# INFLUENCE OF GRANT MANAGEMENT ON PERFORMANCE OF INTERNATIONAL NON- GOVERNMENTAL ORGANIZATIONS OPERATING IN KENYA

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## ABSTRACT

Grants are external funding meant to co-finance projects or programs that aim to achieve specific social or environmental objectives. NGOs often receive grant from donors, which they spend and sometimes pass on to other organisations. The International NGOs fail to meet their obligations due to failure to manage grant effectively. Management of grants is similar to the projects management, similarly the factors that affect grant management are, the ability of the implementer to complete the projects within the agreed time frame, the capability to be efficient and cost effective and hence operate within the approved budgets, the completion of well-done projects that are acceptable to the users .Other factors that may affect the grants management are budgeting, accountability, grant regulations and governance. The purpose of the study was to determine factors affecting the grants management systems in international Non-Governmental organizations in Kenya. Given the significant social role played by the International NGOs, it was imperative to study the grants management systems which have been put in place by the NGOs. The target population of this study was all the 92 International NGOs in Kenya registered with the Ministry of Home Affairs and the National Council of NGOs (Registering Board as at 1st November 2013 ).The study adopted a stratified sampling method in selecting 30% international NGOs. This was followed by stratified sampling which was used in selecting 120 respondents. Primary data was collected using a structured questionnaire distributed to key employees in finance department dealing with the NGOs' financial management. The data collected was analyzed with the help of the Statistical Package for Social Sciences (SPSS) version 21.0. Qualitative data was analyzed through content analysis while quantitative data was analyzed by computing the relevant statistics. Quantitative and qualitative methods such as mean scores were used to interpret the data. The data was then presented using frequency tables and pie charts.

**Keywords:** *Grant Management on Performance of International Non- Governmental Organizations*

## Introduction

International Non Governmental Organizations (NGOs) in any country are often seen by the wider society as a response to political, social and economic factors. According to Houghton (2008) Non-Governmental Organizations (NGOs) are increasingly being recognized by governments as important partners in nation building, national development and valuable forces in promoting the qualitative and quantitative development of democracy. Chelogoy et al. (2007) notes that NGOs in EU should be voluntary organizations or groupings of individuals or organizations that are autonomous and not-for-profit sharing. The authors further add that Non-Governmental Organizations (NGOs) should be organized locally at the grassroots level, nationally, regionally or internationally for the purpose of enhancing the legitimate economic, social and/or cultural development or lobbying or advocating on issues of public interest or interest of a group of individuals or organizations; but shall not include trade unions, social clubs and entertainment sports clubs, political parties, private companies or faith propagating organizations.

The financial management practices of not-for-profit organizations are generally dominated by conditions of resource scarcity. Such organizations have limited opportunities for generating additional income, but are faced with an ever increasing agenda of activities on which such funds could be spent. The successful management of scarce resources in public entities, as one sub-sector of not-for-profit organizations, has been noted to be largely dependent on an appropriate division of roles between advocates and guardians within the entity (Jonsson, 2006, Wildavsky, 2007). Advocates, or "spenders", are generally responsible for delivering services which directly support the primary objectives of the entity. As such advocates can always see many services that are not currently being provided but which they feel should be offered. The advocates fulfil a role of making a case for further funds to be spent on such services. However, as funds are limited, guardians, or “savers”, monitor the organization’s finances and take actions to ensure that spending does not exceed the available resources. Despite the necessity of this latter role to overall financial management, the guardians are often perceived in a negative light by the advocates, who see them as villains who prune and cut in the name of the everlasting argument that ‘there is no money left (Jonsson, 2007).

Non-government organizations face many of the same resource constraints as their public sector counterparts (Drucker, 2008). However, the resource allocation activities of such entities have received relatively little attention in the literature. This lacuna represents a significant gap in our knowledge as such entities are responsible for managing large resource bases in order to provide an important component of the education, health and welfare services in Western economies (Harris, 2008). A direct consideration of financial management behaviour in non-government not-for-profit entities would thus expand our understanding of financial management more generally in the not-for-profit sector. One of the most significant not-for-profit sectors comprises Non-Governmental Organizations (NGOs) (Harris, 2008). The significant human and financial resources employed by such entities suggest that financial management tasks should be of considerable importance. However, the management structures of such entities can be expected to be dominated by the transcendental nature of the belief systems adopted by the organizational participants (Booth, 2006; Laughlin, 2008). As financial management activities do not directly contribute to the achievement of such goals, financial management activities may be actively resisted by the members of the Non-Governmental Organizations (NGOs) entity. Any resistance may in turn render the application of such principles clearly visible in the organizational structure.

## Statement of the Problem

The INGOS programs are intended to benefit the various needy sectors being the Health, Education, Agriculture, Civil Society and others, Recent trends indicate that the programs supported by the INGOS achieved minimum impact in realising the intended objectives (Farmer et al 2002). Despite the efforts by the donors in the intervention strategies related to the above sectors and specifically The Global Fund, CDC and other INGOs the spread of HIV and AIDS, Malaria, Tuberculosis, these diseases have increased. Global fund has provided Kenya with the funds as per request agreement, yet there is low absorption of the funds to the levels of expenditures relative to the budget estimates by the ministries of Finance and Public .Health, these funds are grants to the Kenya Government ( Kerubo, 2010)

Non-governmental organizations have also been found faulty and guilty of a different kind of donor funding mismanagement. For instance In December 2009, it was announced that 13 South African HIV & AIDS organisations did not receive their share of the US$ 3.9 million allocated to them by the Global Fund due to the Health Department's slow and inefficient disbursing systems and misappropriation of fund . This was even though the Department was repeatedly advised to allocate full-time staff to deal with the allocation of funds. The World Bank estimated that due to mismanagement of grants by international NGOs on donor agencies, about 100 million people face poverty because of escalating food and energy prices (World Bank, 2013). To operate and grow, NGOs need funds. Funds must entail plans and proposals that must meet the goals of donors (government/private). NGOs and donors both must be accountable for and justify their expenses to their respective constituencies. The government, for its part, must demonstrate concern for its population, while attempting to safeguard its own prerogatives in a time of budget and priority changes.

While there has been much debate over the possible effect that the grant mismanagement may have on donor funding for Africa, funds that are being distributed throughout the continent continue to be mismanaged. In the year 2009, a Nigerian International NGO, Children Rights Network (CHRINET), called for an investigation into the alleged misappropriation of US$ 2 billion worth of funding for HIV & AIDS. Concerns have also been raised about the misuse of funds in Ghana, where budget and planning officers recently expressed concern that funds are not being used for their intended purposes (GON, 2012). Last year 2012, Uganda experienced significant cuts in funding, specifically from the Global Fund, largely due to the suspension that the Fund imposed on Uganda more than three years ago, for mismanagement of grants. The suspension occurred in August 2008, following a Global Fund audit that indicated that the Ministry of Health had misused US$ 1.6 million. In Kenya in year 2010, several AIDS NGOs in

Nairobi and the Ministries of Public Health and Medical Services were investigated for failure to account for approximately US$ 166 million of the US$ 512 million donated by the Global Fund over the past six years. That is more than 30% of the Global Fund aid the country received in that period (World Bank, 2012).

Local studies focus on financial management in organizations .For instance Mundu (2007) did a study on selected financial management practices by small enterprises in Kenya the case of Kenya Industrial Estates (K.I.E) Wanes, Musokwa (2007) conducted a study on financial management in parastatals. Despite increase in mismanagement of grant by international NGOs in Nairobi, there has been scanty or no empirical study that has focus on determining factors that influence ineffective grant management. It is against this background that this study seeks to determine factor affecting effective grant management in international NGOs in Nairobi, Kenya.

## Objectives of the Study

### General Objective

The study sought to establish the influence of grant management on performance of International NGOs in Nairobi, Kenya.

### Specific Objectives

i. To assess how budgeting affects the performance of Non Governmental Organizations in Kenya.
ii. To determine the effect of accountability on the performance of Non Governmental Organizations in Kenya.
iii. To establish the consequences of grant regulations to the performance of Non Governmental Organizations in Kenya
iv. To find out how governance affects the performance of Non Governmental Organizations in Kenya

## Literature Review

### Keynessian Theory of Budgeting.

Keynes developed a theory which suggested that active government policy could be effective in managing the economy. Rather than seeing unbalanced government budgets as wrong, Keynes advocated what has been called countercyclical fiscal policies, that is, policies that acted against the tide of the business cycle: deficit spending when a nation's economy suffers from recession or when recovery is long-delayed and unemployment is persistently high – and the suppression of inflation in boom times by either increasing taxes or cutting back on government outlays. He argued that governments should solve problems in the short run rather than waiting for market forces to do it in the long run, because, "in the long run, we are all dead."(Wikipaedia, 2009)

## Accountability Theory

In governance, accountability has expanded beyond the basic definition of "being called to account for one's actions. It is frequently described as an account-giving relationship between individuals, for instance X is accountable to Y when X is obliged to inform Y about X's (past or future) actions and decisions, to justify them, and to suffer punishment in the case of eventual misconduct. Accountability cannot exist without proper accounting practices, in other words, an absence of accounting means an absence of accountability (Namita 2006). The importance of accountability theory in this study is the fact that the people implementing the projects are altogether different from the providers of those funds and therefore the willingness by the implementer to do accountability will also determine the decisions by the donors as to whether to continue funding the implementer or discontinue the funding of the grants by the donors and well wishers (Gregory, 2007).

## Economic Theories of Regulation

There exist several schools of thought with regards to the economic theories of regulation. The first school assumes that regulators have sufficient information and enforcement powers to effectively promote the public interest. This school also assumes that regulators are benevolent and aim to pursue the public interest. Economic theories that proceed from these assumptions are therefore often called *'public interest theories of regulation'*. Another school in the economic studies of regulation proceeds from different assumptions. Regulators do not have sufficient information with respect to cost, demand, quality and other dimensions of firm behaviour. They can therefore only imperfectly, if at all, promote the public interest when controlling firms or societal activities. Within this school, these information, monitoring and enforcement cost also apply to other economic agents, such as legislators, voters or consumers. And, more importantly, it is generally assumed that all economic agents pursue their own interest, which may or may not include elements of the public interest. Under these assumptions there is no reason to conclude that regulation will promote the public interest. The differences in objectives of economic agents and the costs involved in the interaction between them may effectively make it possible for some of the agents to pursue their own interests, perhaps at the cost of the public interest. (Hertog, 2010)

### Theory of Corporate Governance

Corporate governance broadly refers to the mechanisms, processes and relations by which corporations are controlled and directed, Governance structures identify the distribution of rights and responsibilities among different participants in the corporation (such as the board of directors, managers, shareholders, creditors, auditors, regulators, and other stakeholders) and includes the rules and procedures for making decisions in corporate affairs. Corporate governance includes the processes through which corporations' objectives are set and pursued in the context of the social, regulatory and market environment. Governance mechanisms include monitoring the actions, policies and decisions of corporations and their agents. Corporate governance practices are affected by attempts to align the interests of stakeholders.

### Empirical Review

This section reviews literature on what other have established on the factors affecting grant management in International NGOs on issues such as budgeting, accountability, grant regulation and governance. According to Chittenden*et al*. (2009) studies of the reasons for small business failure inevitably show poor or careless financial management to be the most important cause. In the UK, serious academic studies on financial management practices are rare; examples include Nayak and Greenfield (2007) and Chittenden*et al*. (2009). Jarvis *et al*. (2006) conducted qualitative interviews with owner-managers in small firms and argued that alternative definitions of rationality, compared to previous studies which assumed an instrumental form of rationality, gave valuable insights into financial management decision-making by owner-managers in small firms.

Working capital management is important because of its effects on the firm's profitability and risk, and consequently its value. Specifically, working capital investment involves a trade-off between profitability and risk. Decisions that tend to increase profitability tend to increase risk, and, conversely, decisions that focus on risk reduction will tend to reduce potential profitability. Norton (2009)

## Data Analysis/Findings

### Correlation Analysis

To quantify the strength of the relationship between the variables, the study used Karl Pearson's coefficient of correlation. The Pearson product-moment correlation coefficient (or Pearson correlation coefficient for short) is a measure of the strength of a linear association between two variables and is denoted by *r*. The Pearson correlation coefficient, *r*, can take a range of values from +1 less than 0 indicates a negative association, that is, as the value of one variable increases the value of the other variable decreases.

The Pearson's coefficient was used to verify the existence or non-existence to -1. A value of 0 indicates that there is no association between the two variables. A value greater than 0 indicates a positive association, that is, as the value of one variable increases so does the value of the other variable. A value of linear correlation between and among the net assets value variables. The findings are presented as follows;

**Table 4.28: Correlation matrix table**

| | | Budgeting | Accountability | Grant Regulation | Governance | Grant management |
|---|---|---|---|---|---|---|
| Budgeting | Pearson Correlation | 1 | | | | |
| | Sig. (2-tailed) | | | | | |
| | N | 96 | | | | |
| Accountability | Pearson Correlation | .728 | 1 | | | |
| | Sig. (2-tailed) | .025 | | | | |
| | N | 96 | 96 | | | |
| Grant Regulation | Pearson Correlation | .856 | .865 | 1 | | |
| | Sig. (2-tailed) | .011 | .000 | | | |
| | N | 96 | 96 | 96 | | |
| Governance | Pearson Correlation | .799 | .881 | .795 | 1 | |
| | Sig. (2-tailed) | | | | | |
| | N | .031 | .004 | .029 | | |
| Grant Management | Pearson Correlation | .799 | .806 | .885 | .899 | 1 |
| | Sig. (2-tailed) | | | | | |
| | N | .022 | .031 | .029 | .026 | |

From the findings, it was clear that there was positive correlation between the variables budgeting and accountability (0.728); between grant regulation and budgeting (0.856); grant regulation and accountability (0.865); governance and budgeting (.799); Governance and accountability (0.881), Governance and grant regulation (0.795); grant management and budgeting (0.799); grant management and accountability (0.806), grant management and grant regulation (0.885); grant management and governance (0.899).

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