Determinants of Financial Sustainability for Local Non-Governmental Organisations in Arusha, Tanzania

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Abstract

This study explores the factors influencing the financial sustainability of local Non-Governmental Organizations (NGOs) in Arusha, Tanzania. The research used descriptive survey design, collecting data from 262 respondents working in local NGOs, utilizing both questionnaires and interviews. The findings reveal that external donors are the dominant source of funding, contributing significantly to the financial sustainability of NGOs, while other sources such as crowdfunding and self-generated income play supporting roles. Despite this, many NGOs struggle to maintain long-term donor relationships, and a heavy reliance on restricted funding hinders their flexibility to respond to emerging issues. The study also found that a limited percentage of NGOs have access to unrestricted funding, which further impacts their ability to adapt to changing circumstances. The study concludes that diversifying funding sources, strengthening donor relationships, and improving financial management practices are essential for enhancing the financial sustainability of NGOs in Tanzania. The study provides recommendations for NGOs to create a more resilient and financially sustainable NGO sector, emphasizing the need for a supportive policy framework and capacity-building initiatives.

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1. Introduction

Non-Governmental Organizations (NGOs) have historically played pivotal roles in global development, contributing to social, economic, and environmental progress. Their involvement spans the provision of essential services, community development, and advocacy for marginalized populations (Kimani, 2015). In Tanzania, NGOs have significantly contributed to national development by generating employment opportunities and delivering critical services that bolster public welfare (URT, 2021). By mobilizing diverse financial resources, NGOs aim to sustain and expand their social interventions, working closely with governments, donors, and community partners to address pressing issues and foster inclusive development (REPOA, 2007).

The Tanzanian context underscores the vital contributions of NGOs, particularly in addressing social issues such as poverty, which remains a persistent challenge. High poverty levels strain local communities, limiting the resources available for development and affecting the scope of NGO interventions. This socioeconomic reality amplifies the importance of NGOs as agents that help bridge the gap between government capabilities and the needs of vulnerable populations. NGOs' involvement in poverty alleviation and capacity-building efforts underlines their role in promoting sustainable development, which aligns with the Sustainable Development Goals (SDGs). The sustainable development framework emphasizes not only environmental and economic progress but also social equity and improved livelihoods. Ensuring that NGOs are financially sustainable is essential to advancing these goals and securing long-term benefits for Tanzanian communities.

Despite their importance, many Tanzanian NGOs face significant challenges in sustaining their operations due to funding volatility and heavy reliance on external donors (Mbangile, 2020). Such dependency creates a precarious situation where shifts in donor priorities can jeopardize an NGO's ability to maintain services. This reliance often results in a disproportionate focus on meeting donor expectations at the expense of broader community needs. Limited financial management skills, inadequate internal controls, and organizational inefficiencies exacerbate these vulnerabilities, threatening the stability and growth of NGOs (Kweyamba, 2018). To counter these challenges, NGOs need to diversify funding sources, strengthen relationships with donors, and implement income-generating activities (Otaru et al., 2021). Effective financial management practices and proactive adaptation to changing funding landscapes are critical to enhancing the resilience of NGOs.

Despite these recognized strategies, achieving financial sustainability remains a formidable challenge for many local NGOs in Tanzania. Key determinants such as internal financial control, strategic management competence, and diversification of funding sources require further exploration to understand their specific impact on NGOs' financial stability. Existing research highlights the urgency of addressing these challenges (Otaru et al., 2021) but lacks comprehensive insights into effective strategies tailored to the local context. This study aims to bridge this knowledge gap by investigating the factors influencing the financial sustainability of local NGOs in Arusha, Tanzania, assessing the barriers they face, and identifying strategies that can foster long-term viability. Through this analysis, the study intends to provide practical recommendations to strengthen NGOs' financial foundations, ensuring they can continue contributing to improved livelihoods and sustainable development in Tanzania.

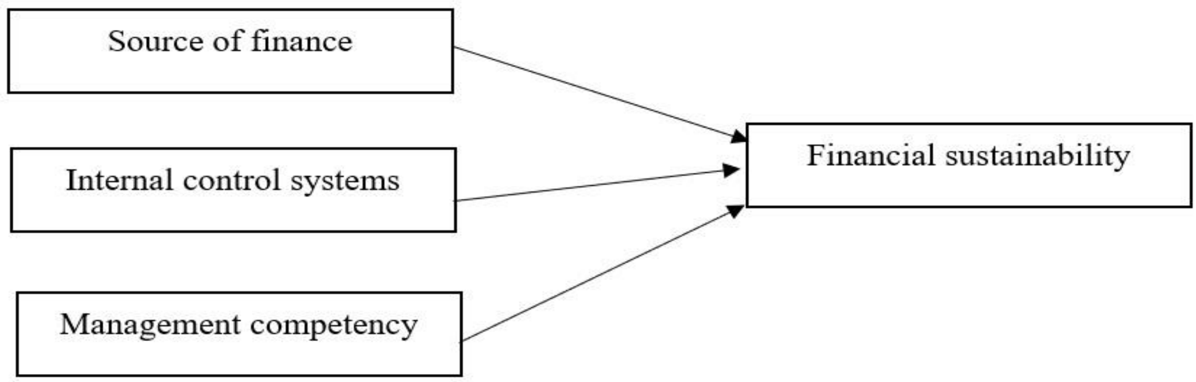
2.Theoretical underpinning

This study draws on the resource-based theory and resource dependency theory to frame its exploration of the financial sustainability of local NGOs. The resource dependency theory emphasizes the dynamic relationship between an organization and its reliance on critical resources sourced from its environment. This theory posits that an NGO's capacity to operate effectively is influenced by its access to and control over essential resources, which may include funding, human capital, and operational tools (Katongo & Phiri, 2023). To maintain autonomy and sustainability, NGOs must strategically manage and diversify their resources to mitigate dependency on any single external source, thereby enhancing stability in the face of shifting donor priorities or economic uncertainties.

In addition, resource-based theory complements this by asserting that an organization's internal resources and capabilities are central to its long-term sustainability and competitive advantage. This theory highlights that NGOs must leverage their unique assets, such as skilled staff, effective leadership, and innovative strategies, to build resilience and maintain operational continuity. The cultivation of these resources, particularly through investments in staff training and the development of efficient financial management systems, empowers NGOs to sustain their activities independently, fostering growth and adaptability.

Moreover, resource mobilization theory adds a broader societal dimension, focusing on the ability of NGOs to rally support and mobilize necessary resources from within their communities. According to Wanjohi (2021), this theory underscores that an NGO's success in resource mobilization hinges on competent personnel and strategic partnerships that align with its mission and shared community goals. Effective mobilization enables NGOs to tap into diverse resources such as funding, expertise, and volunteer time, strengthening their operational capacity and enhancing their impact. By integrating these theories, this study examines how local NGOs in Arusha can improve their financial sustainability through strategic resource management, diversification, and robust community engagement.

Figure 1: Conceptual Framework



Source: Authors' design (2024)

3. Methodology

This study adopted a descriptive survey research design to examine the factors influencing the financial sustainability of local NGOs in Arusha, Tanzania. A descriptive survey design was selected for its effectiveness in capturing both quantitative and qualitative data, allowing for a comprehensive analysis of the research topic. This design enabled the collection of detailed information on financial management practices, sources of funding, and strategies used by NGOs to sustain operations. The mixed-method approach provided a balanced perspective, incorporating numerical data and deeper insights through participant experiences.

The target population for this study consisted of all registered local NGOs operating in Arusha city. According to the NGO registrar's records as of August 2024, there were 801 active NGOs in the area. To ensure a representative sample, the study used Yamane's (1967) formula to determine the sample size, resulting in 267 respondents with a 5% margin of error. This sample size allowed for robust statistical analysis while maintaining manageable data collection. The participants included NGO management staff, financial officers, and key stakeholders who could provide relevant information on the financial strategies and sustainability practices within their organizations.

Data collection involved two main tools: structured questionnaires and semi-structured interviews. Questionnaires were distributed to gather quantitative data, focusing on aspects such as funding sources, financial management practices, and organizational strategies for achieving sustainability. These were designed with a mix of closed-ended questions for measurable responses and some open-ended questions to capture additional insights. The collected questionnaire data were analyzed using the Statistical Package for Social Sciences (SPSS V27.0) to facilitate statistical interpretation and identify trends and correlations. Concurrently, semi-structured interviews were conducted with selected key informants to provide qualitative depth, focusing on challenges, experiences, and strategic practices relevant to financial sustainability. Content analysis was employed to interpret the qualitative data, identifying common themes and insights that complemented the quantitative findings. This comprehensive approach ensured that the study captured a holistic view of financial sustainability determinants for local NGOs in Arusha.

4. Results

Description of respondnets characteristics

The demographic analysis of respondents reveals a gender distribution skewed towards male participation, with 71.4% being male and 28.6% female. This male-dominant trend may suggest a potential gender imbalance in the NGO sector in Arusha, which could impact perspectives on financial management and sustainability strategies. Most respondents (63.4%) fall within the 25-35 age range, indicating a workforce that is relatively young but likely experienced enough to provide insights into NGO operations. Only a small percentage of participants are older than 46, highlighting the limited presence of more seasoned professionals within this sector.

When examining the respondents' experience levels, it is notable that 41.2% have worked in the NGO sector for 2-5 years, and 30.9% have between 5-10 years of experience. This indicates that a substantial portion of the workforce has moderate experience, potentially contributing to a balanced understanding of both current practices and potential improvements. Meanwhile, 17.6% of respondents possess over 10 years of experience, suggesting a core group of more seasoned professionals who could provide historical and strategic perspectives. The diverse range of job titles, predominantly represented by program staff/managers (49.2%) and executive directors (21.0%), suggests that the responses capture a broad spectrum of operational insights.

Table 1: Characteristics of respondents

Gender	Frequency	Per cent
Female	75	28.6%
Male	187	71.4%
Total	**262**	**100.00%**
Age		
25-35 years	166	63.40%
36-45 years	81	30.90%
46-55 years	8	3.10%
56 and above years	7	2.70%
Total	**262**	**100.00%**
Years of working experience in the NGO sector		
Less than 2 years	27	10.3%
2 – 5 years	108	41.2%
5 -10 years	81	30.9%
Over 10 years	46	17.6%
Total	**262**	**100.00%**
Title of participants		
Board of Directors Member	4	1.5%
Executive Director	55	21.0%
Finance Officer/Managers	23	8.8%
M&E officer	14	5.3%
Program Staff/managers	129	49.2%
Grant manager/officer	4	1.5%
Others	33	12.6%
Total	**262**	**100.00%**
Education level		
Certificate	1	0.4%
Diploma	13	5.0%
First Degree	154	58.8%
Master's degree and above	94	35.9%
Total	**262**	**100.0%**

Educational qualifications indicate that the majority of respondents hold a first degree (58.8%), with a significant proportion (35.9%) possessing a master's degree or higher. This high level of educational attainment reflects a well-qualified workforce, which may correlate with the ability to implement complex financial strategies and sustain NGO operations effectively. The small percentages of respondents with diploma-level education or below imply that NGOs in Arusha tend to employ personnel with higher education, potentially enhancing their capacity for financial management and strategic planning.

Factors influencing financial sustainability of NGOs

Source of funding

The source of financing is a crucial determinant of the financial sustainability of NGOs, as evidenced by data in Table 2. The analysis highlights the varying impacts that different funding sources have on NGOs' ability to maintain operations and fulfill their missions. Notably, external donors emerged as the most influential funding source, with a Relative Importance Index (RII) of 0.706, indicating that a significant number of respondents viewed donor contributions as a substantial factor in achieving financial sustainability. This reliance underscores the central role of donor funding in bolstering NGO activities, albeit potentially increasing their vulnerability to shifts in donor priorities.

In contrast, private-sector funding exhibited the least impact on financial sustainability, as indicated by an RII of 0.491. While this suggests that private-sector support contributes to financial health, it is less significant compared to more dominant sources like external donors. This finding points to the need for NGOs to diversify funding strategies to reduce reliance on a single source and build resilience. The interviews further supported these quantitative findings, with one participant emphasizing that NGOs that depend heavily on a narrow range of funding are at greater risk of financial instability when external support fluctuates. Moreover, participants added that:

> "*Most NGOs rely on external donor funding which most are affected by political and geopolitical fragmentations, transitions especially energy, and just transition which were hijacked by those with power. NGOs struggle to fit within these global movements*" (Interviewee A1).

Crowdfunding, with an RII of approximately 0.663, demonstrated its feasibility as a significant funding source for NGOs. The findings indicated that respondents attributed moderate to high importance to crowdfunding's impact on the financial sustainability of local NGOs, highlighting its potential as a supportive funding mechanism. Conversely, self-income-generating activities contributed moderately, with an RII of 0.537. This suggests that although such activities provide a meaningful level of financial support, they are unlikely to be sufficient as a standalone source for ensuring financial stability.

Table 2: Extent to which funding source affects financial sustainability of NGOs

Funding source	Not at all	Little extent	Moderate extent	Great extent	Very great extent	RII	Rank
Private sector	68	76	66	24	24	0.491	4
The general public (crowdfunding)	27	38	73	67	53	0.663	2
Government/public sector	77	79	64	19	19	0.464	5
Self-generating income	53	67	75	34	29	0.537	3
External donors	8	34	103	39	74	0.706	1

The survey data in Table 3 highlighted that the majority of organisations rely heavily on financing from external donors, who contribute substantial amounts, particularly in the range of $100,001 to over $400,000. This underscores the critical role that external funding plays in sustaining NGO operations. In contrast, funding from self-income-generating activities, private donors, and government sources is comparatively limited. Private sector contributions were notably concentrated within the lower range of $0 to $100,000, indicating a restricted scope in supporting larger-scale projects.

Crowdfunding emerged as a popular source for smaller initiatives but lacked the capacity to fund more substantial projects, showcasing its limitations as a primary source of revenue. Additionally, self-income-generating activities provided some financial support, but the amounts were modest, reflecting that while these activities contribute to financial sustainability, they are insufficient when relied upon independently.

Table 3: Main Source Financing for survey organisations

	$0	$1-$100,000	$100,001-$200,000	$200,001-S300,000	Above $400,000
Private sector	170	57	24	7	0
External Donors	15	68	72	49	54
Crowdfunding	188	48	22	0	0
Public sector/ Government	219	13	10	16	0
Self-income-generating activities	182	41	35	0	0

To ensure financial stability, NGOs must both maintain current funders and actively seek new ones to support their operations. The research findings indicated that all respondents reported their organisations engaged in securing new funders, with responses ranging from a small extent to a very great extent. Notably, a significant 58.9% of respondents reported a large to very great extent of success in obtaining new funders, while 14.7% and 26.4% indicated small and moderate extents, respectively. This suggests that while many NGOs are proactive in finding new sources of funding, varying levels of success are evident across different organisations.

When it comes to maintaining existing donors, statistical data showed that, on average, organisations were able to sustain relationships with two key donors for a period of at least five years. This average reflects a minimum benchmark wherein donors support organisations within the project timeframe or continue their backing beyond the project's life cycle. The median value of 2 indicates that half of the surveyed organisations reported maintaining two or fewer long-term donors, while the mode also at 2 reinforced this as the most common scenario. The standard deviation of 1.737 highlighted variability in the number of long-term donors sustained by different organisations.

Table 4: Number of donors who have financed your organization for more than 5 years

Mean	2.29
Std. Error of Mean	0.109
Median	2.00
Mode	2
Std. Deviation	1.737
Minimum	0
Maximum	8
Sum	587

The findings on NGOs' capacity to address emerging issues revealed that 12.4% of organisations (32 out of 262) reported never responding to such challenges. In contrast, 87.6% (226 organisations) indicated they do respond, with varying frequencies from rarely to consistently addressing crises. This response capacity correlates with data showing that, on average, only 16.8% of total funding received by these organisations is unrestricted. The limited proportion of flexible funding suggests that while most NGOs are capable of addressing emergencies, their ability to do so effectively is hindered by financial constraints, emphasizing the need for increased unrestricted funding to better respond to urgent and unforeseen challenges.

Further analysis highlighted that a significant 45% of the surveyed organisations rely entirely on restricted funding for their projects and operational needs. Moreover, 19.8% of these organisations reported receiving less than 10% of their financing as unrestricted funding, underscoring the limited flexibility they have in allocating resources as needed. The predominant reliance on restricted funding, primarily from external sources, places these NGOs in a vulnerable position. Their financial stability is heavily influenced by changes in donor priorities and external conditions.

This dependency exposes NGOs to significant risks when external factors shift, such as changes in geopolitical interests or crises like the Russia-Ukraine war, which can redirect donor funds away from developing regions. These shifts can lead to reduced funding inflows, making it challenging for NGOs to maintain operations and address emerging local issues effectively. To mitigate such vulnerabilities, there is a strong need for strategies aimed at increasing the proportion of unrestricted funding and diversifying funding sources to enhance financial resilience.

Table 5: Percentage of unrestricted funding received by NGOs

Mean	16.78%
Std. Error of Mean	1.73%
Std. Deviation	27.54%
Minimum	0%
Maximum	100%

The data underscores the multifaceted nature of funding sources for NGOs in Tanzania, highlighting a heavy reliance on external donors as the primary contributors to financial sustainability. This dependency on donor funding forms the backbone of many NGOs' operational budgets, positioning them to sustain their programs but also making them vulnerable to shifts in donor interests and geopolitical factors. Such reliance reflects the high stakes associated with donor-based funding, where any disruptions can pose significant risks to long-term financial stability.

Additionally, the study reveals that while alternative sources like crowdfunding and income-generating activities contribute to the financial portfolio of NGOs, their impact is less substantial compared to donor funding. Crowdfunding, for instance, shows potential for supporting smaller-scale initiatives but lacks the capacity to fund large, long-term projects. Self-generated income also plays a supportive role, offering a measure of independence but typically providing insufficient funds to operate without external support.

These findings underscore the importance of a balanced approach to financial planning, where NGOs not only work to maintain their relationships with existing donors but also diversify their funding sources to include more flexible, unrestricted income streams. This strategy can help mitigate the risks associated with dependency on external donors and enhance the overall resilience and sustainability of NGOs in Tanzania

Challenges faced by NGOs in securing internal and external funding

The research looked at challenges faced by organisations in securing funding and respondents reported divert opinion. The findings show that external sources such as donor funding, governments and private institutions have many challenges related to requirements. Based on the finding’s stringent donor requirements, competition among organisations and too much documentation and reporting are among the reported challenges. Additionally, respondents reported that change in donors' interests and priorities and restrictions of funding areas affects most organisations. Moreover, it was reported that most of the external donors do not provide unrestricted funding which allows organisations to operate within their thematic areas. The respondent also reported that delay in fund disbursement and approval leads to delays in the implementation of program activities. Furthermore, the respondent reported political and geopolitical fragmentations, transitions especially energy and just transition detent the flows of funding.

With these reported challenges these sources of finance affect the stability and long-term operation of most NGOs in Tanzania. While external funding stringent documentation, quality proposal writing and high competition organisations reported to have limited capacity of staff. The capacity of staff in writing and being able to scrutinize the requirement of the donor on solicited proposal requirements.

On the other hand, regarding internal sources of financing, most organisations reported policy restrictions for conducting business. Internal sources including self-income generating activities and the internal private sector in financing reported also to have challenges. The research findings also revealed that limited internal resources to engage in income-generating activities is a major challenge. Additionally, the respondent reported the policy environment as a challenge to conduct business while offering free service to society. Moreover, other challenges include; limited awareness of internal funding sources, unreliable local funding and limited opportunities. This is associated with limited funding to conduct those businesses as most of their funding is restricted funding. Respondent also reported the fear of donors offering funding to business entities with the fear of losing their funds.

The challenges of sourcing funds from both internal and external sources pose a significant threat to the sustainability of most NGOs in Tanzania. For local NGOs to be strategically stable it is required for them to address capacity-building challenges and diversify their funding source to reduce dependence. The above survey findings serve as a valuable reference point for stakeholders to strengthen financial resilience among local NGOs in Tanzania.

Internal control systems

The findings reveal that the majority of surveyed organisations about 98.4% have some internal control systems in place whereas 1.6% have no any. This finding indicates the commitment of organisations to governance, risk management and compliance practices. The score of the findings revealed an increase in awareness of the importance of internal controls in organisations. Funders prefer to give grants to organisations with internal control in place as it minimises the risk of losing or misusing funding.

Findings further extend to display a tendency to conduct external audits as one of the internal control mechanisms among organisations. Findings show that the majority of surveyed organisations about 95.3% that an external audit. Conversely, 4.7% of surveyed organisations do not conduct it at all. The audit of financial statements provides evidence of transparency and accountability of organisations which enhances trust and compliance with regulatory standards. In contrast, when assessing whether organisations publish their audited financial statements disparity emerges.

Table 6: Response of organisation conducting

Response	Frequency	Per cent
No	12	4.7
Yes	246	95.3
Total	**258**	**100.0**

While 95.3% of organisations conduct external audits, only 35.7% publish these reports to the public while 64.3% do not. The contribution of a limited release of financial statements to the public is fear of attracting more attention from the government for scrutiny. This does not prevent scrutiny as all organisations are required by law to submit their audit financial reports to the National Registrar of NGOs.

Table 7: Response of organisations that publish audited financial statements to the public

Response	Frequency	Per cent
No	166	64.3
Yes	92	35.7
Total	**258**	**100.0**

The findings on the impacts of internal controls on the financial sustainability of NGOs show different perceptions of respondents. The findings show that 91.5% of surveyed organisations reported that internal control systems have a significant impact on the financial sustainability of NGOs. Despite the varying levels of response to the extent of effects it has, the findings show the importance of internal control to organisations. The response ranges from a small extent to a very great extent which accounts for 91.5% collectively as shown in table 5 below. In contrast, 8.5% of surveyed organisations believed that internal control does not affect the financial sustainability of NGOs. The findings in Table 8 generally highlight the positive role of internal controls in supporting financial sustainability.

Table 8: The extent to which internal controls affect the financial sustainability of NGOs

	Frequency	Per cent
Not at all	22	8.5
Little extent	37	14.3
Moderate extent	62	24.0
Great extent	82	31.8
Very great extent	55	21.3
Total	**258**	**100.0**

Additionally, findings from the surveyed organisations showed the availability of a diverse range of internal control systems. The data shows arrays on the availability of different components of internal control within organisations. These systems include audits of financial statements, financial manuals and policies, asset management policies and procurement procedures. Remarkably, a significant number of respondents (34.5%) indicated the presence of comprehensive internal control systems such as financial reporting, financial manuals/policies, audits of financial statements, procurement procedures, financial planning, asset management policies, and accounting software. The above data suggests that many organisations have understood the need for internal control systems for them to attract more donors through the assurance of proper management of financial resources.

Furthermore, the descriptive statistics provide insights into the role of each of the internal controls over financial sustainability. The descriptive statistics show a varying perception for 258 respondents regarding sustainability where the score was from 1 to 5. The responses of respondents range from 1 “not at all”, 2 “little”, 3 for “Moderate”, and 4 and 5 for great and very great extent respectively. The findings show that the internal control variable has a positive relationship with a mean score of 3.430 accounting for the total score of 68.6%. This establishes the importance of internal control for the financial sustainability of an organisation.

Management competence

Regarding resource mobilisation roles, the findings show shared responsibilities among various groups. The reported groups include the Board of Directors, Executive Directors, resource mobilization unit and program staff. The findings with shared responses account for 118 and 80 of all responses for Executive Director and Board of Directors respectively. Additionally, the program staff and resource mobilization unit account for 129 and 112 responses respectively. The findings revealed that program staff, Executive directors and resource mobilisation units play a significant role in resource mobilisation among local NGOs. For organisations to mobilise resources to meet strategic objectives they should have a clear plan. On assessing whether organisations have a strategy in place a majority account for 72.5% reported to have as shown in **Table 9**. Conversely 27.5% of organisations reported to operate without a clear objective to mobilise resources for their operations. This implies there is a potential challenge in resource acquisition and management to facilitate organisations to reach their objectives.

Table 9: Responses to whether organisations have a resource mobilisation strategy

	Frequency	Percent	Cum. Per cent
No	71	27.5	27.5
Yes	187	72.5	100.0
Total	**258**	**100.0**	

Additionally, for organisations to successfully secure grants in a competitive environment, they require competent staff to respond to calls for proposals. The research findings reveal in Table 10 that the majority of organisations account for 91.5% cumulatively conduct training. The findings on cumulative response to some training range from rarely, sometimes, often and always accounting for 26%, 28.7%, 27.1% and 9.7% respectively. Contrary to that finding shows that 8.5% of surveyed organisations never conducted training on resource mobilisation. The most reported response as in Table 10 is "Sometimes" accounting for 28.7%. This indicates that despite training being provided, it is not consistent across local NGOs in Tanzania.

Table 10: Response on whether organisations conduct resource mobilisation training for staff

Response	**Frequency**	**Per cent**
Never	22	8.5
Rarely	67	26.0
Sometimes	74	28.7
Often	70	27.1
Always	25	9.7
Total	**258**	**100.0**

To analysis the competence of management and relationship with staff as major sustainability concerns were analysed. The finding revealed a positive perception of management competence in financial sustainability. The effects of management competence on financial sustainability show varying perceptions among respondents. The findings show that there is a significant impact of management competency on financial sustainability with a cumulative score of 196 (76%) among respondents. The report shows that 43(16.7%) and 59(22.9%) respondents agreed impacts to be at a moderate and a great extent respectively. Notably 94(36.4%) respondents reported management competency to have a very great impact on the financial sustainability of NGOs. On the contrary, the survey shows that 43(16.7%) individuals among respondents believe that management competence does not affect financial sustainability. On the other hand, 19(7.4%) respondents feel that there is little impact of management competence on the financial sustainability of organisations.

Table 11: The extent to which management competence affects your organisation's financial sustainability

	Frequency	**Per cent**
Not at all	43	16.7%
little extent	19	7.4%
Moderate extent	43	16.7%
Great extent	59	22.9%
Very great extent	94	36.4%
Total	**258**	**100%**

The finding revealed that management competence plays a significant role in securing funding from external donors. The management competence that was reported to be significant includes building social capital, management, communications and grants writing skills. This is supported by the interviewee who argued that:

> "*Management competence affects the extent to which organisations secure funding from a competitive environment in donor funding. The access to donor funding depends on the competence of the team that writes a winning proposal and convinces donors. It requires a person with communication, proposal writing skills and being able to manage donors' interest*" (interviewee 2)

The descriptive statistics further show the role of management competence in the financial sustainability of NGOs is significant. The statistics show varying observations for 258 respondents' impact of management competence on sustainability with a score of 1 to 5. The responses of respondents range from 1 "not at all", 2 "little", 3 for "Moderate", and 4 and 5 for great and very great extent respectively. The descriptive statistics show that management competency has a positive influence on financial sustainability. The management competency scores a mean of 3.550(71.0%) indicating the significant role in achieving the financial sustainability of NGOs.

5. Discussion

The finding shows that there is a varying influence of different funding sources on an NGOs financial sustainability. From the findings, external donors are the most significant source with influence on NGOs' financial sustainability. The finding affirms the finding by Philip (2013) who reported that the majority of local NGOs in the study area derive financial resources through donations or grants from external sources. The other finding by Muthiri (2014) reported that more than 72% of African NGOs are unstable due to overdependenceon foreign donors. This implies that most NGOs in developing countries lead to financial instability for a long period. The findings are supported by Onsongo (2012) who argued in the Kenyan context that most NGOs rely on external donor funding which puts their financial sustainability at risk in the long run.

The data from the research findings further show that there is a significant impact of external donor financing on the sustainability of NGOs. The high level of dependence and influence of external funding pose a risk of over-dependence on local NGOs. This indicates that if donors' funding is reduced due to a change in donors' interest it may result in the seizure of organisation operations. With a significant number of organisations who report to depend mostly on donor funding, their sustainability is at stake. This is further supported by Mohamed and Muturi (2017) who reported that the dependence of donor funding for NGOs will not guarantee their operations and flow of funding. For NGOs to reduce this overdependence on the external donor as revealed by the report finding they should diversify their income source. This also supports the findings of Divecha (2014) and Wachira (2018) who argue that diversifying funding for NGOs helps improve financial resource utilisation and viability of NGOs.

With regards to private-sector funding, the research finding shows that it has the slightest influence followed by self-financing with an RII of 0.491 and 0.537 respectively. These RIIs show that while they play a role, it has less influence compared to other sources. The research further shows that private sector funding scores average 2. 46 out of the total score of 5(49.1%). This demonstrates the importance of private sector funding in supporting NGOs for some social service delivery. The findings raise the critical importance of self-financing for NGOs to support their operations. This is further supported by Alter (2007) who pointed out that due to declining funding from donor non-profits, organisations incorporate income-generating activities into their operations. This finding raises a concern for organisations to establish income-generating activities beyond traditional approaches. The findings are supported by the study of URT (2021) which emphasised that NGOS should enhance their capacity to engage in strategic investments to generate income to realise their visions and mission. Furthermore, Onsongo (2012) provided examples of income-generating activities that NGOs can use on capital investment in market securities like shares and treasury bonds, building hospitals, real estate and provision of ambulance services**.**

For the sustainability of an organisation existing findings revealed that organisations need to diversify financing sources. This demonstrates the importance of securing more funding varying from self-income generating activities to securing more unrestricted funding. The argument is supported by Mohamed and Muturi (2017) who reported that diversification of funding sources has a positive and significant effect on the financial sustainability of Local NGOs. The findings further affirm Boas (2012), Green et al., (2021) and Lewis (2011) who argued that diversification of income sources is the most sustainable financing strategy among NGOs. the findings show that the source of finance has a significant influence on the sustainability of NGOs.

Effects of Internal control systems on financial sustainability

The results show that 91.5% of surveyed organisations reported that internal control systems have a significant impact on the financial sustainability of NGOs. The findings affirm the finding by Wandera and Sang (2017) in Somalia who argued that budget control and financial reporting have a positive relationship with the financial sustainability of NGOs. The findings further revealed that organisations are required to have strong internal control procedures on reporting, financial and procurement and audit. The availability of strong internal control helps to mitigate risks, detect fraud and ensure accountability, transparency and quality control. The study affirms a study by Pynov et al., (2021) who argued that NGOs need to develop strict management policies and steering to achieve their sustainable goals and objectives. The finding further supports the finding by Njoroge (2013) who argued that donors consider sound financial management practices and workable strategies in place of NGOs as they help to buildconfidence. The strict and well-functioning internal control systems ensure accountability and transparency. This ensures accountability and prevents fraud from staff and stakeholders of any organisation. The findings affirm Gul and Morande, (2023) who argued that Organisations with proper reporting structures promote accountability and openness hence assuring donors of safety and proper management of funds. Therefore, the finding shows a positive relationship between internal control and the financial sustainability of NGOs.

Role of management competence in financial sustainability

The finding revealed that management competency scores with a mean of 3.550(71.0%) play a significant role in achieving the financial sustainability of NGOs in Arusha. The strengthening of management and staff competence in resource mobilisation, reporting and grant writing skills facilitates better resource mobilisation. The sustainability of an organisation in funding depends on management competence in resource mobilisation and grant writing skills. Other important required skills for management include building social capital, management capabilities, communications and grants writing skills. The findings are confirmed by Gul and Morande (2023) who reported that well-educated and skilled organisational staff provided assurance and confidence to donors. The findings are further confirmed by the findings of Muriithi (2014) in Kenyan NGOs who reported that management strategies and capacities play a significant role in the sustainability of NGOs. The report further describes the importance of management factors and capacities which positively affect the sustainability of NGOs. The study further affirms a finding by Karanja and Karuti (2014) and Wanjohi (2021) who reported human resource competence to influence financial sustainability. Furthermore, the report affirms a finding by Kyalimpa et al, (2017) who reported that the leadership competence of NGOs in Uganda influences financial sustainability.

Conclusion

This study has examined the factors influencing the financial sustainability of local NGOs in Tanzania, revealing that while external donors are the primary funding source, other forms of financing such as crowdfunding and self-income-generating activities also play supporting roles. The reliance on restricted funding poses a significant challenge, as it limits NGOs' flexibility and capacity to respond to emerging issues. The findings also highlighted that many NGOs struggle to maintain long-term donor relationships, further impacting their financial stability and overall sustainability.

Despite efforts by NGOs to respond to crises, the lack of unrestricted funding remains a major constraint. The data showed that a substantial number of NGOs rely heavily on restricted funding, often from external sources, making them vulnerable to changes in donor priorities and external factors like global economic shifts. The limited flexibility in funding hampers the ability of NGOs to adapt to unforeseen challenges and reduce their dependency on a single source of financial support.

To enhance financial sustainability, NGOs should diversify their funding sources by pursuing unrestricted funding and exploring alternative channels, such as private sector partnerships, government programs, and innovative fundraising. Strengthening donor relationships is also critical, and NGOs should focus on transparency, accountability, and aligning their goals with donors’ interests to secure long-term support. Additionally, improving financial management practices through capacity-building programs can help NGOs better plan and allocate resources. Finally, the Tanzanian government should incentivize diversified funding models, creating a supportive policy environment that encourages NGOs to become more financially resilient.

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