

***FACTORS AFFECTING FINANCIAL SUSTAINABILITY OF NON-GOVERNMENTAL
ORGANIZATIONS IN LUAPULA PROVINCE, ZAMBIA.***

BY

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**A Dissertation submitted to the University of Zambia in partial fulfilment of the
requirements for the award of the Degree of Master of Business Administration Finance**

THE UNIVERSITY OF ZAMBIA

LUSAKA

2024

DECLARATION

I, **Zengeni Simuchembu**, do hereby declare that this work is my original work achieved through personal reading and research. This work has never been submitted to the University of Zambia or any other Universities. All sources of data used and literature on related works previously done by others, used in the production of this Dissertation have been duly acknowledged. If any omission has been made, it is not by choice but by error.

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APPROVAL

This Dissertation by **Zengeni Simuchembu** is approved as a partial fulfilment of the requirements for the award of the Degree of Master of Business Administration Finance

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ABSTRACT

Amidst the challenging economic conditions, numerous Non-Governmental Organizations (NGOs) in Zambia have faced severe financial distress, leading to closures and diminishing financial sustainability. This issue has been exacerbated over the past decade as external support directed towards NGOs in Zambia has notably declined. Unfortunately, there is a lack of comprehensive and well-documented studies focusing on the financial sustainability of NGOs in Zambia, further limiting our understanding of this critical matter. This study focused on the factors that influence the financial sustainability of NGOs in Luapula Province, Zambia. The study explored the impact of key factors which are; financial management, revenue diversification, and donor relationship management on the financial sustainability of NGOs in Luapula Province. It utilized a mixed-methods research approach, involving both qualitative and quantitative methods, to gather data from sampled NGOs. The study population comprised local NGOs operating in Luapula Province, and a sample was selected based on those actively operating within the province. A total of 32 respondents participated in the study. The study tested three hypotheses related to the financial sustainability of NGOs in Luapula Province, Zambia. The results showed that there was an insignificant relationship between revenue diversification and the financial sustainability of NGOs in Luapula Province. On the other hand, financial management was found to significantly influence the financial sustainability of NGOs, while donor relationship management did not have a significant impact on financial sustainability. Nonetheless, correlation test shows that financial management and donor relationship have a strongly positive relationship. Based on this evidence, the study recommends that NGOs in Luapula prioritize building core financial management systems, examining the institutional conditions that enable them to meet donor compliance conditions and prioritizing revenue concentration before creating portfolios with multiple revenue streams. These recommendations will help improve NGO financial sustainability.

Key Words: Financial Sustainability, Revenue Diversification, Financial Management, Donor Relationship Management, Non-Governmental Organizations

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DEDICATION

I dedicate this work to my beloved family who were always there to encourage me physically and emotionally in my daily endeavors

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LIST OF ACRONYMS

LDC	Least Developed Countries
NGO	Non-Governmental Organization
OECD	Organisation for Economic Co-operation and Development
ZCSD	Zambia Council of Social Development

CHAPTER 1

INTRODUCTION

1.1 Introduction

Sustainability continues to be a critical element for the growth and stability of organisations, whether for profit or not-for-profit. The issue of financial sustainability, specifically, remains ever-present in several non-governmental organisations (NGOs) around the world. A stable financial position enables organizations to deliver on their mission and contribute positively to economic growth. However, donors are increasingly concerned about the financial sustainability of NGO projects they fund. Impact studies reveal a high proportion of NGO projects that are financially unsustainable, especially those serving poorer groups that are unable to recover total costs from user fees (Overseas Development Institute, 1996). Researchers in the NGO sector agree that financial sustainability is one of the major challenges facing the NGO sector in Africa (Ali, 2012; Manyeruke, 2012; Waiganjo, Ng’ethe and Mugambi, 2012; Njoroge, 2013).

Financial Sustainability is defined as the ability of an NGO to develop a diverse resource base so that it could continue its institutional structure and production of benefits for the intended client population after the cessation of donor financial support (Ren & David, 2010). It entails availability of resources that give an NGO the ability to seize opportunities and react to unexpected challenges, while maintaining their general operation for the foreseeable future (Bell, Masaoka & Zimmerman, 2010). Financial sustainability thus involves the organization having the capability to finance its activities over a long period without losing liquidity or going bankrupt.

The significance of financial sustainability as a crucial objective for NGOs cannot be overstated. This study aims to examine the factors that influence the financial sustainability of NGOs in Zambia, with a specific focus on NGOs based in Luapula Province. Existing literature highlights various factors that affect the financial sustainability of NGOs, major among them include; financial management, revenue diversification, and donor relationship management.

Tuckman and Chang (1992) emphasize that even in resource-rich environments, the financial condition and stability of nonprofit organizations depend on effective financial management practices. These practices aim to reduce revenue portfolio volatility and increase the organization's equity. Habib (2013) defines financial management as the implementation of an internal control

system that enables managers to make sound financial decisions, thereby enhancing organizational efficiency. Proper financial management not only prevents fraudulent practices but also instills confidence in stakeholders, positively impacting both current and future programmatic interventions and overall financial sustainability. MacLeod, León, and Esquivias (2001) argue that regardless of an organization's fundraising capabilities or income generation, efficient financial administration procedures are essential. Without proper financial management systems in place, it becomes challenging for any organization to remain viable, thus negatively affecting sustainability.

Revenue diversification also plays a vital role in minimizing the financial volatility faced by nonprofit organizations. Carroll and Stater (2004) define revenue diversification as the process of broadening revenue sources to mitigate instability in individual sources and improve sustainability. By diversifying their revenue base, nonprofits can better withstand declines in specific sources, thereby enhancing overall financial sustainability. In the current landscape, where NGOs face donor fatigue and increased competition for funds, revenue diversification, particularly through earned income, becomes even more crucial for financial sustainability. This is particularly relevant as NGOs seek resources to cover basic operating costs that often fall outside the scope of traditional donor support. A study by ZCSD and Civicus (2010) highlights the limitations faced by NGOs in Zambia in implementing projects due to their weak financial position and high dependence on donors.

Furthermore, as NGOs heavily rely on donor funds, the relationship between an NGO and its donors has a direct impact on future revenue streams and financial sustainability. Donor relationship management involves efforts by nonprofit organizations to cultivate long-term relationships with donors and ensure that their contributions are utilized as intended (Ibrahim, 2012). Effective donor relationship management includes accountability for the use of funds according to grant agreements, project scopes, timelines, and budgets, as well as providing high-quality interactions with donors to foster long-term engagement and investment (Morgan & Miller, 2002).

This study aims to assess how the aforementioned factors influence the financial sustainability of NGOs in remote areas such as Luapula Province, Zambia. The unique aspect of this study lies in its focus on local NGOs in rural areas, as no similar study has been conducted in Zambia. By filling

this research gap, the study seeks to identify opportunities that can enable NGOs to achieve sustainability and ensure their survival

1.2 Background of the Study and NGO Information

Though rising to high prominence in international development in the 1980s and 1990s, NGOs existed long before governments (Lewis, 2010). These organizations have for centuries engaged in funding or offering other forms of support to communities, organizations and promoting development (Edwards, 2007; Boas & McNeills, 2009). The organizations continue to be an extremely critical element when it comes to the alleviation of poverty and protection of human rights, particularly in low-income countries to date. They may be local, national, or international NGOs. The existence of these organizations, however, continues to be under threat as most of them fail to continue operations due to lack of resources. According to Green (2020), NGOs worldwide are under significant pressure as restrictions on foreign funding, barriers to registration, intervention in NGOs' internal affairs, and other forms of harassment have proliferated. This situation is worsened by the constant fluctuations in donor priorities, which force NGOs to realign their priorities in response to the changing environment. NGOs face countless challenges in establishing and maintaining financial sustainability to facilitate continued project delivery and performance of less-resourced branches that serve high-need communities (Padilla et al., 2012).

According to the NGO Act (2016), an NGO is defined as "a private voluntary grouping of individuals or associations, whether corporate or unincorporated, not established or operated for profit, partisan politics, or any commercial purposes, and who or which have organized themselves for the promotion of civic education, advocacy, human rights, social welfare, development, charity, research, or other activity or program for the benefit or interest of the public, through resources mobilized from sources within or outside Zambia."

Though work undertaken by NGOs is wide-ranging, it can be said to have three main components: implementor, catalyst, and partner. The implementor role is concerned with the mobilization of resources to provide goods and services to people who need them. The Catalyst role can be defined as an NGO's ability to inspire, facilitate or contribute to improved thinking and action to promote social transformation while the role of Partner reflects the growing trend for NGOs to work with government, donors and the private sector on joint activities, such as providing specific inputs within a broader multiagency program or project, or undertaking socially responsible business

initiatives (Lewis, 2010). Whether implementor, catalyst or partner, NGOs continue to be essential actors even in modern times as they help pursue the collective good around the world.

Zambia has experienced increased growth in the NGO sector. However, it remains difficult to find the exact official statistics on the number of NGOs because there are numerous ways in which these organizations can register (Societies Act, Companies Act, etc.). Estimates suggest that there are approximately 12,000 NGOs in Zambia (Blansky & Fields, 2019). The lack of official statistics on the number of NGOs is further compounded in the provinces. Available records from the NGO Council show that Luapula province (the focus of this study) has an estimated number of 40 local NGOs.

These few NGOs serve an estimated population of 1,514,011 with 84.9% of residents living in rural areas of the province (CSO, 2022), and 67.7% of the population living in extreme poverty, the second highest level of poverty in Zambia (CSO, 2015). While the province has some of the highest poverty levels in the country, it had third highest growth rate of 3.6% during the period 2010 to 2020. The aforementioned emphasizes the need for sustainable NGO work to support the government's efforts in addressing these challenges.

Despite the important role of NGOs in complementing government efforts, data reveals concerning financial viability trends among Zambian NGOs over the years. A review of the latest available data on NGO sustainability index shows that the financial viability of Zambian NGOs has worsened over in past years.

Figure 1.1: Financial Viability of NGOs in Zambia



Source: 2020 Civil Society Organization Sustainability Index

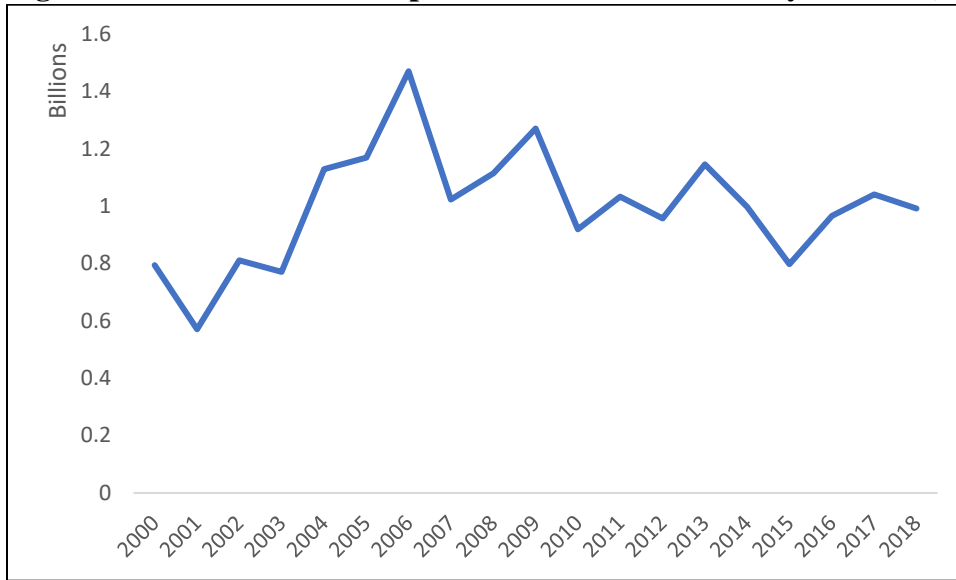
This situation is worse for NGOs based in remote areas such as Luapula Province. Given the aforementioned, there is an urgent need to provide recommendations on how NGOs can attain financial sustainability to ensure they continue serving communities in need, especially NGOs in rural areas.

1.3 Statement of the Problem

Tough economic times, buoyed by the coming of the novel coronavirus pandemic, have in one way or another affected the financial sustainability of a number of NGOs in Zambia. Traditional funding sources such as government and international grants are both declining as more non-profits are entering the market, making it more difficult to obtain funding from the government and other traditional revenue streams (Honeyman, 2014; Mataire et al., 2014). Recent figures indicate an overall decline in aid to LDCs in real terms – from USD 46 billion in 2010 to 41 billion in 2014. The drop is mainly due to decreases in bilateral aid, in part because of overall budget pressures in a few Organisation for Economic Co-operation and Development (OECD), Development Assistance Committee (DAC) countries and changed priorities in OECD DAC countries' overall aid allocations(OECD, 2015).

Zambia has over the years seen a decline in the amount of aid reaching the country. The figure below shows a downward trend in the official development assistance received by Zambia between 2006 and 2018.

Figure 1.2: Net official development assistance received by Zambia (current US\$)



Source: World Bank

The surge in the number of NGOs and the simultaneous decline in funding across Zambia have led to a weakened financial standing for numerous organizations in the country. Consequently, financial distress and vulnerability have become pervasive issues among many NGOs, resulting in closures for some. Stories of fiscal distress and failure among NGOs are not hard to come by. The actual number is likely underreported, as NGOs tend to fade away rather than formally cease operations, and some linger in a dormant state for extended periods (Bowen, et al., 1994). The research conducted by Blansky and Fields (2019) reveals that Civil Society Organizations (CSOs) in Zambia confront substantial challenges attributed to insufficient funding, thereby impeding their ability to effectively cater to their designated target population. This emphasizes a notable lack of financial sustainability prevailing among the majority of NGOs in the country.

Given the aforementioned challenges, it is imperative to delve into the factors influencing the financial sustainability of NGOs in Zambia. This research will specifically examine the impact of key factors outlined in the literature, namely financial management, revenue diversification, and donor relationship management, on the financial sustainability of NGOs in the country. The primary objective of this study is to provide insights that can be used to formulate recommendations aimed at assisting NGOs in achieving and maintaining financial sustainability effectively.

1.4 Research Aims

The main objective of the study was to analyse the key factors that influence financial sustainability of NGOs in Luapula province of Zambia.

1.5 Research Objectives

The specific objectives of the study were:

- I. Assessing the degree to which revenue diversification affects financial sustainability of NGOs in Luapula Province, Zambia,
- II. Evaluating the impact of financial management on financial sustainability of NGOs in Luapula Province, Zambia.
- III. To examine the influence of donor relations on financial sustainability of NGOs in Luapula Province, Zambia.

1.6 Research Questions

The research aimed to answer the following questions in its quest to assess factors influencing financial sustainability of NGOs:

1. What are the key factors that influence financial sustainability the operating of NGOs in Luapula Province?
2. How does revenue diversification impact financial sustainability of NGOs?
3. What are the effects of financial management on the financial sustainability of NGOs?
4. How does donor relationship management affect the financial sustainability of NGOs operating in Luapula Province, Zambia?

1.7 Hypothesis

H_{01} : Revenue diversification is does not significantly affect financial sustainability.

H_{A1} : Revenue diversification is does significantly affect financial sustainability.

H_{02} : Financial management does not lead to improved financial sustainability.

H_{A2} : Financial management leads to improved financial sustainability.

H_{03} : Donor relationship management does not lead improved financial sustainability.

H_{A3} : Donor relationship management leads to improved financial sustainability.

1.8 Significance of the Study

The research envisaged to provide NGOs, donors and other stakeholders with appropriate financial sustainability strategies that will result in effective improved operations. The study intended to provide a useful source of information for local and international CSOs, governments, multilateral institutions, donors, academics, and other partners and stakeholders who want to better understand and monitor key aspects of sustainability in the CSO sector.

The research sought to justify the following.

- I. Degree to which revenue diversification can lead to improved financial sustainability.
- II. Ascertain whether financial management contributes to effective financial sustainability.
- III. Determine whether donor relationship management can lead to improved financial sustainability
- IV. Assist NGO's identify opportunities that can enable NGOs achieve financial sustainability.

1.9 Chapter Summary

This chapter highlights the contextual gap identified in the problem statement, emphasizing the critical need for research on the factors influencing the financial sustainability of NGOs in Luapula Province. It outlines the study's purpose, research objectives, hypotheses, and significance, establishing the foundation for the investigation. The chapter also synthesizes the major factors examined in the study financial management, revenue diversification, and donor relationship management defining the scope of the research and its relevance to understanding NGO sustainability in the region.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This section provides a critical review of theoretical and empirical literature related to the study. It provides an account of the ideas and knowledge that have been established in previous studies undertaken in relation to this research. Related literature is that which is relevant to the problem, such as previous research investigating the same variables or a similar question, references or studies of similar practice (White, 2003).

2.2 Financial Sustainability

Financial sustainability has become a buzzword in the NGO sector given donor 'fatigue' in rich nations. Despite the fatigue, NGOs especially in poor nations, still heavily rely on donor funding, leaving them financially vulnerable and inhibiting their ability to continuously implement their projects. Additionally, this dependency also gives rise to donor control as NGO activities and missions are tailored to meet the needs of donors (Reith, 2010). Therefore, achieving financial sustainability by reducing dependence on donors and developing multiple streams of revenue is an important coping mechanism that NGOs must develop in order to be resilient, independent, and enduring.

Financial sustainability involves an NGO's capacity to obtain revenue to sustain productive projects at a steady or growing rate in order to produce the expected results (Devkota, 2010). Bowman (2011) defines financial sustainability in terms of the ability to maintain financial capacity over time. He describes financial capacity as resources that give an organization the ability to seize opportunities and react to unexpected threats while maintaining general operations of the organization. It reflects the degree of managerial flexibility to reallocate assets in response to opportunities and threats. Maintaining the ability to be financially agile over the long term may be important especially for non-profits, given that many of them serve high-need communities that require consistent and continually available services.

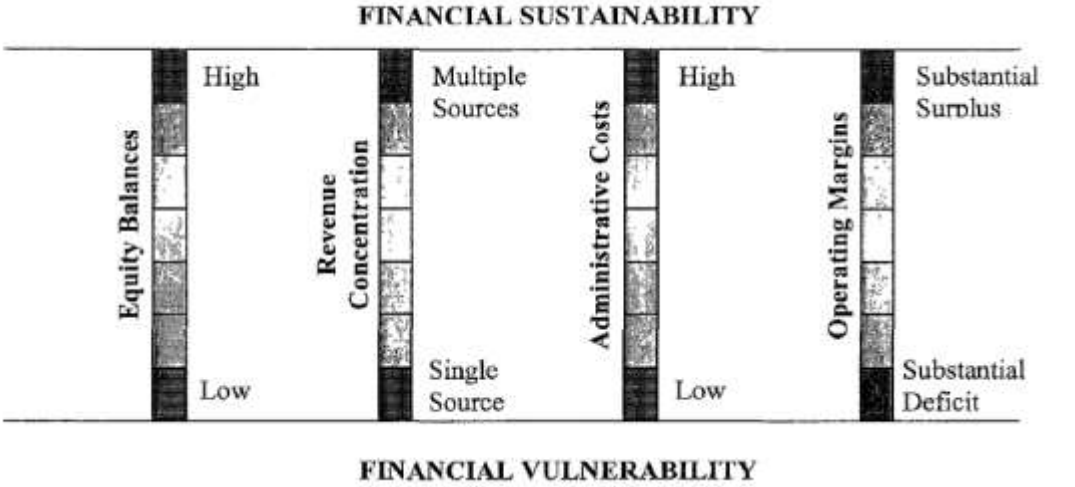
The goal of financial sustainability for non-profits is to maintain or expand services within the organization while developing resilience to occasional economic shocks in the short term (e.g., short-term loss of program funds, monthly variability in donations).

According to Bowman (2011), an organization that is sustainable in the long term but unsustainable in the short term will chronically fall short of cash. Conversely, an organization that is sustainable in the short term but not in the long term may have adequate cash but inflation will cause the value of its assets to erode over time. This, in turn, will cause the quantity and quality of services to diminish unless capital campaigns periodically bring infusions of new assets.

2.2.1 Measuring Financial Sustainability

Tuckman and Chang (1991) developed a model for financial sustainability of an NGO which comprised of four combined criteria to form the basis for financial sustainability and vulnerability.

Figure 2.1: A Model for Financial Health of NGOs



Source: Tuckman and Chang (1991)

The model above depicts four criteria which should be considered in relation to the financial sustainability of NGOs. The four items depicted are equity balances, revenue concentration, administrative costs, and operating margins. Each of the criteria operates along a continuum corresponding to movement between financial sustainability and vulnerability.

Equity balances are the net assets or residual balances when liabilities are subtracted from assets (Abraham, 2003). However, since an NGO does not pursue profits, its equity solely depends on operating income, and as such, equity is equal to the total net operating results since its foundation. Equity balances are important to NGOs because they help:

- a) create a pool of funds that can finance working capital needs associated to growth in services or replacement of lost revenue in deficit period to allow organizations to continue to operate.
- b) gives management flexibility to meet and respond to changing resourcing and financial requirements during implementation of projects. It gives management unrestricted income away from donor money with requirements. This provides room for organizations to pursue their own agenda.

The financial sustainability model uses a relative measure, the ratio of equity to revenue, to operationalize the potential that an NGO has to find replacement revenues. This measure is generally accepted as an indicator of long-term stability.

The other component shown in the model is revenue concentration which focuses on two components: diversity and distribution. Diversity of revenue sources increases financial sustainability because of the probability that all sources will not be affected by the same economic shock (Bryce, 1992). Conversely, the fewer an organisation's revenue funds, the more financially vulnerable it is to revenue downturns (Trussel et al, 2002; Tuckman and Chang, 1991). An NGO with equal distributions of income from various revenue sources will be more financially sustainable, than one which receives most of its income from a single source. Therefore, the larger the number of revenue sources and the more equally these sources contribute to total revenue, the more financially sustainable the organization. The model also uses an operational measure that incorporates both the diversity of revenue sources and the distribution of these sources; that is, an index produced by summing the square of the percentage share that each revenue source represents of the total revenue (Greenlee, 2000; Trussel, 2002; Tuckman and Chang, 1991).

Further, the model shows that NGOs with high administrative costs are financially sustainable compared to those with low administration cost. This is because those with high administration costs are more likely to reduce expenditure without seriously affecting service delivery. Administrative costs often include expenditures for resources that do not produce immediate results, such as training, planning, consultation and fund-raising functions. According to

Haller (1982), there are various viewpoints with regard to direct (program) and indirect (administrative) costs with the need for administrative support being viewed differently by:

- a donor (who wants to see their contribution going towards direct service provision);
- a member of the governing board (who sees the need to be responsive to the donor and the member and believes that too much money may be "wasted" on administrative salaries and other costs), and
- a member of staff (who wants an increase in salary - just to keep up with inflation – and who cannot carry out all the assigned roles because there are just not enough hours in the day).

The financial health model operationalizes administrative costs by considering a relative measure, administrative costs as a percentage of total costs.

The last criterion depicted in the model is operating margins. For nonprofits this is the amount left over after deducting direct and indirect expenses related to projects the organization is implementing. The operating margin ratio is expressed as the percentage that the organization's net operating result (income less expenditure) represents of its total income. The operating margin is related to equity balances in that a large operating margin provides the organization with funds that can be saved to build operational equity. If an organization has a low or negative operating margin, then it will have little or no cash surplus upon which the organization can draw before having to cut services.

Consequently, an NGO with a high, or at least positive, operating margin will be financially sustainable. Therefore, the model uses a relative gauge, the operating margin ratio, to measure and compare operating results over time to assess sustainability. The study will leverage on this model in measure financial sustainability of NGO in Luapula province.

Although several studies have been conducted on financial sustainability of NGOs by several authors in other countries, this problem is still insufficiently explored in Zambia. Studies conducted only focus on capitals or towns near capitals which usually have a significant number of donors. This study will focus on a rural area away from the capital (Luapula province). The study will also introduce a specific research question on how NGOs in Zambia can improve their financial sustainability that is not tackled by other studies.

2.2.2 Financial Management

The nonprofit sector has experienced growth in both size and scope, leading to increased calls for NGOs to be more accountable and implement sound financial management practices to ensure transparency and full accountability (Okerley & Nkrumah, 2012). However, despite these calls from stakeholders, many nonprofits still lack proper financial management systems, which can make it challenging to inspire confidence in donors regarding their capacity to manage resources (Langan, 1998, p.75).

Lewis (2011) defines sound financial management practices as addressing financial issues that affect an NGO's overall direction and ability to achieve current and future objectives. Such practices require managing present and future financial resources and determining how the organization's strategic plan will be funded (Saungweme, 2014; Ali, 2012; Lewis, 2011; Leon, 2001). Financial management is not merely about collecting and measuring costs for a strategic plan or project; rather, it involves deploying policies, standards, processes, people, technology, and information to budget, control, account, and report on various aspects, including revenue, expenditure, capital expenditure, working capital, cash, inventory, production, fixed assets, investments, and funding (Pauw et al., 2002).

According to Kumar (2004), best financial management practices also include cash flow management, which entails collecting payments, controlling disbursements, forecasting cash needs, investing idle funds, and compensating banks that support these actions. Kumar contends that cash flow management can be optimized to the point where every available dollar is working to cover payment of checks or generate income.

Leon (2001) adds that sound financial management practices can be measure through several criteria that includes but not limited to the presence of financial plans that are linked to the organization's strategic plan, a clear provision of financial oversight function by the board, special committee of the board to oversee financial matters, preparation and presentation of financial statements on a regular basis.

Ultimately, implementing sound financial management practices is crucial in building trust with potential funders and ensuring that funds are safe and used for their intended purpose, leading to steady income flows and positive balance sheets (Ali, 2012; Waiganjo et al., 2013). Good strategic

financial management practices also lead to securing long-term funding from donors who share the organization's vision (Waiganjo et al., 2012). Saungweme (2014) posits that sound financial management practices have a serious impact on the sustainability of NGOs. Literature shows that there is a strong positive relationship between financial management and financial sustainability, highlighting the importance of sound financial management practices in ensuring the long-term success of nonprofit organizations (Waiganjo, Ng'ethe & Mugambi, 2012).

2.2.3 Revenue Diversification

As noted earlier, the path to achieving financial sustainability for the majority of NGOs is constrained by an over-reliance on donor funding. As such, nonprofit managers need to devise strategies that will reduce reliance on a single source of revenue (diversification of revenue) to ensure organizations are resistant to external shock and are able to continue operations even after donor funding ceases.

Lewis (2011:5) defines revenue diversification for NGOs as the securing of funds from as many sources as possible, not just external institutional donors. Revenue diversification means actively seeking different and unrelated revenue streams to hedge the risk of unforeseen economic uncertainty and build an adequate operating reserve (Grizzle, Sloan, & Kim, 2015).

There are three main funding strategies NGOs use to obtain funds. The first strategy is the most common: fundraising campaign to attract donations from individuals or corporations. Another strategy and source might be applying grants proposals from the government or from other institutions. A more controversial strategy is to perform economic activities that will create revenues that can be further used for the main goal of the NGO (Froelich, 1999).

When designing a revenue portfolio, NGOs managers should consider all source types and strategies: private donations from individuals or companies, government grants, and self-financing, and assess both the expected return and the financial risk for each source (Jegers, 1997). On what constitutes revenue diversification of an NGO, Leon (2001) and Lewis (2011) argue that revenue diversification of NGOs is when at least 60% of the organizational funding comes from five different sources. On the other hand, Tuckman and Chang (1991) postulate that a diversified revenue structure for non-profit organizations consists of relatively equal reliance on revenue generated from donative income, earned income, and investment income. While Norton (2009) sees revenue diversification as where an NGO funding source include 50% from international

donors, 20% from membership fees, 20% from community fund raising, and 10% from other income sources.

While scholars have different views on what percentage distribution constitutes revenue diversification, they all agree that revenue diversification focuses on relying on a variety of sources, even if it's from donors, and that NGOs whose sources of income are limited are more vulnerable to revenue downturns.

Chang and Tuckman (1991a, 1991 b) use an index to measure revenue diversity. The index is the aggregate sum of the squares of the percentage of income from each source. The closer this index is to one, which indicates a single source of revenue, the more financially vulnerable the organization is. The closer this index is to zero, the more diversified its sources of revenue are and the less vulnerable the organizations.

Diversification of revenue sources is considered key to ensuring financial sustainability and is by far the most cited approach within literature (Omeri, 2015; Froelich 1999; Gras and Mendoza-Abarca 2012; Holloway 2001; Leon 2001). Literature reveals that there is a positive and significant relationship between revenue diversification and financial sustainability of NGOs. However, there is also evidence that utilizing multiple distinct funding sources leads to greater costs and additional administrative burdens, which may be beyond the capacity of smaller CSOs to manage (Carroll and Stater, 2008). Increased revenue sources lead to financial sustainability because of the probability that all sources will not be affected by the same economic shock (Bryce, 1992). Carroll and Starter (2009) argue that revenue diversification leads to financial stability for NGOs. They posit that revenue diversification as a strategy is beneficial to sustainability and financial health strategies, signifying that NGO leaders are less vulnerable when using multiple sources of revenue. Some scholars have, however, been controversial about some components of a diversified portfolio, such as earned income. This revenue generation strategy not only instigates fears that the non-profit's mission will shift and the organization's legitimacy will be undermined by the rent-seeking behavior required to obtain them, but also that diversification could lead to burdensome complexity, especially for small organizations (Froelich 1999; Frumkin and Keating 2002; Weisbrod 1998). Other scholars argue that most NGOs, particularly in Africa, face the challenge of losing their identity in their attempt to diversify their income sources (Marinkovic, 2014; Waiganjo, 2012; Rawlings, 2011).

2.2.4 Donor Relationship Management

The ability to foster and maintain relationships with donors and other stakeholder groups is a significant aspect of nonprofit management and organizational effectiveness (Svensson, Mahoney, & Hambrick, 2014). Due to an increase in competition for donor resources and a decrease in government support (Pressgrove & Pardun, 2016), nonprofit leaders must consider innovative strategies for working closely with potential supporters to acquire additional donations (Paulin et al., 2014). Heal (2005) and Lewis (2011) noticed that for NGOs to attain financial sustainability, they should be ready to fabricate great relationships with their donors while looking towards sustained long-term relationships rather than just present needs.

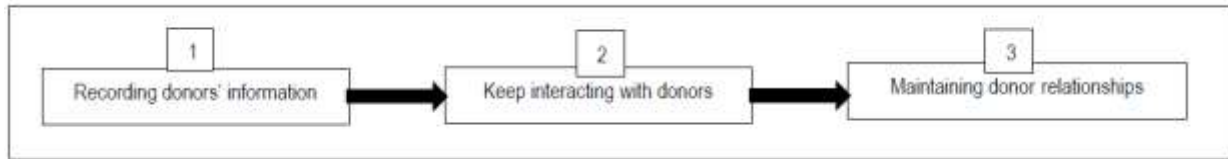
Waters (2010) defines donor relationship management (DRM) as the process of cultivating relationships between NGOs and their existing donors to maximize donor engagement, retention, and investment. The cultivation of good relationships with donors should result in NGOs experiencing fewer difficulties acquiring and retaining funding. Althoff and Leskovec (2015) look at donor relationship management in terms of how NGOs organize long-term relationships and encourage donors to repeat and increase the value of their donations. The relationship with donors is important for the development of NGO activities and enhances their growth, leading to their long-term sustainability (Masdar, 2015).

Burnett (2002) recognized the need for what he termed "relationship fundraising," dealing with donors individually, recognizing each donor as unique in terms of giving history, motivations for giving, and the overall standard of care expected from the charities being supported. He posits that the entire relationship with a donor should be viewed holistically and fundraising decisions taken in light of the perceived value of the overall relationship.

Different scholars have identified different steps for managing donor relationships in their empirical studies. For example, Croson, Handy, and Shang (2009) indicated that recording donors' information and continuous interactions with donors are steps in managing donor relationships.

However, Sisson (2017) did not highlight recording donor information as a step-in managing donor relationship, but she introduced another step: maintaining donor relationships. Jones-Smith (2021) suggested that managing donor relationships encompasses three basic steps, as shown below

Figure 2.2: Donor relationship management steps



(Source: Jones-Smith, 2021)

Waiganjo et al. (2012) found that there is a positive relationship between good management of donor relationships and NGO financial sustainability. In order to maintain donor relations, accounting for the donor funds' usage based on the agreements (timelines, grant, project scope, and budgets) becomes imperative. Leon (2001) found that all the donor relationship management must be supplemented other factors such as financial management, income diversification, and own revenue generation for financial sustainability to be attained and that no one factor can stand alone or be ignored completely. Thus, the failure of NGOs to effectively maintain good relationships with donors or key stakeholders can affect their financial sustainability.

2.3 Benefit of Financial Sustainability

Financial sustainability is a critical contributor to the sustainability of any organization, and achieving it is essential for survival and longevity (Karanja and Kurati, 2014). It allows NPOs to expand their programs and continue to address various societal challenges. Financial sustainability enables NGOs to fund their projects and meet their daily operations, even after donor financial support has been withdrawn (Nelson, 2007). Furthermore, it enables NGOs to provide their services continuously to their constituents despite the emergence of changes in their funding (Bell et al., 2010).

On the other hand, financial sustainability insulates NPOs from external shocks as they have enough resources to adapt to changes in the macroeconomic environment. According to Renz (2010), the financial crisis significantly reduced the disposable income of Americans, leading to a decrease in donations from individuals to NGOs, with 75% of NGOs agreeing with this assertion. Previous studies in other African countries also reported disparities between local and foreign NGO access to international donor funds. Renz (2010) further argued that NGOs are struggling financially, especially those that heavily rely on government funding as governments have reduced

funding to the sector. Besel et al. (2011) posit that as a result of these factors, NGOs must identify viable ways to sustain themselves financially to avoid cutting back on community services.

Moreover, financial sustainability reduces the financial risks faced by the NPO due to financial instability. Managing financial risk is fundamental to organizations of all sizes and types, including public, private, and non-profit sectors (CPA Australia Ltd, 2015). NPOs rely heavily on various sources of funding, which makes it one of the major risks they face. Ensuring a constant flow of income would lead to financial stability for the organization, which, in turn, enables the NPO to pursue its own agenda in a world of ever-changing donor priorities.

2.4 Potential Threats to Financial Sustainability

Nunkwe et al. (2022) investigated risk factors affecting financial sustainability of Zambian NGOs. They categorized risks as inherent, collateral, and environmental, but found no significant negative impact from these factors on financial sustainability. Despite this, the study offers recommendations for NGOs to develop clear funding policies and financial tracking frameworks and increase partnership opportunities for local NGOs and implement empowerment programs to create a fairer operational environment.

These recommendations, though not directly linked to the identified risk factors, aim to strengthen financial management and overall effectiveness of local NGOs in Zambia.

A significant threat to NGO financial sustainability identified in the literature is over-reliance on donor funding (Aven, 2016). This creates vulnerability when donor priorities shift or funding dries up (Smith & Peterson, 2020). Donor drift, a phenomenon where donor priorities and funding patterns change, can be particularly disruptive (Smith & Peterson, 2020). Unpredictable funding streams make it difficult for NGOs to plan and budget effectively, hindering long-term sustainability (Chen, 2022). Furthermore, donor drift can erode trust and relationships between donors and NGOs (Brown, 2018). Fluctuating expectations and funding constraints can weaken established partnerships and make it challenging for NGOs to fulfill their missions (Brown, 2018).

2.5 Theoretical Framework

This review delves into the theoretical underpinnings of NGO financial sustainability, a critical element for achieving social impact. It examines three key frameworks: Resource Dependence Theory (RDT), Stakeholder Theory, and Portfolio Theory.

1. Resource Dependence Theory (RDT)

Developed by Pfeffer and Salancik (1978), RDT posits that organizations rely on external resources to survive and thrive. In the NGO context, financial sustainability hinges on acquiring funding from diverse sources. Oh and Lee (2019) highlight how funding approaches influence sustainability by impacting factors like financial stability, adaptability, and autonomy. Sukmana and Firdausy (2019) emphasize diversification, advocating for broadening funding sources to reduce dependence on a single donor.

RDT and Financial Sustainability:

Donor Dependence: NGOs with limited resources are highly reliant on donors, making them vulnerable to shifting donor priorities or economic downturns.

Diversification: RDT suggests diversifying funding sources to reduce dependence on any single donor. This can involve cultivating relationships with various stakeholders, engaging in social enterprises, or developing earned income strategies.

2. Stakeholder Theory

Championed by Freeman (1984), this theory argues that organizations should consider the needs of all stakeholders, not just shareholders. Stakeholders in the NGO context include donors, beneficiaries, staff, volunteers, and the broader community. Financial sustainability is crucial for meeting stakeholder needs in several ways:

Accountability and Transparency: Sound financial management practices build trust with donors, leading to more consistent funding.

Beneficiary Impact: Financial stability allows NGOs to allocate resources effectively towards programs that benefit their target communities.

Employee Satisfaction: Financial security enables NGOs to offer competitive salaries and benefits, attracting and retaining skilled staff.

3. Portfolio Theory (MPT)

Modern Portfolio Theory, developed by Markowitz (1952), focuses on optimizing investment portfolios for maximum return with a specific risk tolerance. While not directly applicable to

NGOs, whose primary focus is not investment returns, MPT offers a tangential connection to financial sustainability through the concept of resource allocation.

MPT and Financial Sustainability:

Similar to MPT's emphasis on diversification for risk reduction, NGOs can benefit by diversifying their funding sources and activities. This helps mitigate the risk of losing a major donor or experiencing program failures. The theory is important in considering diversification and the impact of adding new income streams to the overall financial picture.

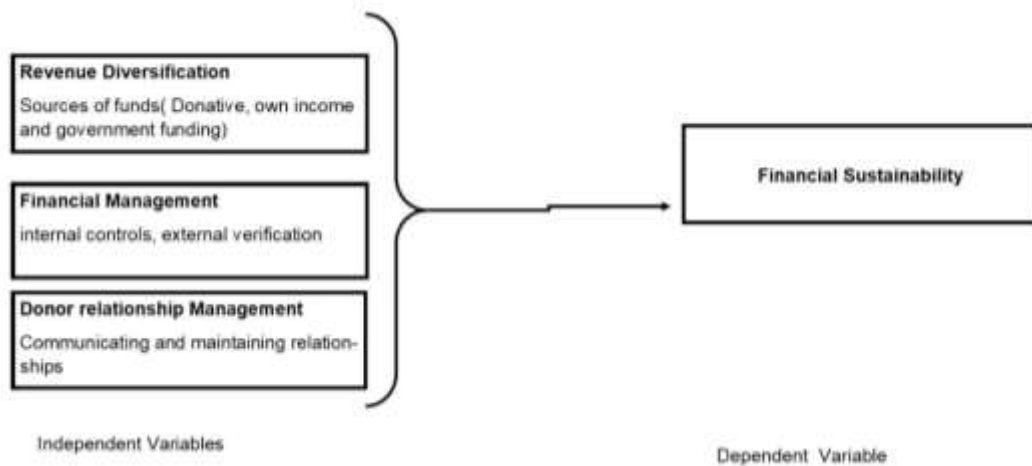
Conclusion

RDT, Stakeholder Theory, and, to a lesser extent, Portfolio Theory provide valuable insights into the factors influencing NGO financial sustainability. By understanding these frameworks and their practical implications, NGOs can develop strategies to secure resources effectively, manage stakeholder expectations, and allocate resources strategically. This ultimately fosters long-term financial stability and maximizes their social impact.

2.6 The Conceptual Framework

The conceptual framework used in this study is based on factors which if taken into consideration would result in financial sustainability. As can be seen in the figure below, financial sustainability is dependent on financial management and revenue diversification.

Figure 1.3: Conceptual Framework on Financial Sustainability



Source: Author 2023

2.7 Empirical Studies Related to Key Determinants

2.7.1 Financial Sustainability and Financial Management

According to the literature, there is a strong positive relationship between financial management and the financial sustainability of non-profit organizations. Muriithi (2014) and Ngahu's (2016) both found that sound financial management has a positive impact on the sustainability of NGOs in Kenya.

Financial management, according to Chepkemoi and Njeru (2015), is an important component of financial sustainability. According to their findings, the consistent use of financial management practices such as periodic budgets by NGOs has enabled financial sustainability. Furthermore, they argue that international financial reporting standards contribute to project financial sustainability. High financial reporting quality standards allow for greater comparability of financial information for donor partners and increase willingness to donate.

Similarly, Onsongo (2012) established that in order to achieve financial sustainability, strategic financial management is ranked highly, followed by proper governance systems, strategic alliances, internal financial sources, organizational structure, development funding, and paradigm shift in programming.

2.7.2 Financial Sustainability and Revenue Diversification

A series of studies have indicated that there is a positive and significant relationship between revenue diversification and financial sustainability of NGOs. Carroll & Stater's (2009) study shows that revenue diversification leads to greater stability in the revenue structures of non-profit organizations. They argue that a diversified portfolio encourages more stable revenues and, consequently, could promote greater organizational longevity and sustainability. The results of their study indicate that non-profits relying primarily on contributions will experience more volatility, whereas non-profits located within urban areas will have more stable revenue structures over time. These findings are also supported by Tuckman and Chang (1994) who examined the relationship of relationship between revenue diversification and financial performance of nonprofit organizations. They collected data from over 1,000 nonprofit organizations in the United States and analyzed the relationship between revenue diversification and three financial performance indicators: revenue growth, asset growth, and program expense growth. Their findings was that

diversified revenue sources are more likely to be associated with a strong financial position than are concentrated revenue sources.

Similarly, studies conducted by Omeri (2015) in Kenya and Saungweme (2014) in Zimbabwe suggest that revenue diversification is positively and significantly related to financial sustainability for NGOs in these countries.

However, more recent studies tend to contest the relationship (Chikoto & Neely, 2014; Chikoto-Schultz & Neely, 2016; de Andrés-Alonso, GarciaRodriguez, & Romero-Merino, 2015; de los Mozos, Duarte, & Ruiz, 2016; Lin & Wang, 2016; Prentice, 2016a; Wicker & Breuer, 2013). Nuanced treatments regard revenue diversification as a double-edged sword (Froelich, 1999): Higher reward comes with higher risk (Frumkin & Keating, 2011). Instead of improving financial health, diversifying revenue streams might have a negative impact on nonprofit financial health in the way that nonprofit organizations end up putting less effort into fundraising and heavily relying on government contracts or other major singular sources of income.

Masaiti (2018) found that the impact of revenue diversification on Zambia's public universities was less effective and viable in that universities were still experiencing a plethora of challenges because of lack of adequate funds. Revenue diversification only had a modest impact, as its percentage proportion contribution of recurrent expenditure budgets was still low.

Overall, the competing arguments based on discrete empirical findings have not provided a definitive conclusion regarding whether nonprofit managers can enhance financial health of their organizations by cultivating multiple revenue sources. Therefore, it is crucial to generate further literature that evaluates the relationship across a range of factors to create a definitive position on the impact of revenue diversification on the financial sustainability of NGOs.

2.7.3 Financial Sustainability and Donor Relationship Management

Furthermore, studies on determinants of financial sustainability of NGOs have found a positive relationship between good donor relationship management and financial sustainability of NGOs (Saungweme; 2014; Ali, 2012; Waiganjo et al. 2012; Lewis, 2011; USAID, 2010; Fafchamps and Owens, 2008). Ali (2012) study revealed that good donor relationship management was the most important determinant of financial sustainability of NGOs in Kenya. Studies by Waiganjo et al. (2012), Saungweme (2014) identified some factors from previous studies that formed the basis of

good donor relationship management. Some of the key ones include; the number of donor-organized programmes that an NGO is invited to, keeping an updated database and tracking system of all donors in the country, the number of projects and programmes funded by a donor, repeat funding by donors; and donors' funding of long-term projects of NGOs (Lewis, 2011; CI, 2011; Leon, 2001).

While Saungweme (2014) study on Zimbabwe local NGOs determinants of financial sustainability also revealed a positive relationship between good donor relationship management and financial sustainability, his study established that the link was weak.

On the other hand, study by Mawudor (2021) on the effect of donor relationship management on financial sustainability of church-related organizations' (CROs) in Kenya found that there is no significant relationship between donor relationship management and the financial sustainability of CROs . He argued that financial sustainability of CROs in Kenya does not purely depend on how well an organization manages donors. Rather, there are other external factors or parameters that influence the sustainability of CROs. He emphasized that the lack of a link between donor relationship management and financial sustainability is not surprising given that African Independent Churches have no link with western donors yet are financially sustainable from the resources raised locally.

2.7.4 Factors Affecting Financial Sustainability of NGO

Several studies have been conducted to examine the factors that influence the financial sustainability of non-governmental organizations (NGOs). Hadj Kemeny and Lanahan (2011), Mwansa (1995), and Iyer, Kitson, and Toh (2005) argue that CSOs' sustainability is a function of improved sound financial management, income diversification, and donor management practices. Wachira (2016) and Milelu (2018) also identified revenue diversification, financial management, and donor relationship management as key dependent variables that affect sustainability. Both studies revealed a positive correlation between these variables and financial sustainability.

Similarly, Liwa (2020) conducted a study in Tanzania, focusing on factors that influence the financial sustainability of local NGOs in Kinondoni District. Her study identified good relationships with donors, income diversification, financial management, and management capability as independent variables, while NGO sustainability was the dependent variable. The

study found that while good relationships with donors had a strong correlation with financial sustainability, it was not statistically significant. On the other hand, income diversification, financial management practices, and capable management had a near-perfect positive correlation with NGO financial sustainability.

However, existing literature on the factors influencing NGO financial sustainability in countries like Zambia is limited. Despite the efforts made, there is still a lack of comprehensive research in this area. For instance, Chimfwembe's study conducted in 2022 examines the issue of financial vulnerability rather than focusing on how NGOs can achieve sustainability. This study primarily investigates factors associated with the financial vulnerability of CSOs in Zambia, failing to provide a conclusive understanding of the strategies that NGOs can adopt for long-term sustainability.

In conclusion, although the literature acknowledges the significance of sound financial management, income diversification, and donor relationship management in ensuring the financial sustainability of non-governmental organizations, it does not provide conclusive evidence. The findings pertaining to the impact of factors such as donor relationships and revenue diversification are inconsistent across different studies. To improve the understanding of NGO financial sustainability, it is crucial to conduct more research specifically addressing this topic in countries like Zambia.

2.8 Gaps in Empirical Literature

The reviewed existing literature reveals similar studies done at Kenya and Zimbabwe focus on either quantitative or qualitative research designs in investigating NGO financial sustainability. Studies by Njoroge (2013) employed a quantitative approach, while others like Waiganjo et al. (2012) and Ogutu & Mang'anyi (2011) adopted descriptive designs. Notably, none of the reviewed studies utilized a mixed methods approach.

This gap in research presents a compelling opportunity to leverage the strengths of both quantitative and qualitative methodologies through a mixed methods design. This study proposes an explanatory sequential mixed methods design. This specific approach allows for the initial collection of quantitative data, followed by qualitative data collection to delve deeper into the "why" and "how" behind the quantitative findings. By combining these approaches, this study aims

to create a more comprehensive understanding of NGO Financial Sustainability, leading to more informed conclusions and ultimately, impactful solutions

Furthermore, other than studies done in other countries, literature reviewed shows that a gap in studies that covered financial sustainability in the Zambian context particularly in rural areas. This, therefore, reinforces the reason for undertaking this study.

Additionally, there is still ubiquity particularly on the effect of revenue diversification on financial sustainability. While some studies indicate a strong positive correlation between the variables, other scholars, such as Hager, suggest that this relationship is weak and, in some cases, negative. This study aims to contribute to providing a conclusive position on the relationship literature uniquely introducing the aspect of NGOs operating in a resource-constrained environment. Furthermore, the studies reviewed failed to consider donor diversification when analyzing revenue diversification. This is because revenue diversification can also occur by increasing the number of donors so that even if a donor withdraws, the NGO remains financially stable. Therefore, analyzing the relationship between revenue diversification and donor diversification is crucial. This study aims to bridge this gap by deliberately incorporating the aspect of donor relationships when investigating revenue diversification.

CHAPTER 3

RESEARCH METHODOLOGY

3.1 Introduction

The aim of this chapter is to give an outline of the methodology that was employed in carrying out the study. According to Wellington (2000: 22), a methodology is “the activity or business of choosing, reflecting upon, evaluating and justifying the approaches you use in data collection”. This chapter presents the study population, study sample, sampling technique, research design, data collection instruments, data collection procedures, data analysis, validity and reliability of the data for the study and ethical considerations.

3.2 Selected Research Methodology

This is a mixed-method research study that used both qualitative and quantitative methods to gather data from sampled NGO's. Creswell (2009) describes mixed methods research as an approach to inquiry that combines or associates both qualitative and quantitative forms. Mixed methods research design implicates merging or incorporating qualitative and quantitative research and data into a single study (Creswell, 2014). Qualitative data is derived from open-ended sources, usually without predesigned replies, whereas quantitative data comes from closed-ended data sources like tests, questionnaires, or psychological instruments (Creswell, 2014).

Hanson, Creswell, Clark, Petska, & Creswell (2005, pp. 224) provide a more rigid and operational definition of mixed methods research as "the collection, analysis, and integration of quantitative and qualitative data in a single or multiphase study". Tashakkori and Creswell (2007a, p.2) defined mixed methods research projects in more elaborated terms, focusing on the necessity of manifestation of merging in every step: "Research in which the investigator collects and analyzes data, integrates the findings, and draws inferences using both qualitative and quantitative approaches in a single study or program of inquiry".

In other words, good quality mixed methods research entails mixing at all stages of the study-from phrasing research questions, to sampling, to data collection, to analysis, and, finally, to interpretation (Yin, 2006).

As mixed method researchers adopt a "non-purist or compatibilist or mixed position" (Johnson & Onwuegbuzie, 2004, pp.15). It offers the scope of blending various research design constituents to seek the best solution to their precise research problem.

Veit (2011) noted that empirical studies in finance tend to rely on a large number of financial observations, resulting in robust statistical power and analysis of cross-sectional variation, and identify the fact that "researchers have limited ability to deal with non-quantifiable issues" as a major problem in the discipline.

To supplement finance research and better capture its behavioral reality, Burton (2007) identified the importance of the qualitative approach, highlighting early financial studies (e.g., Lintner, 1956) based on qualitative data, hence requiring a mixed method approach. Creswell (2003;4) also noted that the "situation today is less quantitative versus qualitative and more research practices lie somewhere on a continuum between the two." In a mixed methods approach, the researchers build the knowledge on pragmatic grounds (Creswell, 2003; Maxcy, 2003) asserting truth is "what works" (Howe, 1988).

While designing a mixed methods study, three issues need consideration: priority, implementation, and integration (Creswell, Plano Clark, Guttman, & Hanson, 2003). Priority refers to which method, either quantitative or qualitative, is given more emphasis in the study. Implementation refers to whether the quantitative and qualitative data collection and analysis comes in sequence or in chronological stages, one following another, or in parallel or concurrently. Integration refers to the phase in the research process where the mixing or connecting of quantitative and qualitative data occurs.

This study employed a sequential explanatory mixed methods design, a methodological approach that integrates quantitative then qualitative data collection and analysis (Creswell & Plano Clark, 2011). Initially, quantitative data was gathered through a survey to establish a comprehensive understanding of the research question. This data was meticulously analyzed to unveil overarching patterns and trends (Creswell & Plano Clark, 2011). Subsequently, the qualitative phase was initiated, wherein in-depth interviews were conducted to delve deeper into participants' experiences and perspectives, thereby enhancing and contextualizing the initial quantitative findings (Creswell & Plano Clark, 2011; Ivankova, Creswell, & Stick, 2006).

The rationale behind employing this design was to combine the strengths of both quantitative and qualitative methods. Quantitative data provided a broad overview of the phenomenon, laying the groundwork for the subsequent qualitative exploration, which aimed to uncover the underlying reasons and motivations behind the quantitative results (Ivankova et al., 2006). Moreover, given the multifaceted nature of financial sustainability, encompassing both objective metrics and subjective interpretations, employing a mixed methods approach was deemed essential for capturing its complexity

3.3 Area of Study

This study scrutinized the operations of Non-Governmental Organizations (NGOs) in Luapula province. With a population of 1,514,011, the province is characterized by significant economic challenges. According to the Zambia Statistics Agency (2022), Luapula province has the second highest poverty gap ratio (40.7 percent), with Muchinga being the first. The poverty gap ratio is a welfare indicator that identifies the poor and shows how far below the poverty line they are, giving an indication of the resources required to lift all the poor to the poverty line. The wider the poverty gap, the more resources will be required to close it (lift all the poor to the poverty line). Although the poverty gap in Muchinga (46.9 percent, equivalent to 430,681 persons) was wider than that of Luapula (40.7 percent, equivalent to 616,202 persons), in absolute terms, more resources would be required in Luapula than in Muchinga to lift the poor to the poverty line.

With its current challenges, the province, along with the Northern Province, stands out for having the lowest concentration of Civil Society Organizations (CSOs) in Zambia, likely owing to their rural nature (Civicus,2010).The prevalent poverty levels underscore the importance of having financially stable NGOs that can either supplement government efforts or ensure accountability in service provision. Moreover, the scarcity of NGOs in the region highlights the urgency for a comprehensive study aimed at crafting recommendations for sustainable financial strategies for NGOs.

3.4 Study Population

A study population is a collection of objects, events or individuals having some common characteristics that the researcher is interested in studying (White 2003). The target population for

this study consisted of local NGOs operating in Luapula Province, Zambia. The researcher contacted the NGO Council representative in the province in order to get a list of local NGOs operating within the province and obtained list of 40 locally based NGOs. From these, the research selected those with a defined office space and actively operating within the province. This is because only NGOs with active operations would be able to provide information on financial sustainability. 32 organizations met this criterion and comprised of the study population.

3.5 Sample and Sampling Procedure

This study utilized a two-stage sampling approach within an explanatory sequential mixed methods design.

Stage 1: Census of Luapula Catalyst NGOs:

Given the limited population of Luapula-based NGOs, a census sampling approach, also known as complete enumeration, was employed. This involved identifying and surveying all local NGOs in a catalyst role within Luapula. This method ensured comprehensive data collection and eliminated sampling bias, allowing for generalizations to the entire population of Luapula catalyst NGOs (Cochran, 1977).

To facilitate a more focused analysis of financial sustainability factors, the study further restricted the initial sample based on specific criteria:

- I. Size: Operating within a defined annual budget range of ZMW50,000 to ZMW5,000,000.
- II. Focus: Concentrating on good governance as their primary social issue area.

This refinement helped control for potential variations arising from organizational scale or programmatic differences. By focusing on NGOs of similar size and programmatic focus, the study enabled a more targeted examination of factors impacting financial sustainability within this specific subgroup.

Number of Participants: This refinement resulted in a final sample of 32 organizations participating in the first stage

Stage 2: Purposive Sampling for In-Depth Interviews:

Following the quantitative analysis of the stage 1 survey data, seven organizations exhibiting characteristics associated with financial stability were selected for in-depth interviews. In this second stage, a purposive sampling approach was used to select key informants from the stage 1 sample based on their role within the organization. The study targeted individuals with in-depth knowledge of the organizations' financial operations, such as executive directors or financial directors. This ensured participants were well-versed in the factors impacting their NGOs' financial sustainability, aligning with Denscombe's (2010) definition of purposive sampling as "hand-picked" based on relevance and knowledge. While the initial sampling frame focused on individual NGOs, the research also recognized the valuable perspective of the provincial NGO Council. This body plays a critical role in coordinating NGO activities. Therefore, a key informant interview was conducted with a representative from the NGO Council to gain insights into the broader financial sustainability landscape within Luapula and any relevant support structures offered by the Council.

The combined approach strengthens the overall research by leveraging both quantitative and qualitative data for a comprehensive understanding of financial sustainability within Luapula catalyst NGOs.

3.6 Data Collection Techniques

3.6.1 Quantitative Approach

The data was collected through structured questionnaire. The questionnaires were administered through "drop and pick later" method. The questionnaire comprises closed and open-ended questions. This gave the respondent enough time to fill the questionnaire which increased the accuracy of the response.

3.6.2 Qualitative Approach

The study used in-depth interviews to collect qualitative data from key informants. Judd, et al. (1991) states that for the in-depth interview to occur, firstly, the interviewees must be known to have been involved in the particular situation under investigation. Through the in-depth interviews, data will be collected using a semi-structured Interview Guide with open-ended questions. The Interviewer was skilled in interviewing, probing and administering the Interview Guide.

3.7 Data Analysis Techniques

Data analysis is the process of transforming data, which has been collected using measuring instruments, into a form that makes it easy to understand and interpret. This is so because a set of raw data in itself is not very useful (Defour-Howard, 2000). Ghosh (1992) warns that without proper analysis, data remains a meaningless heap of materials. Collected data was processed and analyzed using both qualitative and quantitative methods as follows:

Quantitative data was coded and entered into the Statistical Package for the Social Sciences (SPSS) for further analysis. Descriptive statistics were generated to provide a foundational understanding of the research question and to describe the central tendencies and variability of the key variables. SPSS was chosen due to its robust capabilities in handling complex data manipulations, including crosstabulations relevant to this study.

To explore the relationships between variables, Pearson correlation coefficients were calculated. This analysis aimed to identify any statistically significant correlations that might inform the direction and strength of the relationships between the variables. Additionally, linear regression analysis was conducted to test the study hypotheses concerning the influence of independent variables on the dependent variable. The results of the regression analysis, including coefficients, significance levels, and goodness-of-fit statistics, were used to assess the explanatory power of the model.

On the other hand, qualitative data collected through the KIIs was recorded using a recorder. The recordings for each key informant interview was then transcribed using NVIVO and analyzed. NVivo 11 Starter is a computer program that assists in the complex work of qualitative data analysis and makes it possible to get an in-depth analysis (QSR International, 2016). NVivo is intended to assist researchers in organizing, analyzing, and discovering insights from unstructured or qualitative data such as interviews, open-ended survey responses, articles, social media, and web content (QSR International, 2016). Using a computerized programme, basically ensures that the researcher is working more methodically, more thoroughly, and more attentively. Thus, researchers are encouraged to pursue such tools (Hilal & Alabri, 2013).

NVIVO was used to search for key sentences, create word maps and group similar sentences together for analysis and understanding. The data was then be triangulated with specific contexts to obtain confirmation of findings through convergence of different perspectives. The point at which the perspectives converge is seen to represent reality.

3.7.1 Analytical Model

The study also made use of various inferential statistics. The variables were factored in the multivariate regression model. The measures of the independent variables, using the rating/Likert scales was converted to mean values and then to percentages to permit the application of linear regression model. Statistical significance of the independent variables was determined by using the F-test. Using the regression Durbin Watson test for autocorrelation of models' residuals, t-test for coefficients significances were also tested. The regression equation

$$(Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \epsilon):$$

Whereby Y = Financial Sustainability

X1 =Financial management (FM)

X2= Revenue Diversification (RD)

X3= Donor Relationship Management (DRM)

ϵ = Error Term

3.8 Ethical Consideration

In conducting research of this nature, a number of ethical issues have to be taken into consideration.

In this specific case, the following two are important:

- Informed Content- Respondents will be informed before their participation that the study will be voluntary. All research participants were not coerced into participating in the research and as such participation was on one's own volition. Further, permission will be sought from each research participant before use of digital data capture gadgets such as camera and voice recorder
- Respect Anonymity and Confidentiality-The researcher will ensure confidentiality of information from the respondents. The study will not include names of organizations on

the questionnaire or interview schedule. All data of the research will be presented as aggregate to protect the confidentiality of respondents.

Additionally, ethical clearance was obtained from the University of Zambia Ethics Committee.

3.9 Survey Response Rate

The study targeted a sample size of 32 organization from which 20 organizations completed and returned the questionnaires making a response rate of 62.5 percent as shown in table 4.2 below. Additionally, 7 took respondents too part in in-depth interviews. According to Mugenda and Mugenda (2003), a response rate of 60 percent is good and a response rate of 70 percent and over is excellent. This response rate was considered satisfactory to make conclusions from the study.

Table 4.1: Response Rate

Questionnaire	Frequency	Percent
Filled and returned	20	62.5
Unreturned	12	37.5
Total Issue	32	100

Source: Author, 2023

3.10 Chapter Summary

The current chapter gives a detailed overview of the methodology used to conduct the study. This chapter highlighted the research design, population and sampling design, data collection methods, research procedures and data analysis methods utilized in the study. The next chapter presents the results and findings.

CHAPTER 4

PRESENTATION RESEARCH FINDINGS

4.1 Introduction

This chapter presents the findings obtained from the study. The chapter presents the background information of the respondents and the findings of the analysis based on the objectives of the study. The data was analyzed using STATA and presented in frequency tables. Descriptive and inferential statistics have been used to discuss the findings of the study. The analysis covered only complete cases in which no effort was made to impute or otherwise substitute data for hypothetical values. In this chapter, descriptive analysis of participants' demographic characteristics, central tendencies measuring constructs and inferential analyses were presented.

4.2 Analysis of Demographic and Occupational Data

This section shows demographic and occupational data collected and analyzed based on gender, level of education, years of experience and position within organization for participants as shown below:

Table 4.2 Respondent Profile

Question	Category	Frequency(N)	Percentage
Gender of Respondents	Male	18	90
	Female	2	10
	Others	0	0
Your highest level of education?	Grade 12	0	0
	Diploma	10	50
	Degree	6	30
	Masters	4	20
	PHD	0	0
	Below Grade 12	0	0
	Non Response	0	0
Kindly indicated your position in the organization?	Accountant	1	10
	Coordinator Paralegal	1	10
	District Coordinator	1	10
	Executive Director	6	60
	Provincial Coordinator	1	10
How long have you worked for the organization?	Less than one year	0	0
	1-2 years	0	0
	2-5 years	4	20
	Over 5 years	16	80

Source: Author 2023

The study sought to determine the gender of the respondents and therefore requested that they indicate their gender. The findings of the study show that the majority of the respondents, as shown by 90%, indicated that they were males, whereas only 10% indicated that they were females. This shows that the majority of leadership positions in local NGOs in Luapula Province are held by males, given respondents in leadership positions were the focus of this study. This is in line with the Gender Report (CSO, 2018) that suggests that most of the employees in the NGO sector are men. However, there has been noticed a systematic rise in the number of women in the sector. The sample was not gender-biased but rather the number of women in the NGO sector who have leadership or positions strongly linked to financial sustainability is low compared to men.

Furthermore, the results in Table 4.2 above on the respondent's highest level of education show that 50% of the respondents indicated that they had attained a diploma qualification, 30% indicated that they had attained a degree, and 20% had a postgraduate qualification. This demonstrates that the respondents in the NGOs had a reasonably good education and would be able to distinguish between internal and external factors influencing the sustainability of local NGO's in Luapula Province.

Beside that, results on time of service for the organisation shows that the majority of the respondents, as shown by 80%, indicated that they had served in the NGO for over 5 years, with only 20 percent indicating that their service had only been between 2 and 5 years. This shows that majority of the respondents had served in the NGOs for more than 5 years and so could give credible information. The respondents had adequate information in regard to sustainability and have also witnessed the NGO's growth for the several years it has existed.

4.3 Central Tendencies Measurement of Constructs

This study was aimed at investigating the effect of financial management, revenue diversification, and donor relationship management on financial sustainability, and based on the research methodology employed, measures of central tendency such as the mean and standard deviation were calculated using Statistical Package for Social Sciences (SPSS) software. The survey questionnaire under this study applied five interval Likert-scaled constructs that measured score values from Strongly Agree=1, Agree=2, Neutral=3, Disagree=4 and Strongly Disagree=5.

4.3.1 Financial Sustainability

Table 4.3 below shows that majority of organizations (60 percent) indicated that they were not financially sustainable with only 30 percent agreeing with the statement that the NGO was financial sustainable. No NGO strongly agreed that it was financial sustainable.

Table 4.3 What is the level of agreement that "my firm is financially sustainable?"

Item	Frequency	Percent	Valid Percent	Cumulative Percent
Agree	6	30.0	30.0	30.0
Neutral	2	10.0	10.0	40.0
Disagree	8	40.0	40.0	80.0
Strongly disagree	4	20.0	20.0	100.0
Total	20	100.0	100.0	

Source: Author 2023

The study also sought to determine the trend of measures of financial sustainability for the NGO in the last 3 years. From the findings depicted in table 4.4 below, majority of the respondents indicated that cash flow and administrative cost were improving as shown by a mean score of 2.0 and 1.8 respectively.

Table 4.4: Trend of Financial Sustainability Measures in last 3 years (2019-2021)

	Increasin g	Stable	Decreasin g	Mean	Standard Deviation
Trend of Cash Flows	8	4	8	2	0.943
Trend of Administrative Costs	10	4	8	1.8	0.919

Source: Author 2023

On the other hand, results from table 4.5 below show that unrestricted income was decreasing or not present in most NGOs as shown by a mean score of 3.0. This is an indication that most of income received by NGO's is Luapula is tied to projects and that NGOs need to put decisive measures to ensure improve unrestricted income.

Table 4.5 Trend of Unrestricted Income

	Frequenc y	Percent	Valid Percent	Cumulative Percent	Mean	Standard Deviation
Increasing	2	10.0	10.0	10.0	3	1.155

Valid	Stable	6	30.0	30.0	40.0		
	Decreasing	2	10.0	10.0	50.0		
	Not Present	10	50.0	50.0	100.0		
	Total	20	100.0	100.0			

Source: Author 2023

4.3.2 Revenue Diversification and Financial Sustainability

The respondents were requested to indicate the extent to which income diversification affected financial sustainability of their organizations. Table 4.6 shows that the majority of the respondents, as shown by 60% , indicated that revenue diversification affected financial sustainability of their organization to a very great extent, 30% indicated great extent, 10 percent indicated moderate extent. These findings show that revenue diversification is perceived to affect financial sustainability of to a very great extent.

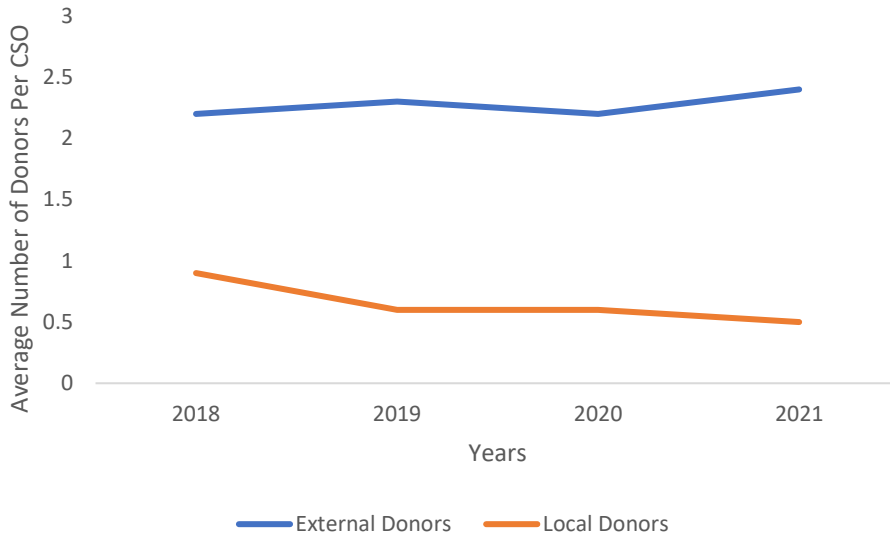
Table 4.6 To what extent do you think revenue diversification affects financial sustainability of your organization.

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very great extent	12	60.0	60.0	60.0
	Great extent	6	30.0	30.0	90.0
	Moderate extent	1	10.0	10.0	100.0
	Total	20	100.0	100.0	

Source: Author 2023

Figure 4.1 below shows that, firstly, there was little to no local donor support for NGO activities in Luapula from 2018 to 2021. The majority of NGO were supported by external donors, with most NGO having an average of at least 2 donors in the period under review.

Figure 4.1: Number External and Local Donors in Luapula Province (2018-2021)



Source: Author 2023

4.3.3 Financial Management and Financial Sustainability

The study sought to determine the respondents’ level of agreement with statements relating to financial management. In this question, a Likert scale of 1 to 5 was used to interpret the results of the study shown in table 4.7 below. From the study findings, the respondents agreed that their organisations had active strategic and financial plans, as shown by a mean of 1.6 for both. Further, respondents agreed that their organisations carried out annual audits as shown by mean of 2.3, had an updated asset list as shown by a mean of 2.0 , maintained up-to-date accounting records as shown by a mean of 1.50, had a budget on which activities and projects were based as shown by the mean of 1.5, and prepared financial statements annually as shown by mean of 2.

However, the respondents disagreed that their organizations had high levels of cash outflow organizations and that the organizations invest or rent out any assets.

Table 4.7 What is your level of agreement with the following statements relating to financial management and financial sustainability in local NGOs?

	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Standard Deviation
Has an active strategic plan	14	4	0	0	2	1.6	1.265
Has an active financial plan	12	6	0	2	0	1.6	0.966
An updated asset list	12	2	0	6	0	2.0	1.414
Invest or rent out any of its assets	6	6	0	0	8	2.9	1.853
Carries out annual audits	12	0	0	6	2	2.3	1.703
Has a high level of cash outflows	6	0	4	8	2	3	1.491
Prepares financial statements annually	10	6	0	2	2	2	1.414
Has a budget on which the activities and projects are based	14	2	2	2	0	1.60	1.075
Maintains up to date accounting records	14	2	4	0	0	1.50	0.85
Has accounting entries supported by appropriate documentation	14	4	0	2	0	1.50	0.972

Source: Author 2023

The study further asked respondents to indicated which of the elements of financial management affect the financial sustainability of their organizations. Results in table 4.8 below shows that 30

percent of respondents indicated that compliance to donor conditions affected financial sustainability of their organizations, 20 percent indicated internal controls, 10 percent cash management and 10 percent maintenance of accounting records.

Table 4.8 Elements of financial management affected financial sustainability of your organization

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Internal Controls	4	20.0	20.0	20.0
	Cash Management	2	10.0	10.0	30.0
	Compliance to donor conditions	6	30.0	30.0	60.0
	Maintenance of accounting records	2	10.0	10.0	70.0
	None of the above	6	30.0	30.0	100.0
	Total	20	100.0	100.0	

Source: Author 2023

4.3.4 Donor Relationship Management and Financial Sustainability

The researcher also requested the respondents indicate the extent to which donor relationship management affects the financial sustainability of the organization. According to the findings shown in table 4.9 below, 40% indicated that donor relationship management affects the financial sustainability of the organizations to great extent, 20% said to a greater extent, 20% said to a moderate extent while 10% of the respondents said donor relationship management affects the financial sustainability of the organizations to a little extent

Table 4.9 To what extent do you think donor relationship management affects financial sustainability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very great extent	4	20.0	20.0	20.0
	Great extent	8	40.0	40.0	60.0
	Moderate extent	4	20.0	20.0	80.0
	Little extent	2	10.0	10.0	90.0
	No extent	2	10.0	10.0	100.0
	Total	20	100.0	100.0	

Source: Author 2023

The study sought to determine the respondents' level of agreement with statements relating to donor relationship management. Table 4.10 below shows that the respondents agreed that their organisations had good relations with donors as shown by a mean of 1.3, had regular communication with the donors on funding as shown by a mean of 1.7; established networks with donors for funding as shown by a mean of 2.4; ensured accountability of funds from the donors as shown by a mean of 2.4.

However, the respondents disagreed that their organisations were unable to meet strict requirements for funding by donors, as shown by a mean of 3.1, and that their organisations had donor tracking systems, as shown by a mean of 3.4. Additionally, respondents disagreed that their organisations had a large number of donor-funded projects

Table 4.10: What is your level of agreement with the following statements relating to donor relationship management and the financial sustainability of your organization?

Item	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree	Mean	Standard Variation
Has good relations with donors	14	6	0	0	0	1.30	.483
Is unable to meet strict requirements for funding by donors	4	6	0	4	6	3.1	1.663
Has regular communication with donors on funding	12	4	2	2	0	1.7	1.059
Ensures accountability of	16	2	2	0	0	2.40	1.265

funds from donors							
Has a high number of return donors	2	8	6	2	2	2.70	1.160
Involves donors in project implementation	4	10	2	4	0	2.30	1.059
Has established networks with donors for funding	4	10	2	2	2	2.40	1.265
Has a donor tracking system	2	4	6	0	8	3.40	1.506
Has a large number of donors funded projects	2	2	2	6	8	3.80	1.398

Source: Author 2023

4.5 Inferential Analysis

4.5.1 Correlation Analysis

Pearson's correlation coefficient was employed in this study to establish the association between dependent and independent variables. It examines how far the variables move in a straight line. Variables are typically displayed on both the vertical and horizontal axes. The leading diagonal's values are always "1." A correlation coefficient greater than 50% indicates a strong association. If the sign of the correlation coefficient is negative (-), it indicates that the variables have a negative relationship, i.e., they move in the opposite direction. If the coefficient is positive, the variables are moving in the same direction. If the probability (sig. 1-tailed) between the various correlations

is less than 0.05 (5 % significance level), the association is significant; however, if the probability is greater than 0.05 (5 % significance level level), the association is not significant.

Table 4.11 Correlation Analysis of between Financial Sustainability, Revenue Diversification, Financial Management and Donor Relationship Management

		FS	RD	FM	DR
FS	Pearson Correlation	1	-.056	.558*	.421
	Sig. (2-tailed)		.816	.011	.065
	N	20	20	20	20
RD	Pearson Correlation	-.056	1	-.550*	-.533*
	Sig. (2-tailed)	.816		.012	.016
	N	20	20	20	20
FM	Pearson Correlation	.558*	-.550*	1	.736**
	Sig. (2-tailed)	.011	.012		.000
	N	20	20	20	20
DR	Pearson Correlation	.421	-.533*	.736**	1
	Sig. (2-tailed)	.065	.016	.000	
	N	20	20	20	20

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

**. Correlation is significant at the 0.01 level (2-tailed).

According to Table 4.11 above, there was a highly significant positive correlation ($r = 0.558$, $p = 0.011$) between financial sustainability (FS) and financial management (FM). The results of the study also found a statistically significant positive relationship between donor relationship management and financial management ($r = 0.737$, $p = 0.000$). This consonants with Waiganjo , Ng'ethe and Mugambi (2012), that organization with good financial management practices instills confidence in donors that their funds are safe and will be used for the intended purpose, and that financial management is actually a key component of donor relationship management. The results of the study show that the relationship between financial sustainability and donor relationship management is positive but weak, though it is not statistically significant.

On the other hand, findings of the study show that there it is statistically insignificant negative association between revenue diversification and financial sustainability. This result contradicts the findings of Carroll and Starter (2009), Omeri (2012), and Saungweme (2014), who not only found

a positive relationship but established that the relationship between financial sustainability and revenue diversification was significant and strong.

4.5.2 Regression Analysis

Regression analysis is a statistical technique used to investigate relationship between variables. It generates an equation that describes the statistical relationship between one or more predictor variables and one or more response variables. A low p-value (<0.05) indicated that the null hypothesis can be rejected. In other words, a low p-value predictor is a useful addition to the model because changes in the predictors value are related to changes in the response variable.

Table 4.12: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.639 ^a	.409	.298	.51580

a. Predictors: (Constant), DR2.1, RD2.1, FM2.1

b. Dependent Variable: FS2.1

From the ANOVA statistics, the study established the regression model had a significance level of 0.034 which is an indication that the data was ideal for making a conclusion on the population parameters. From the findings, the value of adjusted R squared was 0.409 an indication that there was variation of 0.409 on financial sustainability of local NGOs in Luapula Province due to changes in revenue diversification, financial management and donor relationship management at 95% confidence interval. This shows that 40.9% changes on financial sustainability of local NGOs in Luapula Province could be accounted for by changes in revenue diversification, financial management and donor relationship management. This shows that 59.1% change in financial sustainability of local NGOs in Luapula Province is accounted by other factors other than revenue diversification, financial management and donor relationship management.

Table 4.13: ANALYSIS OF VARIANCE ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.943	3	.981	3.688	.034 ^b
	Residual	4.257	16	.266		
	Total	7.200	19			

- a. Dependent Variable: FS
 b. Predictors: (Constant), DR, RD, FM

Table 4.14: Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	.462	1.067		.433	.671
RD	.274	.169	.384	1.624	.124
FM	.592	.260	.672	2.278	.037
DR	.211	.470	.131	.449	.660

- a. Dependent Variable: FS

From the Table 4.14, there is a positive and significant relationship between financial sustainability and financial management. A unit increase in financial sustainability factors results into a significant increase in financial sustainability by 0.592 (p=0.037). However, the relationship between revenue diversification and donor relationship management with financial sustainability is positive but insignificant and leads to a 0.274 (p=0.124) and 0.211 (p=0.660) change in growth respectively.

Hypothesis stated in earlier chapter of this study was tested as follows:

Test of hypothesis H01: H_{01} : “Revenue diversification is not related to financial sustainability of NGO in Luapula Province, Zambia.”

Regression analysis shows that there is insignificant relationship between revenue diversification and financial sustainability of NGOs in Luapula province ($\beta = 0.27$, $p = 0.124$). This led to the acceptance of null hypothesis as stated in H01 above and that the revenue diversification is not related to the financial sustainability of NGO’s in Luapula province.

This contradicts the findings of Omeri (2015), Saungweme (2014) and Carrol & Starter (2009) who all found a positive and strong relationship between financial sustainability and revenue diversification. The findings are however supported by Huger and Hung (2019) whose study of 40 reports of 296 effects showed that the overall effect revenue diversification on financial sustainability of NGOs is small, with negative and null effects largely counter-balancing the positive assessment. They argue that although literature supports the practice of cultivating and balancing diverse revenue streams, this may not make a difference in many cases and could be harmful under some conditions.

Chikoto-Schultz and Neely (2016), von Schnurbein and Fritz (2017) argue that NGOs should focus on one primary source of funding rather than diverse sources of funding strategy as revenue consternation optimises growth in financial capacity. Pursuit of new income streams might require new management systems and expertise, both of which incur costs of money and time (Frumkin & Keating, 2011; Kingma, 1993; Wicker & Breuer, 2013). This investment threatens to substitute one form of uncertainty for another. Nonprofit organisations that rely on sole-source revenue spend less on administrative and fundraising costs (*ceteris paribus*), which indirectly produces administrative efficiency (Foster & Fine, 2007) and might help keep faith with donors under sway of the overhead myth.

These result on revenue diversification and financial sustainability or NGO's in Luapula can be attributed to the fact that NGOs in the province lack the resources and expertise to effectively manage a complex funding portfolio. Attempting to do so can divert resources away from their core mission. Revenue diversification can also lead to increased administrative costs, which can pose a significant challenge for small NGOs that heavily rely on donor funding tied to specific projects such as those in Luapula province.

Test of hypothesis H02: Financial management does not lead to improved financial sustainability.

The findings indicated that financial management significantly influences financial sustainability of NGOs ($\beta = 0.592$, $p = 0.037$). This led to the rejection of null hypothesis as stated in H02 above and that the financial sustainability of the NGOs was dependent the financial management adopted by the NGOs. These findings are consistent with those of Muriithi (2014) and Ngahu's (2016) that financial management has a positive and significant impact on the financial sustainability of NGOs.

Test of hypothesis H03: “Donor relations management does not lead improved financial sustainability”

The finding showed that donor relationship management don't significantly influences financial sustainability of NGOs ($\beta = 0.211$, $p = 0.660$). This led to the acceptance of null hypothesis as stated in H03 above and that the donor relationship management does not lead to improved financial sustainability of the NGOs in Luapula province. The findings are contrary to those of Waiganjo et al. (2012) who found that there is a positive relationship between good management of donor relationships and NGO financial sustainability. However, the statistically insignificant

relationship between donor relationship management could be explained by results of Leon (2001) by found that all the donor relationship management must be supplemented other factors such as financial management.

Effective financial management is crucial for donor relationship management, especially for NGOs in Luapula, as they often face limited access to funding and may be more reliant on individual donors or smaller grants. This underscores the importance of managing finances efficiently to ensure that resources are used in the most impactful way possible, thereby enabling donors to see the tangible impact of their contributions and fostering a positive relationship between the NGOs and their donors.

4.6 Finding From Interviews

4.6.1 Financial Sustainability and NGO Operations in Luapula

Participants were asked to explain the effects of financial sustainability on the operations of NGOs. The majority of the participants felt that financial sustainability played a critical and essential role in the delivery of projects. However, because most organisations are not financially sustainable, they are unable to meet their operating costs, particularly staff obligations. And, because organisations are not sustainable, they fail to keep skilled staff, further exacerbating their situation as they lose the skills necessary to improve their financial capacity and deliver on their mission. For instance, one of the organizations said that:

“ Currently, there are very few NGO’s able to do resource mobilisation, and this impacts operations negatively. NGO’s cannot cater for overhead and daily operating costs. Keeping qualified staff is a challenge. This affects networking, as people want to be paid transport refunds to cover the gap created by the lack of resources for the daily running of the organisation, which includes staff costs.”

4.6.2 Key Success Factors that Contribute to Achieve Financial Sustainability

A number of key informants stated that among the key factors contributing to achieving financial sustainability was a well-skilled staff that was able to implement the financial management practises put in place by the organisation. They were of the view that for an organisation to improve its ability to manage resources, it must adopt a culture of continuous learning, particularly from peer about how they manage funds from donors. This is more so when it comes to managing

resources using specific donor guidelines. This view is further reflected in one of the interviews, whose excerpt is reproduced below.

"In order for us to improve our financial sustainability as NGOs, we need to have skilled staff that are able to use best practises in financial management and follow financial guidelines stipulated by specific donors. We must also be able to learn from other organisations that are doing well at managing funds from other donors. This will help us be ready, improve our financial management systems, and maintain the confidence of potential donors that we have the necessary systems in place to handle resources."

Further, some key informant interviews saw improved resource mobilisation as a key element necessary for the financial sustainability of NGOs in Luapula. For NGOs to be able to mobilise resources, it was necessary that they develop proposals that could compete favourably with big organisations in urban areas.

4.6.3 Strategies for NGOs to Improve their Financial Sustainability

Key informants interviewed, which included NGO Council representatives and officials from NGOs, were of the view that for NGOs to improve their financial sustainability, it was important that they increase their revenue streams by mobilising resources from different donors and improving the generation of their own income to ensure they remain financially stable even with fluctuation in donor priorities. This is the reflective perspective below:

"NGOs should engage in social enterprise initiatives to improve their sustainability. This will allow them to raise their own income and reduce donor dependency. It is important that the NGO increase the number of donors funding their work to reduce the shock that arises from one donor pulling out. However, they should be careful to ensure that as they diversify their donors, they maintain their identities and visions. Improving networking and creating space for peer-to-peer learning."

4.7 Chapter Summary

This chapter has presented the findings of the study through descriptive statistics as well as inferential statistics. The results presented in this section will be explained in detail in the next chapter.

CHAPTER 5

DISCUSSION OF RESEARCH

5.1 Introduction

The purpose of this study was to investigate and understand the factors influencing the financial sustainability of NGOs in Luapula Province, Zambia. This section discusses the findings presented in the previous chapter in relation to the objective of the study. The main objectives of the study were to analyse the key factors that influence the financial sustainability of NGOs in Luapula Province, Zambia.

5.2 Financial Sustainability and Financial Management of NGOs in Luapula

The data demonstrates that financial management significantly affects the financial sustainability of NGOs in Luapula Province. The study finds a statistically significant positive relationship between financial management and financial sustainability. According to the findings, for every unit improvement in financial management, there is a corresponding increase in financial sustainability to the extent of 0.592. This conclusion is consistent with the literature evaluated in this study, which shows that financial management is critical in ensuring that resources improve the financial capacity of NGOs. The study also finds a strong association between financial management, donor relationship management, and financial sustainability, as evidenced by the strong correlation between these variables. This suggests that strengthening financial management can improve NGO relations with donors, allowing NGOs access to more funding, which positively impacts sustainability. This finding is supported by the stakeholder theory which posits that sound financial management practices build trust with donor leading to more consistent funding. Finding however show that Luapula NGOs (60 percent) had challenges with meeting the strict compliance donor conditions in their financial management.

5.3 Financial Sustainability and Revenue Diversification of NGOs in Luapula

The study found that revenue diversification was not a statistically significant factor in achieving financial sustainability for NGOs in Luapula Province. In fact, the results indicate a negative relationship between revenue diversification and both financial sustainability and financial management. This finding aligns with existing literature on revenue concentration, which suggests that while diversification can spread financial risk, it also increases administrative costs and

demands new management systems and expertise that small NGOs may lack. Consequently, in some cases, revenue diversification may actually hinder NGO sustainability.

Key informant interviews further underscored the challenges associated with revenue diversification of NGO in the province, revealing that only a few NGOs in the region are capable of effectively mobilizing resources. This shortfall negatively impacts their operations, as these NGOs struggle to cover overhead and daily operating costs.

5.4 Financial Sustainability and Donor Relationship Management of NGOs in Luapula

The study found that donor relationship management is not a statistically significant factor in the financial sustainability of NGOs in Luapula Province. This finding contradicts previous research by Saungweme (2014), Ali (2012), Waiganjo et al. (2012), Lewis (2011), USAID (2010), and Fafchamps and Owens (2008), all of whom identified donor relationship management as crucial to financial sustainability.

However, the study's findings align with those of Mawudor (2021), who similarly concluded that donor relationship management does not significantly impact financial sustainability. Mawudor suggested that this lack of a relationship may be due to the minimal reliance on external donors among church-related NGOs in Kenya. This perspective is consistent with the current study's observation that most NGOs in Luapula Province have a limited number of external donors, with many reporting fewer than three donors supporting their operations. This limited donor base diminishes the overall impact of donor relationship management on financial sustainability.

Nonetheless, it is important to note that the study identified a strong positive relationship between financial management and donor relationship management. This suggests that effective financial management is a critical factor in maintaining strong donor relationships, even if donor relationship management alone does not directly enhance financial sustainability for NGOs in the region.

5.5 Chapter Summary

This chapter has provided an in-depth analysis and discussion of the study's results, laying the groundwork for drawing meaningful conclusions. Based on the insights gained from this discussion, the study's conclusions will be presented in the following chapter.

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

The final chapter of this dissertation provides a comprehensive summary of the study. The primary aim of the research was to analyse the key factors influencing the financial sustainability of NGOs in Luapula Province, Zambia. The specific objectives included: assessing the extent to which revenue diversification impacts the financial sustainability of NGOs in the region, evaluating the role of financial management in enhancing financial sustainability, and examining the influence of donor relations on the financial sustainability of NGOs in Luapula Province.

6.2 Conclusions

In conclusion, this study underscores the critical importance of financial management in ensuring the financial sustainability of NGOs in Luapula Province, Zambia. The positive correlation between effective financial management and financial sustainability highlights the need for NGOs to prioritize sound financial practices as the cornerstone of their operations. While strategies like revenue diversification and donor relationship management are often considered essential for sustainability, their impact appears limited in this context. Revenue diversification, instead of enhancing stability, may introduce additional complexities and costs that smaller NGOs struggle to manage, potentially weakening their financial health. Similarly, donor relationship management's effectiveness is constrained by the limited donor base available to NGOs in the region, reducing its direct impact on financial sustainability.

An additional and crucial aspect of financial management is the ability to meet donor compliance requirements. The study revealed that many NGOs in Luapula Province face significant challenges in adhering to the strict financial conditions set by donors, which can undermine their ability to secure and maintain funding. Improving compliance with donor requirements is therefore essential for enhancing financial management. This involves not only understanding and implementing donor guidelines but also building internal capacities to manage and report finances transparently and accurately. By improving compliance, NGOs can build greater trust with donors, leading to more consistent and potentially increased funding, which is vital for their sustainability.

These findings suggest that NGOs in Luapula Province should focus on building robust financial systems, enhancing compliance with donor conditions, and improving internal financial controls to bolster their financial stability. Additionally, fostering transparency and trust through sound financial management may indirectly strengthen donor relationships, even if their direct impact on sustainability is limited. As NGOs navigate the challenges of limited resources and donor dependency, a strong emphasis on financial management and compliance will be crucial in ensuring their long-term viability and capacity to continue serving their communities. The study also highlights the need for further research into the specific conditions under which revenue diversification and donor relationship management might contribute more significantly to sustainability, particularly in different regional contexts or among larger organizations.

6.3 Recommendations

The study's findings highlighted a number of difficulties affecting the sustainability of CSO-led development activities. The outcomes of the study also revealed insights that could help increase the sustainability of initiatives. The findings have influenced the recommendations that follow.

To begin, NGOs should focus on developing financial management systems and competences that are able to meet donor requirements.

Given the critical role of financial management in ensuring financial sustainability, it is essential for NGOs in Luapula to strengthen their core financial management systems to meet donor requirements effectively. NGOs need to evaluate the institutional conditions that enable them to comply with donor guidelines and build internal capacities to implement these requirements successfully. Creating an institutional environment that is responsive to the diverse conditions set by different donors will significantly enhance NGOs' relationships with their funders.

Secondly, to enhance donor relationship management, NGOs should focus on improving their overall financial management practices. Effective financial management fosters trust among donors by demonstrating that their funds are handled responsibly and are likely to achieve the intended outcomes. By improving financial management practices, NGOs can strengthen their relationships with funders, as donors are more likely to invest in organizations that demonstrate transparency and reliability in managing their resources. Therefore, refining financial management systems is essential for building and maintaining strong donor relationships and ensuring continued support.

Furthermore, NGO in Luapula should pursue revenue concentration before beginning to think of diversification.

To enhance their financial sustainability, NGOs should prioritize developing expertise in effectively managing a primary source of income before venturing into a complex portfolio with multiple sources. While revenue diversification may seem attractive, it can be a double-edged sword that instead of improving financial stability, may create conditions that significantly impact sustainability. Pursuing numerous income sources can lead to resource diversion from the NGO's core mission and increase administrative costs, presenting significant challenges for small NGOs.

Instead, NGOs can focus on increasing diversity within a single source of income. This can be achieved by expanding the number of donors that support the organization. By cultivating a broader donor base, the withdrawal of one donor would have a less substantial impact on the organization's overall sustainability.

5.3 Implication for Further Research

In order to deal exhaustively with the research subject matter, empirical evidence in this inquiry provides the following opportunities for further studies:

There exists contradictory literature on the relationship between revenue diversification and financial sustainability. It is important to determine under what conditions revenue diversification contributes to financial sustainability and under which ones it doesn't. Additionally, exploring the effect of donor diversification as a component of revenue diversification versus the effect of the introduction of earned income on financial sustainability would also be a direction for future study.

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**THE UNIVERSITY OF ZAMBIA
DIRECTORATE OF RESEARCH AND GRADUATE STUDIES
GRADUATE SCHOOL OF BUSINESS**

APPENDIX I: SURVEY QUESTIONNAIRE

Dear Research Participant,

My name is Zengeni Simuchembu, a postgraduate student at the University of Zambia (UNZA) under the Graduate School of Business (GSB). I am carrying out a research titled “factors affecting financial sustainability of non-governmental organizations in Luapula province, Zambia.” The findings of this study will provide the management of NGOs as well as other stakeholders with information that can be used to improve their financial sustainability.

You were selected as a possible participant in this study and your participation is entirely voluntary. I would be most grateful if you spared some time to answer the questions in this survey questionnaire which will approximately take 30-40 minutes. All the information yielded from this study will be treated with strictest confidentiality and used purely for academic purposes. The only people that will have access to the data provided will be the research team from the Graduate School of Business (GSB) and Directorate of Research and Graduate Studies (DRGS) at the University of Zambia (UNZA).

Your cooperation and support will highly be appreciated.

Instructions: Please tick [✓] the box against the appropriate response and write down sincere answers to the questions in the spaces provided. Do not put your name on any of the survey questionnaires to insure your anonymity.

SECTION A: GENERAL INFORMATION

Kindly answer all the questions by ticking in the boxes as may apply to you in this section.

1. Gender of Respondent

Male [] Female []

2. Name of the organization (Optional)

3. How long have you worked for the Organization?

Less than one year []

1-2 years []

2-5 years []

Over 5 years []

4. Kindly indicate your position in the organization

5. Your highest level of education.

Grade 12 [] Diploma []

Degree [] Masters []

PHD []

6. How long has the organization been in existence?

Less than 1 year []

1-5 years []

5-10 years []

Over 10 years []

SECTION B: FINANCIAL SUSTAINABILITY

7. What is the trend of the following measures of sustainability for your NGO in the last three years?

Measure (Tick where appropriate)	Increasing	Stable	Decreasing	Not Present
Cash Flows				
Administrative Costs These expenses are made up of anything required for the organization to exist that don't fall into the categories of fundraising, program activities, or membership activities i.e rent, internet costs, salaries)				
Unrestricted Income (Income not tied to any donor projects)				

8. Kindly indicated the estimates of each category listed below:

Category (In USD Dollar)	2018	2019	2020	2021
Expenses	USD\$	USD\$	USD\$	USD\$
Administrative Costs	USD\$	USD\$	USD\$	USD\$
Funding for the year (Total income for the year)	USD\$	USD\$	USD\$	USD\$

9. What is the level of agreement that 'my firm is financially sustainable'?

Strongly agree [] Agree []
 Neutral [] Disagree []
 Strongly disagree []

SECTION C REVENUE DIVERSIFICATION AND FINANCIAL SUSTAINABILITY

10. How many external and local donors were funding your activities between 2018 and 2021?
(Complete table below).

Years	2018	2019	2020	2021
Number of external donors				
Number of local donors				

11. To what extent do you think revenue diversification affects financial sustainability of your organization?

Very great extent [] Great extent []
 Moderate extent [] Little extent []
 No extent []

SECTION C: FINANCIAL MANAGEMENT AND FINANCIAL SUSTAINABILITY

12. What is your level of agreement with the following statements relating to financial management and the financial sustainability of your organization?

My Organization	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
a) Has an active strategic plan					
b) Has an active financial plan					
c) An updated asset list					
d) invest or rent/out any of its assets					

13. How important are the following aspects of financial management to your organisation's ability to raise funds from donors and other sources ((Please use a scale of 1 to 5, with 1 being unimportant and 5 being very important)

Strategic financial management aspects	SCALE				
	Extremely Important	Important	Neutral	Unimportant	Extremely Unimportant
Strategic Planning					
Financial Planning					
Asset Planning					

Investment monitoring					
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14. Have the following elements of financial management affected financial sustainability of your organization? (tick where appropriate)

- Financial reporting [] Internal controls []
 Cash management [] Compliance to donor conditions []
 Budget control [] Maintenance of accounting records []

15. What is your level of agreement with the following statements relating to financial management and financial sustainability in local NGOs?

My organization	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
a) Carries out annual audits					
b) Has a high level of cash outflows					
c) Prepares financial statements annually					
d) Has a budget on which the activities and projects are based					
e) Maintains up-to-date accounting records					
f) Has accounting entries supported by appropriate documentation					

SECTION D: DONOR RELATIONSHIP MANAGEMENT AND FINANCIAL SUSTAINABILITY

16. To what extent do you think donor relationship management affect financial sustainability of your organization?

- Very great extent [] Great extent []
 Moderate extent [] Little extent []
 No extent []

17. What is your level of agreement with the following statements relating to donor relationship management and the financial sustainability of your organization?

My Organization	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
e) Has good relations with the donors					
f) Is unable to meet strict requirements for funding by donors					
g) Has regular communication with the donors on funding					
h) Ensures accountability of funds from the donors					
i) Has a high number of return donors					
j) Involves donors in project implementation					
k) Has established networks with donor for funding					
l) Has a donor tracking system					
m) Has a large number of donor funded projects					

18. Of your current donors, how many have repeatedly funded your programme activities between 2018 and 2021?

Year	None	1	2	3	4 and above
Number of donors repeatedly funding programmes					

Thank You

APPENDIX II: INTERVIEW SCHEDULE

1. In what ways do you think the financial sustainability can affect the operations of an NGO with operations in Luapula?

2. What does it take for an NGO to be financially sustainable?

3. What are the key success factors to achieve the sustainability?

4. What recommendations would you make for NGOs to improve their financial sustainability capacity?
