

Determinants of Financial Sustainability of Non-Governmental Organizations in Ethiopia in The Case of Local NGOs Around Eastern Hararge Zone, Orommiya Region

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Abstract

This study aimed at investigating the determinant factors affecting financial sustainability of local NGOs located in eastern Hararge zone, Ethiopia. This study adopted a descriptive research design. The research target population was made up of 216 staffs of local non-governmental organizations in eastern Hararge zone. Purposive sampling technique was applied in sample selection. Analysis was done using descriptive statistics using SPSS software. The analyzed data was presented through mean and standard deviation. There was need to determine if there was an existing relationship between the variables of study and the researcher used correlation and regression analysis. The study results also showed that there was a significant positive relationship between independent variables and dependent variable. The study concluded that income diversification, donor relationship management and financial management systems played a critical role in the financial sustainability of local NGOs. The study recommended that, NGOs should identify and implement various income generating activities with a view of achieving self-sustenance especially in light of declining donor support and should develop an operating framework that allows frequent meaningful collaborations with the donors in the execution of their activities. Furthermore, NGOs should strengthen their financial reporting structures to ensure effective management of their financial resources.

Keywords: Donors relation • Sustainability • Income diversification • NGOs • Financial management

Introduction

Background of NGOs in Ethiopia

In 1991, Ethiopia emerged from three decades of protracted civil war, recurrent drought and famine, and a harsh military dictatorship. The Ethiopian people's revolutionary democratic front, a coalition of ethnic based resistance (rebel) movements, emerged victorious in a bitter civil war. The EPRDF then took over the regime of power by establishing the transitional government of Ethiopia. However, in the early 1970's a combination of natural calamities, political turmoil, and the protracted civil war had combined to inflict immense suffering and devastation throughout the country.

Large numbers of people fled their homes and became either refugees in neighboring countries or were internally displaced. Forced military recruitment, ill advised resettlement schemes, and other abuses triggered a multitude of ills. Prominent among them were the fast spreading impoverishment of many jobless rural and

urban dwellers; the disintegration of families and communities; and a virtual breakdown of the rule of law, particularly in the countryside. Pervasive state control of the economy, coupled with a disproportionate allocation of scarce public resources to the "war effort," resulted in the neglect and undermining of physical infrastructure and social services alike. Public investment in education, health, and other state services, scarce in the best of times, was totally wiped out in the conflict areas, and minimal in the rest of Ethiopia. The cumulative effect of war, natural disasters, economic decline, social disintegration, and unchecked population growth accelerated the impoverishment.

By 1991, Ethiopia was classified as the poorest country in the world by the UNDP human development index. In spite of its social problems, Ethiopia has a rich tradition of associational life. From time immemorial, voluntary associations (often called community based organizations) have been encouraging community solidarity, addressing their members' needs for help and encouraging community solidarity. Edir (community associations for burial), Equib

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(community savings and credit associations), and Debo (voluntary community labor groups) are some of the many traditional community based associations in Ethiopia. These groups have managed to survive the many political, social and economic changes of the past three decades. Particularly in the rural areas, they still remain credible institutions to which people turn in times of need, hardship, and affliction. They were also breeding grounds for the country's modern NGO's. More precisely, the start of the modern NGO sector in Ethiopia can be traced to the 1950's, when a number of privately chartered bodies such as the National Boy Scout Association (NBSA), the Ethiopian red cross, Ethiopian women's associations, and the family guidance association of Ethiopia. Professional groups such as the National Bar Association and the Ethiopian teachers association were also created during this period. The Ethiopian droughts of the mid-1970's and mid-1980's attracted a major influx of international NGO's, and the same emergencies also triggered the formation of many modern Ethiopian NGO's.

At first, these groups understandably focused heavily on relief and rehabilitation, and many of them forged links with the international NGO's that had come to help in the food crises. Today, there are some 400 relief and development oriented NGO's registered with the GOE ministry of justice. An additional 50 or so may be operating unregistered. Considering a population of 60 million plus, and compared to other African countries such as Kenya, South Africa, and Senegal, the number of Ethiopian NGO's is relatively small.

About 30 percent of the NGO's in Ethiopia are international, and 70 percent national. The great majority were formed after 1991, so they are relatively new and inexperienced. Roughly 70% to 80% are urban based, and some 90% of their activities are carried out in the five largest regions of the country: Southern Nations People, Amhara, Addis Ababa (region 14), Oromia and Tigray. Some of the newer administrative regions along the borders with Sudan and Somalia are particularly underserved and in need of help from the NGO community.

Background of the study

Financial sustainability is a key consideration for survival and effectiveness of Non-Governmental Organizations (NGOs). In the context of NGOs' financial sustainability is the ability of NGOs to continue and securely so, in that the NGOs and their core work continues to function effectively even in situations where there is no external funding [1]. Financial sustainability thus is the capacity of a firm to come up with ways of growing and developing which functions indefinitely. Financially sustainable NGOs are those that are able to continue to fulfill their missions over time while meeting the needs of their stakeholders, particularly those who benefit from and those who support them [2]. The achievement of financial sustainability is very critical to the survival and sustenance of any organization [3].

NGOs play a critical role in the social advancement process in the different countries of the world. They are most instrumental especially where countries do not have enough money, where the political circumstances are hostile, environmental changes have resulted in natural disasters, presence of rampant ethnic strife, where the economic ability of the populace is so low that they are unable to procure basic goods and services be they social, economic and educational [4]. The work of NGOs in protecting the environment, advocating for the poor and marginalized, helping the sick and needy,

promoting education, assisting farmers, providing relief where disaster has hit, preserving arts and culture among other interventions underpins their significant contribution to the wellbeing of societies [5].

Ethiopia receives a significant amount of aid from donors including the United States, United Kingdom, World Bank and European Union [6]. Civil Society Organizations (CSOs) are taking the lion share in mobilizing aids from different international fund sources. Charities and societies started emerging in Ethiopia in 1950's-60's and their number has increased with significant scale during 1970 following the 1974 drought in Ethiopia [7]. Over the last two decades Ethiopia has witnessed the growth of charities and societies and their contribution as a key development partner that address the country's multiple development priorities.

When considering the financial management processes of NGOs, resource scarcity is a recurrent theme [8]. Most of these organizations find themselves with an ever increasing agenda of programs and activities requiring consistent and adequate funding but have to contend with the fact that they have limited opportunities for generating additional income [9].

If due consideration is not given to the question of sustained funding of an NGO's activities and operations, then the NGO runs the risk of failing in its mandate and worse still could face closure as a result of unsustainability of its operations [10]. This underpins the centrality of financial sustainability in NGOs' long-term existence and operation.

However, NGOs face the challenges such as uncertainty in government funding and the decline of private donations due to economic difficulties coupled with growing competition within the sector. This can result in financial unsustainability if measures are not put in place to address them. The failure of NGOs is mainly due to inadequacy of funding which makes the NGOs financially unsustainable [11]. Constraints on revenue raising have emerged as a barrier to community development. International development organizations have emerged as important actors especially in short-term sectorial and infrastructure project lending, with emphasis on the application of sustainability issues in community development programs and projects. Therefore, the study attempts to investigate determinants of financial sustainability of local NGOs in eastern Hararge zone, Ethiopia.

Statement of the problem

The attainment of financial sustainability is a key component of local NGOs' long-term survival and operation. Financial sustainability allows NGOs to provide their services on a continuous basis to their constituents even in the face of emerging changes in their funding [12]. Financial sustainability enables NGOs to meet their daily operations and fund their projects after withdrawal of donor financial support [13]. Financially sustainable NGOs provide excellent service to the community through larger and more complex services. Financial viability is one of the key challenges to local NGO sustainability. Majority of the local NGOs rely on donors for funding which has created financial issues when the donors cut or stop the funding to these NGOs. This has made some of the NGOs cease operations and leave pending projects [14].

The financial management processes of NGOs are always faced with resource scarcity that is they are not always able to generate more income while they always want to scale up their programs and activities which require more funds [15]. Over the years, NGOs have depended on the goodwill and generosity of donors to foot all their expenses *via* grants and donations [16]. Currently, however, majority of the NGOs find these traditional sources of funding are becoming increasingly not enough to foot their ever increasing need for funding to meet their operational costs, making their financial sustainability concerns become even more important [17]. NGOs are faced with many problems including poor leadership, lack of strategic planning activities, poor financial management practices, ineffective organizational policies and procedures, high rate of senior staff changing jobs and continued over reliance on diminishing donor funding [18].

Several studies have been done on the financial sustainability of local NGOs [19]. Hendricks, studied on governance and financial sustainability of NGOs in South Africa and he identified that NGOs are required to fundraise and to generate an income to become sustainable. As he stated, in South Africa sources of funding ranges from individual giving, corporate social investment, government funding, foreign donor funding, funding from grant-making foundations to national funding agencies.

Ago, conducted a study related to the roles, contributions and challenges of NGOs in Ethiopia. Under this study, he tried to indicate the place of NGOs and identified their major contributions in food security and democratization process in Ethiopia and the challenges they encountered in their operation. Belay, investigate fund management and its utilization in Tigray HIV/AIDS prevention and control office [20]. In this study, researcher found that the fund from international organization is main source of HAPCO's fund. In addition, researcher stated some factors that can influence the fund management and utilization. The study in Tigray HAPCO identified major findings: Implementing organizations misunderstand the objectives of HIV/AIDS fund, weak capacity in implementation, lack of political commitment and leadership.

Many of the scholars coincide that financial sustainability remains one of the major challenges that local NGOs face and will continue to face in the next decade. A study by USAID found that only 6.2% of the NGOs were financially sustainable. This creates the need to measure the financial sustainability and enumerate the drivers of sustainability in NGOs and specifically in Ethiopia. Majority of the research studies conducted in Ethiopia focused on the role, contribution, fund utilization practice and outcomes of NGOs' programs and projects instead of the organizational processes and factors influencing the NGOs' financial sustainability. And also most of the studies were conducted on one selected local NGO. Within these studies, there was only little mention of the NGOs' financial sustainability may be because the NGOs have always been seen as receiving unlimited funds from foreign donors. However, given the changing dynamics in the funding of the local NGOs in the country as exhibited by declining donor funding, there is a need to investigate the determinant factors affecting their financial sustainability. So, to fill the above research gap this study sought to investigate the determinants of financial sustainability of local NGOs eastern Hararge zone, Ethiopia.

Objective of the study

General objective: The general objective of this study is to investigate the determinant factors affecting financial sustainability of local NGOs in eastern Hararge zone.

Specific objectives

- To investigate the effect of income diversification on local NGOs financial sustainability in Ethiopia particularly in eastern Hararge zone.
- To investigate the effect of donor relationship management on local NGOs financial sustainability in Ethiopia particularly in eastern Hararge zone.
- To investigate the effect of financial management systems on local NGOs financial sustainability in Ethiopia particularly in eastern Hararge zone.

Scope of the study

This study is mainly confined on the investigation of determinant factors affecting financial sustainability for non-governmental organizations in Ethiopia, particularly in eastern Hararge zone, Ethiopia. Moreover, the focus of the research is on the effects of income diversification, donor relationship management and financial management systems on the financial sustainability of the local NGOs. The study was based on primary data collected from selected employees of 54 local NGOs of 18 woredas found in eastern Hararge zone, Ethiopia. The study covers those organizations that govern themselves and is privately run and which endeavor to better the life quality of those who are disadvantaged.

Literature Review

Theoretical literature

Financial sustainability: The definition of financial sustainability differ significantly between profit making organizations and not for profit making organizations depending on the nature of revenue of the organization, the structure and goals of the organization. The financial capacity for a not for profit making organization consist of the resource that gives the organization the ability to seize opportunities when they come and also react to unexpected need when they arise. Financial sustainability of an NGO simply is the ability of the organization to reallocate assets in the wake of opportunities and threat and maintain sound financial balance over a long period. Other researchers see financial sustainability of NGOs to be the capacity of the organization to raise its own revenue or raise funds locally and reducing foreign dependence but still able to execute the needed projects for the period.

The world bank defines financial self-sustainability as the process of increasing the capacity of institutions or groups to make choices and to transform those choices into desired actions and outcomes. Central to this process are actions which both build individual and collective assets, and improve the efficiency and fairness of the organizational and institutional context which govern the use of these assets.

Sustainability is a measure of an organization's ability to fulfill its mission and serve its stakeholders over time. It is the capacity of

something to be maintained, as one seize the opportunity available, mitigating risks and adhering to the mission. For NPOs, it is the ability for the organizations to fulfill its commitments to its clients, patrons, and the community in which it operates. At macroeconomic perspective, it is a means for NPOs meeting important societal needs.

According to Abdelkarim financial sustainability goes beyond resource mobilization and income generation, sound financial management practices, income diversification etc. Leon considers financial sustainability of an NGO as the capacity to generate positive balance sheet so that the organization will have the flexibility to adapt to changes in the environment. According to Okorley and Nkrumah for NGOs to be financial sustainable, they must have the management capacity to raise funds and get their employees interested in their financial situation to get their full support and cooperation. In the nut shell the key components of financial sustainability of NGOs include; sound financial management practices, income diversification, own income generation capacity and good donor relationship management.

Non-government organization: The history of non-governmental organizations may be traced back to at least from 1775 when people started grouping themselves to address issues on slave trade, peace movement, labor rights and humanitarian relief for war victims and refugees. According to Becker, international non-governmental organizations have a history dating back to at least 1839. It has been estimated that by 1914 there were 1,083 NGOs. Becker, further states that, "non-governmental organization" only came into popular use with the establishment of the united nations organization in 1945 with provisions in article 71 of chapter 10 of the united nations charter for a consultative role for organizations which are neither governments nor member states. The term was used to distinguish between the participation of international private organizations and intergovernmental specialized agencies.

Non-governmental organization; also known as Non-Profit Organizations (NPO) and Private Voluntary Organization (PVO) are the most commonly used definitions of the term, interchangeably used. To this end, NGOs may be referred to mean non-profit making organizations that are objectively constituted or any organization that is not founded by any treaty to address challenging issues in the society. They respond to emerging needs in the fields of health, education, refugees, environment, human rights, and other key aspects of development. For instance, in the recent past, NGOs have been endeavoring to address the Millennium Development Goals (MDGs).

The NGOs operate on set programs of activities that address their interests and have often partnered with schools to finance projects in the education sector. It remains unclear whether the two entities; NGOs and the public primary schools consult or plan together for the developmental projects they undertake in the institutions. A project requires careful planning in terms of scope, time and finance and therefore, involvement of all stakeholders in the planning process is paramount for the project to realize success. Schools often incorporate NGO funded projects (more than one project at times) even when the projects were not initially factored in the school development plans.

Types of NGOs: NGOs may operate in two types which includes the national, or multinational while the second type is the local or indigenous NGOs; also known as CBOs (Community Based Organizations). CBOs often have low income, and work in aid recipient countries with low development. The national NGOs are intermediary and bureaucratic organizations with a professional staff; nationally based educated middle class and externally funded. CBOs on the other hand are community oriented with membership of Small self-help organizations and run by locally based volunteers. According to Bassler and Smit NGOs are attractive partners because they are easily approachable, relatively flexible, and usually less bureaucratic than other types of donors. NGOs might offer grass roots and rural implementation capacity and expertise that are better developed than that of the state. However, Bassler and Smit's argument does not content with the fact that NGOs are not found all over and that; their operation in a certain place is not permanent.

According to a report by UNDP, there were more than 50,000 NGOs working at the grass roots level in developing countries by the year 1993 whose activities had affected the lives of more than 250 million individuals.

Purpose of NGO: Non-Governmental Organization (NGO) is a term that has become widely accepted as referring to a legally constituted, non-governmental organization created by natural or legal persons with no participation or representation of any government. In the cases in which NGOs are funded totally or partially by governments, the NGO maintains its non-governmental status and excludes government representatives from membership in the organization. The primary purpose of an operational NGO is the design and implementation of development related projects. One frequently used categorization is the division into relief oriented versus development oriented organizations; they can also be classified according to whether they stress 11 service delivery or participation; or whether they are religious or secular; and whether they are more public or private oriented. Operational NGOs can be community based, national or international.

The principal purpose of an advocacy NGO is to defend or promote a specific cause. As opposed to operational project management, these organizations typically try to raise awareness, acceptance and knowledge by lobbying, press work and activist events. NGOs are types of organizations those are geared toward the provision of some sort of benefits to the society and are citizen-based associations. These organizations are mobilizing financial resources from various national and international voluntary agencies to work in a coordinated manner consistent with the requirements of the society. 'Non-Governmental Organization' (NGO) in the narrower sense can be defined 'self-governing, private, not for profit organizations that are geared to improving the quality of life for disadvantaged people.

The economic role of non-governmental organization: NGOs have become major players in the field of international and national development. Since the mid-1970's, the NGOs in both developed and developing countries has experienced exponential growth. From 1990 to 2000 total development aid disbursed by international NGOs increased ten fold. In 1992 international NGOs channeled over \$7.6 billion of aid to developing as in many African countries, the governmental efforts in socio-economic development are supplemented by the activities of many non-governmental, voluntary and social organizations. They are meant to fill the gaps that exist in

the governmental efforts. NGOs are mobilizing the resources from various national and international voluntary agencies. These organizations are to work in a coordinated manner consistent with the requirements of the society. They are regulated and controlled by the government agencies like charities and societies' agency.

In the last decade, NGOs have become more important, and their influence in the globalized world has grown significantly. NGOs are often described as the "third sector", when compared to the government (the public sector) and businesses (the private sector). As their significance has grown, their role has also changed: Currently their role can best be described as a dual role in which they perform a market and institutional identity at the same time. This means that NGOs can be a public and private player in the globalized world. They aim to serve particular societal interests by focusing advocacy and/or operational efforts on social, political and economic goals, including equity, education, health, environmental protection and human rights.

NGOs are actually embodied interests in an organization which have evolved from a social movement. So actually, the function of an NGO is representing the interests of the civil society. These interests vary from poverty alleviation, human rights, environmental degradation, and other issues of social, economic and political development. In this thesis, the focus lies on NGOs which are aimed in health sector, specifically about HIV AIDS institutional identity at the same time. This means that NGOs can be a public and private player in the globalized world. They aim to serve particular societal interests by focusing advocacy and/or operational efforts on social, political and economic goals, including equity, education, health, environmental protection and human rights. This puts them in a position between the government and the private sector.

Basic theories related with NGOs

Resource dependency theory: The resource dependency theory was advanced by Salancik and Pfeffer. Resource Dependency Theory (RDT) maintains that organizations are resource insufficient; they strive to acquire and sustain resources from their external environment. Salancik and Pfeffer argue that resources are controlled by external actors who exert demands on the organization. These actors perceive certain advantages in their relationship with the organization and exercise power through control over resources. The heavier the dependence on external resources, the more the demands of particular actors controlling these resources are influential. The challenge is for the organization to proactively and effectively manage incompatible and competing demands. Local NGOs rely more on external funders (donors), face instability in the flow of funding, and deal with volatile demands.

Accordingly, organizational behavior is a reflection of the NGO's management of its dependence on an external resource and the ensuing demands of a donor controlling the resources. The magnitude of resource dependence often determines the financial behavior of an NGO which in turn affect the financial sustainability of the NGOs. If an NGO fails to meet the conditions set by the external funders, the donors may withdraw the funding making the NGO face financial sustainability issues. The NGO may not be able to fund the projects due to instability of funding flows.

Institutional theory: Another theory relevant to the study is the institutional theory as explained by Scott in 2004. Institutional theory specifies how society expectations are met and gained by institutionalizing norms and rules. Institutional theory attends to the deeper and more resilient aspects of social structure. It considers the processes by which structures, including schemas; rules, norms, and routines, become established as authoritative guidelines for social behavior. It inquires into how these elements are created, diffused, adopted, and adapted over space and time; and how they fall into decline and disuse. Although the ostensible subject is stability and order in social life, organizations must perforce attend not just to consensus and conformity but to conflict and change in social structures.

This theory provides some code of behavior to earn, nurture and maintain societal expectations; and thus, create a positive organization society interface. The theory is relevant to the study in that for a firm to be funded and trusted by the donors, they have to follow a certain code of conduct that meets the expectations of the society. This ensures that the NGOs are financially sustainable and their projects funded on time.

Power relations theory: The power relations theory was developed by neo-institutional theorists, DiMaggio and Powell in 1983. Power relations theory provides an account for the changes that are occurring in NGOs due to their asymmetrical power relationship with their funding organizations. DiMaggio and Powell suggest that the more dependent an organization is on its exchange partners, the more this leads to greater similarities between organizations.

Wallace, Bornstein, and Chapman argue that coercion and compliance are important concepts in understanding the relationship between local NGOs and their foreign donors. Donor agencies provide access to funding and therefore are in a position of power. These donors set the agenda and conditions required for receiving a grant and there are real consequences if local NGOs lose this funding. Because donors have control over the funding and can decide to withdraw their contribution, coercion may include force.

Empirical literatures

Income diversification and NGOs' financial sustainability: Lewis defined income diversification for LNGOs as the sourcing funds from many sources. These include the public, business community, governments, and external donors. Donor funding is restricted with the LNGO using the resources only for the specified purpose. Lewis and Leon found that that there was a significant and positive relationship between income diversification and financial sustainability of NGOs. They asserted that diversification of income sources protects the organization from external shocks and challenges that come from the volatility of donor funding.

According to Mohamed and Muturi the term 'diversification of income' describes a number of activities that strive to reduce the dependence on a specific type of income, specific donor or grant maker, dominating customer, country that is the only or main source of funding and currency in which most or all funds are paid out. The author emphasizes that organizations that focus their activities on donors and grant makers will try to diversify international sources of funding, diversify among national sources of funding, find donors and

grant makers that have the reputation to be reliable and find donors and grant makers that contribute to overhead costs and start-up costs.

Alter points out that, the income diversification advocates for commercial ventures to diversify funding by LNGOs. The income diversification increases the number of NGOs incorporating income generating activities into their organizations, yet problems arise from disappointing financial returns, complex legal and tax issues, organizational discord and mission dissonance.

Moore argued that NGOs are expressing difficulty in finding sufficient, appropriate and continuous funding for their work. They find accessing donors as challenging as dealing with their funding conditions. They perceive there to be certain cartels of individuals and NGOs that control access to donor funds. They have limited resource mobilization skills and are often not looking for funds that are available locally, preferring to wait for international donors to approach them. There is a high dependency of donors and a tendency to shift interventions to match donor priorities.

Davis in his study on financial sustainability and funding diversification as a challenge for Indonesian NGOs found that most of the revenue coming into the NGO sector in Indonesia is from international donor agencies. For LNGOs, government (5%) and international donors (15%) were not the main funding sources. This contrasted with NGOs located in provincial capitals, which relied primarily on international donors (45%) or national NGOs for their funding (15%). He concluded that majority of the LNGOs in Indonesia do not have limited sources of funding. Nuka concurred by establishing that 75% of the LNGOs in Kosova relied on foreign donors' as their only or main financial sources of their projects and activities.

Donor relationship management and NGOs' financial sustainability: According to Omeri after the initial relationship has been established between the donor and the NGO, the next important challenge is maintaining that relationship going forward. Building good and cordial relationship with donors was a critical step in NGOs attaining financial sustainability. Moreno carried out a research on factors influencing financial sustainability of NGOs in Columbia and proposed that, clear communication and close collaborations between the NGOs and the donor organizations are critical elements in building strong relationships with the donors and which form the basis for long-term engagements. Through good donor relationship, donor organizations are able to understand the processes and activities of an NGO which increases their sense of ownership of the programs being executed in turn enhancing their desire to continually support the NGO in its endeavors.

Saungweme argues that good donor relationship management include NGOs being able to under the priorities of their donors and adjust their systems, activities and processes to allow them attract more donors. Waiganjo et al. on their part stated that NGOs that are able to align their programs in line with donor priorities are likely to get their support and hence become financially sustainable. Their study further revealed that most donor are funding NGOs in a consortium and that is was important for NGOs to join themselves to these alliance to attract such donors to ensure financial sustainability.

Previous empirical studies on determinants of financial sustainability of NGOs have found a positive relationship between

good donor relationship management and financial sustainability of NGOs. For instance, Saungweme study on Zimbabwe local NGOs determinants of financial sustainability revealed a positive but weak relationship between good donor relationship management and financial sustainability. The USAID report of NGOs in Zimbabwe also reported a positive relationship between good donor relationship management and financial sustainability of NGOs. Ibrahim study revealed that good donor relationship management was the most important determinants of financial sustainability of NGOs in Kenya.

Waiganjo et al. is a related study also reported a strong positive relationship between good donor relationship management and financial sustainability of NGOs. Fafchamps and Owens study on NGOs in Uganda also reported a positive relationship between good donor relationship and financial sustainability. Saungweme 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 programs that NGO is invited, keeping an updated database and tracking system of all donors in the country, the number of projects and programs funded by a donor, repeat funding by donors and donors funding of long term projects of NGOs.

Financial management systems and NGOs' financial sustainability

Financial planning: According to Lewis, Kanji, and Themudo (2020), financial planning remains one of the core functions of financial management systems in non-profits as is with profit making organizations. Financial planning allows the NGOs to focus on both short and long-term strategic goals, which are usually connected to the availability and timing of funding. Failure to engage in effective financial planning implies that an organization may not be able to reach its highest potential. In a Ghanaian study on issues and challenges of financing local non-governmental organizations, Gyamfi noted that financial planning as an element of financial management systems allows the non-governmental organizations to create financial controls that allow them to set spending limits and bolsters their attempt to keep costs in line with revenues. Creating financial controls and spending limits enables nonprofit organizations not to overspend, and makes sure that the managers are making beneficial decisions for the organization.

Having a sound financial plan allows the NGOs to show where the money they are receiving is going in the organization. Effective financial planning also allows NGOs to maintain focus on the organization's mission and grow their organization. Having a well thought out financial plan allows the NGO to keep its financials up to date and stable, by knowing ahead of time what amount is required for certain things. According to Elliott, having a financial plan allows an NGO to maximally apply its limited financial resources to the intended cause which may in turn inspire donors to continue offering their support in the knowledge that the funds will be put into optimal use. Financial planning is also critical to the NGOs' boards as it provides the yard stick with which the boards are able to review the performance of the NGO for a given financial period.

Nuka suggested that having an up to date, in-depth financial plan increases the chances of an NGO getting the approval of the board for the financial resources requested for which in return enables the NGO to accomplish the goals and objectives it has set for the year. The finance manager given his vantage position of immense

knowledge of the day to day operations of the organization can play an active role in financial planning with a focus on the organization's long-term goals and objectives. Studies by Rhoden and Beyene found a significant positive relationship between financial planning, as a financial management practice, and the financial sustainability of non-governmental organizations, underpinning the significance of financial planning to the future wellbeing of modern day NGOs.

In a study on non-profit financial sustainability, Kristin observed that often NGOs do not have management or staff with expertise in financial matters, which makes their financial planning more difficult. Thus, the board should try to recruit accounting or financial professionals that can help in this area as paid staff or as volunteers. In addition, executives should try to learn how to read the financial statements, how to set up financial plans and how to manage organizational finances in general. According to Muriithi, managers of non-governmental organizations are usually too busy to stop and plan ahead, especially in light of the fact that many non-governmental organizations run with minimum staff and most managers are hands-on, being involved in various areas and tasks, which leaves no time for effective financial planning.

Financial control: According to Kabdiyeva, an organization exercises good governance when it has an internal system of checks and balances that ensures public interest is served and protected. Financial controls are at the center of any good financial management system and they ensure that funds are being expended as anticipated within an organization's financial plans. In the case of non-governmental organizations, as is the case with other organizations, where deviations from the financial plans are detected, corrective action is instituted to protect the misappropriation of donor funds. According to Mutinda and Ngahu, the value of the financial controls lies in their ability to track every expenditure and revealing areas of weakness in the financial management system. Weerawardena et al. identified strong financial controls as one of the key elements of a good financial management system in the NGOs.

Onsongo did a study on the strategies adopted by non-governmental organizations to achieve financial sustainability in Kenya. The study found that sound financial management systems were one of the key strategies that significantly influenced the financial sustainability of local non-governmental organizations. In his study of financing local non-governmental organizations in Ghana, Gyamfi established that the sustainability of NGOs in the country were influenced positively by sound financial management systems as they promoted accountability and transparency in use of donor funds. Bell et al. points out that, a sound financial management system provides an opportunity for an NGO to evaluate its expenditure patterns, helping it to control its spending in line with set program targets.

NGO's Fund management and its utilization in Ethiopia: In Ethiopia context, there are five studies directly or indirectly related to the subject matter to the knowledge of researcher. These are Mengesha, Christian Relief and Development Association (CRDA), Ago, Belay and Andarge. Mengesha conducted a study related to financial management practices in local NGO in Addis Ababa. This study, tried to indicate the effective management of an NGO's resources is done in a manner which is transparent, accountable, equitable and responsive to the needs of the people. Since NGOs

aim at becoming sustainable, good governance is critical to their existence.

Ago, conducted a study related to the roles, contributions and challenges of NGOs in Ethiopia. Under this study, he tried to indicate the place of NGOs and identified their major contributions in food security and democratization process in Ethiopia and the challenges they encountered in their operation. In this investigation, researcher noted the major contribution of NGOs, like reducing involuntary mass migration and huge loss of lives and properties famine, food security, health and education, capacity building, infrastructure development, microfinance, and democratization.

Belay investigated fund management and its utilization in Tigray HAPCO. In this study, researcher found that the fund from international organization is main source of HAPCO's fund. This fund is managed by using tools. In addition, researcher stated some factors that can influence the fund management and utilization. At last, he pointed out some of the lessons learnt by the organization. Even though, he tried to examine the actual financial resources management and utilization from different perspectives, but it tried to see from Tigray HAPCO's perspective only, it doesn't necessarily mean the finding in Tigray HAPCO's applies to OSSA, due to their geographical location difference and their scope of involvement in the country.

Andarge is one of the researchers who evaluated the reporting and performance of charities and societies in Ethiopia. In his investigation, he found that charities and societies in Ethiopia use internationally accepted reporting practice. About performance evaluation, he noted that for most organizations, a higher percentage of resources spent on program services than on management and fundraising were considered a positive performance indicator; however, he overlooked fund management and its utilization practice.

Conceptual framework of the study: In order to make the study conceptualized and easily understandable, it is framed and hypothesized based on the factors reviewed from literatures. The study is conceptualized in such a way that its objectives can potentially be achieved and its research hypothesis can be addressed. The conceptual framework depicts the relationship between the dependent and independent variables. For this study purpose, the conceptual frame work of the study is summarized as follow (Figure 1):

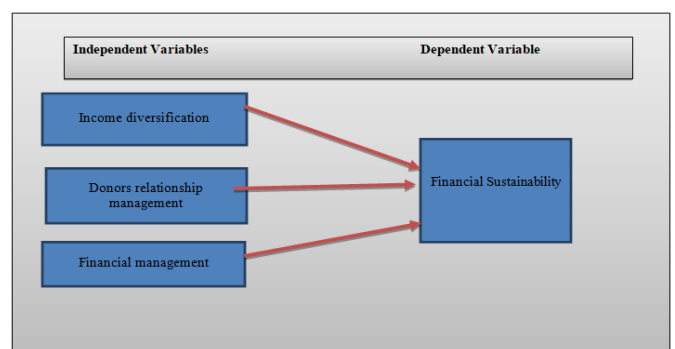


Figure 1. The conceptual frame work of the study is summarized above figure.

Research methods

The purpose of this chapter is to present the methods that has been used in this study and the choice of the appropriate research method for the study. It describes the research design and the data type and collection methods. Besides, it covers the research instruments, the target population, sample size and sampling design and the procedure for collecting the primary data. Finally the chapter provides the methods that are used to analyze the collected data.

Research design: According to Kothari research design is the structure under which the research is conducted. In order to achieve the objective of this study, quantitative research approach was used. Data was collected through questionnaires that are self-administered. A quantitative data collection method was centered on the quantification of relationships between variables. Quantitative approach is useful as it helps the researcher to prevent bias in gathering and presenting research data. The descriptive research method presents facts concerning variables under investigation, as they exist at the time of the study as well as trends that are emerging. The design was appropriate for this study in that it describes the situation as it is, while minimizing bias data collection. The dependent variable of the study is financial sustainability of NGOs while the independent variables of the study are income diversification, donor relationship management and financial management systems.

Data type and method of data collection: This research was conducted by using primary data obtained from the respondents of questionnaire. A survey using self-administered questionnaire (quantitative approach) was conducted to investigate the determinant factors of financial sustainability of NGOs in eastern Hararge zone, Ethiopia. Respondents have been required to indicate their opinions for each listed item in the questionnaire. The reliability of the questionnaire has been tested using Cronbach's Alpha reliability test and the result is found to be 0.672 and the validity of these research instruments has been checked and consult by a group of professionals in the study area and academicians. The questionnaire is written and administered in Oromiffa language, because oromiffa is the mother tongue of the respondents.

Population

For this research purpose, the target population is Non-Governmental Organizations (NGOs) in Ethiopia particularly local NGOs located at eastern Hararge zone. According to eastern Hararge zone Administration Office, there are 54 NGOs in eastern Hararge zone. The targeted individuals are the representatives, finance managers, grant accountants and finance controllers in the organizations. And they are 216 in number. This allowed the researcher to target those respondents that are familiar with the various factors affecting their organizations' financial sustainability.

List of woredas in East Hararge Zone

- Babile
- Badeno
- Chinaksen
- Dadar
- Fedis
- Girawa
- Gola Oda

- Goro Gutu
- Gursum
- Haro Maya
- Jarso
- Kersa
- Kombolcha
- Kurfa Chele
- Malka Balo
- Meyumuluke
- Meta
- Midega Tola

Sampling design

Sampling frame and sampling technique: The current study's sampling frame had 216 staff members of 54 local NGOs found within 18 woredas around eastern Hararge zone as obtained from the human resource departments of these organizations. The researcher used a purposive sampling technique to come up with the respondents for the research. The targeted individuals were the finance managers, grant accountants and finance controllers in the organizations. This allowed the researcher to target those respondents that were well versed with the various factors affecting their organizations' financial sustainability.

Sample size: The study sample size was reached upon after the use of the Yamane formula. The formula was as shown below;

$$n = \frac{N}{1 + N (e^2)}$$

Where; n=sample size

N=population size

e=the level of precision, this formula is used at 95% confidence level and at 0.05 level of significance.

$$n=54$$

$$1+54 (0.05)^2$$

$$n=47 \text{ local NGOs}$$

$$= 47 \times 4 \text{ members}=188 \text{ staffs}$$

Data analysis methods

The analysis of data helps to compress data to sizes that are easy to manage. The analysis further summarizes and looks at data patterns using statistical techniques. The researcher was check the questionnaire for consistency and completeness and data are coded. In this study the collected data was analyzed using descriptive and inferential statistics analysis techniques. Descriptive statistics including mean and standard deviation are used in analysis using the SPSS software. There is also a need to determine if there is an existing relationship between the variables of the study. For this study, the researcher applied correlation and regression analysis and the results is show in tables. The advantage of using the regression model is that the model had the capacity to show whether the

independent variables significantly affect the dependent variable. Pearson correlation was tested the strength of the study variables relationship.

The regression model is as specified below;

$$Y = \beta_0 + \beta_1 ID + \beta_2 DRM + \beta_3 FMS + \epsilon$$

Where;

Y=dependent variable (Financial sustainability of NGOs),

β_0 =Constant,

β_1 - β_3 =Coefficients of the independent variables,

ID=Income diversification,

DRM=Donor relationship management,

FMS=Financial management systems,

ϵ =represents the error term

Results and Discussion

Descriptive statistics of study variables

Income diversification and financial sustainability of local NGOs: One of the study's objectives was to investigate the effect of income diversification on local NGOs' financial sustainability in eastern Hararge zone (Table 1).

Statements	Mean	Std. Dev
Reliance on donor funding forces my organization to align its plans with donor priorities	3.999	0.8165
Income diversification reduces the risk of my organization closing down in case of withdrawal of donors	4.186	0.7754
Income diversification enables my organization to meet its overhead costs and other expenses not met by the donors	4.229	0.6631
Income diversification increases my organization's ability to fund its projects based on its own priorities	4.321	0.7167
Income diversification enables my organization to be able to reject funding whose sources do not fit into its agenda and values	4.321	0.6712

Source: respondents survey and own computations

Table 1. Respondents' level of agreement with statements on income diversification.

The researcher requested the respondents to show their level of agreement with the statements given on income diversification in their organization. The results indicate that, the respondents did agree that Reliance on donor funding forces my organization to align its plans with donor priorities (mean=3.999); Income diversification reduces the risk of my organization closing down in case of withdrawal of donors (mean=4.186); Income diversification enables my organization to meet its overhead costs and other expenses not met by the donors (mean=3.942). Income diversification increases

my organization's ability to fund its projects based on its own priorities (mean=4.229); Income diversification enables my organization to be able to reject funding whose sources do not fit into its agenda and values reliance on donor funding forces their organization to align its plans with donor priorities (mean=4.321). In addition, all the responses yielded standard deviation values of less than 1 indicating that there was little variation in the responses given.

Donor relationship management and financial sustainability of NGOs: The second objective of the study sought to establish the effect of donor relationship management on local NGOs' financial sustainability in eastern Hararge, Ethiopia (Table 2).

Statements	Mean	Std. Dev
The stronger the relationship my organization has with its donors the more financially sustainable it is	4.171	0.7287
My organization actively implements donor visibility/recognition activities	3.899	0.728
My organization provides regular reporting on its expenditure to foster accountability for funds given.	4.325	0.6364
My organization has to follow the guidelines as well as scope of donor activities or risk getting no funding	3.999	0.6505
My organization has made efforts in establishing constructive networks and alliances with various donor organizations	4.122	0.6569

Source: respondents survey and own computations

Table 2. Respondents' level of agreement with statements on donor relationship management.

The researcher requested the respondents to show their level of agreement with the statements given on donor relationship management and financial sustainability of NGOs and the results indicate that, the respondents did agree that, The stronger the relationship my organization has with its donors the more financially sustainable it is (mean=4.171); the organization actively implements donor visibility recognition activities (mean=3.899); organization provides regular reporting on its expenditure to foster accountability for funds given (mean=4.325); their organizations has made efforts in

establishing constructive networks and alliances with various donor organizations (mean=4.122); their organizations has to follow the guidelines as well as scope of Donor activities or risk getting no funding (mean=3.999). In addition, all the responses yielded standard deviation values of less than 1 indicating that there was little variation in the responses given.

Financial management systems and financial sustainability of NGOs: The last objective of the study sought to find out the effect of financial management systems on NGOs’ financial sustainability in eastern Hararge zone, Ethiopia (Table 3).

Statements	Mean	Std. Dev
My organization maintains an updated assets list	3.942	0.8064
Financial reporting in my organization is effective	4	0.7965
My organization has financial reporting structures which facilitate accountability	4.107	0.5355
There are good financial policies that guide the way the firm manages its financial resources	4.121	0.6532
Operations of my organization are done according to budgetary allocations	3.999	0.6625
My organization has a competent Board that provides oversight for all its financial dealings	4.025	0.8662
My organization’s projects are audited every year by a qualified external auditor	3.889	0.9401

Source: respondents survey and own computations

Table 3. Respondents' level of agreement with statements on financial management systems

The above table indicates that, the respondents were in agreement that the organization maintains an updated assets list (mean=3.942); the organization has financial reporting structures which facilitate accountability (mean=4.000); There are good financial policies that guide the way the firm manages its financial resources (mean=4.107); Operations of the organization are done according to budgetary allocations (mean=3.999); their organizations has a competent Board that provides oversight for all its financial dealings (mean=4.025); their organizations’ projects were audited every year by a qualified external auditor (mean=3.889). In addition, all the

responses yielded standard deviation values of less than 1 indicating that there was little variation in the responses given.

Inferential Statistics

This study applied Pearson correlation analysis and multiple regression analysis to analyze the relationship between the study variables. The study findings are described in the following subsections.

Correlation analysis

Financial sustainability of NGOs		Income diversification	Donor management	relationship	Financial systems	management
Financial sustainability of NGOs	(r) Sig. (2-tailed)	1				
	N	70				
	(r)	.728 [*]	1			
Income diversification	Sig. (2-tailed)	0				
	N	70	70			

	(r)	.629*	0.082	1	
Donor management relationship	Sig. (2-tailed)	0	0.276		
	N	70	70	70	
	(r)	.751*	0.238	0.117	1
Financial management systems	Sig. (2-tailed)	0	0.145	0.132	
	N	70	70	70	70

*Correlation is 2-tailed and significant at 0.05 level

Table 4. Correlation matrix

It is very common to apply Pearson correlation analysis to assess the nature of the relationship existing between the study variables. Accordingly to the results indicated by the above table, there was a positive and significant correlation between income diversification and financial sustainability of NGOs ($r=0.728$, p value <0.05); further there was a positive and significant correlation between donor relationship management and financial sustainability of NGOs ($r=0.629$, p value <0.05) additionally, there was a positive and significant correlation between financial management systems and financial sustainability of NGOs ($r=0.751$, p value <0.05). This indicates that income diversification, donor relationship management and financial management systems were determinants that positively correlated with the financial sustainability of local NGOs in eastern hararge zone.

Regression analysis: The researcher regressed the independent variables (income diversification, donor relationship management and financial management systems) against the dependent variable (financial sustainability of NGOs) to determine the relationship existing between the variables.

Model summary: The coefficient of determination or R square shows the change in the outcome variable due to a change in the predictor variable. The value of R square was 0.719 meaning that 71.9% variation in the dependent variable (financial sustainability of NGOs) was due to variations in the independent variables (income diversification, donor relationship management and financial management systems). Hence, 28.1% of variation in the financial sustainability of NGOs was due to other factors that were not part of the model and those that were not focused on in the current research (Table 5).

Model	R	R square	Adjusted R square	Std. error of the estimate
1	.878 ^a	0.72	0.717	0.8849

Table 5. Model summary.

Predictors: (Constant), income diversification, donor relationship management and financial management systems

The results indicated that the model is statistically significant in showing how income diversification, donor relationship management and financial management systems affect the financial sustainability of NGOs in eastern Hararge zone (Tables 6 and 7).

Analysis of variance (ANOVA)

S. no.	Model	Sum of squares	df	Mean square	F	Sig.
1	Regression	142.235	3	47.412	60.165	.0000 ^a
	Residual	57.233	67	0.854		
	Total	199.468	70			

Table 6. ANOVA.

• **Predictors:** (Constant), income diversification, donor relationship management and financial management systems.

• **Dependent variable:** Financial sustainability of local NGOs.

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
(Constant)		4.832	0.512		9.572	0
Income (ID)	Diversification	0.562	0.285	0.467	2.319	0.0234

Donor Relationship Management (DRM)	0.623	0.176	0.513	4.443	0
Financial Management Systems (FMS)	0.692	0.243	0.426	2.897	0.0051

Table 7. Results of the regression model.

$Y = \beta_0 + \beta_1 ID + \beta_2 DRM + \beta_3 FMS + \varepsilon$ was the regression model specification

Where; Y=Dependent variable (Financial sustainability of NGOs),

β_0 =Constant

β_1 - β_3 =Coefficients of the independent variables

ID=Income diversification

DRM=Donor relationship management

FMS=Financial management systems

ε =Error term

Based on the regression analysis results shown in the table the regression model became;

$$Y = 4.832 + 0.562 ID + 0.623 DRM + 0.692 FMS$$

From the regression equation above, considering the study factors (income diversification, donor relationship management and financial management systems) constant at zero, financial sustainability of local NGOs in eastern Hararge, Ethiopia would be 4.832. The results also indicate that if income diversification increases by one unit, financial sustainability of local NGOs in eastern Hararge would increase by 0.562; a unit increase in donor relationship management would lead to a 0.623 increase in the financial sustainability of NGOs in eastern Hararge while a unit increase in financial management systems would lead to a 0.692 increase in the financial sustainability of local NGOs in eastern Hararge. At 5% significance level (or 95% level of confidence), income diversification had a 0.0234 level of significance; donor relationship management had a 0.0000 level of significance while financial management systems had a 0.0051 level of significance. All the variables were significant ($p < 0.05$) with the most significant factor being donor relationship management followed by financial management systems and income diversification, respectively. The results indicate a strong positive relationship between income diversification, donor relationship management and financial management systems and financial sustainability of local NGOs in eastern Hararge.

Conclusion

Based on the findings obtained the following conclusions are drawn

- Income diversification played a significant role in the financial sustainability of local NGOs in eastern Hararge as it increased their ability to fund their projects based on their own priorities; it enabled the NGOs to reject funding sources that were not a good fit into the organizations values and agendas; it also enabled the organizations to meet overhead costs and expenses that could

not be met by the donor funding and it helps the NGOs reduce the risk of closing down in case of withdrawal of donors.

- Donor relationship management played a significant role in the financial sustainability of local non-governmental organizations in eastern Hararge as evidenced by the assertions that the NGOs had made efforts in establishing constructive networks and alliances with various donor organizations; accountability in the use of donor funds had helped improve the NGOs donor relations; the organizations maintained regular meaningful communications with their donors; the organizations provided regular reporting on their expenditure to foster accountability for funds given; the organizations actively implemented donor visibility/recognition activities and that stronger relationships with the donors made the NGOs to be more financially sustainable.
- Financial management systems played a critical role in the financial sustainability of local NGOs in eastern Hararge as evidenced by the assertions that there existed proper financial policies that guided how the organizations managed their funds; operations of the organizations were done according to budgetary allocations; the organizations periodically review their budgets and other financial plans to see if they are in agreement with their mission; financial reporting structures existed that allowed for accountability to take place; the organizations maintain an updated assets list; the organizations' projects were audited every year by a qualified external auditor and that the organizations had a competent Board that provided oversight for all their financial dealings.

Recommendations

- Based on the conclusions drawn the following recommendations are forwarded
- Local Non-governmental organizations should identify and implement various income generating activities with a view of achieving self-sustenance especially in light of declining donor support.
- Local non-governmental organizations should develop an operating framework that allow frequent meaningful collaborations with the donors in the execution of their activities. Further, the non-governmental organizations should institute adequate internal controls that foster full accountability in the expenditure of funds provided by the donors.
- Local the non-governmental organizations should strengthen their financial reporting structures to ensure effective management of their financial resources. The financial reporting structures should provide for the oversight role of auditors and boards in all financial dealings of the organizations as an accountability measure. In addition, the financial reporting structures should provide for adequate financial planning in order to ensure that the financial needs of the organizations for a particular period are identified beforehand and ways of raising the required funds are hence identified.

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