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ABSTRACT

The main objective of this study was be to establish factors influence financial sustainability of inter-governmental organizations in Africa, a case study of Regional Center for Small Arms (RECSA). The specific objectives of the study were to examine the effect of budgeting strategies on financial sustainability and the relationship between financial control systems and financial sustainability. The study adopted a descriptive survey design. The target populations of this study were all the employees of Regional Center for Small Arms (RECSA). It covered a number of employees that were directly involved with financial stability but they were not limited to finance directors (FD) project directors, Head of research, research officers and accountant's. The sampling frame of this study was derived from the database of individuals at RECSA secretariat. Purposive sampling was used in selecting the respondents from their respective countries. A Likert scale questionnaire was used to gather primary information while a secondary data collection sheet was used for collecting secondary information regarding firm performance. Information was sorted, coded and input into the statistical package for social sciences (SPSS) version 23.0. The analyzed data was presented in form of frequency distribution tables. The findings indicated that financial control system and budgeting strategies at RESCA had a strong positive significance influence on financial sustainability at RESCA.

Key Words: *Budgeting Strategies, Financial Control Systems, Financial Sustainability*

INTRODUCTION

Financial sustainability refers to the ability of an organization to develop a diverse resources base so that it could continue its institutional structure and production of benefits for intended client population after the cessation of donor financial support Ashoka and Maingo (2015). It involves developing financial management which involves financial management systems that provide the information which enables managers to make sound financial and programmatic decisions, and thereby improves the efficiency of the organization; analyzing costs to identify potential cost savings and developing policies and strategies for reducing costs and improving financial budgeting and; resource mobilization through designing a comprehensive resource mobilization strategy (Lyn, 2013). Intergovernmental Organizations (IGOs) are intermediary organizations engaged in funding or offering other forms of support to communities in member countries and other organizations that seek to promote development and they are mostly regional (Boas& McNeills, 2009). An IGO is an organization that is neither a part of a government nor a conventional for-profit business. It is usually set up by member countries, IGOs are majorly funded by member countries, foundations, businesses, or private persons (Holloway, 2003).IGOs are said to be groups and institutions that are entirely or largely independent of government and that have primarily humanitarian or cooperative rather than commercial objectives (Houghton, 2005).IGOs 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.

Financial sustainability has become an integral part in the IGO sector given withdrawing of member countries and donors' in rich nations. For example, the recent economic recession has dramatically influenced trends in donations, particularly from individuals, as developed countries have less disposable income to continue giving to nonprofit organizations at the levels they had in previous years. In a survey of nonprofits at the end of 2012, 75 percent of nonprofits reported feeling the effects of the downturn, with 52 percent already experiencing cuts in funding (Renz, 2014). Nonprofit organizations are struggling financially, particularly those that rely on government funding-with 61 percent of nonprofits reporting cuts in government funding- as well those that rely on foundations for monetary contributions with 48 percent of nonprofits reporting cuts in funding.

In African countries, the IGOs' poor sustainability is the result of poorly prioritizing of projects, which often relate to strategic errors made during the formation of the IGOs (Roll, 2009).According to UN (2009), most IGOs in Africa, depend on donor funding or external support agents to sustain their programmes and projects. This explains why their financial resources follow a boom-and burst trend leading to close down of many IGOs without a clear vision and mission. After getting the funds, some organizations do not bother to prepare the financial statements stating the uses of these moneys. This is why there is no proper leadership and management of the funds. Where funds are misappropriated, the result is the subsequent withdrawal by donor agencies leading to collapse of projects

Financial sustainability is the ability of a Non-profit Organization to maintain financial capacity over a period and develop a range of resources so that it could continue with its activities after the withdrawal of donor funding (Bowman 2011). Financial sustainability is always an important factor in the life of an IGO and since the economic crisis of 2008, issues of sustainability have become critical for civil society organizations. IGO need money to pay salaries, run offices and implement programmes.

Statement of the problem

Realization of financial sustainability is a vital component of an IGO. Financial sustainability allows the IGOs to provide larger and more multifaceted services. There is no doubt that with the increasing demands on the state by the citizens, the states can no longer be the sole provider of goods and services. In order for IGOs to realize their potential contribution and to efficiently manage their activities, it is essential for them to be financially sustainable (Bell et al, 2010). According to Kisinga (2014), the failure of IGOs is mainly due to inadequacy of funding which makes the IGOs financially unsustainable.

According to UN (2009), most lGOs, which are dependent on governments and donors, are faced with the challenge of sustaining their projects and programmes due to stringent financial and accounting procedures set by the donors and governments. RESCA is no exception and have been struggling to remain afloat in this competitive arena. However, past experience has led to development of attractive resource mobilization strategies that include stringent auditing, good governance, sticking to international financial reporting standards and currency exchange rates. According to Nyakwaka (2010), the financial sustainability of most IGOs depend on how they strategize to attract donor funding and subsequently how well they utilize those funds to meet stated project objectives. According to Saungweme, Maxwell (2014), on factors influencing financial sustainability of local IGOs in South of Africa. Most of the Inter-governmental organizations are financially unsustainable and risk closing down and stopping service delivery to the needy not reached by government or private sector programmes if external donors pull out.

Karanja and Karuti (2014) did an assessment of factors influencing sustainability of non-governmental organizations in Africa. He found that government policies, management and sources of finance affected sustainability of IGOs in Africa. A study by Waiganjo, et al, (2012) on the strategies adopted by non-governmental organizations in Africa to increase financial sustainability found that strategic financial management, internal financial funding, strategic alliances and organization structure contributed towards financial sustainability of IGOs in Africa. Most of the scholars concur that financial sustainability remains one of the major challenges that IGOs face in Africa and will continue to face in the near future. A study by USAID (2010) found that only 6.2% of the IGOs in Africa were financially sustainable. This creates the need to measure the financial sustainability and enumerate the factors influencing financial sustainability of IGOs and especially those in Africa. In addition to that, most research studies on IGOs in Africa focus on the outcomes of programs and government involvement rather than on factors influencing their sustainability. Little mention is made on financial sustainability perhaps because the IGOs have been traditionally associated with seemingly unlimited funding from foreign donors, this study therefore sought to answer the question; what are the factors that influence financial sustainability of IGOs in Africa.

Objectives of the study

The general objective of this study will be to establish factors influencing financial sustainability of IGOs operating in Africa a case of the Regional Center for Small Arms (RECSA). The specific objectives were:-

- To establish the effect of budgeting strategies on financial sustainability of RECSA
- To determine the effect of financial control systems on the financial sustainability of RECSA
- To establish influence of income diversification on financial sustainability of RECSA
- To establish influence of stakeholders' involvement on financial sustainability of RECSA

REVIEW OF LITERATURE

Theoretical framework

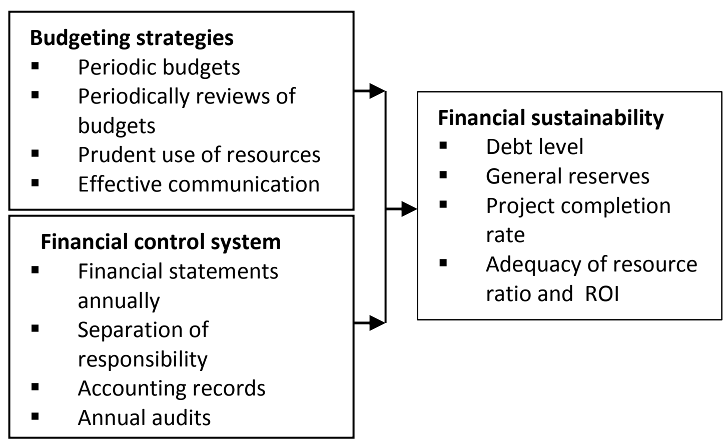
Accounting process theory

According to Kershaw and Harrell, (2009), accounting theory creates a framework that ensures that financial and accounting practice complies with the requirements of conformity and uniformity. This theory is embodied in a set of principles, policies, methods, procedures and conventions. The continuously increasing scope and complexity of our economic system requires a corresponding process of adaptation in accounting in order that the relevant information regarding economic activities may be recorded. It is essential that everyone involved in accounting should understand this process of adaptation. Moreover, a prerequisite for such understanding is a grasp of not only the theory of accounting, but also the structure of that theory. Accounting theory is based on a set of basic economic truths that are of a dual nature. First, accounting theory is based on propositions generally accepted in the economic order of a particular society; the basic economic truths have characteristics similar to those of natural laws in the sense that specific causes generate specific consequences. If, for example, someone derives greater value from a transaction than what was put into the transaction, his net worth - his wealth will have increased by the surplus amount. This too is a basic economic truth. These economic truths are formulated as concepts and postulates. According to Kershaw and Harrell, (2009), in the development of accounting theory, concepts and postulates serve as formulations of the basic truths or propositions upon which the theory is based. They do not attempt to prescribe the working of the accounting process, but simply the foundation upon which the structure of financial control system is based.

Resource- dependency Theory

The resource dependency theory was advanced by Pfeffer and Salancik (1978). Resource dependence theory (RDT) maintains that organizations are resource-insufficient; they strive to acquire and sustain resources from their external environment.(Moore, 2010) observes that the RBV formulates the firm to be a bundle of resources, in other words, it is these resources and the way that they are combined that distinguishes firms from each other. It is essentially an inside-out approach of analyzing the firm implying that the starting point of the analysis is the internal environment of the organization. The RDT theory relies on the firms' internal attributes to explain firms' heterogeneity in strategy and performance. Based on this view, a firm can be taken as an organized, unique set of factors known as resources and capabilities, which are related sources of advantages to the firm. Resources are a firm's accumulated assets, including anything the firm can use to create, produce, and/or offer its products to a market. As pointed out by Wallace, et al (2006) resources are eligible for legal protection (as such, firms can exercise property rights over them); can operate independently of firm members; and can intervene as factors in the production process to convert input into output that satisfies needs . As (Moore, 2010) contends, resources such as capital, equipment, and the skills of individual employees, patents, finance, and talented managers form the necessary inputs into a firm's production process.

Conceptual framework



Independent Variables Dependent Variable

Figure 1: Conceptual Framework

Source: Author (2018)

Budgeting strategies

According to Kavulya (2006), Budgeting involves the process of identifying, costing and allocating revenue to the resources and activities that allow the objectives of the organization to be achieved.

Essential preliminaries established before effective budgeting include: preparation of an organizational chart which shows the functional responsibilities of each member of the management team; establishment of budget centers; establishment of adequate accounting record to facilitate the recording and analysis of transactions in the organization; establishment of budget committees; budget timetable to enable timely flow of information; and the budget manual which shows budgetary procedures including budget centers and timetables (Balunywa 2005). Over the course of the fiscal year that is being reviewed, reforecast and reallocated, the aim is to make the best use of the available financial resources (Surajkumar, 2011).

A budget is a very important tool for management in all organizations. It serves as a tool for planning and controlling the use of scarce financial resources with the aim of achieving financial sustainability of a firm (Bartle ,2008) Budgets often establish performance goals for the unit in terms of costs, revenues, and/or production (Little et al., 2012). Other benefits of budget strategy include providing managers with realistic performance targets, coordinate the various segments hence achieving goal congruence, serves as a communication tool for managers to exchange ideas and it is a motivator to all staff (Anderson, 2011). Horngren et al., (2005) asserted that a budget is a quantitative expression of a proposed plan of action by management for a future time period and is an aid to the coordination and implementation of the plan. He further indicates that budgets can cover both financial and nonfinancial aspects of these plans and acts as blue print for the company in the forthcoming period (Horngren et al., 2005).

The budgeting strategy is an integral part of both planning and control. Surajkumar, 2011) noted that too often budgets are associated with negative, penny-pinching control activities whereas the full process is much broader and more positive than that. Budgeting is about making plans for the future, implementing those plans and monitoring activities to see whether they conform to the plan Chai (2011). To do this successfully requires top management support, cooperative middle managers and well-organized reporting systems (Lucey, 2002). A good budgeting process incorporates a long-term perspective, establishes linkages to organizational goals, focuses budget decision on results and outcomes and promotes effective communication with stakeholders. Budgeting is strategic in nature and not a matter of balancing revenues and expenditure every year.

According to Kariuki (2010), budgeting is a process of planning the financial operations of a business. Budgeting as a management tool helps to organize and formulize management's planning of activities. Budgeting as a financial tool is useful for both evaluation and control of organizations for the planning of future activities.

Financial control systems

Financial control systems are systems and procedures either financial or otherwise that are put in place to ensure the organization processes are run in an effective and efficient manner and to safeguard the assets of the organization. These include safe custody of resources, pre-numbering of receipts, policies and manuals. These are essential as they develop an environment of orderliness and guidance in operations of an organization leading to effectiveness in financial accounting (Malvern, 2002). According to Booth (2009) financial control means not only internal check or internal audit, but the whole system of control, financial and otherwise, established by the management in order to conduct the business of the company in an orderly manner, safeguard its assets and secure as far as possible accuracy and reliability of its records (Kumar, 2011). According to Booth (2009) financial control is the process designed and implemented by those charged with governance, management, and other personnel to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Financial controls are designed to provide reasonable assurance that business objectives may be achieved and that undesired events would be prevented or detected and corrected (Berger, 2006).

Financial sustainability

Financial sustainability is the capacity of an NPO to generate revenues locally and ensuring that external donors continue to make funds available at required levels for programmes (Devkota, 2010). Lewis (2011) noted that financial sustainability is gauged by surplus of revenue over expenses), liquidity, and solvency. Financial sustainability also entails the capacity to develop a diverse base of funding so that the institutional structure and benefits production of an organization continue after external funding ceases (Abdelkarim, 2012). Financial sustainability encompasses sound financial management, resource mobilization and income generation/self-financing (Abdelkarim, 2012). Financial sustainability entails the ability to generate a positive balance sheet so that the organization can have flexibility to respond to new needs and changes to the operating environment (Leon 2011). Saungweme (2014) from the regression analysis ascertained that sound financial management practices had the largest influence on financial sustainability of Non-Governmental Organizations, followed by income diversification, then own income generation and good donor relationship management. Ali (2012) concurs by stating that majority of the IGOs in Africa are financially unsustainable.

(Devkota, 2010) noted that financial sustainability is gauged and measured by net income (surplus of revenue over expenses), liquidity (cash available to make payments), and solvency (the relationship between assets and debt/liabilities). Financial sustainability also entails the capacity to develop a diverse base of funding so that the institutional structure and benefits production of an organization continue after external funding ceases (Abdelkarim, 2012).

Empirical review

Moore (2010) argues that IGOs 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 IGO's 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

Chai (2011) conducted a study aimed at establishing the budgeting techniques and how those techniques impact to the financial performance of courier companies in Kenya. He then concluded that there was a significant relationship between the budgeting techniques and the financial performance of courier companies. Joshi et al., (2013) posited that budgetary participation is expected to be a crucial channel to improve the information exchange and sharing among all levels of management and when this process is pursued by a firm, it is expected that the realization of the set target is improved.

Red Cross in the Toronto region, reliance on contract-based funding led to challenges with employee retention (Akingbola, 2014). Although contract funding has some benefits temporary staffing may be detrimental to a nonprofit's delivery of services and mission impact, as it may not only affect employee recruitment and retention but also negatively influence employee morale and training practices (Akingbola, 2014). Constant turnover or continually shifting staff responsibilities to align with short-term contract requirements may prove to be expensive to maintain in the long term, and ultimately reduces the effectiveness of the services nonprofits provide to their communities. Leon (2011) noted that many IGOs do donor-based accounting, which is risky as it does not give adequate controls for regular automatic reviews and this type of accounting was susceptible to human error. The study suggested that IGOs should pursue cost center accounting, which allowed for double entry and coding for donor reports as well as tight controls.

METHODOLOGY

This study adopted a descriptive survey design to answer the research questions. According to Orodho (2008), descriptive survey is a method of collecting data by interviewing or administering a questionnaire to a sample of individuals, which can be used when collecting information about peoples' attitudes, opinions, habits or any other social issues. The target population of the study included all the employees of Regional Center for Small Arms (RECSA) the respondents included the finance directors (FD)project directors, Head of research, research officers and accountants. Census survey was conducted at RECSA because the total population under study is less than 200 individuals (Evans & Wachs, 2010). The study adopted a Purposive sampling in selecting the respondents from their respective member countries. Primary information was gathered by use of questionnaires coupled with informal interviews that were guided by the questionnaires. Secondary data was gathered from annual reports of RECSA. The study used both primary and secondary data sources since the nature of the data is quantitative and qualitative. The respondents were picked purposively from their respective IGO. Information was sorted, coded and input into the statistical package for social sciences (SPSS) version 23.0

RESULTS

Financial control systems and financial sustainability of IGOs

The study also sought to determine the influence of preparing financial controls systems plans for fund projects on the financial sustainability of IGOs. In order to achieve this objective, the respondents were requested to respond to certain statements describing the approach to financial controls systems in their IGOs. The statements were; my IGO prepares periodic budgets consistent with its long term plans; my IGO periodically reviews the budgets and other financial controls systems to see if they agree with its mission; the budgeting methods used in our IGO ensure that all funding of operations and projects are within the specified limits; all staff participate in the developing of budgets and other financial controls systems tools and; there was effective communication of the budgets and other financial strategic plans. These was rated on a 5 point Likert scale ranging from; 5 = Strongly Agree (SD), 4= Agree (A), 3= Neutral (N) 2= Disagree (D) to 1 = Strongly Disagree (SD). The results on this were as summarized in the table below:

Table 1: Financial controls systems and financial sustainability of IGOs

	SA	**A**	**N**	**D**	**SD**		
Statements	freq (%)	freq (%)	freq (%)	freq (%)	freq (%)	χ2	P-Value
The accounting policies and recording procedures are clearly documented in a written policies	15	44.4	15.8	20.3	4.5	58.2406	0.0001
Ensures separation of responsibility in the receipt, payment, and recording of cash	13.5	43.6	18.1	20.3	4.5	56.0602	0.0001

	SA	A	N	D	SD		
Has accounting entries supported by appropriate documentation	15.8	34.6	31.6	15.8	2.3	46.3609	0.0001
Maintains up-to-date accounting records	16.5	39.8	24.1	17.3	2.3	49.5188	0.0001
Carries out annual audits	39.1	36.3	12.8	12	0.7	72.2256	0.0001
Poor financial management has hindered the full achievement of the organization's mission	6.5	9.8	4.1	7.3	2.3	49.5188	0.0001
There are proper and timely financial reports	9.1	6.3	2.8	12	0.7	72.2256	0.0001

The findings in Table 1 above indicated that most of the IGOs in the area often prepared periodic budgets consistent with their long-term plans (44.4%). This was realized by the organizations periodically reviewing the budgets and other financial controls systems to see if they agreed with their mission (43.6%). According to Bray (2010), absence of financial controls systems was one of the challenges encountered in the IGO sector. Few IGOs have financial controls systems, which would enable them to have ownership over their mission, values and activities. The budgeting methods used by most of the IGOs ensured that all funding of operations and projects were within the specified limits (34.6%). The findings also indicated that the IGO also encouraged all their staff to participate in the developing of budgets and other financial controls systems tools (39.8%). Schneider (2003) observed that small nonprofits do not give them the priority needed to effectively develop tools that can aid agency activities and often choose limited computerized systems to fit budgets and agency knowledge, and they need training to use systems effectively (Stoecker & Stuber, 1997). The budgets and plans were then communicated effectively within them (36.3%). This means that the IGOs management had high regard for financial controls systems although there were notable weaknesses in budget implementation probably arising from the communications and this needed to be addressed. The Chi-square values for all the indicators of this variable were as statistically significant.

Budgeting strategies and financial sustainability of the IGOs

It was also important for the study sought to determine the effect budgeting strategies on Financial Sustainability of the IGOs. In particular, the statements sought to ascertain whether; there was adequate budgeting allocation of resources for all activities in our IGO; projects were completed in time according to the planned budget and schedule; the IGOs always has enough money for all contingencies and if the IGOs had accrued less debts in the last 2 years compared to the past. The status of this variable was rated on a 5 point Likert scale ranging from; 5 = Strongly Agree (SD), 4= Agree (A), 3= Neutral (N) 2= Disagree (D) to 1 = Strongly Disagree (SD). These results are presented in the table below:

Table 2: Budgeting strategies and financial sustainability of IGOs

	SD	A	N	D	SD		
Statements	**freq (%)**	**freq (%)**	**freq (%)**	**freq (%)**	**freq (%)**	**χ2**	**P-Value**
RECSA consistently use of periodic	7.5	28.6	26.3	21.8	15.8	19.2932	0.0001

Statements	SD freq (%)	A freq (%)	N freq (%)	D freq (%)	SD freq (%)	χ2	P-Value
budgets has enabled its financial sustainability							
The RECSA periodically reviews of budgets and other financial plans in line with its mission improves its financial outlook	9.8	52.8	21.8	16	2.7	94.1805	0.0001
Staff involvement in budgeting and strategic designing of financial tools has improved prudent use of resources	18.8	42.4	17.5	13	8.3	53.7293	0.0001
The budgeting methods used in RECSA ensure that all funding of operations and projects are within the specified limits	31.6	46.6	4.5	-9.8	-7.5	89.2932	0.0001
There is effective communication of the budgets and other strategic financial plans in the RECSA	9.8	52.8	21.8	16	2.7	94.1805	0.0001
RECSA has a comprehensive annual budget which include sources and use of funds	14.8	22.4	17.5	13	23.3	43.7293	0.0001

The findings in Table 2 above suggested that most of the IGOs in the area were able to allocate enough funds for all their projects (28.6 %). This finding supports the view of Drucker (1990) who says that financial management processes 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 programme and activities on which such funds could be spent. However, the findings also indicate that most of the projects were completed in time according to the planned budget (52.8%) implying that the IGOs had good financial control practices (Bowman, 2011). This was supported by findings that most of IGOs in the area had accrued less debt in the last two years compared to the past (42.4%). The findings also indicate that the IGOs always have enough money for all contingencies (46.6%). According to Renz *et al.,* (2010), IGOS needed to develop diverse resources bases so that they could continue its institutional structure and production of benefits for intended client population after the cessation of donor financial support. In this sense, they would be able to have enough funds for contingencies in the often vagrant economic climate in most of the countries they are operating in. These findings imply that the financial sustainability of most of the IGOs in the area was assured in many aspects although the effects of the diminishing income streams from the donors were noticeable. The Chi-square values for all the indicators of this variable were as statistically significant.

CONCLUSION

Based on the results of the study, it was observed that dwindling foreign donor funding was having a significant effect on the financial position of the IGOs. As a result, the IGOs in the area were taking initiative to explore non-traditional sources of funding for their projects. This included appealing to the locals to support their projects and also engaging in income generating projects further when there is effective communication of the budgets and other strategic financial plans in the RECSA there was going to be financial soundness of the RESCA. Staff continued involvement in budgeting and strategic designing of financial tools had improved prudent use of resources and this should be encouraged to capacitate the same. Thus, it was concluded that budgeting strategis and financial control systems were significant factors that influenced financial sustainability of the IGOs in Africa.

RECOMMENDATIONS

Financial strategic planning is a key function this is so because poor financial management had hindered the full achievement of the organization's mission. Therefore, IGOs should not only prepare strategic plans but also periodically review the strategic plans and accounting policies and recording procedures clearly documented to be written policies. It was also important to ensure that the budgeting methods used by most of the IGOs for funding of operations and projects are within the specified limits for financial sustainability.

Scope for further study

The following areas were recommended for further research; the effects of regulations governing funding on financial sustainability of IGOs, a study involving a different population. This would enable more generalized conclusions on the factors influencing financial sustainability of IGOs.

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