in confidentiality. The research goal and what was required of the respondents was respectfully and gently presented to them during the questionnaire administration process. Additionally, the researcher upheld the anonymity and non-disclosure. The researcher maintained a high level of ethics throughout the study.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND INTERPRETATIONS

4.1 Introduction

The purpose of the study was to determine the effect of diversification of revenue streams on the financial sustainability of NGOs in Kenya. This chapter begins with the response rate which was presented in respect to the questionnaires as administered by the researcher; then followed by the findings and discussion according to the specific research objectives. To present the analysed data, the study used both descriptive and inferential statistics.

4.2 Response Rate

The questionnaires were administered to 52 respondents drawn from the 52 NGOs. Out of the 52, 50 (96%) questionnaires were returned, while 2 questionnaires (4%) were never returned. Therefore, only the returned questionnaires were used for data analysis. The response rate was found to be 96% as indicated on Table 4.1.

Table 4. 1: Response Rate

Response Rate	Frequency	Percentage (%)
Returned questionnaires	50	96
Not returned questionnaires	2	4
Total	52	100

As illustrated on Table 4.1, the response rate yielded by the completed and returned questionnaires was above 50% which is sufficient as guided by Mugenda and Mugenda (2019) and supported by Nderitu (2018) that it was seen adequate for population representation of NGOs in Kenya. Thus, the response rate of 96% obtained in this study was appropriate for making the study conclusion on diversification of revenue streams and the financial sustainability of NGOs in Kenya.

4.3 Descriptive Statistics

This study applied descriptive statistics such as frequency distributions, percentages, and standard deviation to summarize the data. Results were presented using frequency tables and according to the study objectives as follows:

4.3.1 Source specific grants and financial sustainability of NGOs

The first objective of the study sought to investigate the effect of source specific grants on the financial sustainability of NGOs in Kenya. The respondents were required to indicate the income intervals generated from source specific grants in their respective NGOs. Specifically, they were asked to indicate the income interval in KES ('000') which were arranged in different ranges: Less than 1,000; 1,000 –5,000; 5,001- 10,000; 10,001 – 50,000; and Above 50,000. The different types of grant income included: Government grants, Foundation /Trust Grants, Donations and any other grant income generated by the NGO. Their responses were presented in percentages and frequencies on Table 4.2.

Table 4. 2: Mean and Standard Deviation Statistics for Source Specific Grants

Type of Grant Income	Income Interval In KES ('000')						Mean	Std. Dev
	Less than 1,000	1,000 – 5,000	5,001-10,000	10,001 – 50,000	Above 50,000	N/A		
Government grants	2%	3%	5%	7%	5%	78%	1.19	0.101
Foundation /Trust Grants	10%	12%	10%	27%	40%	1%	4.63	0.774
Donations	15%	17%	15%	20%	32%	1 %	5.29	0.821
Others	22%	10%	15%	20%	24%	9%	3.19	0.435

As indicated on Table 4.2 above, the results indicated that majority (78%) of the respondents didn't not have government grants, thus, government grants were not common in most of the NGOs (Mean- 1.19; Std. Dev- 0.101). In addition, the study established that Foundation /Trust Grants, Mean- 4.63; Std. Dev- 0.774, and donations Mean- 5.29; Std. Dev- 00.821, were the common type of grants in NGOs. Also, it was in both that the grant income interval was highest with 40% and 32% ranked at above 50,000 respectively. Other types of grants established by the study included; membership fees, corporate sponsorships, and bilateral and multilateral aid among others, which yielded to a Mean- 3.19; Std. Dev- 0.435.

Based on the study findings, different types of grants affected the sustainability of NGOs. Thus, these findings are in agreement with Jones (2018) who established the relationship between donations and the financial sustainability of NGOs was hypothesized to be positive. However, the current study found that most NGOs didn't use government grants to sustain their operations. This finding disagrees with the assumption by Robertson (2021) who stated that government grants provide a stable and predictable income stream that can enhance the ability of NGOs to plan and implement their activities effectively, leading to greater financial sustainability over time.

4.3.2 Fee-based services and financial sustainability of NGOs

The second objective of the study sought to evaluate the role of fee-based services on financial sustainability of NGOs in Kenya. The respondents were asked to indicate the income intervals generated from fee-based services in their respective NGOs. Specifically, they were asked to indicate the income interval in KES ('000') which were arranged in different ranges: Less than 1,000; 1,000 –5,000; 5,001- 10,000; 10,001 – 50,000; and Above 50,000. The different types of fee-based services included: Training and Capacity Building, Consultancy Services, Health Care services and any other fee-based service charged by the NGO. Their responses were presented in percentages and frequencies on Table 4.3.

Table 4. 3: Mean and Standard Deviation Statistics for Fee-based services

Type of Fee based Service	Income Interval In KES ('000')						Mean	Std. Dev
	Less than 1,000	1,000 – 5,000	5,001- 10,000	10,001 – 50,000	Above 50,000	N/A		
Training and Capacity Building	7%	10%	39%	17%	26%	1%	6.32	0.711
Consultancy Services	19%	14%	37%	15%	12%	2%	6.91	0.824
Health Care services	14%	10%	14%	24%	35%	3%	5.47	0.631
Others	4%	2%	1%	3%	27%	64%	1.05	0.231

From the study findings, the respondents indicated they all had fee-based services in their NGOs. Consultancy Services were the highest with Mean- 6.91; Std. Dev- 0.824; followed closely by Training and Capacity Building with Mean- 6.32; Std. Dev- 0.711; and both generated income intervals of 5,001- 10,000. Besides, most NGOs didn't have health care services, however, those with Health Care services generated the highest income interval of above 50,000, which was represented as 35%. Other few fee-based services indicated by the respondents included; cleaning services, security services, legacy income, waste management services, vehicles maintenance services, mentorship services, hotel services, property management services among others which yielded to a Mean- 1.05; Std. Dev- 0.231. These findings clearly indicated that fee-based services played an important in financial sustainability of NGOs. These findings concur with Grant (2021) who argued that services can contribute to the reputation and expertise of NGOs, potentially attracting more clients and participants, thereby strengthening financial resources and overall sustainability. In contrary to these findings, Babu & Franzel (2021) pointed out that fee-based services in NGOs were very costly as many aimed to match in the competition from for-profit entities and as result, many NGOs have been faced with resource and financial constraints. This could be related to Resource-Based View Theory (Barney, 1991) why most organizations didn't have clear guidelines for identifying and valuing resources and this made it challenging to apply in practical decision-making contexts since in most cases, external factors and market dynamics that influence an organization's performance are overlooked.

4.3.3 Revolving funds interest income and financial sustainability of NGOs

The third objective of the study sought to investigate the extent to which revolving funds interest income affects the financial sustainability of NGOs in Kenya. The respondents were asked to indicate the income intervals generated from evolving funds in their respective NGOs. Specifically, they were asked to indicate the income interval in KES ('000') which were arranged in different ranges: Less than 1,000; 1,000 –5,000; 5,001- 10,000; 10,001 – 50,000; and Above 50,000. The different types of evolving funds included: Microfinance Programs, Agricultural Inputs, SME's Group Loans and any other revolving fund applied by the NGO. Their responses were presented in percentages and frequencies on Table 4.4.

Table 4. 4: Mean and Standard Deviation Statistics for Revolving funds interest income

Type of Revolving	Income Interval In KES ('000')

Fund	Less than 1,000	1,000 – 5,000	5,001-10,000	10,001 – 50,000	Above 50,000	N/A	Mean	Std. Dev
Microfinance Programs	9%	15%	30%	19%	25%	2%	3.64	1.526
Agricultural Inputs	24%	8%	16%	24%	25%	3%	4.77	0.697
SME’s Group Loans	18%	16%	27%	21%	17%	1%	4.23	0.981
Others	10%	5%	5%	5%	5%	70%	1.56	0.117

As illustrated table 4.4 above, the findings established that all NGOs under the investigation generated income from various types of revolving funds. They included: Microfinance Programs with Mean- 3.64; Std. Dev- 1.526; Agricultural Inputs (Mean- 4.77; Std. Dev- 0.697), SME’s Group Loans (Mean- 4.23; Std. Dev-0.981). Other revolving funds applied by the NGOs indicated by the respondents were; micro-enterprises, business programs, micro-insurance infrastructure and development programmes, which yielded to a Mean- 1.56; Std. Dev- 0.117. The findings of the study indicated that revolving funds play a significant role in generating income for NGOs in Kenya. This is a confirmation for the previous studies, Lee & Kim (2021) and Wright (2018) who found that the relationship between interest income from microfinance programs and the financial sustainability of NGOs is hypothesized to be positive. Microfinance programs often generate substantial interest income, which can serve as a consistent and reliable revenue source for NGOs. This income can contribute to the financial sustainability of NGOs by providing additional funds for NGOs operations. Though these findings only assessed the microfinance programs to draw their conclusion, they failed look at the risks associated with loans which has led many NGOs into bankruptcy as many failed to repay as per agreed terms and conditions (Churchill,2020).

4.3.4 Revenue from sale of products and services on the financial sustainability of NGOs

Objective four of the study intended to assess the effect of revenue from sale of products and services on the financial sustainability of NGOs in Kenya. The respondents were asked to indicate the income intervals generated from sale of products and services in their respective NGOs. Specifically, they were asked to indicate the income interval in KES (‘000’) which were arranged in different ranges: Less than 1,000; 1,000 –5,000; 5,001- 10,000; 10,001 – 50,000; and Above 50,000. The different types of products and services included: Trade Products, Artwork, Branded Merchandise and any other products and services used by the NGO to generate revenue. Their responses were presented in percentages and frequencies on Table 4.5.

Table 4. 5: Mean and Standard Deviation Statistics for Revenue from sale of products and services

Type of product and services	Income Interval In KES (‘000’)						Mean	Std. Dev
	Less than 1,000	1,000 – 5,000	5,001- 10,000	10,001 – 50,000	Above 50,000	N/A		
Trade Products	19%	25%	18%	17%	19%	2%	4.76	0.642
Artwork	8%	22%	15%	10%	44%	1%	4.98	0.922
Branded Merchandise	9%	20%	25%	15%	28%	3%	5.83	0.691
Others	11%	8%	8%	6%	5%	62%	1.73	0.175

As indicated on Table 4.5 above, the findings established that all NGOs generated income from various types of products and services they sold to the public. They included: Trade Products (Mean- 4.76; Std. Dev- 0.642), Artwork (Mean- 4.98; Std. Dev- 0.922), Branded Merchandise (Mean- 5.83; Std. Dev- 0.691). Other products and services indicated by the respondents that were sold in these NGOs to generate revenues included; media advertisements and designs, books and library services, fundraising events and campaigns, company endowment, earned income, among others, which yielded Mean- 1.73; Std. Dev- 0.175. Further, the study findings revealed that artwork generated the highest amount of income of above 50,000, representing 34%, while trade products generated the lowest (Less than 1,000) represented as 19%. These findings implied that revenue from sale of products and services affected the financial sustainability of NGOs in Nairobi County.

These findings confirm those of White (2020) that the sale of trade products not only provided an additional income stream but also fostered economic self-sufficiency. Successful trade product initiatives can contribute to the financial sustainability of NGOs by diversifying their revenue sources, reducing reliance on external funding, and enabling the NGO to invest in its programs and initiatives. In the same context, Kariuki and Odhiambo (2019) claimed that higher level of revenue concentration may bring about a great danger of collapsing of many organizations, especially during economic recession, particularly in Kenya where taxation has been increased thus, a decrease is expected from such revenues. From a critic view, as noted by Ali (2018), the financing in NGOs has raised questions on whether NGOs are no longer non-profit but for-profits in disguise as many have adopted commercial activities such as sale of products and services, thus, high rates of corruption are recently common exposing most NGOs to financial crisis. Thus, findings from Ali (2018) do not encourage NGOs to initiate commercial activities to expand their financial which is contrary to the findings of the current study that self-financing activities in NGOs enhanced financial sustainability of NGOs in Kenya.

4.3.4 Financial sustainability of NGOs

Lastly, the respondents were asked to indicate the income intervals for different indicators of financial performance in their respective NGOs in the last 3 years. Specifically, they were asked to indicate the income interval in KES (‘000’) which were arranged in different ranges: Less than

1,000; 1,000 –5,000; 5,001- 10,000; 10,001 – 50,000; and Above 50,000. The responses were as indicated on Table 4.6 below

Table 4. 6: Mean and Standard Deviation Statistics for financial sustainability of NGOs

Financial Sustainability Indicator	Income Interval In KES ('000')						Mean	Std. Dev
	Less than 1,000	1,000 – 5,000	5,001- 10,000	10,001 – 50,000	Above 50,000	N/A		
Financial Reserves	15%	23%	19%	23%	16%	4%	5.09	0.659
Surplus	10%	21%	14%	11%	41%	3%	4.65	0.748
Liquidity Ratio	12%	25%	28%	10%	24%	1%	6.01	0.672

As indicated on Table 4.6 above, the findings established that all NGOs had different indicators of financial performance. They included: Financial Reserves (Mean- 5.09; Std. Dev- 0.748), surplus (Mean- 4.65; Std. Dev- 0.748), Liquidity Ratio (Mean- 6,01; Std. Dev- 0.672). These findings implied that these indicators were used to measure the financial sustainability of NGOs in Nairobi County thus, each organization could predict their financial health status all the time. These findings concur with those of Garcia (2021) who established that the relationship between liquidity ratio and financial sustainability was hypothesized to be positive. Higher liquidity ratios indicated that an NGO possessed sufficient short-term resources to meet its financial commitments. This enhanced the NGO's capacity to operate smoothly, withstand financial shocks, and seize new opportunities, contributing to overall financial sustainability.

4.4 Inferential Statistics

To determine the relationships between the dependent and independent variables, Pearson correlation and regression analysis were conducted and results were presented and discussed in the following sections. In addition, the study carried out diagnostic tests to examine the suitability of the predictors employed by the study and the results were also presented.

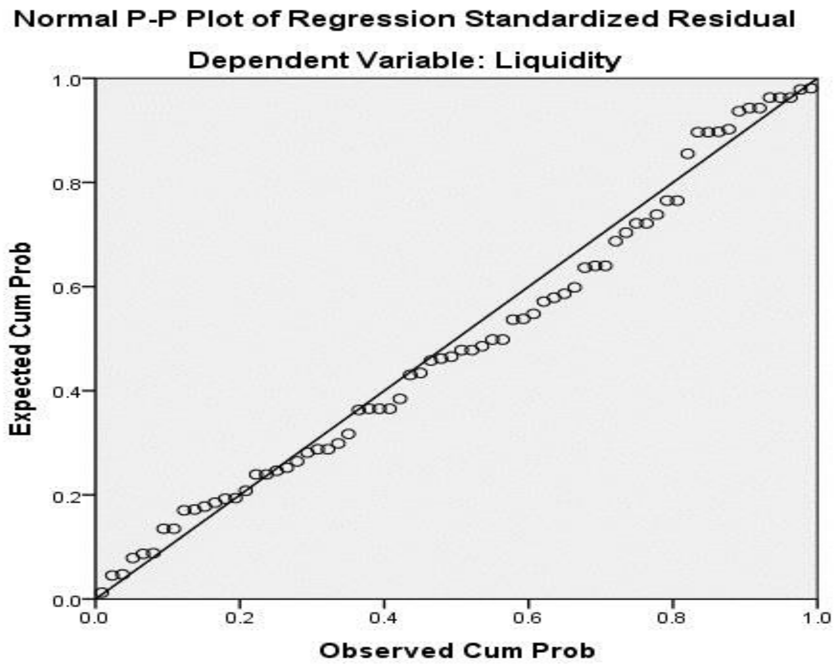
4.4.1 Diagnostic Tests

Different diagnostic tests were carried out to make sure that data employed was complete, didn't have errors and the constructs were not correlated. They included: Normality test, multicollinearity test, Heteroskedasticity Test and Linearity test. The results were discussed as follows for each test.

4.4.1.1 Normality Test

A normality test was done to determine whether the data was normally distributed. A normal probability plot was used and the results were presented on figure 4.1.

Figure 4. 1: Probability plot



In reference to the findings, the study established that the data used was normally distributed along the diagonal line.

4.4.1.2 Multicollinearity Test

In this study, Multicollinearity was conducted using the variance inflation factors (VIF). According to Gakuu (2018) VIF values between 1 to 5 indicates low correlation, 5 to 10 are moderately correlated, while above 10 shows that they are highly correlated and requires correction. The results were presented on table 4.7.

Table 4. 7: Results for Multicollinearity Test

Predictor	VIF	Tolerance
Source Specific Grants	1.578	.646
Fee Based Services	1.843	.603
Interest from Revolving Funds	1.692	.749
Revenues from Sale of products and services	1.742	.584

Results revealed that variance inflation factor value of Source Specific Grants was 1.578, Fee Based Services was 1.843; Interest from Revolving Funds was 1.692 and Revenues from Sale of products and services was 1.742. The values of all predictors were found to be less than 10 therefore, they were not correlated.

Further, as indicated on table 4.6 above, tolerance test was done to determine collinearity, results showed that the tolerance values for the predictors as follows; Source Specific Grants (0.646); Fee Based Services (0.603); Interest from Revolving Funds (0.749); and lastly, Revenues from Sale of products and services (0.584). Based on these results, all the predictors employed in the study were found not correlated and were therefore, applied to determine the relationship between diversification of revenue streams and financial sustainability of NGOs in Kenya.

4.4.1.3 Heteroskedasticity Test

The study did Heteroscedasticity test to determine whether the error terms were correlated across observation in the time series data. The Modified Wald test for GroupWise heteroscedasticity was used where a null hypothesis under this test is that residuals are Homoscedastic. If the p-value is >0.05, there is constant variance. The heteroscedasticity value was 0.5139. Hence the null hypothesis was not rejected. Data was found suitable for the study as illustrated on Table 4.7.

Table 4. 8: Heteroskedasticity Test Results

Modified Wald test for Groupwise heteroscedasticity in fixed effect regression model

H0: sigma(i)^2 = sigma^2 for all i

chi2 (50) = 1.2e+06

Prob>chi2 = 0.329

4.4.2 Correlation Analysis

Correlation analysis measures the strength of relationships between the study variables where a linear function is formulated to help assess the influence of the independent variables on the dependent variable. This study used Pearson correlation coefficient to determine the correlation between the dependent variable (financial sustainability of NGOs) and the independent variables (Source Specific Grants, Fee Based Services, Interest Income from Revolving Funds and Revenues from Sale of products and services). According to Sekaran (2015), the correlation coefficient ranges from -1.0 (perfect negative correlation) to +1.0 (perfect positive correlation). In this study, a correlation coefficient was computed for each variable. See the results on Table 4.9

Table 4. 9: Correlation Analysis Results

		Source Specific Grants	Fee Based Services	Interest Income from Revolving Funds	Revenues from Sale of products and services	Financial sustainability of NGOs
Source Specific Grants	Pearson Correlation	1				
	Sig. (2tailed)	.004				
	N	50				
Fee Based Services	Pearson Correlation	.472	1			
	Sig. (2tailed)	.000				
	N	50	50			

Interest Income from Revolving Funds	Pearson Correlation	.259	-.041	1		
	Sig. (2tailed)	.269	.675			
	N	50	50	50		
Revenues from Sale of products and services	Pearson Correlation	.148	-.166	.701	1	
	Sig. (2tailed)	.178	.117	.000		
	N	50	50	50	50	
Financial sustainability of NGOs	Pearson Correlation	.023	.167	.464	.711	1
	Sig. (2tailed)	.003	.001	.003	.002	
	N	50	50	50	50	50

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

The study findings revealed that there was a positive correlation between independent variables (Source Specific Grants, Fee Based Services, Interest Income from Revolving Funds and Revenues from Sale of products and services) and the independent variable, financial sustainability of NGOs. The correlation coefficients were: (N=50, r= 0.023, p= 0.004; N=50, r= 0.167, p= 0.001; N=50, r= 0.464, p= 0.003 and N=50, r= 0.711, p= 0.002). All the p-values were lesser than 0.05 thus significant relationships were found.

This implied that an increase in any of these revenue streams (Source Specific Grants, Fee Based Services, Interest Income from Revolving Funds and Revenues from Sale of products and services) resulted to increase in financial sustainability of NGOs while a decrease of the same was related to lower financial sustainability of NGOs. These findings are in line Rocafort (2019) who argued that diversification of revenue streams by tapping in a variety of funding sources, such as donor grants, fee-based services, revenue from product sales and services, and revolving funds interest income, to NGOs could reduce their dependency on a single source and build a more sustainable financial base. In addition, Resource Dependency Theory as depicted by Pfeffer & Salancik, (1978) that firms should identify and develop their distinctive resources, such as human capital, technological expertise, brand reputation, and organizational culture, to gain an edge in the market. Thus, based on the findings of this study, Resource Dependency Theory suggested that internal resources are the foundation for creating value, achieving differentiation, and achieving long-term success.

4.4.3 Regression Analysis

Regression analysis describes and evaluates the relationship between certain study variables. In this study, regression analysis was used to determine the relationship between the dependent variable (financial sustainability of NGOs) and the independent variables (Source Specific Grants, Fee Based Services, Interest Income from Revolving Funds and Revenues from Sale of products and services). Using multiple regression analysis, the combined effect of source specific grants, fee-based services, interest income from revolving funds and revenues from sale of products and services on financial sustainability of NGOs was established. The results were illustrated on Table 4.10 below.

Table 4. 10: Multiple Linear Regression Analysis Model results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate			
1	0.736[a]	0.429	0.292	1.36439			
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	4.701	0.896		4.977	0		
Source Specific Grants	-0.118	0.198	0.129	-0.871	0.003	0.391	2.521
Fee Based Services	0.397	0.098	0.563	3.629	0.001	0.412	2.896
Interest Income from Revolving Funds	0.207	0.063	0.472	3.523	0.002	0.798	1.178
Revenues from Sale of products and services	0.423	0.079	0.347	3.371	0.004	0.657	2.632

a. Predictors: (Constant), Source Specific Grants, Fee Based Services, Interest Income from Revolving Funds and Revenues from Sale of products and services

b. Dependent Variable: Financial sustainability of NGOs

Results from the analysis revealed that there was positive relationship between the variables ($R = 0.736$). Regression coefficient, $r^2 = 0.429$, implying that 43% of the financial sustainability was attributed to grants, fee-based services, interest income from revolving funds and revenues from sale of products and services. The remaining percentage, 57% of financial sustainability was attributed to other factors not under the study. The beta value was applied in determining the most important independent variable in the financial sustainability of NGOs in the study area. From the results, the most important revenue stream in the financial sustainability of the NGOs was the Fee Based Services ($\beta = 0.563$), Interest Income from Revolving Funds ($\beta = 0.472$), Revenues from Sale of products and services ($\beta = 0.347$), and lastly source Specific Grants ($\beta = 0.129$) in that order. These findings implied that all the revenue streams under the study influenced the financial sustainability of NGOs Nairobi County.

These findings resonate with Gumbiner (2021) who noted that the motivation for diversifying revenue streams stems from the realization that overreliance on a single funding source can render NGOs vulnerable to shifting donor preferences or external shocks. This explains why most NGOs in Kenya have diversified their sources of revenue to avoid evolving donor priorities, economic uncertainties, and emerging challenges and despite the positive effect of diversifying sources of funding, Dolan (2017) argued that many NGOs forgot their social mission and instead focus on money making activities posing them to a great danger of collapsing. Further, the subsequent analysis of the theories; Resource-Based View (RBV), Institutional Theory, and Resource Dependency Theory, which guided this study revealed that there was an intricate interplay between external influences, internal capabilities, and financial sustainability in NGOs in Kenya. As evidenced in the results from the current study, NGOs have strategically managed their revenue sources to ensure long-term viability and independence, confirming that the diversification of revenue streams among the NGOs indeed influenced their financial sustainability.

4.4.3.1 Regression analysis of revenue streams influencing financial sustainability of NGOs.

Below a model representing the regression equation to show the relationship between the financial sustainability NGOs as a linear function of the independent variables (determining the effect of diversification of revenue streams under the study that is, source specific grants, fee-based services, interest income from revolving funds and revenues from sale of products and services on financial sustainability of NGOs,) whereby; έ represented the error term, while a dependent variable was expressed as a combination of independent variables, and the unknown parameters in the model were estimated sing observed values of the dependent and independent variables.

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \varepsilon$$

Where;

Y is the variable (Financial sustainability)

$\beta 0$ is the regression constant,

$\beta 1$, $\beta 2$, $\beta 3$ and $\beta 4$ are the coefficients of independent variables,

X1 is Grants,

X2 is Fee based services,

X3 is Interest income from Revolving Funds,

X4 is Revenues from Sale of products and services;

ε is the error term

Therefore,

$$Y = 4.701 + 0.129(X1) + 0.563(X2) + 0.472(X3) + 0.347(X3) + έ \text{..........................Equation 2}$$

(Beta Values are included)

Results obtained from the model revealed that all the variables were positively related to the dependent variable since all the coefficient values were found to be positive. Therefore, as indicated on the equation, with these revenue streams; source specific grants, fee-based services, interest income from revolving funds and revenues from sale of products and services, held constant, the financial sustainability of NGOs was found to be 4.701. The results indicated that these revenue streams (source specific grants, fee-based services, interest income from revolving funds and revenues from sale of products and services) and financial sustainability of NGOs had a positive relationship. This implied that with all other variables constant when there is an increase in grant, there is a likelihood of 0.129 increase in financial sustainability; an increase in fee-based services there is a possibility of 0.563 increase in the financial sustainability; an increase in interest income from revolving funds there is a likelihood of 0.472 increase in financial sustainability; and for an increase in revenues from sale of products and services, the financial sustainability is likely to increase by 0.347.

Further, the researcher carried out another analysis which was set at 95% confidence level and at 5% significance level to determine the regression coefficients for the variables. Grant had significance level of 0.129, fee-based services had 0.563 significance level, interest income from revolving funds had significance level of 0.472 while revenues from sale of products and services had 0.347 significance level. These findings imply that all the revenue streams investigated in this study positively influenced the financial sustainability of NGOs in Nairobi County. These findings confirmed an argument of Resource Dependency Theory (Pfeffer & Salancik, 1978) who postulated that organizations could not self-sufficiently run their operations but rather rely on external resources to survive and thrive. This explains the effect of diversification of revenue on financial sustainability that was established by this study, thus confirming that financial sustainability of NGOs was indeed intricately tied to their ability to manage and diversify their resource dependencies. However, findings from Seibel (2020) presented a contrary argument that diversified revenue sources especially in African NGOs to resulted to lack of focus, organizational leadership wrangles, political interference and other external forces that has caused collapse of many organizations across the continent. According to Seibel (2020) many

NGOs lack the capacity to coordinate these diversified sources of income, thus, recommends for proper strategies to be adopted that would help the NGOs independent and self-sustainable.

CHAPTER FIVE

DISCUSSION OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary, conclusions and recommendations of the study on determining the effect of diversification of revenue streams on the financial sustainability of NGOs in Kenya. Lastly, the chapter provides possible suggestions for further research.

5.2 Discussion of findings

This section presents the discussion of findings in line with the study objectives.

5.2.1 Source specific grants and financial sustainability of NGOs

The first objective of the study sought to investigate the effect of source specific grants on the financial sustainability of NGOs in Kenya. Findings revealed that most NGOs in Nairobi did not have government grants, thus, government grants were not common in most of the NGOs. The findings also established that foundation /trust grants and donations were the common type of grants in NGOs. Other types of grants established by the study included; membership fees, corporate sponsorships, and bilateral and multilateral aid among others.

In addition, the study findings revealed that there exists a positive relationship between grants and financial sustainability of NGOs. The study revealed that different types of grants (Government grants, Foundation /Trust Grants, Donations and any other grant income generated by the NGOs) were statistically significant on financial sustainability of NGOs.

5.2.2 Fee-based services and financial sustainability of NGOs

The second objective of the study sought to evaluate the role of fee-based services on the financial sustainability of NGOs in Kenya. Analysis from the descriptive statistics showed that they all had fee-based services in their NGOs. The fee-based services comprised of; training and capacity building, consultancy services and health care services. The results established that most NGOs didn't have health care services and for the few who had health care services generated the highest income interval of above 50,000. Further, the study established other fee-based services in these NGOs and they included; cleaning services, security services, legacy income, waste management services, vehicles maintenance services, mentorship services, hotel services, property management services among others.

The results also revealed that there is a significant nexus between fee-based services and financial sustainability of NGOs in Nairobi County. The findings established that the different types fee-based services used by the NGOs to generate revenue were statistically significant on financial sustainability. In addition, the findings reaved that an increase in fee-based services led to increase in financial sustainability of NGOs while a decrease of the same was related to lower financial sustainability of NGOs.

5.2.3 Revolving funds interest income and financial sustainability of NGOs

The third objective of the study sought to investigate the extent to which revolving funds interest income affects the financial sustainability of NGOs in Kenya. The findings from the descriptive statistics established that all NGOs under the investigation generated income from various types of revolving funds and they included: Microfinance Programs, Agricultural Inputs and SME's Group Loans. Other revolving funds applied by the NGOs established by the study included; micro-enterprises, business programs, micro-insurance infrastructure and development programmes.

Results revealed that there was a positive correlation between revolving funds and financial sustainability of NGOs. This implied that an increase in interest income from revolving funds resulted to increase in financial sustainability of NGOs while a decrease of the same was related to lower financial sustainability of NGOs. This implied that an increase in revenues from revolving funds resulted to increase in financial sustainability of NGOs while a decrease of the same was related to lower financial sustainability of NGOs.

5.2.4 Revenue from sale of products and services on the financial sustainability of NGOs

The last study objective sought to assess the effect of revenue from sale of products and services on the financial sustainability of NGOs in Kenya. Findings established that all NGOs generated income from various types of products and services they sold to the public. They included: Trade Products, Artwork, Branded Merchandise. Th study established other products and services that were sold in these NGOs to generate revenues included; media advertisements and designs, books and library services, fundraising events and campaigns, company endowment, earned income, among others. Further, the study findings revealed that artwork generated the highest amount of income of above 50,000, while trade products generated the lowest (Less than 1,000).

The findings also revealed that that there was a positive correlation between revenues from sale of products and service and financial sustainability of NGOs. Thus, this implied that revenues from sale of products and service affected financial sustainability of NGOs in Nairobi County.

5.3 Conclusions

The conclusions of the study were made in line with the study objectives as follows:

5.3.1 Source specific grants and financial sustainability of NGOs

Under the first study objective, the findings revealed that there was a positive relationship between source specific grants and financial sustainability of NGOs. Hence the study concludes that source specific grants influenced financial sustainability of NGOs in Kenya.

5.3.2 Fee-based services and financial sustainability of NGOs

Under the second objective, the findings revealed that fee-based services and financial sustainability of NGOs had a positive relationship. Therefore, it can be concluded that fee-based services influenced the financial sustainability of NGOs in Kenya.

5.3.3 Revolving funds interest income and financial sustainability of NGOs

Under the third study objective, the findings revealed that there was a positive relationship between of revolving funds and financial sustainability of NGOs in Nairobi County. Thus, this study concludes that revolving funds affected financial sustainability of NGOs in Kenya.

5.3.4 Revenue from sale of products and services on the financial sustainability of NGOs

Under the fourth objective, the findings revealed that revenue from sale of products and services and financial sustainability of NGOs were positively correlated. Thus, this research concluded that revenue from sale of products and services influenced financial sustainability of NGOs in Kenya.

5.4 Recommendations

The study made the following recommendations in accordance to the research objectives:

5.4.1 Source specific grants and financial sustainability of NGOs

The study established that source specific grants influenced financial sustainability of NGOs in Kenya. NGOs' contribution to the Kenyan economy cannot be ignored. However, recently this grant has been affected by various financial factors. To solve this problem, NGOs need to put in place the appropriate management structure such as convenient donor mechanisms, to implement their financial strategies to expand their base of grants which will promote their financial sustainability. This will also prevent overreliance on specific sources of grants.

5.4.2 Fee-based services and financial sustainability of NGOs

The study concluded that fee-based services greatly contributed to the financial sustainability of NGOs in Kenya. Therefore, NGOs should design more fee-based services to increase the income generated from same. This could be well achieved through building partnerships with the government and among the NGOs to provide essential services such as water, health, security, food and environment conservation to the various communities across the country.

5.4.3 Revolving funds interest income and financial sustainability of NGOs

This study found that revolving funds affected financial sustainability of NGOs in Kenya. Therefore, NGOs must properly manage revenue supply and demand to operate the business safely, maintain relationships with stakeholders, and avoid financial difficulties. They need to rethink their programs and design more enterprises that help the NGOs to solve social problems while applying business methods. This will see the NGOs increase income generated from the revolving funds.

5.4.4 Revenue from sale of products and services on the financial sustainability of NGOs

This research established that revenue from sale of products and services influenced financial sustainability of NGOs in Kenya. Therefore, the NGOs should strengthen their products and services to enhance their financial sustainability. This can be achieved for instance, through formulation of appropriate policies that promote their products and services, and which support self-financing and fundraising to expand their financial base.

5.5 Suggestion for Further Research

The current study examined the effect of diversification of revenue streams on the financial sustainability of NGOs in Kenya. Therefore, the research suggests a similar study should be conducted to determine whether similar results can be replicated in other NGOs not situated in Nairobi County and also with the governmental institutions such as universities which are recently facing financial crisis.

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APPENDICES

Appendix 1: Questionnaire

Participant Information

Researcher's Information: The research is being conducted by **Beatrice Indangasi Inyanza** in partial fulfilment of Master's degree at the Cooperative University of Kenya.

Purpose of this study: The study aims to examine the effect of diversification of revenue streams on the financial sustainability of NGOs in Kenya.

Potential harms, risks or discomforts to participants: I do not anticipate any risks for you in participation of the study. Just take some of your time, estimated at 20 minutes. If you feel uncomfortable in the process of filling the questionnaire, kindly discontinue the exercise.

Benefits of participating in the study: There is no direct and immediate benefit for participating as a respondent. However, some of the expected outputs will include recommendations that will help NGOs attain financial sustainability and hence continue to play their vital role in the community and their employees.

Confidentiality: Personal information such as names, addresses, will not be used. Do not write your name or any information that is personal. Thus, you will not be identified in any outcomes, for example, publications, products or services, of this study.

RESPONDENT'S SURVEY INFORMED CONSENT FORM

The reasons for carrying out this study have been explained to me and I understand that this study is designed for academic purpose only.

I agree that the researcher has been permitted by Cooperative University and National Commission for Science, Technology & Innovation (NACOSTI) to carry out this study.

Name: ___________________________ Signed: ___________________ Date: ____________

Study Participant

Name: ___________________________ Signed: ___________________ Date: ____________

Researcher

SECTION A: Source Specific Grants.

1) Indicate in the table below the revenue your NGO generated from grants Income in the last 3 years (Tick one for each row)

Type of Grant Income	Income Interval In KES ('000')					
	Less than 1,000	1,000 – 5,000	5,001 - 10,000	10,001 – 50,000	Above 50,000	N/A
Government grants						
Foundation /Trust Grants						
Donations						
Any Other ……………………....						

SECTION B: Fee based services

2) Indicate in the table below the Income you NGO generated from fee-based services in the last 3 years (Tick one for each row)

Type of Fee based Service	Income Interval In KES ('000')					
	Less than 1,000	1,000 – 5,000	5,001 - 10,000	10,001 – 50,000	Above 50,000	N/A
Training and Capacity Building						
Consultancy Services						
Health Care services						
Any Other………………………						

SECTION C: Revolving Fund Interest Income

3) Indicate in the table below the Income your NGO generated from revolving funds in the last 3 years (Tick one for each row)

Type of Revolving Fund	Income Interval In KES ('000')					
	Less than 1,000	1,000 – 5,000	5,001 - 10,000	10,001 – 50,000	Above 50,000	N/A
Microfinance Programs						
Agricultural Inputs						
SME's Group Loans						
Any Other………………………						

SECTION D: Revenue from sale of products and services.

4) Indicate in the table below the Income your NGO generated from sale of products and services in the last 3 years (Tick one for each row)

Type of product and services	Income Interval In KES ('000')					
	Less than 1,000	1,000 – 5,000	5,001 - 10,000	10,001 – 50,000	Above 50,000	N/A
Trade Products						
Artwork						
Branded Merchandise						
Any Other………………………						

SECTION E: FINANCIAL SUSTAINABILITY OF NGOS

5) In the last 3 years what has been the percentage of the 3 indicators in the table below

<table>
<tr><td rowspan="2">Financial Sustainability

Indicator</td><td colspan="6">Interval
In KES (‘000’)</td></tr>
<tr><td>Less than 1,000</td><td>1,000 – 5,000</td><td>5,001 - 10,000</td><td>10,001 – 50,000</td><td>Above 50,000</td><td>N/A</td></tr>
<tr><td>Financial Reserves</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Surplus</td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td rowspan="2">Liquidity Ratio</td><td colspan="2">Less than 5%</td><td colspan="2">6 –10%</td><td colspan="2">Above 10%</td></tr>
<tr><td colspan="2"></td><td colspan="2"></td><td colspan="2"></td></tr>
</table>

Thank you for your participation

Appendix 2: Project Work Plan

Activity	**2023**							
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Proposal writing								
Proposal correction and faculty defense								
Proposal correction & submission								
Permit acquisition and pre-testing								
Field data collection								
Data analysis								
Project report and publications writing								
Project submission to graduate school								

Appendix 3: Research Budget

ACTIVITY	ITEM	TOTAL COST
Preparation of Proposal	Printing papers	3000
	External Hard disc	5000
	Internet bundles	6000
	Printing and binding	3000
	Photocopying	6000
	Research Permit	1000
	Digitizing tools in survey 123	5000
	Piloting of tools	10000
Subtotals		**39000**
Collection of Data	Field Transport	30000
	Airtime and internet	10000
Subtotal		**40000**
Data Processing and analysis	Coding and analysis of quantitative data	50000
	Analysis of qualitative data	20000
Subtotal		**70000**
Project Report Writing	Internet	10000
	Printing, photocopying & Binding	31000
Subtotal		**40000**
Dissemination	Journal publication fee	30000
Subtotal		**30000**
Totals		**220000**

Appendix 4: University Letter

THE CO-OPERATIVE UNIVERSITY OF KENYA

P. O. Box 24814-00502 Karen, Kenya
Telephone: (020)-2430127/2679456/8891401 Fax (020)-8891410
www.cuk.ac.ke

BOARD OF POSTGRADUATE STUDIES

25th September, 2023

The Director,
National Commission for Science, Technology &
Innovation, Utalii House, Nairobi.

Dear Sir,

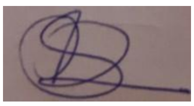
REF: INYANZA BEATRICE INDANGASI REG NO.: MBAC01/6503/2021

This is to introduce the above named Master of Business Administration student in the School of Business and Economics of the Co-operative University of Kenya.

She has successfully completed her course work and is proceeding to the field to collect data from non-governmental organisations in Kenya. The title of her research project is ***"Effect of Diversification of Revenue Streams on the Financial Sustainabillity of Non-Governmental Organisations in Kenya***".

Kindly accord her the necessary assistance.

Yours Sincerely,



D. K. Muthoni,
Director, Board of Postgraduate Studies.

Cc: Dean, SBE.

CUK is ISO 9001: 2015Certified

Appendix 5: NACOSTI Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **497136**

Date of Issue: **02/October/2023**

RESEARCH LICENSE

This is to Certify that Ms.. Beatrice Indangasi Inyanza of The Cooperative University of Kenya, has been licensed to conduct research as per the provision of the Science, Technology and Innovation Act, 2013 (Rev.2014) in Nairobi on the topic: EFFECT OF DIVERSIFICATION OF REVENUE STREAMS ON THE FINANCIAL SUSTAINABILLITY OF NON-GOVERNMENTAL ORGANISATIONS IN KENYA. for the period ending : 02/October/2024.

License No: **NACOSTI/P/23/30026**

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See overleaf for conditions

Appendix 6: Sampling Frame for Nairobi Based NGOs

1. Action Africa Help International
2. Action Against Hunger
3. African Child Foundation Kenya
4. Aga Khan Foundation
5. Almuntanda Development Project
6. Amurt-Switzerland
7. Baraka Community Development Foundation
8. Caris Foundation International Kenya
9. Centre for Enterprise Development and Innovation (CEDI)
10. Clare Foundation
11. Community Outreach International
12. Compassion CBO
13. Compassion International Kenya
14. Compliance Support Organization
15. Constant Development Forum
16. Egalitarian Organization for Poverty Alleviation
17. Focus on Africa Development Inc
18. Gikuni Multipurpose Development
19. Great People for Community Development
20. Harvest Centre Fellowship
21. Health, Agriculture and Development
22. Hifadhi Africa Organization
23. Highlands Community Assistance Programme
24. HIV/AIDS Network
25. Humanitarian Aid and Development
26. Innovations For Poverty Action
27. Institute Of Public Finance Kenya (IPFK)
28. Julikei International Women and Youth Affairs
29. Ke729 AIC Jericho Child Development Centre
30. Massaba Rural Development Organization
31. Missionaries of the Poor

32. Municipal Development Partnership for Eastern Africa (MDP-EA)
33. Ngao Foundation
34. Nile Hope Development Forum
35. Poverty Eradication and Life Empowerment Programme (Pelep)
36. Poverty Eradication Consortium of Africa
37. Poverty Eradication Network
38. Poverty Relief Aid
39. Progressive Organization for Poverty Alleviation
40. Resource Network International
41. Save The Children International
42. Sisters of Our Lady of Charity of the Good Shepherd
43. Tanye Poverty Reduction Programme
44. The Regional Centre for Community and Extension
45. Tushauriane Africa
46. Undungu Society of Kenya
47. Unity, Hope and Development Forum
48. Urban Rural Initiative for Overall Development
49. Water and Sanitation for Poverty Reduction
50. World Corps Kenya
51. World Food Programme -Kenya
52. World Vison International