THE FINANCIAL MANAGEMENT OF DONOR FUNDS: A CASE STUDY OF NAMIBIAN NON-GOVERNMENTAL ORGANISATIONS

By

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ABSTRACT

The purpose of this study is to look at the financial management of donor funds by Non-Governmental Organisations (NGOs) in Namibia, looking at more specifically, the relationship between the three cost categories, namely personnel cost, administration cost, and activity related cost, and how the relationship affects performance. The study therefore highlighted how an influence on the relationship between the three cost categories could have an effect on the overall results of any program. The study also looked at the sustainability of the various organisations which are donor funded.

Twenty organisations from which twenty programs were drawn were sampled for the purpose of this study. One program was selected from each organisation. Each program was assessed for a period of three years based on how the funds were spent amongst the three different cost categories for those three years. Each total cost of each cost category was expressed as a percentage of the program's total cost for that specific financial year. This allowed a fair comparison of one financial year to the other, one cost category to the other, and one program to the other program. The computed percentage of each of the cost categories showed just how much of the donor funds were spent on the program activities, personnel, and administration costs.

The study found that the administration cost was in most cases directly related to either personnel or activities cost. The personnel and activity cost had an indirect relationship, when one increased, the other decreased. The personnel cost was in most cases over estimated in the first year of the program and the activity cost was in most cases under estimated. An increase or decrease in the number of personnel or the volume of activities carried out seemed to have a great influence on the amount of money spent on the administration costs.

Key words: Non-Governmental Organisation, Donor Funds, Personnel Cost, Administration Cost, Activity Cost, Organisational Sustainability.

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1 INTRODUCTION

1.1 BACKGROUND

Since Namibia's independence on the 21st of March 1990, poverty in Namibia has been and still is one of the main concerns of the government as well as that of many foreign donor agencies. Donor agencies took action to reduce poverty by funding activities aimed at improving the living standards and the wellbeing of communities. Namibia was one of the recipients that received a considerable amount of donor funds to reduce poverty (Melber, 2005:310). This study intends to look into the management of those donor funds. Funds were and are still disbursed to the recipients depending on their performance with regard to donor objectives.

Some donor agencies provided funds to establish and strengthen small enterprises; others provided funds for programs that directly benefited intended beneficiaries at ground level. Studies have been conducted to evaluate the success of donor agencies in establishing and strengthening small enterprises and the effect on their respective recipients (Schmidt & Zeitinger, 1994:101). Previous studies have also indicated that donor agencies struggled to achieve their objectives due to many mistakes on their part and that of the recipients (Birdsall, 2004:5-30). Studies have also looked into how donor agencies can improve the recipients' business environment and their financial sustainability (Adongo & Stork, 2005:31; White, 2004:37). These studies were however based on European, American and a few African countries. A similar study, focusing on the financial management of donor funds by NGOs in Namibia only, will be essential. This study clarifies the implications involved in the management of donor funds by the recipients and how such influences affect the achievement of donor objectives.

1.2 PROBLEM STATEMENT

Although several studies on the management of donor funds in small enterprises in other parts of the world have been conducted, most of these studies focused on donor funds that were provided as start-up capital to establish and strengthen small enterprises (Schmidt & Zeitinger, 1994:98). Many small enterprises in Namibia receive donor funds for programs and projects which directly benefit the targeted beneficiaries with the intention to alleviate poverty. Despite these funds being applied, there was no measurable improvement in poverty reduction (Ovaska, 2003:175). However, little research has been conducted into the financial management of these donor funds. Therefore this study looked at the financial management of donor funds in Namibian Non-Governmental Organisations and how it affected the overall results of such programs. It also investigated whether mismanagement of donor funds had any negative effects on the program's overall goals, and determined the extent to which donor funds were utilised for their intended purposes.

Problem Statement*:* ***There is uncertainty about whether donor funds are properly managed by NGOs and how the relationship between the three cost categories of personnel, administration and activities affects the overall goals of programs.***

1.3 PURPOSE STATEMENT

The purpose of this study was to look at the financial management of donor funds by NGOs in Namibia, and more specifically the relationship between the three cost categories, namely personnel, administration, and activity related costs. The study highlighted how changes in the three cost categories can affect the overall results of a program. The study also focused on small and medium enterprises in Namibia, and specifically on Non-Governmental Organisations which received funds for programs that directly benefited target beneficiaries.

1.4 RESEARCH OBJECTIVES / SPECIFIC RESEARCH QUESTIONS

The study was aimed at achieving the following objectives:

- To analyse the relationship between the three different cost categories of donor funds, namely the personnel, administration, and activity.
- To identify possible factors which have an influence on the relationship between the three cost categories.
- To illustrate how the relationship between the three cost categories affect the overall goal of the program at hand.
- To analyse whether the donor recipient organisation is self-sustainable without donor funding.
- To determine whether donor funds were utilised for intended purposes.

1.5 IMPORTANCE AND BENEFITS OF THE PROPOSED STUDY

In 1998, it was reported that Namibia was the recipient of the highest amount of external official development assistance per capita in Africa (Melber, 2005:310). After years of donor funds flowing to developing countries, it was found that there was no improvement in poverty reduction (Ovaska, 2003:175). Studies have indicated that initial donor aid to developing countries was aimed at alleviating poverty, by providing start-up capital to establish and strengthen enterprises (Adongo & Stork, 2006:31).

Recently, donor agencies have been more interested in funding programs and projects that directly benefit target beneficiaries rather than providing funds for establishing and strengthening enterprises. There are studies that put their research focus on the success of donor agencies in this matter (Birdsall, 2004; Schmidt & Zeitinger, 1994). Most of these studies focus on the United States, Europe and some African countries.

This study will provide a basis for informed decision making to both the NGOs and the donor agencies on the utilisation of donor funds, the relationship between the three different cost categories, and how these relationships affects the overall goal of the

program at hand. The NGOs will therefore be aware of possible actions to take and measures to avoid, ensuring a positive relationship between the three cost categories that will enhance the achievement of the programs' overall goal. The study will not only enlighten the studied entities, but it will also encourage other NGOs in similar situations to compare and re-evaluate their actions. The identified factors will help other NGOs and donor agencies to resolve any related issues. It is therefore necessary to conduct this study, in order to identify, explain and describe factors that may hinder or improve the effective financial management of donor funds.

The remainder of this document will explain the delimitations of this study, followed by the definition of key terms used in this document. Thereafter follows a literature review on the financial management of donor funds in different countries. Next will be the research design and methods under which sampling, data collection and data analysis methods will be discussed. Then the quality and rigour of the study is examined. Finally the last sections will deal with the analysis and interpretation of data collected, and the summary of the study's findings, its limitations, conclusion and recommendations for future research.

1.6 DELIMITATIONS

This study looked at factors that influence the effectiveness and the efficiency of financial management of donor funds in small and medium enterprises in Namibia, but specifically NGOs that are community welfare oriented. Organisations that existed for at least three years, and employed at least five people were selected. The time period chosen enable the researcher to compare the different financial years and to increase the degree of accuracy of analysis.

There is no clear distinction between small and medium enterprises in Namibia. Therefore, the entities in this study may be referred to as Small and Medium-sized Enterprises (SME). The definition of "small business" as defined by the Namibian government will be used to identify small and medium enterprises which are not intended to make a profit. A generally accepted definition of small enterprise is, "any manufacturing enterprise which employs less than ten people, has a maximum turnover of N$100 000 and capital employed of N$500 000 or less per financial year. It also includes any other type of business which

employs less than five people, has a maximum turnover of N$250 000, and has N$100 000 or less capital employed in a financial year" (Ministry of Trade and Industry, 2009).

The businesses which were considered were only those whose head offices were situated in Windhoek. It made data collection easier and the cost involved was much lower. The small and medium businesses were funded by at least one donor agency for at least three years, thus enabled comparisons of data from different periods and gave the researcher a clearer observation.

1.7 DEFINITION OF KEY TERMS

The key concepts used in this study are outlined below. Some of the terms are described in more detail as they are used elsewhere in the study.

Bilateral Aid is aid given directly from a single government to another government (Duncan, 1991:24).

Business environment is the circumstances, influences, stresses, and competitive, cultural, demographic, economic, natural, political, regulatory, and technological factors that affect the survival, operation, and growth of an organisation (BusinessDictionary, 2010).

Effective is producing an effect, achieving goals, producing the results desired (Hawkins, 1998:145).

Efficient is doing work well, producing the maximum output from the minimum input (Hawkins, 1998:145).

Financial management focuses on decisions relating to how much and what type of assets to acquire, how to raise the capital needed to buy assets and how to run the firm so as to maximize its value (Brigham & Houston, 2009:5).

Judgemental sampling also known as purposive sampling is a form of non-probability sampling in which a researcher selects a sample from a population on the basis of his/her judgement, which s a diverse perspective (Leedy & Ormrod, 2005:206).

Multilateral Aid is aid provided by a government to international organisations such as the United Nations (Duncan, 1991:24).

Official Development Aid is non-military resources which are made available for developmental or humanitarian purposes (Duncan, 1991:24).

Per capita income is the total national income of a country divided by the country's total population. It reflects the welfare and socio-economic profile of the residents. (Adongo & Stork, 2005:34).

Programme Aid makes a cash sum available for the benefit of the entire recipient economy or a sector of it, and is normally accompanied by policy discussions (Cassen, 1994:86).

Project Aid is aid that makes a specific capital asset or piece of technical assistance available, often to specific beneficiaries (Cassen, 1994:86).

Qualitative research is a research method that aims to study things in their natural settings, attempting to make sense of, or interpret phenomena in terms of the meaning people derive (Denzin & Lincoln, 1994:3).

Semi-structured interview is a research method that follows standard questions with one or more individual tailored questions to get clarification or probe a person's reasoning (Leedy & Ormrod, 2005:184).

Technical Assistance is the transfer of expertise either through training scholarships or through the provision of technical expertise (Duncan, 1991:25).

ACRONYMS AND ABBREVIATIONS

AIDS	Acquired Immune Deficiency Syndrome
ACR	Administration Cost Ratio
CBO	Community Based Organisation
CR	Current Ratio
EIR	Earned Income Ratio
HIV	Human Immune Deficiency Virus
NANGOF	Namibia Non-Governmental Organisation Forum
NGO	Non Governmental Organisation
NPC	National Planning Commission
ODA	Official Development Aid
PCR	Personnel Cost Ratio
SSR	Self Sufficiency Ratio
SME	Small and Medium-sized Enterprises

2 DEVELOPMENT AID, DONOR AGENCIES, AND THE WORLD.

2.1 INTRODUCTION

2.1.1 What is aid?

What is aid? This is one question that has been asked many times. Cassen (1994:2) defines aid as a transfer of resources on concessional terms, on terms that are more generous or softer than loans obtainable from the world's capital market. In most cases, development aid flows from industrialised or developed countries to developing countries. Cassen's definition implies that aid is always in the form of loans, which is not always the case. Nowadays, there are other types of aid, such as those that are meant to cater for specific emergency crises or catastrophes, irrespective of where the crisis has occurred. Such kinds of aid may not necessarily be in the form of money. This type of aid is termed humanitarian aid. Multilateral and bilateral aid is known as systematic aid. Aid disbursed by charitable organisations to institutions or people on the ground is known as charity-based aid (Dambisa, 2009:7). Most charity-based aid is offered to the beneficiaries through NGOs. This study looked at the management of donor funded monetary resources in NGOs.

Makoba (2002) conducted a research study on NGOs around the world, although the study focused mostly on African countries. Makoba's study pointed out that NGOs were considered to be good substitutes for promoting economic growth and provision of basic services to people, especially in countries where both the state and the country's market could not provide such services to the people. The inability of most African countries to provide basic services to its citizens resulted in a rapid growth in the number of NGOs in those countries. According to Hulme and Edward (quoted by Yakovleva, 2005:65), the number of NGOs registered at the Organisational for Economic Cooperation and Development has grown from 1600 in 1980 to 2970 in 1993. The study also pointed out that the amount of donor funds had increased from US$2.8 billion to US$5.7 billion in 1980 to 1993 respectively. One could say that the number of NGOs has a direct relationship to

the amount of donor funds granted to the NGOs. This could be because the international donor community sees the NGOs as channels through which services can be delivered to the intended targets in a cost-effective manner.

Cassen (1994:51) argued that even though NGOs are small in scale and employed local participants, while operating in a non- bureaucratic way, they also have low manpower costs, and could penetrate directly and quickly into the local situation. This does not make NGOs suitable to carry out all types of programs as some programs are simply executed better by donor agencies or the government. Despite this, NGOs are suited for certain programs and often governments would not want to deal with too many programs. Therefore they allow NGOs to carry out specific programs, while making them accountable for such programs.

2.1.2 What does the term NGO mean?

What does the term NGO mean? Although the term NGO is widely used, it has many different meanings. In developing countries the term may be applied to different types of organisations as opposed to developed countries; it also has different definitions in different countries. Most researchers on NGOs use their own definition for the purpose of their studies. That is why the term NGO is so vague. Many studies have attempted to come up with a definition that can be used commonly worldwide, without much success. Most countries already have their own definitions. Horn (2007:2) conducted a study on Namibian NGOs and has defined the term NGO as “national organisation separate from the government existing for the public interest and working not for profit gain”. On the other hand, Tvedt (1998:12-16) presented various definitions of NGO by looking at different perspectives such as legal, economic/financial, functional, and structural-operational perspectives. He also identified some of the different types of NGOs that exist in different countries, such as the community based organisations, the intermediary NGOs, the international NGOs, the relief and development NGOs, the religion-based NGOs, the service NGOs , and the trust and unions NGO. Thereafter he defined the term in such a way that it can be used commonly and collectively. According to Tvedt (1998:16), the term NGO should be defined as “all organisations within the aid channel that are institutionally separate from the state apparatus and are non-profit distributing”.

But what brought NGOs into existence? According to Tvedt (1998:41), there are two theories that explain the existence of NGOs. That is; the public good theory, also called the performance theory, which states that NGOs are a result of the society's unsatisfied demand for public goods. This theory argues that the state only provides public goods to the society to a certain extent, but it does not satisfy it's every demand. Therefore a gap of unsatisfied demand is left. It is because of that small gap that the NGOs emerge, with the aim to satisfy the demand which is left unsatisfied by the state. The second theory that explains the existence of NGOs is called the contract failure theory, which suggests that NGOs arise where ordinary contract mechanisms fail to provide the public with adequate means to access the services firms produce. When contracts are difficult to define, people turn to trust NGOs because NGOs are seen to have lesser incentives for taking advantage of the consumer's ignorance. In other words, NGOs come about because of the existence of differences in society's needs for public goods and services, and the failure of the state and commercial firms to satisfy the society's needs. Another reason could be a country's policies, which in some cases demand that NGOs take on community activities.

2.2 CRITERIA USED FOR GLOBAL AID ALLOCATION

2.2.1 Foreign aid directed towards poverty reduction

Donor aid has more effects on poverty reduction than on economic growth of a country when funds are directed to programs that provide service directly to the targeted beneficiaries. Donor funds can be awarded according to different criteria. Currently one of the most important criteria for allocation of donor funds is good performance. Mosley, Hudson and Verschoor (2004:218) point out that trade policy is one of the factors that can have an effect on the allocation of development aid for reduction of poverty.

Various conditions and criteria have been used to determine who should get development aid. If good trade policies were to be used to allocate development aid, many developing countries would not receive any aid, and those are the majority of countries that most need aid for poverty reduction (Mosley *et al.,* 2004:218). Some countries may never meet the standard of so called good trade policies. In theory, one would think that countries with

extreme poverty would get more development aid, especially when funds are directed at programs that directly benefit targeted beneficiaries. Each country would be assessed according to its performance and be treated accordingly. If a country fails to perform, the funds would be withheld until new terms are agreed on.

Factors such as population, political stability, entities through which services will be delivered, proper planning from both the side of the government and of the donor agency, the monitoring and evaluation system, and the right target beneficiaries should be looked into in detail. It is crucial to determine the most effective and efficient way to deliver the intended services to the beneficiaries. For example, if Small or Medium Enterprise, and more specifically non-profit making organisations, were to be the pipe-line of delivery, funds would be used for their intended purpose and not end up as taxes, as most SME do not qualify to pay taxes.

There is also a danger of mismanagement of funds due to a lack of skills and experience in financial management. This can be the reason why most donor agencies prefer that recipients report more regularly on the use of funds than on activity progress. Since most non-profit making organisations are already welfare oriented, they should deliver a much better service than entities whose aim is to make profit. As different donors have different objectives, donors tend to look at different criteria for the allocation of their development aid funds. All the above-mentioned aspects can influence the decision to donate funds for poverty reduction.

2.2.2 Allocation of global aid

Nordic donors (Denmark, Finland, Norway and Sweden) differ from donors from others countries as they concentrate mostly on two major aspects, namely human rights and democracy (Gates & Hoeffler, 2004:4). Other donor agencies are less concerned with these two areas and more concerned with other issues that have to do with health and education. For example, the Global Fund fights AIDS, Tuberculosis, and Malaria (The Global Fund, 2009), and Pact deals with orphans and vulnerable children (Pact Namibia, 2009). The major objective for most donors is to reduce poverty and improve the wellbeing of the communities in developing countries. Gates and Hoeffler (2004:10) pointed out that

Nordic donors prefer project aid to programme aid. This shows that Nordic donors are not willing to make any long term commitment to any country. Dealing with a project is not as critical as dealing with a program; therefore Nordic donors can pull out at any time.

Official aid that is directed at specific projects is called project aid, and aid that supports a program is referred to as programme aid. Programme aid is not tied up to any specific project thus allowing the recipient a great deal of flexibility. A project is defined as "a temporary entity established to deliver specific (often tangible) outputs in line with predefined time, cost and quality constraints. A project should always be defined and executed relative to an (executive) approved business case which balances the costs, benefits and risks of the project. The project business case should be managed under change control" (Independent Consulting Bootcamp, 2009). On the other hand, a program is defined as "a portfolio comprised of multiple projects that are managed and coordinated as one unit with the objective of achieving (often intangible) outcomes and benefits for the organisation" (Independent Consulting Bootcamp, 2009). Table 1 shows the main differences between a project and a program.

Table 1: The differences between a project and a program

	Project	Program
Objectives	Outputs are tangible; relatively easy to describe, define and measure; tending towards objectives.	Outcomes are often intangible; difficult to quantify; benefits are often based on changes to organisational culture and behaviour; introducing new capabilities into organisation; tending towards the subjective.
Scope	Strictly limited; tightly defined; not subject to change during the life of the project.	Not tightly defined or bound; likely to change during the life cycle of the program.
Duration	Relatively short term; typically three to six months.	Relatively long term; typically eighteen months to three years.
Risk profile	Risk is relatively easy to identify and manage; project failure would result in relatively limited impact on the organisation.	Risk is more complex and potentially the impact on the organisation, if the risk materialises, will be greater; failure could result in material, financial, reputational or operational loss.
Nature of problem	Clearly defined.	Ill-defined; often disagreement between stakeholders on the nature and definition of the problem.
Nature of solution	A relatively limited number of potential solutions	A significant number of potential solutions with disagreement between stakeholders as to the preferred solution.

	Project	Program
Relationship to environment	Environment within which the project takes place is understood and relatively stable.	Environment is dynamic; and objectives need to be managed in the context of the changing environment within which the organisation operates.
Resources	Resources to deliver the project can be reasonably estimated in advance.	Resources are constrained and limited; there is competition for resources between projects.

Source: Adapted from Independent Consulting Bootcamp (2009)

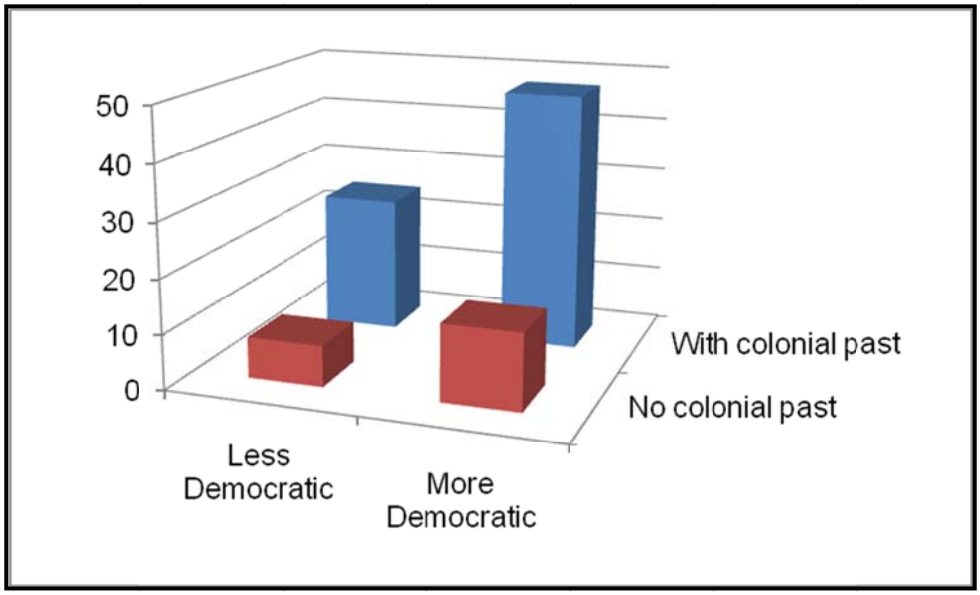
From table 1 above one can see that running a project is not as complicated as running a program. A project requires a short time to be completed and it has little risk involved and a much lower loss should the project unexpectedly come to an end. In Namibia, one would find both projects and programs as some donors prefer programs over projects and vice versa.

2.2.3 Development aid, democracy, colonial past, and trade policy

Alesina and Dollar (2000:35) have identified three factors that have a serious effect on the amount of development aid channelled to any country, namely, having a colonial past, being democratic, and having an open trade policy. Alesina and Dollar (2000:41) discovered that a country with a history of being colonised in the 20th century received a greater amount of development aid than those that did not have a colonial past. Furthermore, donor countries were most likely to give higher aid to their former colonies than to others.

Whether a country is democratic or not, and has an open trade policy or not, also plays an important role in the amount allocated for development aid. Countries that are democratic and have an open trade policy received more development aid than others. Figure 1 below shows a huge difference in the amount of development aid given to countries with a colonial past, and/or democratic countries, compared to those that do not.

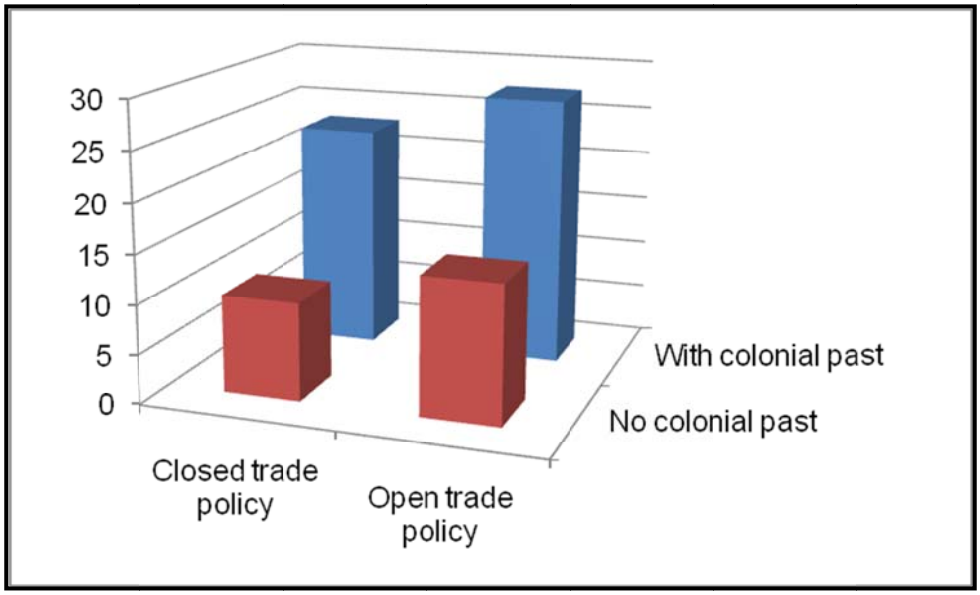
Figure 1: Development aid (US$ per capita) given to a country with a colonial past and democratic



Source: Adapted from Alesina and Dollar (2000:42).

From figure 1 above, one can deduce that having a colonial past is a good indicator for receiving development aid. Countries with a colonial past receive much more aid than other countries without a colonial past. At the same time, they would receive significantly more if they were democratic. Unlike other donor countries, Nordic donors do not give a lot of development aid to their political allies. Figure 2 below shows the flow of aid in relation to a country with a colonial past and the openness of its trade policies.

Figure 2: Development aid (US$ per capita) for a country with a colonial past and open trade policy



Source: Adapted from Alesina and Dollar (2000:45).

It seems that the openness of a country's trade policy is not as crucial as its colonial past. From the above figures, little aid has been given when a country is less democratic.

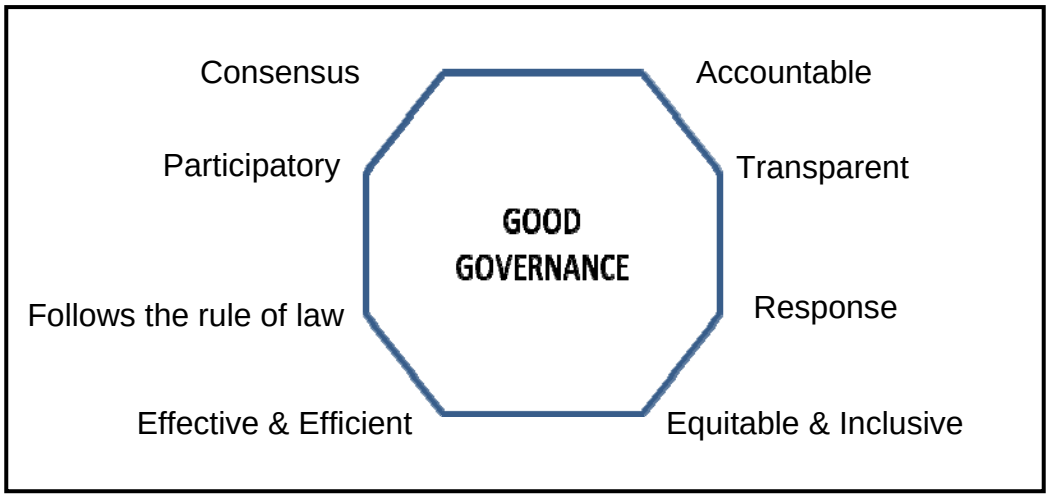
2.3 DONOR AGENCIES AND THEIR RECIPIENTS

2.3.1 Development aid and the recipient country's governance

Ovaska (2003:186) has concluded that an increase in development aid flow does not lead to an increase in economic growth of the recipient, and that no supporting evidence shows that a country with good governance performs better than one with poor governance. One would expect a country with good governance to be in a better position to negotiate with donors and to effectively utilise and manage aid to bring about the best results. However corruption exists even under good governance. A good relationship between the government and the donor agency is important. Both parties would be able to agree, plan and direct funds to where it is really needed. A country with good governance is in a much better position to obtain donor funds and to utilise it where the need is. Bad governance is considered to be the root cause of all evil in our societies (United Nations ESCAP, 2009).

Most major donors give their aid on condition that such aid will bring about good governance (United Nations ESCAP, 2009). Nordic countries would prefer to give to a country with good governance. Figure 3 below shows the characteristics of "good governance". More donor funds are always useful in any developing country and it would contribute to the economic growth, depending on where the funds are directed. Funds that are directed at strengthening institutions and improving their business environment would show a positive result in economic growth at an earlier stage than when funds are directed to welfare programs such as reduction of tuberculosis and malaria amongst the poor.

Figure 3: Characteristics of good governance



Source: Adapted from United Nations ESCAP (2009)

The criteria illustrated above makes a difference in the allocation, proper management, effective and efficient utilisation of aid money. The above criteria are used by donor countries to assess countries receiving donor funds. The most important aspect that donor countries concentrate on is whether the NGOs, rather than the recipient country, have capacity to manage the aid money. Some of the good governance criteria could be applied to NGOs themselves and used as forms of external and internal controls.

2.3.2 Donor related problems and obstacles

For many years, donor agencies have provided start-up capital for enterprises to strengthen their financial sustainability, but could not succeed in reducing poverty. Adongo and Stork (2005:24) pointed out that most Namibian enterprises that received start-up capital are still not financially sustainable, even after all the assistance they have received from donors and the government.

Adongo and Stork also pointed out that donors nowadays are mostly interested in providing funds for activities which will directly benefit the people, since enterprise strengthening has proved to fail in most countries. Projects like training on nutrition, better farming techniques, family planning, and health and basic financial management skills are some of the projects funded by donors. One would think that funds that are directed to these kinds of programs are more likely to be used for their intended purpose and they may have more impact on the community and the country's economic growth than providing start-up capital for enterprises, since the investment is made in the people themselves rather than in companies. But that is not always the case.

There are two other aspects that are crucial to the success of the provision of aid to the community. Both the business environment and investment climate have a huge effect on the effectiveness of aid deliverance of NGOs. As a result, these aspects should concern all parties involved in aid deliverance. In most cases donor funds are given to non-profit making organisations and non-governmental organisations. The better the business environment is for non-profit making and non-governmental organisations, the better they can deliver services, and achieve donor's goals.

White (2003:4) pointed out that most SMEs have welfare-orientated development portfolios. All these entities have a common aim, which is to improve the well being of the community. Therefore they are better off working together rather than competing against each other, unlike profit making entities. This difference already shows how different the business environment is for non-profit making entities compared to that of profit making entities.

In his book “When Aid is No Help” Madeley (1991:8-9) suggested that NGOs would be the best way to deliver aid to its beneficiaries simply because NGOs are local, flexible, knowledgeable about the real situation, know the locals and understand them, and live in the same community that is in need. Therefore it would be easier for them to reach all that need to be reached. In addition, NGOs are aware of the different customs and cultures of locals, and they can earn the trust of the people easier. In any relationship, trust is crucial; which is an advantage. Madeley (1991:110) also questioned the NGO’s ability to handle aid money. Handling aid money requires a certain extent of skills and knowledge. Madeley (1991:111) suggested that it would be best to give each NGO the maximum amount that they can handle in order to achieve the best desirable results. He also suggested that donor agencies should work together if the best result is to be achieved.

Robinson (1992: 32) on the other hand, stated that it is only an assumption that NGOs are better at reaching the poor, but not the poorest, and also that they are cost effective. In his study, when the cost per beneficiary and that of the government was compared, the cost of NGOs turned out to be higher than that of the government. He explained that the low activity cost is due to the small scale and the salaries were probably used to retain staff. But when NGO costs are compared to that of donor agencies and government, the cost of travel and subsistence was much lower than that of donor agencies and government.

The following are some of the aspects that were found to be useful in the effectiveness of aid in any given community. Programs and projects should therefore take note of the following (Madeley, 1991:121-125).

- *Careful attention should be given to details at the design stage and that the intended beneficiaries should be consulted to give inputs at this stage.* It is important to spend more time and money at this stage to avoid overlooking various aspects that are crucial to the program. It is important to have all parties’ contribution at this stage. A large percentage of cost is incurred at this stage; therefore a financial management system should be in place before any activity starts.
- *Projects should genuinely correspond to the needs of the local community*. Therefore a proper investigation and understanding should be done on how the people live. In other

words, a project that tries to westernise the beneficiaries will not be as effective as may be thought because it will not get support from the local community.

- *Projects should involve NGOs in their design stages where possible, after all the local community is most likely to have knowledge that may have been missed during surveys and research.* Since NGOs already are familiar with the people, their problems, their cultures and their living style, their contribution at this stage would be valuable.
- *Train the communities where the skills are needed in order for the projects to succeed.* Training together with the local NGOs would be fruitful. Investing in the local people who will continue to run the project is a better investment than outsourcing the expertise and skills required for the project.
- *The projects should ensure that the technologies used are low cost, at a human scale and appropriate*. People will have no interest if the technology is too complex and expensive. It is a waste to buy assets that cannot be maintained at a reasonable cost, and are underutilised simply because personnel are not able to use it.
- *Low levels of rural development are responsible for a great deal of poverty.* Therefore projects must aim to improve the level of development in rural areas. Proper research should indicate what is critical to the development of the community and what is not. Funds should be directed to these critical areas and should not be spend on projects that will have a temporal effect on the community.
- *The projects should carefully assess if local institutions are suitable partners.* Despite NGOs being considered as organisations that would best serve the community, they are not all suitable for all types of projects. Therefore, donor agencies have to do proper research concerning organisations that can be used to deliver the service to the community.
- *In case of health projects, it is best to ensure first the existence of the community-based structures.* For some aid to work; there is need for some structures to be already in place before the project starts.
- *It is very important that the project planners take the local beneficiaries into consideration, and be seen to do so*. The impression is sometimes given that local beneficiaries are ignored, because they are considered illiterate or unintelligent. Such lack of respect for the dignity of beneficiaries hamper the successful execution of the project

- *Support should be given to low-cost credit programs and the fund provider should make sure that local institutions that implement providing low-cost credit programs do not exclude the poorest.* They say the rich get richer and the poor get poorer. Most credit programs or institutions prefer to give credit to those who can afford it. The poor who need access to credit are denied of it, because they are considered to be a risky investment.
- *The projects must not gamble with the lives of the poorest.* This is most likely to happen in cases where the beneficiaries are not the donor's number one priority. If aid was given with the aim of getting political allies, such aid can easily be terminated at any time when the relationship is no longer useful, irrespective of the consequences it will have on the beneficiaries.
- *The project should encourage recipient governments to take land reform more seriously.* Some aid is aimed at assisting the locals in their farming activities. But the recipient country may not have policies that are conducive to the success of such aid.

These situations do not only apply to counties such as, Sudan, India, Bangladesh, Philippines, and Mali as selected by Madeley in his study "When aid is no help", it may also apply to developing countries like Namibia. Most of the above points need participation from various members and levels of the community. Ensuring that all of the above aspects are addressed will in some way serve as a control to ensure the efficient and effective utilisation of donor funds.

2.3.3 "Sins" that donors and their recipients can commit

Schmidt and Zeitinger (1994:101) advise that donors should be serious about the programs they start. They pointed out that donors are quite reluctant to commit themselves when it comes to programs aimed at strengthening institutions. Not only are the donors reluctant, but they also put a burden of multiple objectives on their recipient and expect to see positive results in a short time frame. Such mistakes can have serious consequences on the recipients in many ways. It may lead to falsified results, failure to achieve donor objectives, and it may create a bad reputation for the recipient organisation, which may lead to the rejection of the organisation's future requests for donor financial assistance.

Birdsall (2004:5-30) pointed out a few deadly “sins” of donor agencies in relationship with their recipient country. Birdsall (2004:5-30) concentrated mostly on cases where donor agencies provide loans to recipients, and not cases where funds are provided for charity purposes. Despite this, the same sins would still apply. The following sins have a consequential effect on the recipients. The following discussion will look at how these sins are committed in the case of funding for programs for charity.

The first “sin” is when donors expect to see results very early in the early stages of a program. Donors sometimes do not wait until the end of the program to see the results and initial results are not good enough to assess the effects of the overall program. It takes a long time to see changes in communities.

The second “sin” is when donor agencies do not meet with the government of the recipient country to discuss the needs of the people and the areas that needs first attention and assistance.

Thirdly, donor agencies fail to address the real needs of the people by not including all necessary parties in the initial planning; the donor agencies, the local NGOs, the local people and the government should take part in research conducted. This will result in every party getting a chance to contribute to the program that will be designed. This process allows donors in collaboration with other parties to come up with suitable indicators for the purposes of the assessment. When donors provide their finances, they know exactly what, how and for whom they are providing funding.

Although most activities are best carried out by the locals, it is crucial that donor staff is involved in the operation of the program activities on a regular base. This will ensure that all the necessary documentation and data which will enable a proper assessment of the program is collected. Birdsall (2004:18) suggested that an independent evaluator should evaluate the donor’s success. An independent evaluator enhances transparency. One would say that the program’s personnel is in the best position to conduct an evaluation since they know the program better, but their objectivity would be compromised. Table 2

below shows some of the factors to be taken in consideration when deciding between an in-house and an outside evaluator.

Table 2: In-house vs. outside Evaluator

1. In-house evaluators	2. Outside evaluators
- Have a better grasp of the aid/development context and of how the agency works.	- As they are less aware of the sensitivity of the aid, or administration problems, they may come up with fresh ideas and be more ready to employ lateral thinking.
- Are well placed to foster instant feedback in an effective way.	- Are not likely to be directly concerned with feedback, except in academic circles.
- The experience gained remains inside the aid agency.	- The experience gained is lost to the aid agency.
- May lack specific technical skills or experience.	- Are usually selected precisely because they are experts in their field.
- Relatively inexpensive.	- Tend to be expensive, especially if consultant firms are used.

Source: Adapted from Cracknell (2000:82)

Looking at table 2 above, it is clear that both parties are needed for a proper evaluation, since neither one is good enough on its own. Why evaluate an activity: for accountability or for lesson-learning? In his discussion on project evaluation, Cracknell (2000) addressed this question. He pointed out that when an evaluation of a project is to be carried out there are usually two objectives to be served, namely accountability, and lesson learning. In accountability, the main purpose is to answer questions such as whether aid works, and how effective development aid is. In lesson-learning, the key objective is to study selected successes and failures with a view to learn why some actions were successful and others not, and to ensure that the relevant lessons are learned and acted upon (Cracknell, 2000:55).

Many evaluation techniques have been employed to cover and satisfy both objectives (accountability and lesson learning) at the same time but have not been very successful. Therefore it has been concluded that for an evaluation to yield the best results, an

evaluation can only best serve one of these objectives at a time (Cracknell, 2000:55-56). The objective of an evaluation is determined by the type of reader or entity for whom the report is prepared. Some entities only want to know how efficient the project is, while others want to know how effective and successful the project was. NGOs therefore have little control over the setting of an evaluation's objectives, as they are imposed on them.

Another aspect is that activities are evaluated differently. Therefore the evaluation techniques are tailor-made for specific activities. This leads to a discovery of various evaluation techniques. Most NGOs use the self-evaluation technique. This means that operational staff will evaluate their own activities. There are disadvantages to self-evaluation, one being that the staff member's objectivity can be compromised and the second being that it would be cost ineffective to send one person to evaluate a big number of small projects. Although there are disadvantages when using this technique, generally NGOs are allowed to use this technique since they could not afford to acquire an independent evaluator. Self-evaluation generally covers the effectiveness and efficiency of the activity (Cracknell, 2000:73).

There are two types of evaluation that are crucial to the success of the project, irrespective of the point of view of the evaluation. These are impact evaluation and sustainability evaluation.

During an impact evaluation, a change or an influence of the project on its beneficiaries, on the environment, on the economy, and on the social structure is measured. This evaluation is valuable to the donor agency, the NGO running the project, and the beneficiaries. Positive results from this evaluation will encourage the donor agency to continue funding the project, the NGO will be encouraged to find a way to sustain the project, and the beneficiaries will be encouraged to participate as they can view the impact the project has on all parties involved.

It is unfortunate that this kind of evaluation is not conducted very often, if at all. The main reason for this is a shortage of resources. In his study, Cracknell (2000:240) pointed out some of the stages necessary for an impact evaluation.

- *Identification:* one should be able to note whatever changes have taken place, and whether intended, unintended, associated.
- *Measurable:* trying to quantify or assess the significance of the changes.
- *Attribution:* trying to establish the causes of the changes.
- *Assessment:* drawing all threads together, and forming a judgement on the impacts in relation to the aid input, and making recommendations for future aid activities of a similar kind.

On the other hand, sustainability evaluation looks at the project's ability to deliver an appropriate level of benefit for an extended period of time after major financial, managerial, and technical assistance from the external donor is terminated. It is important that these evaluations take place for the sake of the success of the project. Conducting a sustainability evaluation encourages donor agencies to continue supporting a project because they know it will keep running in future even when they are no longer involved. Sustainability evaluation can also encourage and show the NGO that they can support their communities even after the external funding has come to an end. There would then be no need to feel that NGOs have failed their community. The beneficiaries can still expect the services they are getting from that project to be available after the donors have left. The confidence by the beneficiary community that services, even at a reduced level of delivery, would continue despite a termination of external funding would enhance the success of the project. As a result, they will not give up so easily. Even if the services are not as good as before, to some extent, it will make a difference to some beneficiaries.

Cracknell pointed out some factors that should be looked at when evaluating sustainability.

- *The need for a strong recipient country government support*. Most community projects find it hard to earn money or get donations from the local institutions. Therefore project

sustainability is not easy to achieve. Some projects might get support from the government, but when a change of parties comes in government, the project might lose support and risk being terminated.

- *The need for adequate local managerial ability and effective institutions*. Managerial ability is one the resources found to be lacking in developing countries. It is important for donor agencies to ensure that managerial positions are filled by both their own experts and others from the local community so that knowledge and skills are shared.
- *The need to choose the right technologies suitable for the recipient country*. In most cases, donors prefer that recipients of their funds procure goods from the donor country, which can be expensive to maintain. There are exceptions, as in cases where the donor country's products are not available in the country.
- *The need for socio-cultural compatibility, local participation and gender awareness*. It is important to do a good study of what people really want and need, and then implement those projects that will serve the people's need. This will entice the local community to want to take part and continue the project even when external funding is no longer available.
- *The need for projects to be compatible with the environment*. This means that the effect a project has on the environment should be taken into consideration. The project must be environmentally friendly and must not have negative effects on local community.
- *The need to ensure that the project will be financially viable*. From the start of a project, there should be procedures in place to ensure that the project will be financially sound even after donor funds have dried up.
- *The need for robustness in project design to cope with the unexpected*. After studying the risk involved in the project, one has to make sure that the remaining risk is at an acceptable level and that there is a backup for unexpected changes. The project should be flexible enough to continue despite unexpected events.

How many programs are sustainable after the external funding ceases? The answer depends on the answers to points discussed above. If these points are not taken into consideration, there is no point in doing an evaluation of sustainability. Therefore, one should, from the beginning of a program, be able to predict whether the program will come to an end immediately after external funding has ended, or not. Any type of evaluation is

also a form of control that eventually ensures that donor funds are utilised for their intended purposes and that the desired results are achieved.

The fact that the past, even where adequate information is available, is not a perfect guide to the future, adds to the difficulties in the assessment of aid. Most programs take many years to finish, and only after that can the assessment be conducted. It usually takes a considerable period for the program to be assessed after it ends, and by that time, the donor agencies are no longer pursuing the program in question and most program staff are no longer available to assist with the assessment. Thus conducting the assessment soon as the program finish is best.

A program today could be much more successful than it was a decade ago. As there is more information available regarding the success and failures of programs, today people have a better idea of what to do and what to avoid in order to improve the project's success rate (Cassen, 1994:7). Cassen also pointed out that present aid programs cannot be judged solely on past records, and that the success of aid programs depends on good evaluation.

Another mistake that donor agencies make is that there is little communication between different donor agencies with regard to a particular issue. Agencies tend to repeat each other's mistakes and at times they might offer services that overlap or are identical, while other important issues are ignored. In most cases, aid comes with conditions that best serve the donor country. If the donor country needs to build up its political allies or to promote a product, it may set conditions that would force the donor recipient to use such a product. Donor agencies would not waste their time conducting surveys to get to know the community if their interests are different from that of the community.

Government has an important role to play in collaborating with all parties involved, in order to determine which parties give financial aid, and what the objectives of such aid are. Government has a role to co-ordinate among donor agencies.

2.4 SUMMARY

The literature reviewed thus far touched on various aspects concerning donors and their relationship with the recipients. It also touched on the donors and their potential recipients, as well as, the criteria used to select donor recipients, areas where donor agencies have failed, and some recommendations for donor agencies to improve their services were identified. Most NGOs, Faith Based Organisations and Community Based Organisations are perceived as the most cost effective channels to deliver services to the intended targeted people. The aid is usually given with some conditions attached. The recipient country has to meet certain conditions and must make sure that aid is used for its initial intended purpose. The beneficiary organisation in the recipient country must report on the utilisation of the aid at reasonable intervals. At times organisations are required to report at an early stage of the program, and the results may be unsatisfactory. Poor results caused by inadequate evaluation may discourage donors from continuing to fund the program.

3 DEVELOPMENT AID AND NGOS IN NAMIBIA

3.1 INTRODUCTION

Namibia is one of those countries that need financial assistance due to crises that have been going on for many years. The three major crises are poverty, lack of education, and poor health services. After Namibia's independence, help was offered by many countries. As a result the number of NGOs increased. Donor countries preferred to employ local people together with their own people to implement and run the programs. Donor countries have established donor agencies in Namibia to enable them to have overall control, to guide, to advise, and to report on the progress of the programs. These donor agencies work directly with the NGOs that are awarded the funds to implement the programs.

Because Namibia has only obtained independence early in the 1990s, it had the opportunity to research and learn from other African countries' mistakes. This means that donor agencies also have the opportunity not to repeat the mistakes made in other countries. This study investigated whether the donor agencies applied their acquired experience in Namibia. With all the reports that document the causes of failure of

programs in other countries, has Namibia been able to avoid repeating the mistakes of other countries?

3.2 NAMIBIA AFTER INDEPENDENCE: DEVELOPMENT AID

According to Melber (2005:308), one of the Namibian national government's top priority goals is to alleviate poverty and reduce the huge gap between social classes. Melber (2005:310) looked at a ten year time frame from 1990 to 1999. He refers to numerous studies that have been conducted to assess the progress of the Namibian government with regard to its promised goals.

Apart from a shortage of funds, there have been several reports on corruption in public offices. The media reported about 240 corruption cases in 2006/7, compared to 92 cases in 2004/5. Most corruption cases were reported in government ministries, local authorities, parastatals and others. Forty nine percent of government funds were embezzled (Afrol News, 2009). This kind of reports can discourage donor countries from funding programs in Namibia. Several reports have been published acknowledging the progress the national government achieved, with the assistance of foreign donors in education (United States Agency for International Development, 2009), in health (Federal Ministry for Economic Cooperation and Development, 2009) and many other sectors. Table 3 below shows the extent to which Namibia has received foreign financial aid over the years.

Table 3: The external financial assistance to Namibia during 1990-1998

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Assistance (Million US$)	64.1	116.4	139.8	130.8	115.9	157.1	175.6	162.1	184.9
Assistance as % of Government Expenditure	11.1	16.3	15.7	14	12.3	15.2	16.8	15.3	19.2
Assistance per Capita (US$)	46	83	100	93	83	95	106	98	109
Assistance as % of GDP	3.4	5.5	5.6	4.9	3.9	4.9	5.5	5	6

Source: Adapted from Melber (2005:309)

From Table 3 above, it is evident that financial aid has been increasing over the period from 1990 to 1998. Donor agencies disburse their funds based on whether the recipient organisation achieved the objectives as set by the donor. From the figures above, it seems that Namibia has been meeting the desired performance standards, for the funds received has increased during the period in question.

Despite this, it has been reported that external financial assistance to Namibia has declined. Speculation was that it might be due to the fact that Namibia was classified as a lower middle income country (United Nations, 2004:19).

Table 4 below contains a list of countries receiving Official Development Aid (ODA). According to the list, the amount of ODA received by Namibia has decreased in 2004, 2005, and 2006, and then increased significantly in 2007 and 2008 (Development Co-operation, 2010:228-229). These increases could be due to donor countries realising that Namibia was wrongly classified, thus leading to an increase in external financial assistance. This higher classification may have lead Namibia to be excluded from some donor funding opportunities and also to pay higher than necessary interest on loan repayments (Sibeena, 2008).

Table 4: Official development aid to various recipient countries

	Net ODA Receipts (USD million)				
	2004	**2005**	**2006**	**2007**	**2008**
AFRICA					
NORTH OF SAHARA					
Algeria	315	346	209	390	316
Egypt	1 506	994	873	1 107	1 348
Libya (c)	-	24	38	19	60
Morocco	705	691	1 044	1 073	1 217
Tunisia	352	362	431	321	479
North of Sahara, regional	181	166	144	279	270
North of Sahara, Total	**3 060**	**2 583**	**2 739**	**3 190**	**3 690**
SOUTH OF SAHARA					

	Net ODA Receipts (USD million)				
	2004	**2005**	**2006**	**2007**	**2008**
Angola	1 144	415	164	246	369
Benin	394	347	374	474	641
Botswana	50	48	69	108	716
Burkina Faso	641	694	869	951	998
Burundi	364	363	410	473	509
Cameroon	791	413	1 691	1 908	525
Cape Verde	143	162	138	165	219
Central African Rep.	110	89	134	177	256
Chad	337	380	282	354	416
Comoros	26	23	31	44	37
Congo, Dem. Rep.	1 826	1 774	2 043	1 241	1 610
Congo, Rep.	115	1 425	256	119	505
Côte d'Ivoire	161	92	247	171	617
Djibouti	64	74	115	112	121
Equatorial Guinea	29	38	26	31	38
Eritrea	265	349	126	157	143
Ethiopia	1 809	1 910	1 941	2 563	3 327
Gabon	40	60	29	51	55
Gambia	55	60	73	73	94
Ghana	1 403	1 136	1 175	1 154	1 293
Guinea	278	198	155	228	319
Guinea-Bissau	76	66	81	122	132
Kenya	658	753	943	1 323	1 360
Lesotho	98	67	71	129	143
Liberia	213	222	260	698	1 250
Madagascar	1 263	913	748	895	841
Malawi	503	573	682	742	913
Mali	588	704	824	1 020	964
Mauritania	189	182	199	342	311
Mauritius	33	34	19	69	110
Mayotte	208	201	338	407	475
Mozambique	1 243	1 297	1 601	1 778	1 994
Namibia	**173**	**125**	**152**	**217**	**207**
Niger	547	520	518	542	605
Nigeria	577	6 409	11 428	1 956	1 290
Rwanda	490	577	581	722	931
Sao Tome & Principe	34	32	22	36	47
Senegal	1 057	684	823	872	1 058
Seychelles	10	15	14	9	12
Sierra Leone	376	340	338	545	367

	Net ODA Receipts (USD million)				
	2004	**2005**	**2006**	**2007**	**2008**
Somalia	199	237	391	384	758
South Africa	629	690	715	810	1 125
St. Helena	26	23	28	43	66
Sudan	992	1 823	2 044	2 112	2 384
Swaziland	25	47	35	51	67
Tanzania	1 767	1 498	1 814	2 820	2 331
Togo	64	82	79	121	330
Uganda	1 215	1 191	1 539	1 737	1 657
Zambia	1 130	1 166	1 419	998	1 086
Zimbabwe	187	373	278	479	611
South of Sahara, regional	1 427	1 300	1 589	1 694	2 763
South of Sahara, Total	**26 043**	**32 194**	**39 919**	**34 478**	**38 993**
Africa, regional	607	730	844	1 454	1 321
AFRICA, TOTAL	**29 710**	**35 507**	**43 502**	**39 122**	**44 005**

Source: Development Co-operation Report 2010 (2010:228)

It could be that the indicators used to measure the progress of NGOs are not appropriate, or there may be no progress at all, as many reports pointed out, which could be a result of mismanagement of funds amongst many other reasons. Melber (2005:309) also pointed out that Namibia was the highest recipient of foreign aid assistance. Whether Namibia was performing well or not, donor countries may have other reasons why they continue providing aid, even when the recipients are not proving to be worthy of managing such programs. Dambisa (2009:54) pointed out the following reasons that donor agencies could continue to give aid, even when recipients are unable to manage programs.

- For economic, political, and moral reasons. Ending aid may have negative consequences for the donor country. Ending aid may bring an end to conditions that would benefit the country politically, and ending humanitarian aid may endanger the relations between the donor and the recipient country.
- There are thousands of people employed by the donor agencies, NGOs, and the government who depends on the supply of aid funds. Many people would become unemployed if aid was to cease completely.

- Poor people would suffer, as health and education budgets would not be met, and the recipient country could default on loans and obligations.
- Donor countries fear that if they end the aid program, the recipient country may not be in a position to pay back their loans, which will eventually affect the financial status of the recipient country.
- Donor countries are unable to determine which countries are really corrupt and not worthy of aid continuation. It is possible that a recipient country is seen as corrupt and not to be funded anymore. At the same time, the same country might seem to exercise good governance in the eyes of another donor country.

As shown in Table 3 above, external financial assistance started to flow to Namibia in the 1990s. Namibia was late in starting to receive official aid compared to most African countries due to its late achievement of independence. Faaland (1991:82) pointed out that even though Namibia has started so late in receiving donor aid, it has had an opportunity to avoid making the same mistakes that other countries had made. Therefore Namibia has a great advantage in minimising poor management of donor funds. In his article, Faaland outlined dangers that any recipient country should look out for. According to Faaland (1991:79-81), the following are some of the mistakes that most countries experienced in managing donor funds.

- The recipient organisation should avoid too great a dependence on official aid, to such an extent that it cannot take care of its own administration. If the aid was to suddenly come to an end; the recipient organisation might have to close down. Organisations should operate in a way that their operations can be sustained even without the aid of the donor agencies. The aid should supplement what the organisation already does, and not replace it.
- The recipient organisation should have solid rules and policies with regard to financial management. If they do not exist, donor agencies will take advantage of any loophole in their policies. However, if policies are in place, donor agencies will normally follow them.
- Recipient organisation should obtain the skills and expertise needed to run the projects even after donor agencies withdraw their technical assistance. Organisations should

ensure that they get the necessary training to equip themselves with the same skills as donor officials have.

- Recipient organisations should know what they want and how they want to achieve their objectives. This will enable the recipients to resist offers that do not fit with their objectives. It will also determine the extent to which the projects are carried out effectively and efficiently.
- Recipient organisations should look out for situations that will give donor agencies the power to manipulate them. For example, being completely dependent on the donor aid reduces the autonomy and flexibility the recipient organisation has.

The above points do not only apply to recipient countries but also to every individual organisation that receives aid. These points should be taken into account when implementing internal controls in the financial management system of an organisation. As these points are about issues that an organisation has complete control over, thus not much prevents an organisation from implementing them. Boll (1991:85) emphasized that it is important for recipient countries or organisations at a lower level, to know the public attitude of donor countries. The more sound and solid a management system of official aid is, the better the results, as aid is no more effective than the recipient system enables it to be (Duncan, 1991:33 & 40).

Duncan also highlighted the importance of organisations in ensuring that the key planning and implementation functions are carried out effectively. More so as, the people in power demand success from the organisations receiving this aid. Another issue that recipients have to pay attention to is aid-tying. Aid-tying is the requirement by some aid donors that at least part of their funds is used to procure goods, services or expertise exclusively from the country providing the aid. When aid-tying cannot be avoided the best way to deal with it is to find ways to minimise its negative impact.

3.3 DONOR AGENCIES AND NAMIBIA: CHALLENGES

3.3.1 The economic challenges of Namibia

The Namibian government has received financial assistance from many donor agencies from all around the world. The donor agencies' aim is to assist the government to achieve its national development plans. That is why most of the donor's purposes and aims are aligned with the national development plans. Namibia is one of the countries that receive both bilateral and multilateral aid. In the 1990s, Namibia had about twenty two bilateral donors, some of which pulled out later. By 2007, there were only seventeen left of which three were expected to pull out by 2008. The aid flow decreased from US$110 per capita in the 1990s to US$60 per capita in 2005 (National Planning Commission, 2007:7). Since then the amount of foreign aid continued to decline, and the number of NGOs has also decreased. Some NGOs had to cut their programs, while others closed down.

According to Hohn (2008), the decrease in aid affected the relationship between NGOs, the state government and the donor agencies, as the flow of aid slowly started to shift from NGOs to the state government. Hohn pointed out that the shift was due to changes in priorities of the donor countries. If the donor country no longer wants to fund HIV/AIDS related programs, then they simply stop and start funding a new priority, such as infrastructure. This kind of shift leaves many NGOs in tight financial positions. Hohn concluded that even though NGOs have been decreasing, and aid becoming less, NGOs may never all disappear. There are still some NGOs that believe in what they do, and will continue to do that, with or without donor funds.

The National Planning Commission (NPC) pointed out some of the areas where foreign financial assistance could be of use. These items are also included in the Namibian National Development Plan. The following areas were indentified.

- *Poverty*
- *HIV/AIDS, Malaria and other communicable diseases*

- *Unequal distribution of income*
- *Inadequate economic growth*
- *High level of unemployment*
- *Human resource development*
- *Inadequate capacity*
- *High cost of infrastructure development*
- *Gender equality and women development*

The National Planning Commission reported that poverty has been one of the challenges since independence and it has been difficult to improve the situation since there are so many aspects involved. More resources are needed to alleviate poverty. Then there is HIV/AIDS, Malaria and other communicable diseases like tuberculosis. These three diseases have received high priority attention from donor agencies. The main donor towards these three diseases is the Global Fund.

The NPC also reported that the income distribution in Namibia is very uneven and that 90% of the country's income reaches about 10% of the population and vice versa (National Planning Commission, 2007:9). A high unemployment rate is one of the issues yet to be tackled. Donor fund recipients have to employ people to carry out donor funded activities, thus providing jobs for the people and an opportunity to get experience. Even with all the recruitment brought about by donors, NPC reports that the unemployment rate has been increasing. Donors such as Pact Namibia and the Global Fund are working with the Ministry of Education to develop and improve human resource availability in the wider market. Many other donors such as Family Health International and Intrahealth Namibia work with the Ministry of Gender Equality and Child Welfare to give assistance to women and children in need.

Although there is already financial assistance directed to all these areas, NPC emphasized that there is still a need for more assistance, there is still a growing demand for aid.

3.4 DONOR AGENCY'S INFLUENCE ON NGOS

Based on the literature review above, the following is a summary of situations that arises in NGOs when donor funds have been acquired. First, a scenario is stated, followed by its effect on the financial management system of donor funds. A single scenario can affect an organisation in more than one way, from a financial, performance and organisational capacity perspective.

3.4.1 Financial perspective

The cases discussed here can affect the NGO's financial management aspects either positively or negatively.

- *Donor agencies provide funds that can assist an NGO to achieve its overall goals, vision, and mission.*
    - This is probably the greatest effect donor agencies have on the NGOs. This means more funds for the organisation to utilise in an attempt to achieve their goals. Before donor agencies disburse funds to NGOs, they conduct an assessment on the organisations' capacity to manage their funds. Thereafter, where necessary, recommendations are given to improve the organisations' financial management system.

- *More staff is recruited to carry out activities and achieve goals set by the donors and the organisation's overall goals.*
    - Project aid in most cases requires recruitment of new staff to specifically attend to the program at hand. This means more staff members have to be recruited by the organisation. The staff members play a very important role in the financial management system as they are daily managers of the funds. The extent to which they use the funds wisely is important.

- *The organisation gets a partner to share its administration cost with.*

  - This is another important positive effect that donor agencies have on NGOs. This creates an opportunity for the organisation to save some of its cash while receiving assistance. Saving is difficult for any NGO, since money is always in short supply.

- *Funds that are channelled through governmental offices come with a certain degree of political influence.*
  - Where there is political influence, there is less flexibility, and there is a chance of funds being pulled out because of changes in leadership. The funds may also be directed at a certain activity for purposes that are not to the benefit of the community. These kinds of changes can influence an organisation's management of finances, since the organisation is not totally in control.

- *Too much money given to an organisation that is unable to manage it.*
  - This can happen when a small NGO has been granted a substantial amount of money to manage. If the staff of the small NGO lacks knowledge on how to manage the funds effectively, it can lead to the mismanagement of donor funds. As a result, huge amounts may be paid out to a few employees who cannot perform all their many responsibilities.

- *Donor agencies fund too much of the organisation's expenditure.*
  - When the organisation's total expenditure is covered by donors, the organisation's management may become reluctant to find alternative ways of generating its own income. The organisation becomes donor dependent and when donor funds end, the organisation collapses. The organisation may be tempted to adjust the financial management system in place to suit their biggest fund supplier, and neglect other minor donors.

- *Sudden cuts in budgets.*
  - Sudden cuts in budgets may mean that an NGO has to use its emergency funds, or cash in an investment which was meant for another purpose. Using

funds which were intended for a different purpose, means putting on hold other activities.

- *Winding up of programs.*
    - Winding up of programs can have both a positive and a negative impact on NGOs. The negative impact is that most, if not all the staff members that were working on those programs lose their jobs. Therefore the organisation loses skilful and experienced people. A potentially positive impact is when donor agencies donate the assets that were used for the programs to the organisation.

- *Existence of vacuum in an NGO's policy.*
    - Organisations that do not have well established financial policies, may be disadvantaged if donors take advantage of loopholes in their policies. In cases where policies are well established, donor agencies normally follow and respect the organisation's policies.

3.4.2 Performance perspective

- *Expectations of donor agencies with regard to NGO's performance.*
    - Some donor agencies expect to see positive results in too short a time. This kind of expectation may lead to the falsification of results, in cases where the disbursement depends on the program performance.

- *Failure to achieve the goals and targets set.*
    - Failure to reach targets or achieve the goals set in the agreement has a negative impact on an NGO and its performance. This can lead to a bad reputation for the organisation, not only in the eyes of the donor agencies but also the community. It influences the organisation's future attempts to acquire donor funds.

- *Evaluation methods used to assess NGO's performance.*

- The evaluation methods used to assess the performance of an NGO has to be suitable. NGOs have unique activities whose results are not always easy to assess or quantify. Therefore an appropriate method of evaluation has to be tailor-made for each NGO, and for each program.

- *Communication between donor agencies funding the same NGO.*
  - There sometimes appears to be a lack of communication and collaboration between the different donor agencies providing funds for the same purpose. This is mainly due to competition between the donor agencies and can hamper maximum performance.

    According to Krueger, Michalopoulos and Ruttan (1989:105), good communication and coordination between donor agencies can have positive effects, such as:

    a) Facilitation and improvement of the flow of information,

    b) Identifying activities which could be jointly financed with other donors,

    c) Stimulating and improving the effort to ensure that policy issues are addressed seriously and coherently,

    d) Increasing the quantity and quality of aid for the NGO.

- *The donor agency's genuine intention for providing funds to NGOs.*
  - The donor agency's genuine intention for providing funds to the NGOs has a great influence on the NGO's performance. If the donor agencies' motives for providing funds are the same as those of the NGO, it may lead to better performance of the NGO and vice versa.

- *Conditions attached to the agreement between the NGO and donor agencies.*
  - Some conditions attached to agreements between donor agencies and NGOs may make it hard for an organisation to carry out its activities. Most NGOs are reluctant to object to the conditions since they need the funds. Small NGOs are usually not strong enough to stand up to the donor agencies, thus ending up following rules that may compromise the organisational systems and overall goals.

- *NGO not knowing what they really want.*
    - At times NGOs become so involved in doing what the donor agencies want them to do, that they deviate from their overall goals. Due to a shortage of funds, the NGO may try to take up funds for activities that do not fit with their vision and mission. This becomes worse especially when the organisation does not already have a clear vision.

- *NGOs reach the community by providing services funded by donor agencies.*
    - As most of NGO's work is welfare oriented, getting funds that will help the organisation do more than they thought they could ever achieve, is a great bonus. Job satisfaction can motivate staff members to spend funds available wisely and to follow correct procedures in the disbursement of funds.

- *Competition between NGOs.*
    - As limited funds are available, NGOs have to compete for these funds to survive. The overall aim for all NGOs in a country should be to improve the welfare of their communities. As a result of this rivalry, NGOs tend to forget that they all have the same aim.

- *Increased popularity of NGO.*
    - Popularity of NGOs leads to increased awareness of their existence and the services they offer, which then leads to better performance. As already mentioned, great performance makes employees happy and happy employees tend to behave and act in an acceptable, professional manner thus boosting the NGOs' performance.

- *Aid-tying to goods and services supplied exclusively by donor country.*
    - Restrictions to acquire goods and services exclusively supplied by the donor country can be costly to the recipient organisation. According to Krueger *et al.* (1989:75), in the case of food aid, the effect can be:
      a) a direct impact on the local producers' businesses,

b) in the long run, the creation of preference amongst consumers may prefer imported goods over local products,

c) neglect of the local agricultural production,

d) a created dependency on aid.

3.4.3 Organisational capacity perspective

- *Donor agencies provide expertise and technical assistance where deemed necessary.*
    - With this kind of assistance, staff members have a chance to learn and better themselves. While this service is made available, the organisation can use it to better their services and performance. The more skills and knowledge personnel have, the better the chances of managing donor funds effectively.

- *Relaxation of donor agencies towards the strengthening and promotion of self sustaining of the NGO.*
    - Some donor agencies do not want NGOs to become dependent on them. The donors request NGOs to illustrate how they are contributing to the activities carried out. This will show that they are not entirely dependent on donor and that they are able to operate in their absence. The NGOs are forced to find alternative means to obtain funds, and ways to manage the available resources wisely.

- *Division between staff members who belong to different projects funded by different donor agencies.*
    - Rivalry may develop between staff members from different programs. Although competition can be good, it can also have a negative effect on the overall performance of the organisation. Team work slowly weakens, and working as a team is a crucial factor for any organisation. Staff members may start resenting each other, leading to poor performance and to unhappy and demoralised employees.

3.5 SUMMARY

Donor funds can have a huge influence on the individual recipient organisation in different perspectives. It is important to study the implications of this relationship, for the organisation as a whole. The recipient organisations are the ones that are directly affected by the donor agencies, and not the country as a whole. In theory, donor agencies, donor funds, and development aid are supposed to bring about positive changes in any community. In this study, both positive and negative changes in an organisation's financial management system, which arises due to many external and internal factors, were looked at. This paper concentrated on the recipient entities, and more specifically the small NGOs.

4 RESEARCH DESIGN AND METHODS

4.1 DESCRIPTION OF INQUIRY STRATEGY AND BROAD RESEARCH DESIGN

4.1.1 A description of the study's strategy of enquiry

The aim of this study was to look at the financial management of donor funds by NGOs in Namibia, with a focus on the relationship between the three different cost categories, make an assessment of the organisation's self-sustainability, and an assessment of the effective utilisation of funds.

For the purposes of this study, an empirical research method will be used. In particular, a qualitative and exploratory study will be the strategy of enquiry. In an empirical research method, researchers have an option to use both primary and secondary data in their research (Mouton, 2001:149). In this study, both primary and secondary data was utilised. A qualitative method of research aims to provide illumination and understanding of complex psycho-social issues, and is useful for answering humanistic "Why" and "How" questions (Marshall, 1996:522). With little literature review available on this research topic, qualitative data will be collected to address most of the research questions on this topic.

4.1.2 The basic characteristics of qualitative research

Leedy and Ormrod (2005:95-96) characterise qualitative research as a method that describes and explains, explores and interprets events, has flexible guidelines, and collects a hybrid of data. Its data analysis is subjective and the communication of results is narrated, and personal interviews are conducted. Qualitative research is further divided into many other research methods, one of which is case study research. This method will be used to some extent to obtain both primary and secondary data to address most of the research objectives.

A case study was selected for this study for several reasons. In this study, data was collected over a number of years to shed light on the utilisation of donor funds. A case study allows both primary and secondary data to be utilised. Secondary data was used to form a foundation of this study, and was also used to address most of the research objectives. Both textual and numeric data was collected and utilised. Thirdly, case study research gives the researcher the power to sample the most appropriate cases to address the research objectives.

4.1.3 Classification of the study's overall research designs

The following terms best explain the broad research design of this study:

Basic research aims to advance a human being's theoretical conceptualization about a particular topic (Leedy & Ormrod, 2005:43). It informed both the donor agencies and the recipients about the financial management of donor funds by NGOs.

Exploratory research aims to seek new insights into phenomena and assess the phenomena in a new light (Leedy & Ormrod, 2005:598). It provided the researcher with basic and preliminary understanding of the topic in question, which in this study was to inform both donor and recipients on the financial management of donor funds by NGOs.

Primary and secondary data was used in this study to address different research objectives. The primary and secondary data was collected during interviews.

Numeric and textual data was collected from the organisational documents which provided relevant information that would address the research objectives.

Cross sectional research is a study of a particular phenomenon at a particular time over a short time, a snapshot (Saunders, Lewis & Thornhill, 2007:595). This case study was conducted over a three year time frame.

4.2 SAMPLING

Cross sectional case studies were used to collect data for this study. Data was collected over a short period from different sources. There are three types of sampling methods that can be used to draw case samples when conducting a case study. One of the sampling methods is the judgemental method. This method is commonly used in case study research studies. It allows the researcher to draw samples which will best address the research objectives (Marshall, 1996:524). Judgemental sampling method was considered appropriate for this study because of the unclear definition of the concept of a small enterprise in Namibia.

The definition of a small enterprise was used to identify the target population for this study. The population from which the sample was drawn was made up of NGOs that were non-profit making; community welfare orientated, had a head office located in Windhoek, and were registered with the Ministry of Trade and Industry. The small enterprises that met these criteria were the ones that got donor funding to improve community wellbeing. Therefore personal judgement and knowledge assisted in sampling appropriate cases.

A major factor about judgemental sampling is that the results of the sample highly depend on the researcher's knowledge about the population sampled from and the topic in question. This was overcome because the researcher has NGO work experience in the same environment as that of the target population. The other advantage was having work

experience in auditing, which enabled the sampling of cases that were credible, transferable, confirming, reliable and valid.

There were about two hundred and forty seven NGOs registered with the Namibia Non-Governmental Organisation's Forum Trust (NANGOF Trust). Membership is renewable every year. NANGOF Trust is an umbrella body for all NGOs in Namibia and its aim is to serve as a platform on which Namibian NGOs can join forces and build capacity in pursuit of their goals. In this study, a list of NGOs registered with NANGOF was used as the target population. Before an NGO is registered with NANGOF it has to meet some requirements such as: it must be registered with the Ministry of Trade and Industry and other relevant authorities, it must be audited on an annual basis and submit their audit report to NANGOF, and it must adhere to NANGOF's code of ethics.

These requirements eliminate the possibility of having ghost NGOs. It also increases the chance of finding reliable audited documents and the establishment of necessary documents for an organisation. It would therefore be more reliable to use NANGOF's list of members. Looking at non registered NGOs may lead to sampling NGOs that may not even exist anymore.

Out of the two hundred and forty seven NGOs, one hundred and forty seven were located in Windhoek. It is from this list of NGOs that this study drew its sample. NGOs located in Windhoek were preferred because it made it easier to reach and get information; most NGOs' information, including financial documents, are kept at the head offices in Windhoek and it would have took less time and resources to carry out the research.

Most of the NGOs are registered as voluntary associations, welfare organisations, trusts, incorporated associations not for profit, or community based welfare organisations. Five organisations were selected from each one of the above category groups, except for community based welfare organisations, because there were no community based welfare organisations that were situated in Windhoek at the time of sampling. The selected organisations were those that received donor funds that were spread across the three cost categories mentioned above, for which the funding was provided for at least three years. According to Perry (1998:793), there are no precise guidelines for selecting the number of

cases to be used in a case study. Therefore it is left to the researcher to choose the number of cases that best fit the study at hand.

Based on the above, twenty NGOs were selected for this study. Data was collected mainly from organisational documents, and to a small extent, the staff members of the particular recipient. NGOs registered with NANGOF were sampling units for this study. The target population was limited to those NGOs whose head office was situated in Windhoek and had been funded by a donor for at least a period of three years. The organisations must have had at least one audit firm that reported on their books to increase the integrity of the data collected.

4.3 DATA COLLECTION

In a case study, the researcher is responsible for data collection. For the purpose of this study, most of the data that was collected was secondary, textual and verbal. Organisational documents were collected and used to address the research objective.

Secondary textual data was collected to address the research objectives regarding the organisation's financial documents, and the organisation's ability to expand after donor funding comes to an end. Organisational documents that report on the organisation's assets and its financial position were collected. Although this information could also be obtained from the employees, it was easier to collect more secondary data for different financial years and make proper comparison based on accurate and audited information. Most of these documents are usually public documents; making them easily accessible.

Using secondary data saves time, as there is no need for consent forms, and it reduces the cost involved in the research (Romano, 2009). The negative aspect of using secondary data is that it is not always available in hard copy, much less in electronic version, especially for small organisations. It is most likely to find a hard copy from one of the beneficiaries. Most of the documents that were used for this study had been audited.

4.4 DATA ANALYSIS

4.4.1 General analytical strategy

In this study, a triangulation of multiple data sources was used. A triangulation is the use of two or more independent sources of data, or collection of data methods within one study in order to help ensure that the data shows you what you think it is telling you (Saunder *et al.*, 2007:614). Secondary data from the organisation's documents and other existing literature reviews were collected. In a case study, one can either adopt one of these two general analytical strategies; namely, relying and testing a theoretical proposition made from ready existing literature reviews, or develop a case description.

4.4.2 Analytical techniques

There are various analytical techniques that a researcher can use in a case study, namely, Within-case and Cross-case analytical technique. In a Within-case analytical technique, the researcher gains familiarity with data and a preliminary theory generation. In a Cross-case analytical technique, the researcher focuses on identifying patterns among the cases and a relationship among different results of cases (Ragin, 2009:12). In this study, an analysis was done at two levels, within the case and amongst different cases. During a Cross-case analysis the overall results for each case were compared to the other cases. The results of the process were tested against the theories which have been discussed in the literature earlier on.

4.4.3 Overall process of data analysis

As mentioned above, most data was collected from secondary sources by reviewing the organisation's documents. Official public documents that have been audited were collected. A financial statement analysis was conducted; therefore an audited annual financial statement was the main source of secondary data.

4.5 ASSESSING AND DEMONSTRATING THE QUALITY AND RIGOUR OF THE PROPOSED RESEARCH DESIGN

The source of bias in this study was the organisational documents that were used. The need for finances of small organisations may encourage employees to report more favourable results that will ensure the continuation of donor funding. Bias from this source was reduced by collecting and utilising only those documents that were audited and made public.

In this study, organisations were selected that had one audit firm that reviewed their books. Once the audit firms audited their books, all questions and doubts with regard to the credibility, transparency, and conformity of the data in the organisation's books are cleared or minimized. The down side of an audit is that it only provides a reasonable, and not an absolute assurance as to the correctness of the financial statement; the audit may also not have covered all documents available, therefore leaving a chance of possible error in the organisation's accounting books.

4.6 RESEARCH ETHICS

An empirical study has some ethical issues that have to be taken into consideration. In this study, several research ethics were of concern and were dealt with in the following manner:

- ***Voluntary participation***. *The organisation was requested for permission to conduct the study and was informed participation in the study was voluntary.*
- ***Confidentiality and anonymity of participants***. *The request for access to organisational documents clearly stated that the participants and the data they provided are confidential and anonymous.*
- ***Access to the organisation's archive data***. *The request for access to organisational documents stated that the final results of the study can be provided to the participants on request.*

5 ANALYSIS AND INTERPRETATION OF RESULTS

5.1 INTRODUCTION

The purpose of this study was to look at the financial management of donor funds by NGOs in Namibia, more specifically, the relationship between the three cost categories, namely personnel, administration, and activity related costs. In order to analyse this relationship, a program's total cost per year, and the total cost for each cost category was computed over a period of three years. A total cost for each cost category was judged against the program's total cost for that particular year. In order to get a fair and comparable look at the fluctuations in the cost categories, each cost category was expressed as a percentage of the total program cost. An analysis was done on the percentages of each cost category made up during a particular year. The first financial year was the first year of the programs' operation and that was when the program commenced. Some programs had a life span longer than the three years analysed in this study. For consistency and fairness, all programs were analysed over a period of three consecutive years.

The personnel cost category was made up of payments made to staff members for services rendered in pursuit of the achievement of the program's overall goals. The administration cost was made up of all the costs incurred for the purpose of the daily administration of the program's activities. The activity cost is made up of all the cost incurred during the execution of the program's activities, excluding personnel and administration costs, for example: cost of venue, meals for participants, development of training manuals, participant or client transportation, facilitator's daily allowance and accommodation. After the program's total cost have been computed, each cost category was expressed as percentage of the total program cost. Thereafter, the rate at which each cost category increased and decreased over the next two years was calculated.

The next section looked at the analysis and interpretation of the results for each program under each organisation. Thereafter section 5.3 looked at the organisational sustainability of each individual organisation, and section 5.4 assessed whether donor funds were used

for their intended purpose under each program selected for each organisation. Thereafter conclusions were drawn from section 5.2, 5.3, and 5.4.

5.2 ANALYSIS AND INTERPRETATION OF RESULTS OF CASE STUDIES

5.2.1 Introduction

The analysis and interpretation of each program is presented after recording each case. All the information presented for each program was drawn from audited annual financial statements of the selected organisation. For confidentially purposes, no names of any organisation from which the program information was drawn, or any information that will compromise the identity of any organisation, is presented. All twenty organisations were allocated an alphabetic letter which is used throughout this study to refer to that particular organisation. Information regarding donor funded programs from the twenty organisations was selected as a sample on which this analysis was conducted. The following subsections will cover one program from each one of the organisations; the information of each program is presented in a table and then interpreted and analysed.

Most organisations had one program running at a time; a few organisations had more than one program running at the same time. Organisations which had more than one program running, had one major program which made up the biggest portion of the organisation's budget. The program that made up the biggest portion of the organisation's budget was selected for this study's sample. The programs which were selected were those that had a life span of three years or more, and with funding that covered all the three cost categories.

This section, subsection 5.2.2 to 5.2.21 looked at the program's results for each period. The results were analysed and interpreted. Subsection 5.2.22 looked at a three year average result for each program selected from each organisation; thereafter subsection 5.2.23 concluded section 5.2.

5.2.2 Organisation A

Table 5: The three cost categories in donor funding statement: Organisation A.

Financial year	2007	2008	2009	
	N$			Totals
Total funds received per year	**1 761 341**	**2 460 758**	**3 941 400**	**8 163 499**
Total cost per year	**2 020 447**	**2 705 526**	**3 517 811**	**8 243 784**
Category: Personnel Cost	1 057 870	1 146 072	1 361 696	3 565 638
Percentage of the Program's total cost.	52.4%	42.4%	38.7%	43.3%
Rate at which cost increased/decreased.		-19%	-9%	
Category: Administration Cost	60 646	132 292	216 714	409 652
Percentage of the Program's total cost.	3.0%	4.9%	6.2%	5.0%
Rate at which cost increased/decreased.		63%	26%	
Category: Activity Cost	901 931	1 427 162	1 939 401	4 268 494
Percentage of the Program's total cost.	44.6%	52.7%	55.1%	51.8%
Rate at which cost increased/decreased.		18%	5%	

The figures above show that both administration and activity costs have been increasing over the three years of the program. On the other hand, personnel cost has been decreasing over the three years. The decrease in personnel cost could be due to many reasons. This could have been due to a loss of personnel because the program was overstaffed, or it could simply be that fewer personnel were needed as the program progressed toward its end. Perhaps there were reductions in personnel salary.

An increase in the administration and activity costs could also be due to many reasons. For administration, the increase in costs could have been a result of an improvement in the administrator's experience in the administration and allocation of cost. The other reason could be that, as a result of underestimating the administration cost estimates over the years, more funds for administration purposes were allocated, which were then all spent. It is also possible that the organisation managed to shift most of the administration cost to be covered by the program so that it could save its own funds.

An increase in the volume of activity could also lead to an increase in both the administration and activity cost. The increase in activity cost could have been due to costs that were not foreseen prior to the commencement of the program, or the activity cost was

underestimated over the three years, therefore resulting in an increase every year to ensure enough funds for carrying out the said program activities.

Looking at the overall figures, an increase in the volume of activities carried out would explain both the increase in the administration and the activity costs, but it does not explain a decrease in personnel. An increase in the volume of activities does not necessary lead to an increase in personnel cost.

Figure 4: Total cost per cost category.

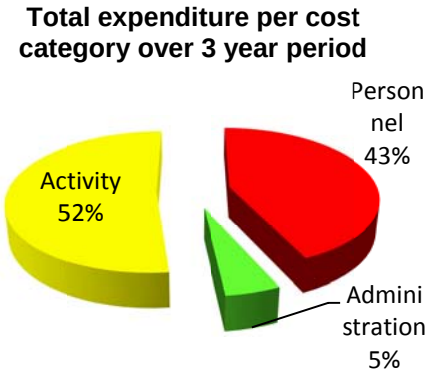
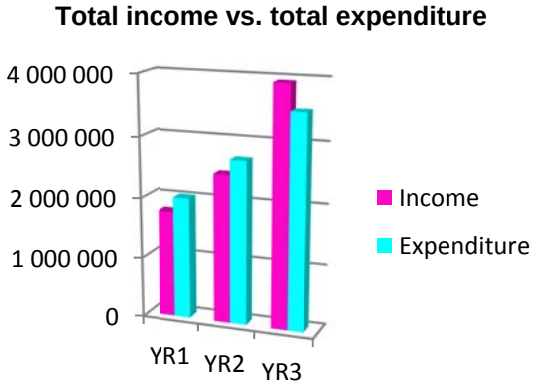


Figure 5: Total income vs. expenditure



According to figure 4 above, funds were mostly spent on activities and then followed by personnel costs. Very little was invested into the program's administration. Figure 5 above shows how the program overspent in the first two years of its operation, but kept within the budget in the third year. It also shows that the program received more funds every year than the previous year. This could mean that the over-expenditure was acceptable, since the donors kept providing even more funds every year.

5.2.3 Organisation B

Table 6: The three cost categories in donor funding statement: Organisation B.

Financial year	**2007**	**2008**	**2009**	
	N$			Totals
Total funds received per year	807 258	1 031 481	1 172 308	3 011 047
Total cost per year	**1 919 014**	**1 967 153**	**2 306 522**	**3 705 253**
Category: Personnel Cost	1 057 870	1 146 072	1 361 696	1 078 202

Financial year	2007	2008	2009	
Percentage of the Program's total cost.	55.1%	58.3%	59.0%	29.1%
Rate at which cost increased/decreased.		6%	1%	
Category: Administration Cost	241 195	291 734	333 638	866 567
Percentage of the Program's total cost.	12.6%	14.8%	14.5%	23.4%
Rate at which cost increased/decreased.		18%	-2%	
Category: Activity Cost	619 949	529 347	611 188	1 760 485
Percentage of the Program's total cost.	32.3%	26.9%	26.5%	47.5%
Rate at which cost increased/decreased.		-17%	-2%	

Over the three years, the personnel costs made up the biggest portion of the program's total cost. Not only was it the biggest portion of the total program, but the portion increased over the three years. The personnel cost made up at least half the program's total cost. This increase in the personnel cost could be a result of an underestimation of the personnel cost over the three years, thus allocating more funds to this cost category every year. There could have been an increase in the salaries to reduce staff turnover. In this case, the chance that the volumes of activities were increasing as years passed is very small. The figures above indicate that the funds that were spent on activity costs kept reducing over the three years. When there is an increase in the volume of activities, one would have expected the activity cost to increase. An increase in the volume of activity may however result in an increase in the administration cost.

As one can see from the figures above, the administration cost has been increasing over the three years. There could have been an increase in the volume of activities although it might not have caused an increase in the activity cost; it might have caused an increase in the administration cost. It could have been a result of an underestimation of costs in the first year resulting in an increase in the second year of the program. It could have been a result of some cost that was not foreseen in the first year or it could simply have been a result of the organisation trying its best to shift most of its shared cost to be covered by the program funds.

The decrease in activity costs could have been a result of decreasing activities. It could also have been simply an overestimate, thus resulting in funds reallocated to the other cost categories. Programs sometimes have more expenses in their first year which could

be due to inaccurate budget estimates. As the program continues, less research is conducted and cost estimates become more accurate.

Figure 6: Total cost per cost category

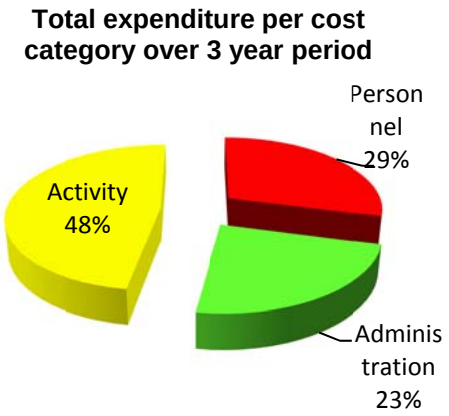


Figure 7: Total income vs. expenditure.

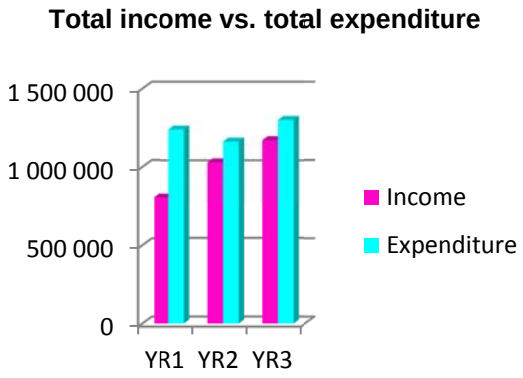


Figure 6 above shows that most funds were spent on the activities and then followed by personnel expenditure. Figure 7 above shows how the program overspent over the three years. The worst overspending was in the first year of operation.

5.2.4 Organisation C

Table 7: The three cost categories in donor funding statement: Organisation C.

Financial year	**2007**	**2008**	**2009**	
	N$			Totals
Total funds received per year	2 822 592	3 001 093	5 264 319	11 088 004
Total cost per year	**2 452 696**	**3 702 614**	**4 601 646**	**10 756 956**
Category: Personnel Cost	1 220 856	1 637 602	2 222 270	5 080 728
Percentage of the Program's total cost.	49.8%	44.2%	48.3%	47.2%
Rate at which cost increased/decreased.		-11%	9%	
Category: Administration Cost	379 725	652 251	649 884	1 681 860
Percentage of the Program's total cost.	15.5%	17.6%	14.1%	15.6%
Rate at which cost increased/decreased.		14%	-20%	
Category: Activity Cost	852 115	1 412 761	1 729 492	3 994 368
Percentage of the Program's total cost.	34.7%	38.2%	37.6%	37.1%
Rate at which cost increased/decreased.		10%	-1%	

Organisation C's total program cost increased over the three years, as more funds were allocated to this program each year. The percentage of personnel cost decreased slightly over the three years. The decrease in the second year could have been due to resignation of staff. If the decrease was due to a reduction in the activities carried out, it would also have lead to a decrease in the activity cost which is not the situation in this case. The increase in the personnel cost in the third year had no effect on the activity cost, which means that there was no increase in the volume of the activities carried out. An increase in activities does not necessary lead to an increase in the activity costs, as some activities may simply incur administration costs.

On the other hand, administration costs went the opposite of the personnel cost. When the personnel cost decreased, administration cost increased, and vice versa. The increase in activity cost in year two could have been a result of an increase in the volume of activities, which may have lead to an increase in the administration cost for that year. The decrease in the administration cost in the third year may have been a result of improvement in the cost reduction mechanisms in place. Perhaps there was unnecessary administration cost in year two, which led to the elimination of those costs in the third year.

As activity cost stayed constant in year three, it supports the idea that activity costs were probably underestimated in year one of the program. The consistency in year two and three indicates that the amounts allocated to activities in these two financial years were more accurate than in year one. Perhaps there were more activities to be carried out during those two years.

Figure 8: Total cost per cost category

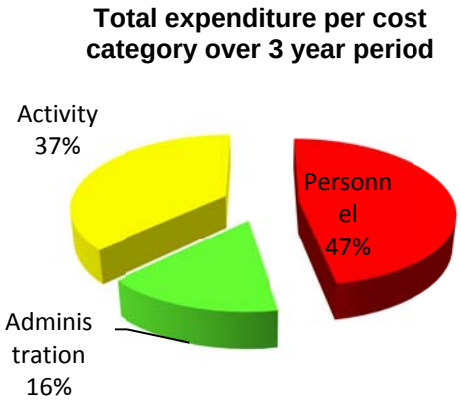


Figure 9: Total income vs. expenditure.

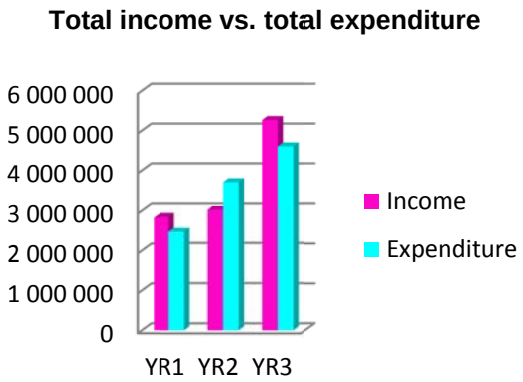


Figure 8 above shows that most funds were spent on personnel costs, followed by activities. Figure 9 above shows how the program overspent in the second year, but managed to operate within its budget in the first and third year. The funds received kept increasing over the years. This program probably had a life span longer than the three years highlighted above. The funds received in the third year seem to be too high for a program that is not continuing.

5.2.5 Organisation D

Table 8: The three cost categories in donor funding statement: Organisation D.

Financial year	**2005**	**2006**	**2007**	
	N$			Totals
Total funds received per year	832 601	648 721	806 456	2 287 778
Total cost per year	**986 125**	**456 971**	**1 053 435**	**2 496 531**
Category: Personnel Cost	109 052	79 987	334 023	523 062
Percentage of the Program's total cost.	11.1%	17.5%	31.7%	21.0%
Rate at which cost increased/decreased.		58%	81%	
Category: Administration Cost	423 680	172 875	300 659	897 214
Percentage of the Program's total cost.	43.0%	37.8%	28.5%	35.9%
Rate at which cost increased/decreased.		-12%	-25%	
Category: Activity Cost	453 393	204 109	418 753	1 076 255
Percentage of the Program's total cost.	46.0%	44.7%	39.8%	43.1%
Rate at which cost increased/decreased.		-3%	-11%	

Personnel cost increased over the three years. In the first year, administration and activity cost made up a huge portion of the total program cost and only 11% was spent on personnel. The administration cost for this program was very high, almost as high as the activity cost. In most cases administration cost made up the smallest portion of the total program cost. In year three, administration made up the smallest portion of the total program cost. In year two and three, funds were shifted from administration and activity cost to personnel cost. The activity cost decreased but not as much as the administration costs. Usually, the activity cost makes up the biggest portion of the total program cost, followed by the personnel cost, and then the administration cost.

The personnel cost may have increased because salaries had to be increased to prevent personnel from leaving, or it could have been due to the recruitment of more personnel. The possibility of an increase in the volume of activities is very small, taking into account that both administration and activity cost decreased over the three years. It could be that personnel cost was underestimated during the first two years, and the administration and activity cost were overestimated.

Figure 10: Total cost per cost category

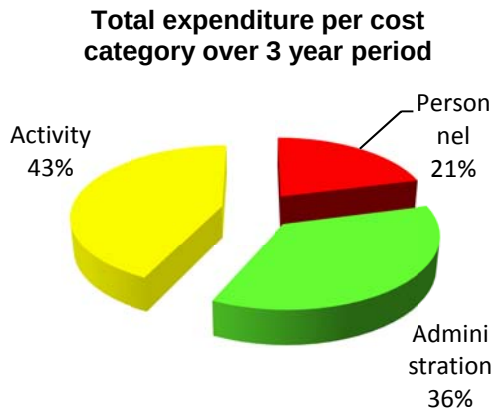


Figure 11: Total income vs. expenditure.

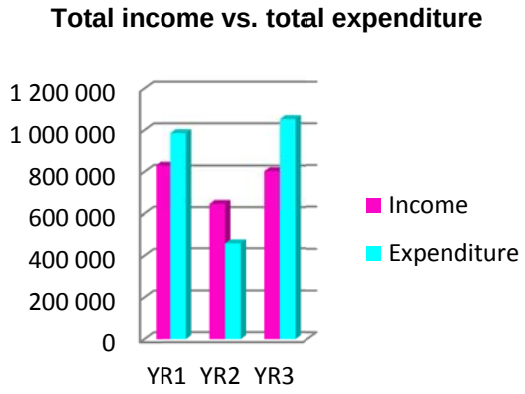


Figure 10 above shows that most funds were spent on the activities and then on administration. Compared to the other programs, a great portion was invested in the administration of the program.

Figure 11 shows how this program overspent in its first and third year. There was a huge difference in the amount spent in the first and third year, compared to the amount spent in the second year. The funds received were much higher in the first and third year, and yet the program still overspent. The least funds were received in the second year, and that was when the program under spent.

5.2.6 Organisation E

Table 9: The three cost categories in donor funding statement: Organisation E.

Financial year	**2008**	**2009**	**2010**	
	N$			Totals
Total funds received per year	1 420 409	2 380 145	2 708 645	6 509 199
Total cost per year	**916 214**	**1 360 632**	**1 295 090**	**3 571 936**
Category: Personnel Cost	472 865	642 106	639 448	1 754 419
Percentage of the Program's total cost.	51.6%	47.2%	49.4%	49.1%
Rate at which cost increased/decreased.		-9%	5%	
Category: Administration Cost	313 664	383 007	438 388	1 135 059
Percentage of the Program's total cost.	34.2%	28.1%	33.9%	31.8%
Rate at which cost increased/decreased.		-18%	20%	
Category: Activity Cost	129 685	335 519	217 254	682 458
Percentage of the Program's total cost.	14.2%	24.7%	16.8%	19.1%
Rate at which cost increased/decreased.		74%	-32%	

Personnel cost made up an average of about 50% of the total program costs over the three years. The administration cost made up the second biggest portion of the total program cost, on average about 32% over three years. The activity cost made up the smallest portion of the program cost every year.

This program requires a huge personnel force to achieve its overall goals, but very little funds for activities. An example of this type of program is a program that offers counselling to the needy.

The administration cost made up a significant portion of the total program cost. In the second year of the program, both the personnel and administration costs were reduced and the activity cost was increased. For some reason, the situation was reversed in the

third year, although not to the same extent. It could be that the administration costs were underestimated in the third year.

In this case, donors would want to see their funds used on personnel who offer the services in question. If most funds were spent elsewhere it would indicate that the program is losing its focus. Usually cost estimates are likely to be overestimated or underestimated in the first year. In the second year; cost estimates are adjusted to take into account the actual results of the first year. In the third year, the estimated costs are most likely to be accurate because there is a two year history for each cost item on which the estimates for third year can be based.

Figure 12: Total cost per cost category

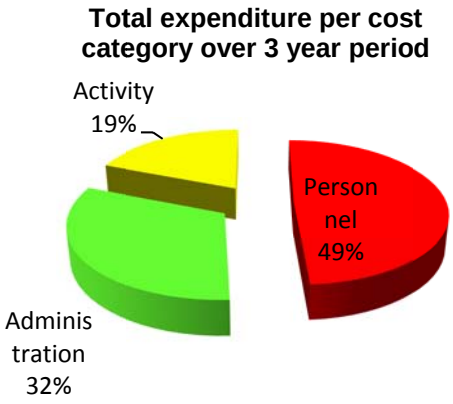


Figure 13: Total income vs. expenditure.

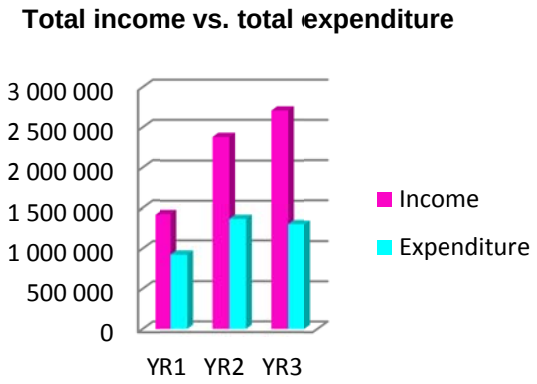


Figure 12 shows that most funds were spent on personnel costs (43%) and the second biggest portion was invested in the administration (32%). The least amount of funds was spent on activities.

In figure 13, one can see that this program was really under-spending, especially in the third year. The program received most of its funds in the third year, and yet spent even less than in its second year, when it received fewer funds. Every year the gap between the funds received and the funds spent became greater. Perhaps this program had a longer life span than the three years highlighted above. The program still had a lot of funds available in its third year.

5.2.7 Organisation F

Table 10: The three cost categories in donor funding statement: Organisation F.

Financial year	2007	2008	2009	
	N$			Totals
Total funds received per year	3 271 939	3 240 318	3 364 938	9 877 195
Total cost per year	3 470 560	3 521 097	3 994 359	10 986 016
Category: Personnel Cost	1 671 263	1 910 613	2 285 195	5 867 071
Percentage of the Program's total cost.	48.2%	54.3%	57.2%	53.4%
Rate at which cost increased/decreased.		13%	5%	
Category: Administration Cost	1 454 039	893 526	1 176 340	3 523 905
Percentage of the Program's total cost.	41.9%	25.4%	29.5%	32.1%
Rate at which cost increased/decreased.		-39%	16%	
Category: Activity Cost	345 258	716 958	532 824	1 595 040
Percentage of the Program's total cost.	9.9%	20.4%	13.3%	14.5%
Rate at which cost increased/decreased.		105%	-34%	

This program has a common pattern. In this case, personnel cost made up a huge portion of the total program cost over the three years. Administration cost made up the second biggest portion and activity cost made up the smallest portion. This program required a large personnel force to achieve its overall goals but very little was needed for activities. In this case, a large personnel force would be expected which would lead to higher administration cost, and most likely a low volume of activities.

Administration cost made up a significant portion of the total program cost. In the second year of the program, both personnel and activity costs were increased and administration cost was reduced. Administration cost was increased again in year three. Activity cost was also reduced, perhaps the funds that were shifted to activity cost were not required. It seems that increasing activity cost to that extent and decreasing administration costs was not wise since the actions were reversed.

Usually third year cost estimates are more accurate because there is a two year history for each cost item on which the estimates can be based. That may have been the case here. It could be that in the second year it was found that personnel and activity cost have been

underestimated and administration cost overestimated in the first year, resulting in the adjustments in year two.

Figure 14: Total cost per cost category

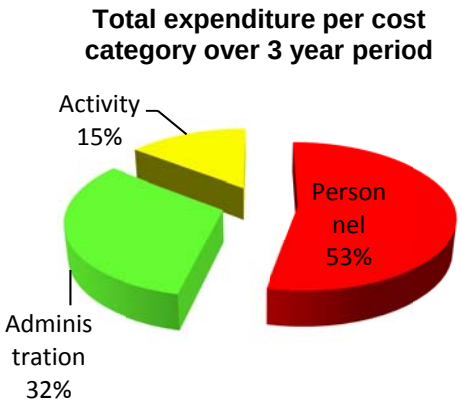


Figure 15: Total income vs. expenditure.

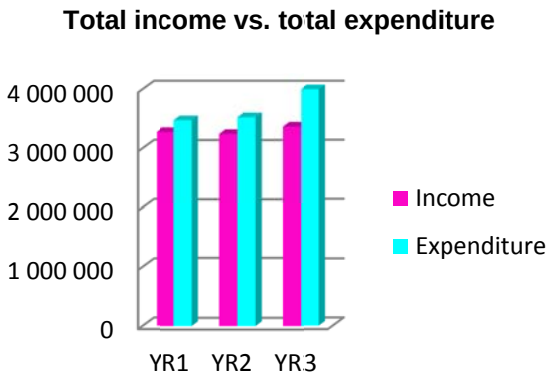


Figure 14 shows that at least half of the funds were spent on personnel cost and the next biggest portion was spent on administration activities. Very little was spent on activities. Figure 15 shows how the program overspent over the three years, overspending a little every year. Even though the funds received were more or less the same over the three years, the program still managed to overspend with a larger amount in its third year.

5.2.8 Organisation G

Table 11: The three cost categories in donor funding statement: Organisation G.

Financial year	2007	2008	2009	
	N$			Totals
Total funds received per year	2 614 683	2 772 906	2 487 727	7 875 316
Total cost per year	**2 911 737**	**2 103 982**	**2 602 120**	**7 617 839**
Category: Personnel Cost	1 657 438	1 112 364	1 233 338	4 003 140
Percentage of the Program's total cost.	56.9%	52.9%	47.4%	52.5%
Rate at which cost increased/decreased.		-7%	-10%	
Category: Administration Cost	458 819	390 809	465 388	1 315 016
Percentage of the Program's total cost.	15.8%	18.6%	17.9%	17.3%
Rate at which cost increased/decreased.		18%	-4%	
Category: Activity Cost	795 480	600 809	903 394	2 299 683
Percentage of the Program's total cost.	27.3%	28.6%	34.7%	30.2%
Rate at which cost increased/decreased.		5%	22%	

The overall figures above show that personnel cost decreased over the three years, but both administration and activity costs increased. In the second year, more funds were shifted to the administration category, away from personnel, than to the activity category. In the third year, both personnel and administration costs were decreased and the funds were shifted to the activity category. The rate at which the activity costs increased in the third year was relatively high.

The reduction in personnel cost may have been due to various reasons. There could have been a reduction in personnel salaries, there could have been a reduction in the number of personnel due to resignations and or retrenchment, or perhaps some positions were only necessary for a certain period of time.

Administration costs increased in the second year by 18%, only to reduce by 4% in the third year. Perhaps this category was underestimated in the first year, which then resulted in an increase in the second year; perhaps some of the cost incurred under administration was unnecessary, therefore resulting in a reduction in the third year.

On the other hand, activity costs have been increasing throughout the three years. An increase in the volume of activities would have an effect on the administration costs, which was so in this case. Looking at the rates at which both activity and administration cost increased and decreased, it seems strange that administration costs increased so much in the second year when activity cost increased only slightly. In the third year, administration cost decreased slightly while the activity cost increased at the highest rate during the three years. Perhaps activity cost did not have such a large influence on the changes in administration costs.

Figure 16: Total cost per cost category

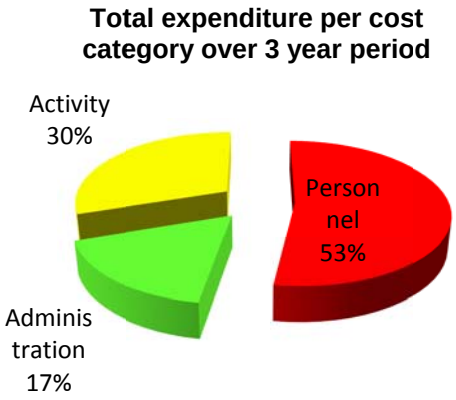
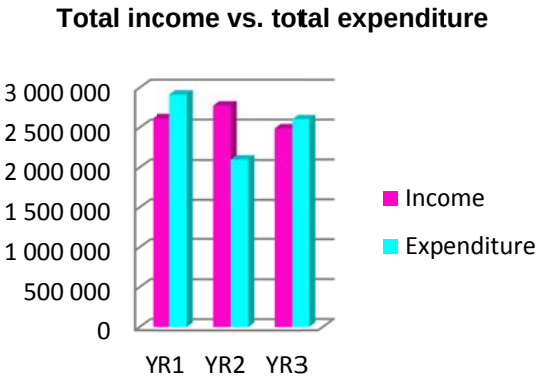


Figure 17: Total income vs. expenditure.



This program spent a higher proportion of its funds on personnel cost than other programs. Figure 16 above shows how the program spent its funds on the different cost categories. More than half of the funds were spent on personnel cost. The second biggest share was spent on activity costs, and then on administration costs.

Figure 17 above shows that the program overspent in its first and third year and under spent in its second year, when it had received even more funds than in the other two year. Looking at the funds received, it seems that it was affected by how much the program spent the previous year. The funds received in the second year are more or less the same as the amount spent in the first year. Because the program overspent in its first year, the funds received in the second year were increased. Since the program under spent in its second year, the funds received in the third year were reduced.

5.2.9 Organisation H

Table 12: The three cost categories in donor funding statement: Organisation H.

Financial year	**2007**	**2008**	**2009**	
	N$			Totals
Total funds received per year	1 764 203	1 691 652	1 534 728	4 990 583
Total cost per year	**1 134 830**	**1 785 156**	**2 074 350**	**4 994 336**
Category: Personnel Cost	324 131	550 890	648 250	1 523 271
Percentage of the Program's total cost.	28.6%	30.9%	31.3%	30.5%
Rate at which cost increased/decreased.		8%	1%	

Financial year	2007	2008	2009	
Category: Administration Cost	260 730	344 557	433 072	1 038 359
Percentage of the Program's total cost.	23.0%	19.3%	20.9%	20.8%
Rate at which cost increased/decreased.		-16%	8%	
Category: Activity Cost	549 969	889 709	993 028	2 432 706
Percentage of the Program's total cost.	48.5%	49.8%	47.9%	48.7%
Rate at which cost increased/decreased.		3%	-4%	

Looking at table 12 above, one can see that there has not been much fluctuation in the cost over the years. This could indicate that the estimates for personnel, administration, and activity cost over the three years were fairly accurate. The fluctuation could have been due to an unexpected rise in the prices of resources needed for the activities. This program must have conducted a proper survey of the cost of all services and products that were needed for the program before the actual program even began. Otherwise the program would have had major under- and over estimation of costs in the first year of the program.

Figure 18: Total cost per cost category

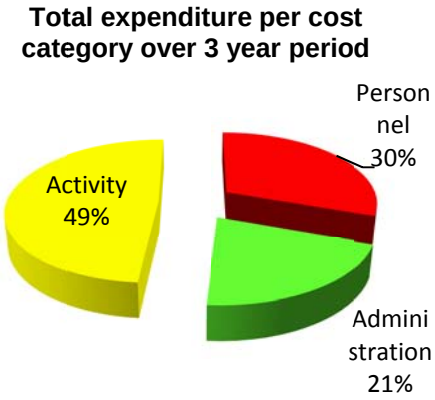


Figure 19: Total income vs. expenditure.

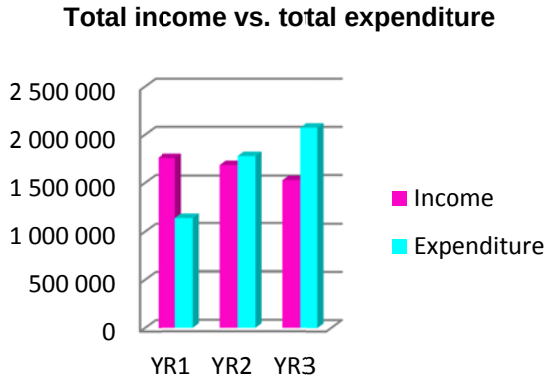


Figure 18 above shows that this program spent most of its funds on activities. Looking at figure 19, it shows that this program spent more funds than it received in both the second and third year. Despite this, the funds received were reduced slightly every year. Looking at the income, it seems as if the program was winding down, since the income was decreasing over the years. However the gradual increase in expenditure makes it seem as if the program was just starting.

5.2.10 Organisation I

Table 13: The three cost categories in donor funding statement: Organisation I.

Financial year	2007	2008	2009	
	N$			Totals
Total funds received per year	11 210 277	9 803 990	6 760 611	27 774 878
Total cost per year	**9 169 836**	**9 291 993**	**8 962 371**	**27 424 200**
Category: Personnel Cost	3 259 524	2 470 021	2 711 635	8 441 180
Percentage of the Program's total cost.	35.5%	26.6%	30.3%	30.8%
Rate at which cost increased/decreased.		-25%	14%	
Category: Administration Cost	1 112 357	1 399 907	1 221 687	3 733 951
Percentage of the Program's total cost.	12.1%	15.1%	13.6%	13.6%
Rate at which cost increased/decreased.		24%	-10%	
Category: Activity Cost	4 797 955	5 422 065	5 029 049	15 249 069
Percentage of the Program's total cost.	52.3%	58.4%	56.1%	55.6%
Rate at which cost increased/decreased.		12%	-4%	

Table 13 above shows that funds were shifted from the personnel cost category to both administration and activity cost categories. In the second year, personnel cost decreased by 25% and the other two categories increased. In the third year, administration and activity costs were reduced and personnel cost was increased, although not by a large margin.

The changes in both activity and administration cost could have been caused by various reasons; one possible reason could have been an increase in the volume of activities carried out in year two. Administration cost also increased in year two, and when the activity cost decreased in year three, administration cost also decreased. Whatever caused the changes in activity cost had an influence on administration cost, but not personnel cost.

One of the reasons that personnel costs decreased could be that unnecessary funds were allocated to this category. The reduction may also have been due to overstaffing in the first year. It is also possible that both activity and administration costs were adjusted due to the over- and under estimates over the three years.

In general, even when funds are reallocated to other categories, there may still be some under- and over estimation of costs, since the estimates are only based on a one or two year history which could have simply been an exceptional or extraordinary year.

Figure 20: Total cost per cost category

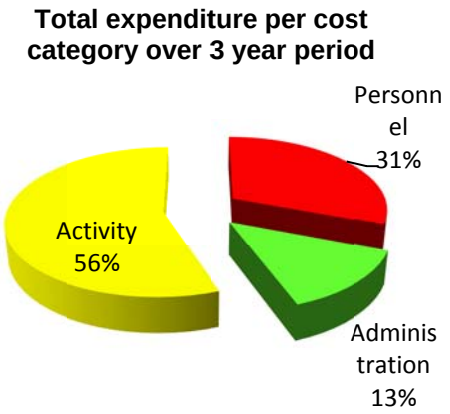
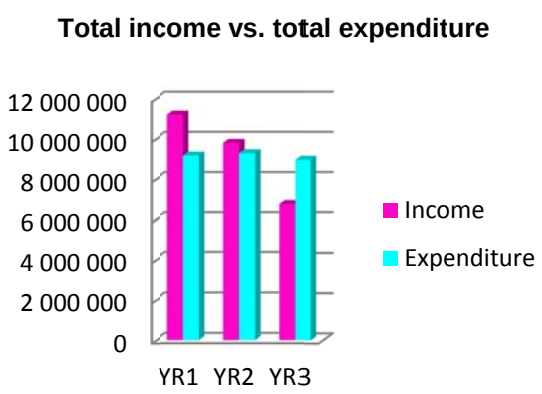


Figure 21: Total income vs. expenditure.



In this program more than half of the funds were spent on the activities as shown in figure 20. Personnel costs made up the second biggest portion of the expenditure and administration cost made up the smallest portion.

Figure 21 shows that even though the programs' income decreased over the three years, the program maintained its expenditure at more or less the same level over the three years. Since the income received in the third year was relatively low, the program overspent in the third year. It could be that this program was winding down.

5.2.11 Organisation J

Table 14: The three cost categories in donor funding statement: Organisation J.

Financial year	**2007**	**2008**	**2009**	
	N$			Totals
Total funds received per year	358 648	527 451	598 085	1 484 184
Total cost per year	**549 842**	**470 987**	**609 959**	**1 630 788**
Category: Personnel Cost	53 410	52 780	53 506	159 696
Percentage of the Program's total cost.	9.7%	11.2%	8.8%	9.8%

Financial year	2007	2008	2009	
Rate at which cost increased/decreased.		15%	-22%	
Category: Administration Cost	61 238	104 332	84 005	249 515
Percentage of the Program's total cost.	11.1%	22.2%	13.8%	15.3%
Rate at which cost increased/decreased.		99%	-38%	
Category: Activity Cost	435 194	313 875	472 448	1 221 517
Percentage of the Program's total cost.	79.1%	66.6%	77.5%	74.9%
Rate at which cost increased/decreased.		-16%	16%	

One of the aspects donors want to ensure is for their funds to be utilised for the program's main activities rather than on the other two categories. In this case it seems that was not a problem. The activity cost made up the biggest portion of the total program cost, taking up 79%, 67% and 77% in the first, second and third year respectively. These portions are very high. The administration cost made up the second highest portion over the three years, which is understandable. The personnel cost made up the smallest portion which is very low. This program's activities cost a lot of money to conduct and needed few personnel to carry them out.

In the second year, funds were shifted from the activity cost perhaps it was overestimated in the first year, but then the funds were shifted back in the third year. It could not have been an overestimation in year one, as the activity cost on average made up the same portion of the program's total cost in the third year as in the first year.

It seems that the cost estimates for all three categories were fairly accurate. All the changes that were made in the second year as an adjustment of the first year's estimate were eventually reversed back to almost the same percentage as in the first year. There was no increase in the volume of activity over the years, since the activity cost decreased in year two and three and the activity cost made up almost the same portion of the total program cost. The cost pattern makes it unclear what type of activities this program ran, since so few personnel were required, and yet the activity costs were high. It could be that there were few program activities but very costly activities.

Figure 22: Total cost per cost category

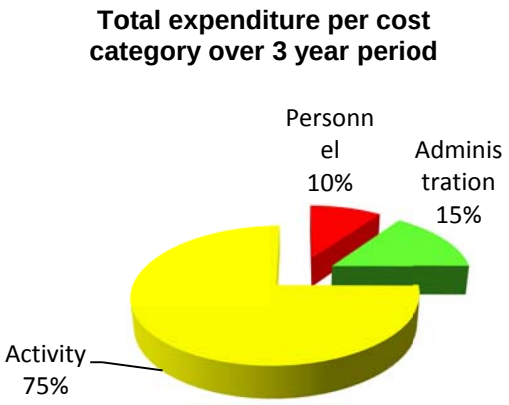
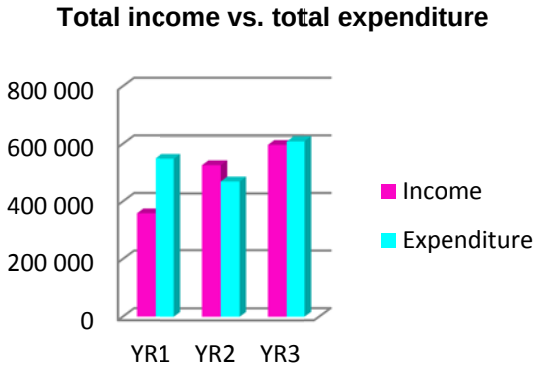


Figure 23: Total income vs. expenditure.



A huge part of this programs' expenditure was spent on the activities, very little was spent on personnel and on administration, as shown in figure 22. Figure 23 above shows that the program kept its spending within its budget and its income kept increasing over the three years. The increase in both its income and expenditure shows that the program still has a few years of operation after these three years. The income increased gradually and the expenditure was kept within the program's budget.

5.2.12 Organisation K

Table 15: The three cost categories in donor funding statement: Organisation K.

Financial year	2007	2008	2009	
	N$			Totals
Total funds received per year	1 876 912	4 001 027	6 081 536	11 959 475
Total cost per year	**1 881 675**	**3 544 106**	**3 897 255**	**9 323 036**
Category: Personnel Cost	954 462	1 079 158	1 164 738	3 198 358
Percentage of the Program's total cost.	50.7%	30.4%	29.9%	34.3%
Rate at which cost increased/decreased.		-40%	-2%	
Category: Administration Cost	692 168	1 142 723	1 167 302	3 002 193
Percentage of the Program's total cost.	36.8%	32.2%	30.0%	32.2%
Rate at which cost increased/decreased.		-12%	-7%	
Category: Activity Cost	235 045	1 322 225	1 565 215	3 122 485
Percentage of the Program's total cost.	12.5%	37.3%	40.2%	33.5%
Rate at which cost increased/decreased.		199%	8%	

In the first year, it seems as if the program required a high number of personnel to perform few activities, or had activities that cost very little. The program had many activities with few expenses, which explains the high personnel and administration costs, and the low activity cost. The personnel and administration costs decreased in the second year, and more funds were shifted to the activity cost. The personnel cost was cut very heavily, which could mean the program did not need as many personnel as estimated in the first year. In the third year, personnel cost stayed more or less constant, which confirms that the estimates in the first year were too high.

In the second year, the funds were allocated almost equally to all the three cost categories, with activity cost slightly higher than others. It is unusual for administration cost to be as high as the two other categories. In this case, it was even higher than personnel costs. In the third year, both the personnel and administration cost stayed more or less constant and the activity cost increased. The activity cost has increased significantly over the three years, while the personnel cost decreased the most over the three years.

The likely explanation for all these changes is an increase in the volume of activities. It would explain the increase in the activity cost, the high administration cost, and an average personnel cost. It could simply have been an over- and under estimation of cost for all the three cost categories over the three years, which would explain the increase and decrease in costs categories over the years.

Figure 24: Total cost per cost category

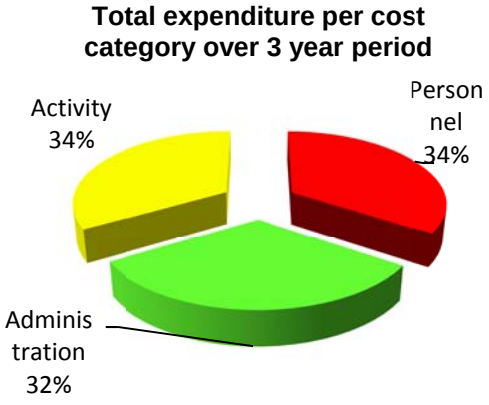


Figure 25: Total income vs. expenditure.

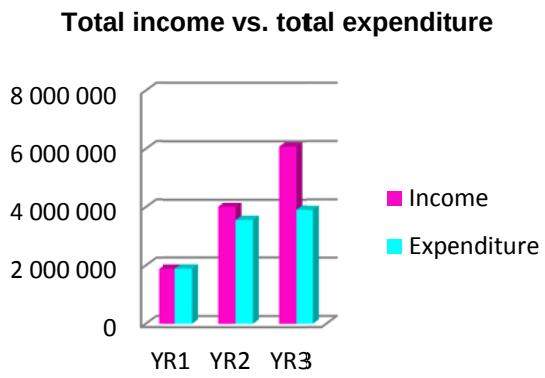


Figure 24 above shows how this program spent its funds more or less equally on the three categories, which is unusual. In most cases donors would prefer that a significant portion is either spent on activities or personnel, with a smaller portion to be invested in the administration of the program.

Figure 25 shows that this program under spent in its second and third year. Perhaps this is one of the programs that had a life span of more than three years, since a lot of funds given in its third year were not utilised.

5.2.13 Organisation L

Table 16: The three cost categories in donor funding statement: Organisation L.

Financial year	2007	2008	2009	
	N$			Totals
Total funds received per year	30 771 680	19 299 018	27 250 623	77 321 321
Total cost per year	**29 854 632**	**17 657 440**	**30 051 436**	**77 563 508**
Category: Personnel Cost	7 996 602	5 156 390	6 415 825	19 568 817
Percentage of the Program's total cost.	26.8%	29.2%	21.3%	25.2%
Rate at which cost increased/decreased.		9%	-27%	
Category: Administration Cost	3 805 062	3 630 101	4 765 308	12 200 471
Percentage of the Program's total cost.	12.7%	20.6%	15.9%	15.7%
Rate at which cost increased/decreased.		61%	-23%	
Category: Activity Cost	18 052 968	8 870 949	18 870 303.	45 794 220
Percentage of the Program's total cost.	60.5%	50.2%	62.8%	59.0%
Rate at which cost increased/decreased.		-17%	25%	

Over the three years of this program, the activity cost made up the biggest portion of the programs' total cost, followed by the personnel cost, and then administration cost. Although the personnel and administration costs were increased in the second year, it seems that the decision to shift the funds from the activity cost to the personnel and administration was not a wise one, since it was reversed in the third year. Personnel cost was reduced to an even smaller portion than in the first year.

An increase in personnel cost resulted in an increase in the administration cost, and when the personnel cost decreased in the third year the administration also decreased. When personnel and administration cost increases, the activity cost decreases and vice-versa. The administration cost seem to have been influenced more by changes in personnel cost than the activity cost.

Donors would wonder why a shift of funds was made from the activity cost category to the other two categories in year two, only to reverse the shifting in the third year. Did the program need more people in the second year, thus leading to a higher administration costs? This would be some of the questions that donors would want answers to.

Figure 26: Total cost per cost category

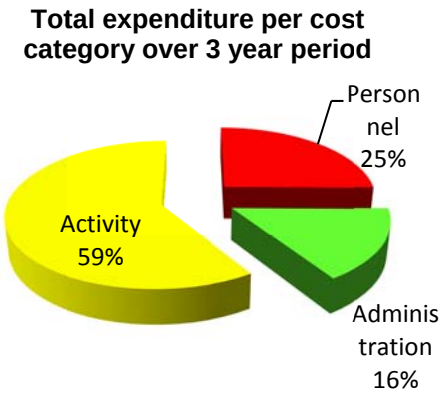


Figure 27: Total income vs. expenditure.

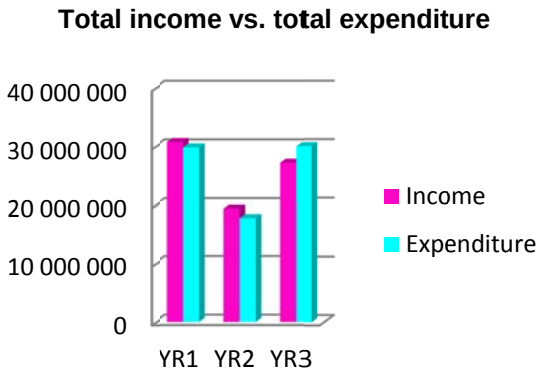


Figure 26 above shows that this is one of the programs that spent most of its funds on the activities. More than half of the funds were spent on the activities, the personnel cost made up the second biggest portion and the smallest portion was spent on the program's administration activities.

Figure 27 shows that the income received and the expenditure incurred over the three years. The difference between the funds received and spent in all the three years were insignificant. The funds received in the second year were low compared to the first and third year.

5.2.14 Organisation M

Table 17: The three cost categories in donor funding statement: Organisation M.

Financial year	2006	2007	2008	
	N$			Totals
Total funds received per year	1 187 584	1 828 876	2 179 959	5 196 419
Total cost per year	**1 048 813**	**1 959 898**	**2 020 767**	**5 029 478**
Category: Personnel Cost	461 827	651 698	686 175	1 799 700
Percentage of the Program's total cost.	44.0%	33.3%	34.0%	35.8%
Rate at which cost increased/decreased.		-24%	2%	
Category: Administration Cost	47 053	75 076	125 642	247 771
Percentage of the Program's total cost.	4.5%	3.8%	6.2%	4.9%
Rate at which cost increased/decreased.		-15%	62%	
Category: Activity Cost	539 933	1 233 124	1 208 950	2 982 007
Percentage of the Program's total cost.	51.5%	62.9%	59.8%	59.3%
Rate at which cost increased/decreased.		22%	-5%	

In this case, both activity and personnel cost made up the biggest portions, the activity cost being the biggest. One can see that the activity cost was increasing over the three years, which is preferred by donors. On the other hand, personnel cost has been reducing over the three years. It is clear that this program does not need so many personnel, which is probably why the funds were shifted to activities. Looking at how much the personnel cost was reduced to over the years, it may have been overestimated in the first year.

The program had very little administration cost. The low administration cost could have been due to three reasons such as an effective cost reduction mechanisms in place, administration costs shared amongst many programs, and/or the donor could have allocated a limited amount for administration activities. The increase in activity costs could be due to an increase in the volume of activities or fluctuations in prices for resources needed for the activities.

Figure 28: Total cost per cost category

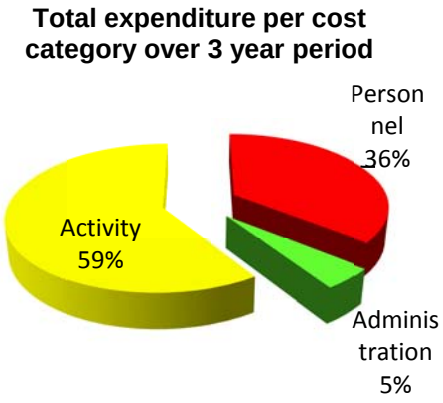


Figure 29: Total income vs. expenditure.

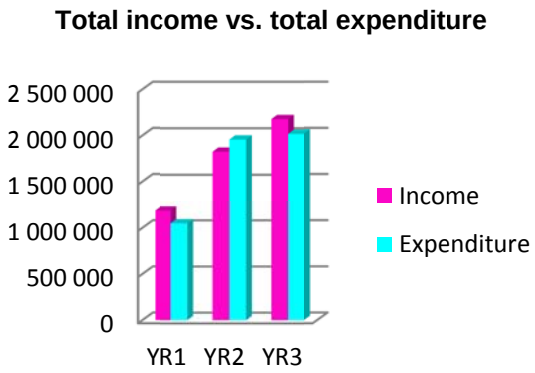


Figure 28 shows that this program spent most of its funds, more than half on activities. Personnel cost made up the second biggest portion and the smallest portion was spent on the program's administration activities. Perhaps too small an amount was invested in the administration activities.

Figure 29 shows the income received and the expenditure over the three years. The difference between the amount received and spent over the three years was small. Both the income and expenditure gradually increased over the years. This pattern shows that this program is not winding down; it has a life span longer than the three years shown. This program kept its spending within its program budget.

5.2.15 Organisation N

Table 18: The three cost categories in donor funding statement: Organisation N.

Financial year	**2006**	**2007**	**2008**	
		N$		Totals
Total funds received per year	2 995 873	1 847 765	3 801 401	8 645 039
Total cost per year	**1 904 514**	**2 203 692**	**2 333 102**	**6 441 308**
Category: Personnel Cost	759 880	901 001	1 088 723	2 749 604
Percentage of the Program's total cost.	39.9%	40.9%	46.7%	42.7%
Rate at which cost increased/decreased.		2%	14%	
Category: Administration Cost	319 376	264 017	351 809	935 202

Financial year	2006	2007	2008	
Percentage of the Program's total cost.	16.8%	12.0%	15.1%	14.5%
Rate at which cost increased/decreased.		-29%	26%	
Category: Activity Cost	825 258	1 038 674	892 570	2 756 502
Percentage of the Program's total cost.	43.3%	47.1%	38.3%	42.8%
Rate at which cost increased/decreased.		9%	-19%	

In this case both the personnel and activity costs made up more or less an equal share of the program's total cost. The administration cost made up the smallest portion of the total program cost.

It could be that this is the type of program where personnel cost make up the biggest portion of the program's total cost, since personnel cost increased over the three years and the activity cost decreased. In the third year, when estimates are based on two years of experience, the personnel cost made up the biggest portion of the program's total cost. As already mentioned, most estimates in the first year are prediction based on assumptions; therefore it would be more appropriate to judge this program by looking at the third year figures.

There was no direct relationship between the activity and administration cost. When activity cost increased, the administration cost decreased and vice versa. It seems that the increase in the activity cost in the second year was not due to an increase in the volume of activities.

Figure 30: Total cost per cost category

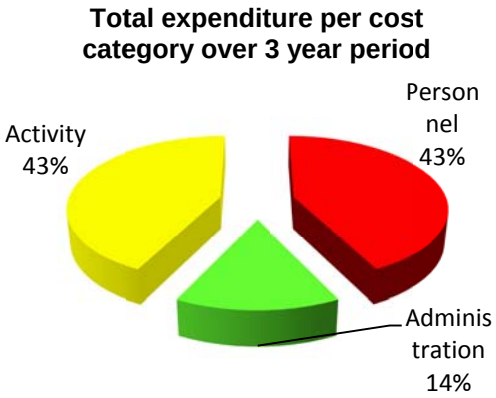


Figure 31: Total income vs. expenditure.

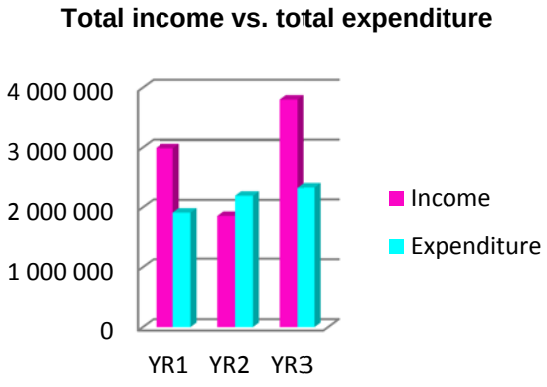


Figure 30 indicates that this program spent an equal amount of funds on activities and personnel costs, very little was spent on the administration of the program.

Figure 31 indicates that this program could not spend all the funds that were given in both year one and three. In each case the program spent a little over 50% of the funds received. In the second year, the program seemed to have received an amount based on its first year spending rate. In the third year, a huge amount of funds was received; which could mean that this program had a life span longer than three years highlighted above.

5.2.16 Organisation O

Table 19: The three cost categories in donor funding statement: Organisation O.

Financial year	2006	2007	2008	
	N$			Totals
Total funds received per year	1 090 264	666 027	1 139 283	2 895 574
Total cost per year	**1 090 264**	**666 027**	**917 413**	**2 673 704**
Category: Personnel Cost	923 780	473 148	708 125	2 105 053
Percentage of the Program's total cost.	84.7%	71.0%	77.2%	78.7%
Rate at which cost increased/decreased.		-16%	9%	
Category: Administration Cost	111 242	100 575	90 887	302 704
Percentage of the Program's total cost.	10.2%	15.1%	9.9%	11.3%
Rate at which cost increased/decreased.		48%	-34%	
Category: Activity Cost	55 242	92 304	118 401	265 947
Percentage of the Program's total cost.	5.1%	13.9%	12.9%	9.9%
Rate at which cost increased/decreased.		174%	-7%	

This program required a huge personnel force. The funds were shifted from personnel cost to both administration and activity cost. In the second year, the personnel cost decreased by 16% and the other categories each increased. In the third year, the administration and activity cost were reduced and the personnel cost was increased.

During the second year of the program, funds were shifted around from one category to another trying to reallocate funds from where it was not needed to where it was needed. The changes in both the activity and administration cost could have been caused by

various reasons, for example, it could have been due to an increase in the volume of activities carried out in year two.

There seems to have been a direct relationship between the activity and administration costs. The administration cost increased in year two, and when the activity cost decreased in year three, the administration cost also decreased. The personnel cost decreased from year one to year three. The reduction may have been due to overstaffing in the first year.

Figure 32: Total cost per cost category

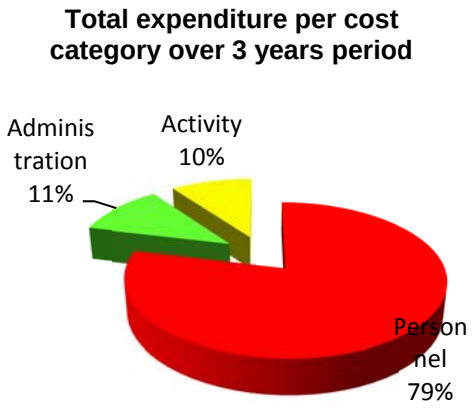
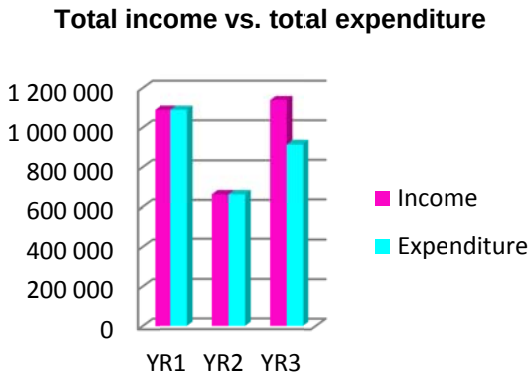


Figure 33: Total income vs. expenditure.



In this case, figure 32 show that this program spent a huge portion of its funds on personnel costs. When a program has a huge personnel force as is in this program, the administration costs are also expected to be high. This program spent very little on administration activities. It could be that there were not many personnel, just a few highly paid employees.

Figure 33 indicates how the program spent its funds. In each of the three years the program managed to keep within its budget. The income received in the second year was very low and there were no funds left over from the first year. It is unclear why funds received in the second year were reduced.

5.2.17 Organisation P

Table 20: The three cost categories in donor funding statement: Organisation P.

Financial year	2006	2008	2009	
	N$			Totals
Total funds received per year	1 235 007	2 822 592	3 001 093	7 058 692
Total cost per year	**1 453 687**	**2 452 696**	**3 702 614**	**7 608 997**
Category: Personnel Cost	867 736	1 220 856	1 637 602	3 726 194
Percentage of the Program's total cost.	59.7%	49.8%	44.2%	49.0%
Rate at which cost increased/decreased.		-17%	-11%	
Category: Administration Cost	194 951	368 523	557 797	1 121 271
Percentage of the Program's total cost.	13.4%	15.0%	15.1%	14.7%
Rate at which cost increased/decreased.		12%	0%	
Category: Activity Cost	391 000	863 317	1 507 215	2 761 532
Percentage of the Program's total cost.	26.9%	35.2%	40.7%	36.3%
Rate at which cost increased/decreased.		31%	16%	

In this program, both the personnel and activity cost make up substantial portions of the program's total cost. Table 20 clearly shows how personnel costs decreased over the years, while the activity and administration costs portion increased.

A decrease in personnel cost could be due to many reasons. There might have been a loss of personnel because the program was overstaffed, or it could simply have been that fewer personnel were needed as the program progressed. There could even have been reductions in personnel salary, which is very unlikely.

An increase in the administration cost could be due to many reasons. It could have been a result of an improvement in the administrator's efficiency, or perhaps costs were initially underestimated over the years, thus allocating more funds for administration purposes in year two and three, or an increase in the volume of activities carried out, or that the cost of acquiring the services increased.

An increase in the activity cost could be due to an increase in the volume of activities carried out, or there were unforeseen costs prior to the commencement of the program, or costs may have been underestimated over the three years, therefore resulting in an

increase every year to ensure enough funds for activities. An increase in the volume of activity does not necessary lead to an increase in personnel cost.

Figure 34: Total cost per cost category

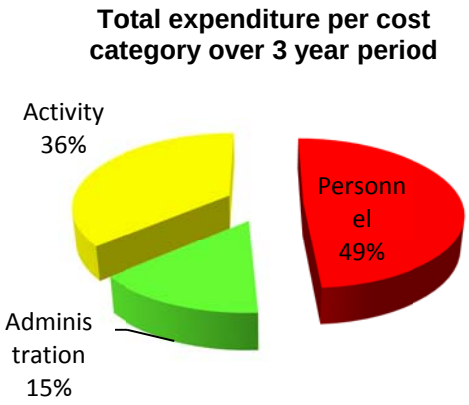
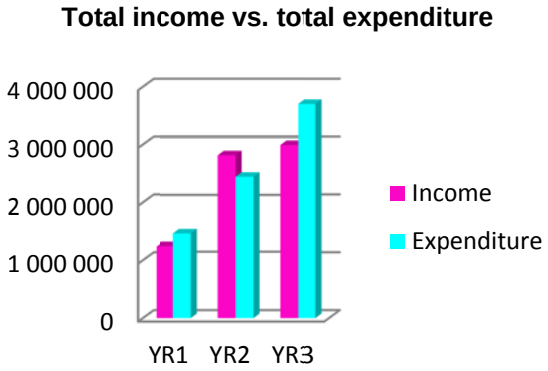


Figure 35: Total income vs. expenditure.



This program spent most of its funds on personnel. The second biggest portion of expenditure was spent on activities and the smallest portion was spent on administration as shown in figure 34.

Figure 35 shows how the funds received increased gradually every year. Even with the increase in the funds received, the program still managed to overspend in its first and third year of operations. This program seems to have had a life span of longer than three years. Both its income and expenditure kept increasing, which could mean that the program still had a few more years of operation.

5.2.18 Organisation Q

Table 21: The three cost categories in donor funding statement: Organisation Q.

Financial year	2005	2006	2007	
	N$			Totals
Total funds received per year	770 489	787 547	1 094 054	2 652 090
Total cost per year	**337 297**	**1 110 768**	**964 678**	**2 412 743**
Category: Personnel Cost	218 070	640 661	531 233	1 389 964
Percentage of the Program's total cost.	64.7%	57.7%	55.1%	57.6%
Rate at which cost increased/decreased.		-11%	-5%	
Category: Administration Cost	39 233	114 957	43 964	198 154
Percentage of the Program's total cost.	11.6%	10.3%	4.6%	8.2%
Rate at which cost increased/decreased.		-11%	-56%	
Category: Activity Cost	79 994	355 150	389 481	824 625
Percentage of the Program's total cost.	23.7%	32.0%	40.4%	34.2%
Rate at which cost increased/decreased.		35%	26%	

This program is one of those where a large number of personnel were needed to conduct the program activities. Both the personnel and activity cost made up substantial portions of the total program cost in the third year, although personnel cost made up the biggest portion of the total program cost during these three years. Personnel might have been overpaid and that may have resulted in the reduction of personnel cost over the three years, or maybe some personnel was lost.

In year two and three some funds were shifted to the activity cost category where it was needed. This shift of funds could mean that activity costs were underestimated in both the first and second year of the program, or there were new activities that were initiated. If one looks at the administration cost, it seems that administration cost was overestimated in both the first and second year. The reduction in the administration cost was very significant. A decrease in the administration cost could also have been due to a decrease in personnel, or the organisation dividing its shared cost amongst many more parties than before. Better cost reduction measures may also have been put in place.

In this program, the administration costs made up an exceptionally small portion of the total costs. Some programs are implemented in such a way that a few activities were

carried out in the first year and then they increase over the years. Personnel force also expanded as the volume of activities increased, which resulted in an increase in personnel costs.

Figure 36: Total cost per cost category

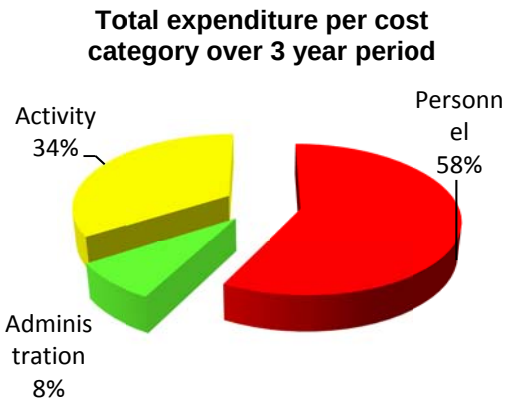


Figure 37: Total income vs. expenditure.

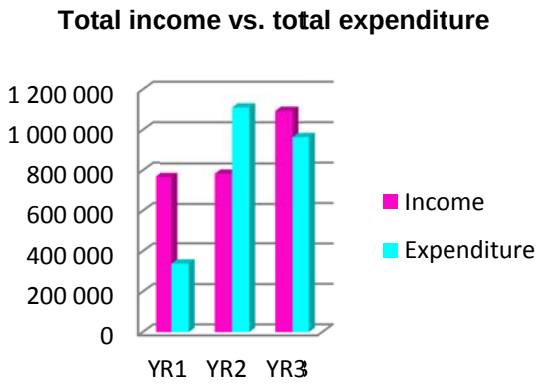


Figure 36 shows that this program spent most of its funds on personnel followed by the activities and then administrations costs. More than half of the program expenditure was on personnel, while very little was invested in the administration activities, which may have had negative impact on the program.

Figure 37 shows how the funds received increased every year. With both the increases in funds received and the expenditure, it could mean that this program was not winding down and that is still has a few years to run. Both the amounts of income and expenditure were too high in the third year to be for a program that is about to come to an end. In the second year, the program overspent, which may have resulted in the increase in the income for the third year, which was more or less the same as the amount spent in the second year. The income for the second year did not seem to have been influenced by the previous year's expenditure.

5.2.19 Organisation R

Table 22: The three cost categories in donor funding statement: Organisation R.

Financial year	2003	2004	2005	
	N$			Totals
Total funds received per year	823 282	1 440 650	241	2 264 173
Total cost per year	**1 007 117**	**608 503**	**337 275**	**1 952 895**
Category: Personnel Cost	628 098	444 655	260 811	1 333 564
Percentage of the Program's total cost.	62.4%	73.1%	77.3%	68.3%
Rate at which cost increased/decreased.		17%	6%	
Category: Administration Cost	2 220	4 517	5 000	11 737
Percentage of the Program's total cost.	0.2%	0.7%	1.5%	0.6%
Rate at which cost increased/decreased.		237%	100%	
Category: Activity Cost	376 799	159 331	71 464	607 594
Percentage of the Program's total cost.	37.4%	26.2%	21.2%	31.1%
Rate at which cost increased/decreased.		-30%	-19%	

Table 22 shows that personnel cost was the biggest and most substantial portion of the total program cost. More funds were shifted to personnel cost over the three years. It could mean that in the first year the personnel cost was either underestimated or more personnel were recruited as the need arose over the three years. The increase could also be due to increase in salaries, which could have been done to ensure staff retention.

This program had very little administration costs. Even though the administration cost had been increasing at a very high rate, it was still not significant enough to run a program on its own. It could be that most of the administration costs were covered by another source apart from this program. This seems very likely as the 0.6% administration costs were just too little for any normal program to run on.

The activity cost decreased over the three years; it could be a result of the overestimation of the activity cost every year. There were not many activities for this program, since few funds were allocated to activities.

Figure 38: Total cost per cost category

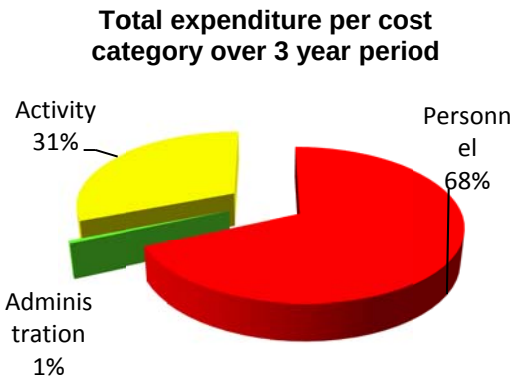


Figure 39: Total income vs. expenditure.

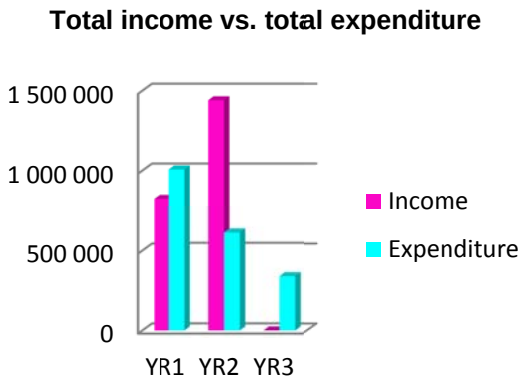


Figure 38 shows that this program spent most of its funds on personnel followed by the activities costs and then administration costs. About 68% of the program expenditure was on personnel, very little was invested in the administration activities, which may have had a negative impact on the program.

Figure 39 shows the unusual spending pattern of the program. The program overspent in its first year and it seems that the donors decided to provide more funds for the program in the second year. The program only managed to spend about half of the funds in the second year. This under spending may explain why the program did not receive any funds in the third year, since there were still funds available from the second year.

5.2.20 Organisation S

Table 23: The three cost categories in donor funding statement: Organisation S.

Financial year	2003	2004	2005	
	N$			Totals
Total funds received per year	1 243 252	1 084 969	1 347 190	3 675 411
Total cost per year	**1 379 704**	**1 595 484**	**1 347 190**	**4 322 378**
Category: Personnel Cost	570 494	708 405	818 176	2 097 075
Percentage of the Program's total cost.	41.3%	44.4%	60.7%	48.5%
Rate at which cost increased/decreased.		7%	37%	
Category: Administration Cost	229 650	350 695	351 244	931 589
Percentage of the Program's total cost.	16.6%	22.0%	26.1%	21.6%

Financial year	2003	2004	2005	
Rate at which cost increased/decreased.		32%	19%	
Category: Activity Cost	579 560	536 384	177 770	1 293 714
Percentage of the Program's total cost.	42.0%	33.6%	13.2%	29.0%
Rate at which cost increased/decreased.		-20%	-61%	

Table 23 indicates that this program is the type that requires many personnel. One can see that personnel costs were the biggest portion of the total program cost. More funds were shifted from the activity cost to personnel and administration cost over the three years. It could mean that in the first year, the need for personnel was understated, or that more personnel were recruited as the need arose over the three years. The increase could also be due to a yearly salary increment, which may have been done to ensure staff retention.

The administration costs increased over the years, to the extent that it made up a larger portion (19%) of the total costs in year 3 than activity costs (13%). It makes sense that administration cost increases when personnel cost increases. In this case, the administration cost seems to follow the number of personnel involved in the program, and not the activities carried out.

The activity cost has been decreasing over the three years; it could have been a result of the overestimation every year. There were not many activities for this program in the third year. The decrease in the activity cost was too large to be a result of overestimation; it rather seems to be a result of a decrease in the volume of activities.

Figure 40: Total cost per cost category

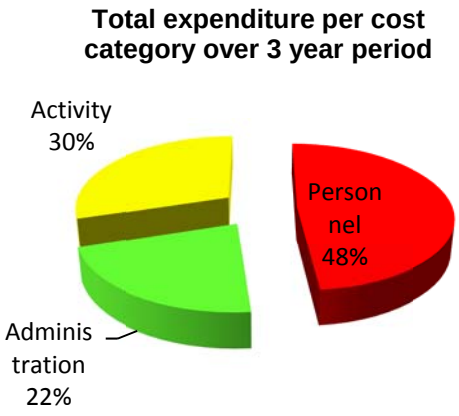


Figure 41: Total income vs. expenditure.

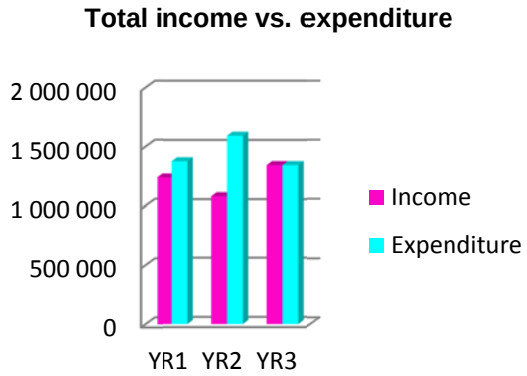


Figure 40 shows that this program spent most of its funds on personnel followed by the activities costs and then administration costs. About half of the program expenditure was on personnel costs; the second biggest portion was spent on activity costs.

Figure 41 shows how the program overspent in the first two years and managed to keep within its budget in the third year. The program overspent by a very significant amount in the second year.

5.2.21 Organisation T

Table 24: The three cost categories in donor funding statement: Organisation T.

Financial year	2003	2004	2005	
	N$			Totals
Total funds received per year	946 986	663 360	2 221 779	3 832 125
Total cost per year	**848 996**	**684 025**	**1 716 450**	**2 249 471**
Category: Personnel Cost	678 322	490 763	666 183	1 835 268
Percentage of the Program's total cost.	79.9%	71.7%	38.8%	56.5%
Rate at which cost increased/decreased.		-10%	-46%	
Category: Administration Cost	134 785	146 712	179 960	461 457
Percentage of the Program's total cost.	15.9%	21.4%	10.5%	14.2%
Rate at which cost increased/decreased.		35%	-51%	
Category: Activity Cost	35 889	46 550	870 307	952 746
Percentage of the Program's total cost.	4.2%	6.8%	50.7%	29.3%
Rate at which cost increased/decreased.		61%	645%	

If one looks at the first two years of this program in Table 24 above, it seems that this is the type of program that needs a huge personnel force to achieve its goals. In these two years, personnel cost made up more than seventy percent of the total program cost. The administration cost made up the second biggest portion of the total cost, while the activity cost made up a very small portion of the total program cost. In year three there was a significant decrease in the personnel cost. Funds were shifted from personnel and administration cost categories to the activity cost in the third year. It is as if there was a major change in the program's overall goals in year three.

One of the explanations of such a large decrease in the personnel cost in the third year could be the retrenchment of staff if the program was coming to an end. However, retrenchment does not explain the increase in activity cost. The increase in the activity cost could not have been a result of some unexpected or unforeseen expenses because the program has been running for three years and the increase in the activity cost was too great to be a result of retrenchment. An increase in the volume of activities could explain such a great increase in the activity cost.

Perhaps this is one of the programs whose life span was more than three years; perhaps the program did change its goals and had to continue with many more activities with fewer personnel.

Figure 42: Total cost per cost category

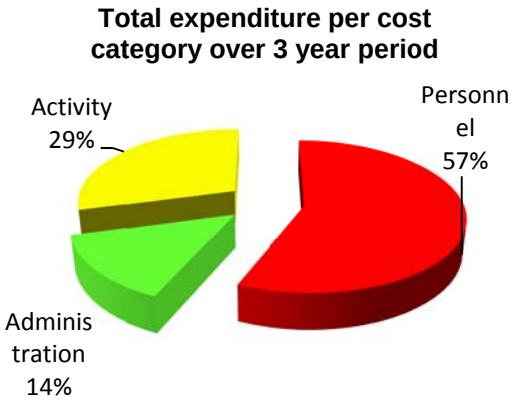


Figure 43: Total income vs. expenditure.

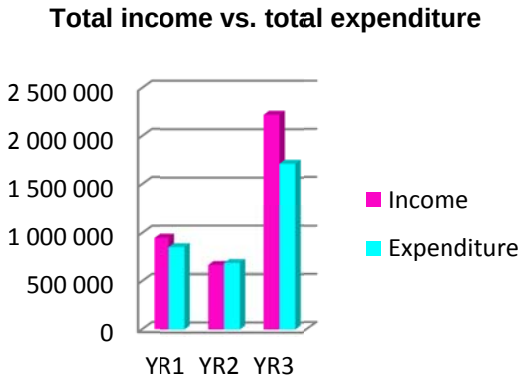


Figure 42 above shows that this program spent most of its funds on personnel followed by activity costs and then administration costs. More than half of the program expenditure was on personnel, the second biggest portion was spent on activities and the smallest portion was invested in the administration of the program.

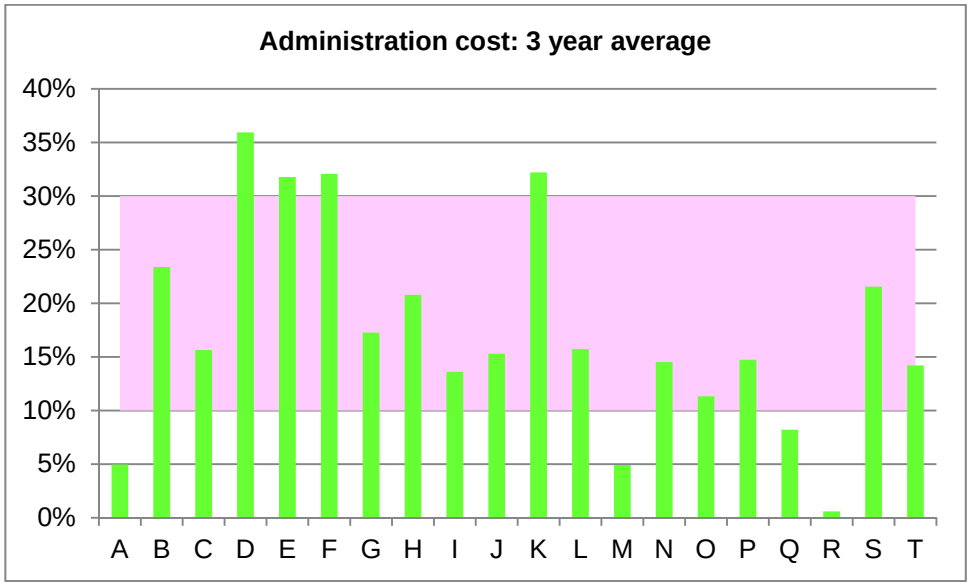
Figure 43 shows how the program slightly overspent in its second year and managed to keep within its budget in its first and third year. There is a very big difference between the funds received in the first two years and the third year. The program either has a life span longer than three years or else the program had to pay back the large amount of funds that were not spent in the third year.

5.2.22 Average program cost per category

In this section, a three year average is calculated for each program for all the three cost categories. The average cost is used to determine whether the program invested too little, a reasonable and acceptable amount, or invested too much in each one of the cost categories. The average cost is also used to compare how the different program invested in the same cost category. Figure 44, 45 and 46 below show the three year average cost for administration, personnel and activity categories respectively.

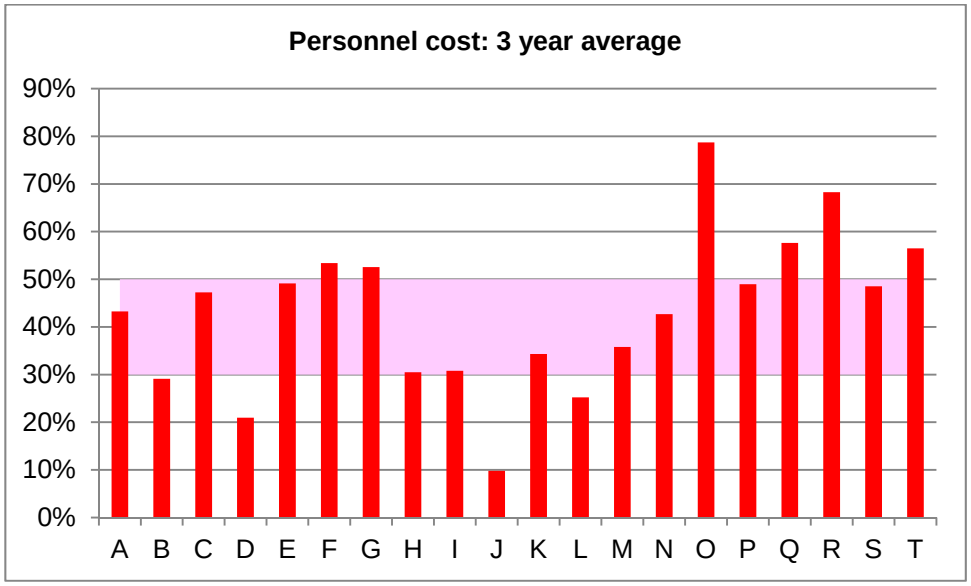
Figure 44 shows that most of the programs' average administration costs fell in the range of 10% to 30% of the total cost. Twelve programs had an average administration cost ranging from 10% to 30%. Four programs had an average administration cost lower than 10%, and four programs had an average administration cost higher than 30%. Spending around 10% to 30% on administration expenses is considered acceptable. Below 10% is considered to be too little to invest in the administration, and more than 30% is considered to be more than necessary. Figure 44 below shows the acceptable spending range, indicated by a pink range.

Figure 44: Three year average for administration cost category



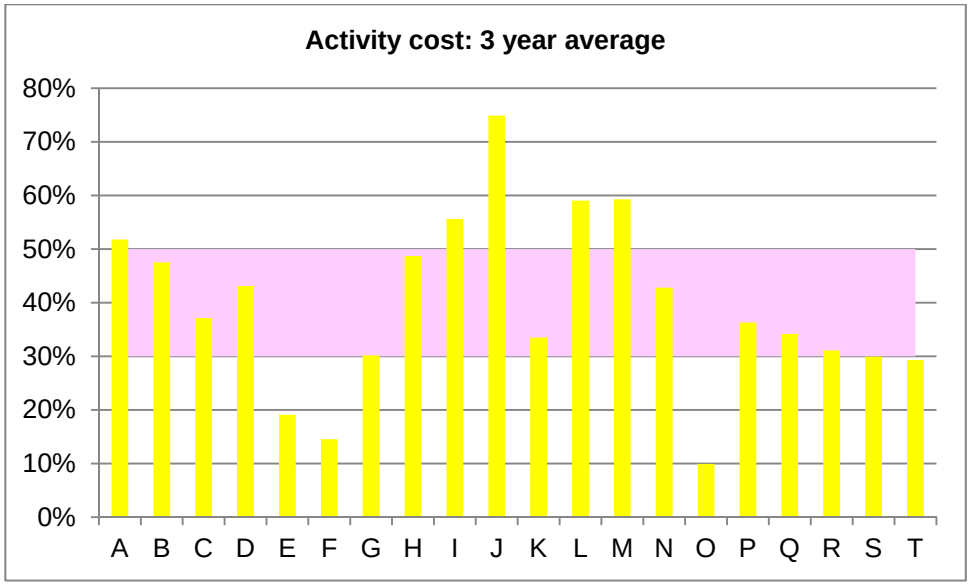
Although there are no preferred spending rates on personnel costs, it is advisable to monitor the trend over the years. Figure 45 shows that most of the programs had an average personnel cost ranging from 30% to 50% of the total cost. Ten programs had an average personnel cost falling between 30% and 50%. Four programs had an average personnel cost falling below 30%, and the other six programs had an average personnel cost higher than 50%.

Figure 45: Three year average for personnel cost category



As is the case for personnel cost, there is no preferred spending rate on a program's activities. The spending rate depends on the nature of the program. Figure 46 below shows that the majority of the programs had an average ranging from 30% to 50%. Eleven programs had an average activity cost falling between 30% and 50% of total cost. Four programs had an average activity cost falling below 30%, and the other five programs had an average activity cost higher than 50%.

Figure 46: Three year average for activity cost category



The line chart in figure 47 gives a highlight of a three year average per cost category for each program. The average cost for both personnel and activity cost categories is scattered, there is no clear range. It appears that in most programs, the average personnel cost was higher than the average for the activity and administration costs. The administration average cost appears to be the lowest in most programs which is understandable. Donors only want to invest what is necessary in the administration of the program.

Figure 47: Three year average per cost category for each program

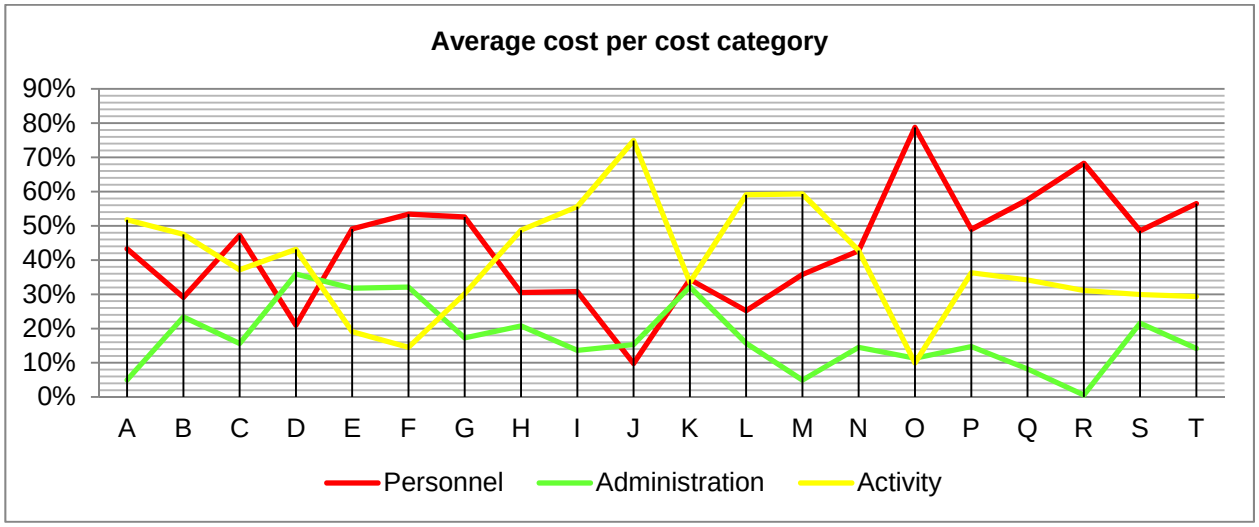


Figure 47 above shows that the lowest average administration cost was 1%, which was for program R, and the highest average was 36% for program D. The lowest average personnel cost was 10% for program J and the highest average was 79% for program O. The lowest average activity cost was 10% for program O, and the highest average was 75%, for J. It would not make sense to analyse the gap between the lowest and highest average for both the personnel and activities cost, because it is perfectly normal for one program to invest little in personnel and invest a lot more in activities and *vice versa*. It could be interesting to investigate the gap between the lowest and the highest average for the administration cost. Perhaps further studies could investigate this matter. As already stated, donors do not want to invest more than necessary in the program's administration activities. Therefore donors would be more interested in this gap. They would want to see if the envisaged programs are indeed investing too much or too little in the program's administration costs compared to other programs funded by other donors.

5.2.23 Conclusion

The factors mentioned in the analysis of each case are common to almost all the programs analysed. These factors are most likely to hamper the achievement of the program's overall goals in the same way, irrespective of the purpose of the program. If one looks at the changes in the personnel cost, it is clear that certain factors may have contributed to the changes. Some of the factors could be that the cutting of personnel salaries may affect the personnel's performance, which in turn slows down the achievement of the program's overall goals, while an increase in salary may lead to better performance, though this may not always be the case. Too few personnel may lead to personnel being overworked, which may lead to poor performance.

On the other hand, overstaffed programs tend to incur unnecessary personnel costs and personnel tend to overstep each other's responsibilities, therefore leading to some tasks not being done because each staff member assumes the other is responsible for that task.

Retrenchment of staff has a negative effect on the personnel's team work spirit. Personnel start to worry whether they would be the next to be retrenched, therefore losing focus and

interest in the job at hand. It is crucial to ensure that personnel are happy because the achievement of the program's goals depends to a high extend on them.

Some of the most common factors that could influence the program's overall goals are:

Firstly, the over-allocation of funds to administration costs. Personnel tend to use these funds even when it is unnecessary. On the other hand, too little funds allocated to administration cost may lead to poor preparation and administration of the program's activities.

Secondly, the effectiveness of cost reduction measures put in place influences the amount a program can spend on administration cost. Saved funds can therefore be used on budget items which were under-budgeted.

Thirdly, the extent of the administration officer's experience in dealing with shared costs can make a huge difference. A less experienced administration officer may charge and allocate prohibited costs to programs.

Fourthly, the volume of the program activities, to a great extent, has an influence on the amount of funds allocated to administration costs. It would make sense for the administration cost to have a direct relationship with the volume of activities. An indirect relationship may have a negative effect on the program's overall goals.

The amount of funds allocated to the activities also has an effect on overall program performance. If not enough funds are allocated to an activity, it might compromise the initial desired outcomes; and if a surplus of funds are allocated, unnecessarily expenses may be incurred.

5.3 THE SELF-SUSTAINABILITY OF ORGANISATIONS

5.3.1 Organisational sustainability of NGOs

When people think about organisational sustainability, they often think about financial sustainability and how the organisation can acquire more funds to pay for its long term liabilities. Financial sustainability is just a part of organisational sustainability. Financial sustainability can be measured by an organisation's net income, liquidity, and solvency (Abt Associates, 1994:4). Organisational sustainability is the ability of the organisation to secure and manage sufficient resources to enable it to fulfil its mission effectively and consistently over time (Abt Associates, 1994:4). When management thinks of organisational sustainability, they should look at aspects such as:

1) Is the scope of activities of the organisation realistic, or is the organisation trying to do more than it has the capacity to handle? When an organisation tries to do more than they can handle, they end up not achieving all their goals.

2) Is the organisation doing its best to deliver the best and highest quality service to its clients? If an organisation tries to do more than it can handle, it may end up doing a poor job. In the NGO sector, this would discourage donors from funding the organisation;

3) Does the organisation have a financial plan? An organisation should have a financial plan which outlines all the organisation's future plans to acquire funds and sustain the acquisition of such funds. The plan should state source of such funding and how it will get funds, it should also state how the organisation will build reserves on which the organisation can rely; and lastly

4) The management should differentiate between financial sustainability and organisational sustainability.

One of the objectives of this paper was to look at the organisational sustainability of the organisations sampled. Barr (2008:2-5) identified some frequently used ratios that can be

useful for interpreting and understanding financial information for non profit organisations. The following five ratios were applied to all the organisations in order to assess their sustainability:

- ***Current Ratio (CR)*** = Current Assets / Current Liabilities.

  The current ratio shows the organisation's ability to pay its short term obligations. A ratio of 1:1 is acceptable but a 2:1 ratio is safer and desirable because it shows that the organisation is more than capable of paying its short term obligations when they are due.

- ***Self Sufficiency Ratio (SSR)*** = Total Earned Income / Total Expenses.

  The total earned income is the income generated by the organisation in exchange for service. This ratio indicates the extent to which an organisation is able to honour its obligations, with its own funds which it has earned, without any help from other parties. According to Barr (2008:2-5), a self sufficiency ratio of one or closer to one is a positive indicator. This is one of the ratios that donors monitor, because it gives them an idea of the organisation's sustainability.

- ***Earned Income Ratio (EIR)*** = Total Earned Income / Total Income.

  The total income is made up of the entire organisation's income irrespective of how it was generated or who the source is. Total income includes donor funds. This ratio shows how much of the organisation‘s total income is earned by the organisation itself. There is no preferred earned income ration, but the closer to one it gets, the better. An increase in this ration causes an increase in the self sufficiency ratio.

- ***Administration Cost Ratio (ACR)*** = Total Administration Cost / Total Expenses.

  This ratio indicates how much and what percentage of funds is spent on administration cost. As already mentioned, donors do not want most of their funds going towards administration. This ratio is also monitored by the donors and stakeholders. In general, donors prefer that administration costs do not make up more than 30% of the total expenses (Charityfacts, 2011). However, spending less than 10% on administration can be an indication that the organisation is not investing enough in the administration function, which can be a bad sign.

- ***Personnel Cost Ratio (PCR)*** = Total Personnel Cost / Total Expenses.

This ratio shows how much money is spent on personnel. There is no preferred personnel cost ratio, but it is wise to monitor the ratio over periods of time and explain any changes thereto.

An organisation is expected to generate its own income to cover its general administration costs without any assistance from other outside sources. If an organisation is not capable of generating such an income, the organisation's survival will depend on the outside sources which are not good as the outside sources, can come to an end at any given time. It is therefore crucial that an organisation generates its own income to cover its administration costs.

The relationship between the SSR and ACR shows a lot about the organisation's ability to survive on its own generated income. That is why these two ratios are used to assess the organisation's ability to survive on its own generated income. If an SSR of an organisation is higher than its ACR, one can say that the organisation is able to generate an income high enough to cover its administration costs. The organisation can then be operational even when there are not enough resources to perform other organisational activities.

The next subsection presents all five ratios calculated for each organisation from which the above programs were conducted. The ratios are based on the organisation as a whole and will assess the organisational sustainability of each one of the organisations.

5.3.2 Organisational sustainability: Organisation A

Table 25: Sustainability ratios for non-profit organisations

A	ACR	SSR	EIR	CR	PCR
2009	14%	15%	13%	3.85	38%
2008	12%	11%	12%	0.97	37%
2007	19%	12%	13%	3.71	43%

Organisation A's ACR has been decreasing over the years, which is not necessarily positive. A very low ACR indicates that little was invested in administration, which may have a negative impact on organisation A's performance.

The SSR has been increasing over the three years, which is a positive move, but it was still quite low, a higher ratio would indicate its ability to provide for its own needs without help from other sources. EIR was stable, although it would have been better if it was increasing over the years. This could mean that organisation A's ability to generate income was improving if EIR increased.

CR was high in 2009 and 2007 and slightly lower in 2008. A very high CR could means that the organisation has a lot of stock on hand, or too little short term liabilities, which could mean that the organisation was not taking advantage of the credit facilities available. This could be a good thing, since an NGO is not always sure how they will repay their debts.

PCR has been decreasing from 2007 to 2009, which is preferable in cases where personnel cost is not the core cost category of the organisation. Organisation A does not seem to have had liquidity problems and it could pay off its short term obligations.

It is not a good indication when the EIR is constant, as it shows no improvement in efforts to earn more income and become self sustainable. Looking at the organisation's ACR and SSR, organisation A does not seem to be self sustainable because it was not able to cover its administration cost by itself. The organisation's SSR was lower than its ACR.

5.3.3 Organisational sustainability: Organisation B

Table 26: Sustainability ratios for non-profit organisations

B	ACR	SSR	EIR	CR	PCR
2009	12%	8%	8%	5.07	53%
2008	14%	4%	4%	1.15	53%
2007	14%	4%	7%	1.12	58%

Organisation B had a low ACR, which is not necessarily positive, as it can indicate that little was invested in the organisation's administration, which could impact the organisation's overall performance. The organisation had a constant SSR in 2007 and

2008 and a higher SSR in 2009 which may be positive because it could mean that it was improving its ability to generate its own income.

The organisation had a low EIR in 2008 which is not a positive sign, but it managed to improve in 2009. It had a good CR in 2007 and 2008 but a little too high CR in 2009, which can mean too much stock or cash on hand, or too little short term liabilities for that year.

The organisation's PCR decreased by 5% in three years. Its SSR should have been higher than its ACR to show that it could cover its own administration costs. One can say that the organisation was not self sustainable because it was not able to cover its administration cost with its own earned income. Organisation B's SSR was lower than its ACR.

5.3.4 Organisational sustainability: Organisation C

Table 27: Sustainability ratios for non-profit organisations

C	ACR	SSR	EIR	CR	PCR
2009	14%	21%	17%	0.54	50%
2008	17%	16%	13%	0.50	46%
2007	13%	37%	31%	0.22	44%

Organisation C had a low ACR, which is not necessarily good, as it could mean that little was invested in administration activities. The organisation had a higher but decreasing SSR which could mean that its ability to generate its own income was weakening and was not able to cover most of its own administration cost with its own income.

Organisation C had a decreasing EIR which is also not a positive sign, as it could mean that its ability to earn its own income was weakening. The organisation had a very low CR which could mean that it was unable to pay off its short term liabilities as they became due. The organisation's PCR increased over the three years.

From 2007 to 2009, organisation C became less able to provide for its own needs. Organisation C seemed to have liquidity problems. The ratios above indicate that organisation C was able to cover most of its administration costs with its own earned

income without assistance from outside sources. One could say that the organisation was self sustainable, because its SSR was lower than its ACR.

5.3.5 Organisational sustainability: Organisation D

Table 28: Sustainability ratios for non-profit organisations

D	ACR	SSR	EIR	CR	PCR
2007	29%	54%	59%	0.29	32%
2006	39%	62%	38%	0.38	17%
2005	44%	26%	27%	0.15	11%

Organisation D had a high ACR in 2005 and in 2006, which decreased in 2007 to an acceptable rate. The organisation had an increasing SSR which was positive as it showed that it could cover its own administration cost and still manage to conduct other activities without aid from other sources.

Organisation D had an increasing EIR which is also positive; it could mean that it could rely on its own income. The organisation had a very low CR which could mean that the organisation had problems paying its short term obligation when they become due. The organisation had an increasing PCR which was slightly too high in 2007.

Organisation D was able to cover its own administration costs in 2006 and 2007 respectively but not in 2005. The organisation's EIR increased over the years; one can say that this organisation was self sustainable although it had liquidity problems. The organisation's SSR was higher than its ACR.

5.3.6 Organisational sustainability: Organisation E

Table 29: Sustainability ratios for non-profit organisations

E	ACR	SSR	EIR	CR	PCR
2010	34%	31%	28%	12.58	51%
2009	29%	49%	39%	10.11	48%
2008	34%	46%	67%	3.41	51%

Organisation E had an acceptable ACR which was not too high. This could mean that an adequate amount of funds were invested in the administration of the organisation. The organisation had a sudden decrease in SSR in 2010, and had been able to provide for its own needs and cover administration costs except in 2010. There was a significant decrease in EIR which could indicate that the organisation's ability to generate its own income weakened significantly.

The organisation had a high CR which could mean that it had no liquidity problems, and an increasing PCR. One could say that this organisation was not self sustainable in 2010 although it was in 2009 and 2008. The organisation's SSR was lower than its ACR.

5.3.7 Organisational sustainability: Organisation F

Table 30: Sustainability ratios for non-profit organisations

F	ACR	SSR	EIR	CR	PCR
2009	30%	70%	81%	0.30	57%
2008	25%	88%	95%	0.43	53%
2007	41%	87%	92%	0.73	47%

Organisation F had a decrease in ACR which brought it to an acceptable level that allows a reasonable amount of funds to be invested in the organisation's administration. The organisation had a very high but decreasing SSR which was high enough to cover its administration cost and carry out any other activities. Although the organisation had a decreasing EIR, it was still high enough for the organisation not to have to rely on outside sources.

The organisation also had a very low and decreasing CR which could mean that it had a liquidity problem, and a PCR which was increasing steadily. Looking at organisation F's CR, one could say that it had liquidity problems but it was still self sustainable. The organisation's SSR was higher than its ACR.

5.3.8 Organisational sustainability: Organisation G

Table 31: Sustainability ratios for non-profit organisations

G	ACR	SSR	EIR	CR	PCR
2009	18%	5%	5%	1.50	51%
2008	19%	18%	13%	2.19	57%
2007	16%	5%	5%	0.42	60%

Organisation G had a reasonable but constant ACR which is good, as it could mean that a reasonable amount was invested in the administration of the organisation. Organisation G had a very low SSR in 2007 and 2009, which shows that the organisation was far from being able to cover its needs.

The organisation's EIR was very low in 2007 and 2009 and was still too low in 2008. It's CR was low in 2007 and reasonable in 2008 and 2009. The organisation had a decreasing PCR which was also a positive.

Organisation G was unable to cover its administration cost with its own income during the three years, but it was able to pay its short term liabilities in 2008 and 2009. One could say that organisation G was not self sustainable, as its SSR was lower than its ACR.

5.3.9 Organisational sustainability: Organisation H

Table 32: Sustainability ratios for non-profit organisations

H	ACR	SSR	EIR	CR	PCR
2009	20%	5%	7%	392.54	30%
2008	19%	3%	3%	255.78	30%
2007	22%	8%	6%	361.27	27%

Organisation H above had an acceptable ACR. The organisation had a very low SSR in all three years which is not good; this indicates that the organisation was not able to cover its own administration costs with its own income.

The organisation had a very low EIR which could mean that the organisation did not have effective means for generating income. Organisation H had an extremely high CR which may explain the low income generated. The money might have been tied up in a huge amount of stock which was not converted to cash yet. The organisation's PCR remained more or less constant.

Organisation H was not self sustainable, as it could not even earn enough income to cover its administration or personnel costs. The organisation's SSR was lower than its ACR.

5.3.10 Organisational sustainability: Organisation I

Table 33: Sustainability ratios for non-profit organisations

I	ACR	SSR	EIR	CR	PCR
2009	15%	1%	1%	4.39	30%
2008	16%	2%	2%	2.53	26%
2007	13%	2%	2%	46.18	35%

Organisation I had a reasonable ACR. The organisation had a very low SSR which shows that this organisation depended heavily on outside sources of funds. The EIR was also very low, which is not a good sign.

Organisation I had a high CR in 2007 which dropped significantly in 2008 and 2009, and a more or less constant PCR. It seems that organisation I was not self sustainable, as the organisation hardly earned its own income, and its SSR was lower than its ACR

5.3.11 Organisational sustainability: Organisation J

Table 34: Sustainability ratios for non-profit organisations

J	ACR	SSR	EIR	CR	PCR
2009	5%	3%	5%	53.30	3%
2008	7%	0%	0%	42.68	4%
2007	11%	6%	3%	36.03	10%

Organisation J had a very low but decreasing ACR which could mean that little was invested in the organisation's administration, which is not necessarily a positive scenario. The organisation had a low and decreasing SSR which shows that the organisation was unable to cover its administration cost with its own income, therefore it depended on outside sources.

The organisation had a very low but increasing EIR which is also not positive. The organisation had a very high and increasing CR, and a very low but decreasing PCR. Organisation J was also not self sustainable and possibly had a lot of cash tied up in its current assets. The organisation's SSR was lower than its ACR.

5.3.12 Organisational sustainability: Organisation K

Table 35: Sustainability ratios for non-profit organisations

K	ACR	SSR	EIR	CR	PCR
2009	32%	4%	16%	22.42	32%
2008	34%	5%	4%	14.53	32%
2007	40%	6%	6%	1.68	53%

Organisation K had a decreasing ACR that was still high enough to ensure a reasonable amount of investment in the organisation's administration. The organisation had a decreasing but very low SSR, which is not positive. With such a low SSR, the organisation was not in any position to take care of its own administration.

The organisation had to depend on outside sources for its daily operations. Its EIR increased significantly in 2009. Organisation K had an increasing CR which was too high in both 2008 and 2009. The organisation's PCR decreased in 2008 and stayed constant thereafter.

Although this organisation's EIR had increased so much in 2009, it was still not enough to cover its administration costs. The organisation was not self sustainable, because their SSR was lower than its ACR.

5.3.13 Organisational sustainability: Organisation L

Table 36: Sustainability ratios for non-profit organisations

L	ACR	SSR	EIR	CR	PCR
2009	16%	1%	1%	2.91	22%
2008	21%	2%	2%	6.16	30%
2007	13%	1%	1%	7.62	27%

Although organisation L had an increasing ACR, it was still within acceptable limits. The organisation had a very low SSR which shows that the organisation was not able to cover its administration costs with its own income. The organisation had a very low EIR.

The organisation had a decreasing CR which was at an acceptable level in 2009, as the organisation was still able to pay off its short term obligations when they became due. The PCR remained more or less constant over the three years. The organisation was not self sustainable as organisation L's SSR was lower than its ACR.

5.3.14 Organisational sustainability: Organisation M

Table 37: Sustainability ratios for non-profit organisations

M	ACR	SSR	EIR	CR	PCR
2008	12%	11%	12%	0.97	37%
2007	19%	12%	13%	3.71	43%
2006	33%	16%	12%	14.22	30%

Organisation M had a decreasing but low ACR in 2008. Too low an ACR is not a good indicator because it shows that little money was invested in the organisation's administration. Organisation M had a decreasing SSR which was not good. With the low SSR, it could mean that the organisation could not pay for its administration costs with its own income.

The organisation had a more or less constant EIR which was also not good; an increase in this ratio may improve the organisation's ability to take care of its administration costs.

Organisation M also had a decreasing CR which became reasonable in 2008. Its PCR has consistently decreased over the years.

Organisation M was not able to cover its administration and/or personnel costs with its own income. As the SSR was lower than its ACR, one could say that it was not self sustainable.

5.3.15 Organisational sustainability: Organisation N

Table 38: Sustainability ratios for non-profit organisations

N	ACR	SSR	EIR	CR	PCR
2008	36%	18%	24%	50.39	43%
2007	28%	18%	13%	132.93	29%
2006	25%	11%	8%	117.86	58%

Organisation N had an increasing ACR which could be a bit too high. The organisation went beyond the acceptable ratio, which is not good. Although the organisation has an increasing SSR, it was still not high enough to cover its administration costs. Organisation N had an increasing EIR which could show that the organisation's ability to generate its own income was improving.

The organisation's CR was extremely high in 2006 and 2007. Even though it reduced dramatically in 2008, the ratio was still too high. The organisation's PCR decreased over the three years. Even though the organisation seemed to be improving its efforts to sustain itself, it was still not good enough to sustain itself without the help from outsiders. The organisation was not self sustainable, organisation N's SSR was lower than its ACR.

5.3.16 Organisational sustainability: Organisation O

Table 39: Sustainability ratios for non-profit organisations

O	ACR	SSR	EIR	CR	PCR
2008	21%	6%	6%	4.52	48%
2007	15%	10%	10%	3.36	58%
2006	14%	19%	18%	3.47	51%

Organisation O had an increasing ACR which was at a reasonable level and still within the acceptable boundaries. The organisation had a decreasing SSR which was not high enough to show that it could take care of its own administration costs. The organisation had an EIR which decreased over the three years. This could mean that the organisation was losing its ability to generate its own income.

The organisation had an increasing CR which was a good sign. Organisation O was able to pay off its short term obligations as they became due. The organisation's PCR decreased over the three years. Organisation O was not self sustainable, because it depended greatly on outside sources to continue operating. Organisation N's SSR was too low compared to its ACR.

5.3.17 Organisational sustainability: Organisation P

Table 40: Sustainability ratios for non-profit organisations

P	ACR	SSR	EIR	CR	PCR
2009	13%	19%	18%	0.55	39%
2008	14%	15%	10%	0.43	38%
2007	14%	41%	33%	0.25	45%

Organisation P had a constant ACR at an acceptable level. The organisation had a decreasing SSR which was still high enough to show that the organisation was able to cover its own administration costs with its own income. An increase in this ratio would be preferable.

The organisation's EIR decreased over the three years. The organisation was able to provide for its own needs in 2007 it could cover its administration costs and some of its personnel costs. The organisation had a very low CR which may mean that the organisation was unable to pay off its short term obligations when they became due. The organisation had a decreasing PCR over the years.

Organisation P could be considered self sustainable; it was able to take care of its administration obligations, therefore even if other funds providers pulled out, it would still be operational. The organisation's SSR was higher than its ACR.

5.3.18 Organisational sustainability: Organisation Q

Table 41: Sustainability ratios for non-profit organisations

Q	ACR	SSR	EIR	CR	PCR
2007	14%	21%	16%	0.48	49%
2006	18%	16%	10%	0.32	44%
2005	14%	37%	31%	0.23	40%

Organisation Q had an acceptable ACR, as it was below 30%. The organisation's SSR and EIR decreased in 2006 and then increased in 2007. The organisation's SSR was still high enough to show that the organisation could cover its administration costs without help from outside sources, except in 2006 where it needed assistance from other sources.

Organisation Q had a very low CR which may indicate liquidity problems. The organisation's PCR increased over the years. Organisation Q can be considered as self sustainable, as its SSR was higher than its ACR for two of the three years.

5.3.19 Organisational sustainability: Organisation R

Table 42: Sustainability ratios for non-profit organisations

R	ACR	SSR	EIR	CR	PCR
2005	38%	19%	17%	50.93	47%
2004	28%	20%	16%	71.09	31%
2003	26%	11%	8%	84.62	60%

Organisation R had an increasing ACR which at 38% in 2005 was very high, and needed to be brought down to a lower and acceptable level. The organisation had an increasing SSR but it was not high enough to indicate that the organisation was able to cover its own administration costs. The organisation had an EIR which increased over the three years, which is good.

Although the organisation had a decreasing CR over the three years, it still needed to be brought down to a reasonable level. The organisation's PCR had been decreasing over the years. Organisation R was not self sustainable, since the organisation's SSR was lower than its ACR.

5.3.20 Organisational sustainability: Organisation S

Table 43: Sustainability ratios for non-profit organisations

S	ACR	SSR	EIR	CR	PCR
2005	36%	22%	20%	42.26	50%
2004	24%	17%	15%	55.32	40%
2003	25%	14%	9%	70.00	62%

Organisation S had an increasing ACR which was a bit too high. The organisation had an increasing SSR which was still not high enough to show that the organisation was able to cover its administration cost without help from outside sources. The organisation's EIR had increased over the three years, which was a positive.

Although the organisation's CR decreased over the three years, it was still very high. The organisation's PCR decreased over the years. Organisation R was not self sustainable, since the organisation's SSR was lower than its ACR.

5.3.21 Organisational sustainability: Organisation T

Table 44: Sustainability ratios for non-profit organisations

T	ACR	SSR	EIR	CR	PCR
2005	28%	2%	1%	3.09	37%
2004	22%	2%	2%	6.76	33%
2003	17%	1%	1%	6.87	33%

Organisation T has an increasing ACR which was still within the acceptable boundaries. The organisation's SSR and EIR were very low. This could mean that organisation T did not generate much of its own income and could not take care of its administration costs. The organisation had a good CR which could mean that the organisation relied on the donors and other outside fund providers to cover its short term obligations.

The organisation's PCR was constant in 2003 and 2004, and then increased in 2005. Organisation T was not self sustainable, since the organisation's SSR was lower than its ACR, which could mean that the organisation relied on other fund providers to be able to take care of its own needs.

5.3.22 Three year average ratios per organisation

In this section, a three year average ratio is calculated for all five ratios for each organisation. The average ratio shows an overall picture of the organisation's status over the three years. The average ratio is used to compare the organisations. Figure 48, 49, 50, and 51 below shows the average ratios for all organisations.

Figure 48 shows a Current Ratio for all programs with a current ratio lower than ten. As already mentioned earlier, a current ratio of one is preferred because it means not too much or too little assets can be converted into cash within twelve month's time. Amongst

these programs, seven programs had a current ratio higher than ten. These programs had too many assets that could easily be converted into cash. Most of these assets could as well be converted to cash and the cash invested elsewhere. A ratio of 1:1 is considered acceptable, but to be on the safe side, a ratio of 2:1 is considered as appropriate.

Figure 48: Three year average: Current Ratio

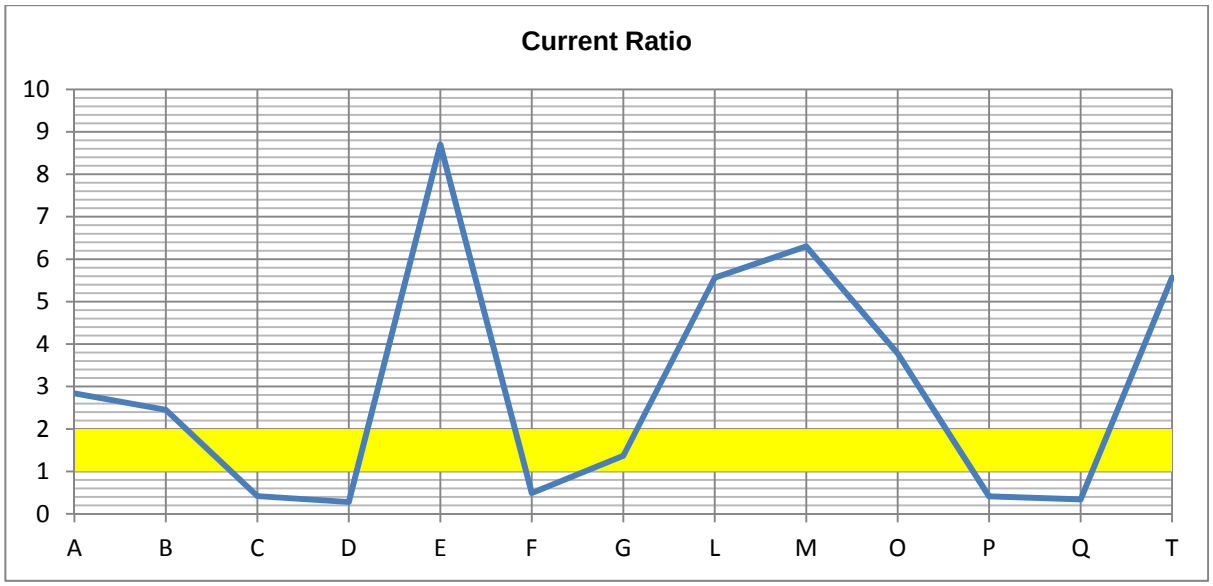


Figure 48 above shows the thirteen organisations whose current ratio falls between one and two. Organisation G is the only one that had a current ratio falling between one and two.

Figure 49 below shows both the Administration Cost Ratio and the Self Sustainability Ratio. The ACR shows us how much the program spent on its administration cost as a percentage of the organisation's total expenditure, and the SSR indicates how much the organisation managed to generate its own income as a percentage of the organisation's total expenditure. Comparing these two ratios enables us to check whether the organisation was generating enough income that could be used to take care of its administration costs.

Figure 49: Three year average: Administration Cost Ratio vs. Self Sufficiency Ratio

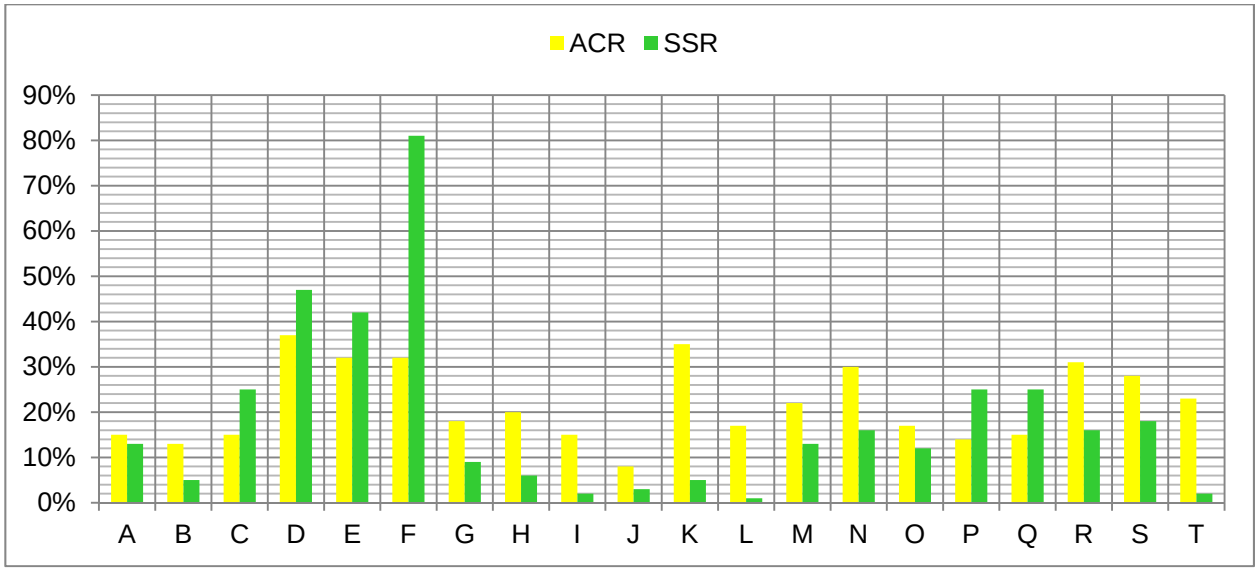
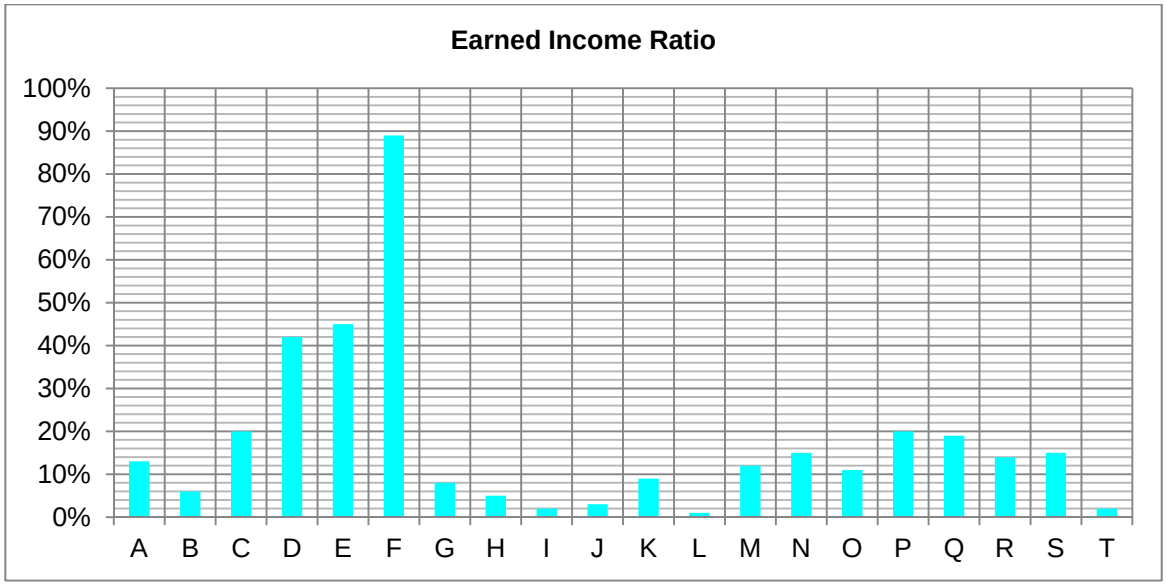


Figure 49 shows that only six organisations were able to generate enough income to cover its administration costs. The rest had to depend on outside financial assistance to enable them to take care of their administration costs.

Figure 50 below shows the Earned Income Ratio. Organisations with a high Earned Income Ratio tend to have autonomy and flexibility to run the organisation. The ratio shows how much income the organisation generated. The higher the ratio, the better, and the less the organisation depends on foreign financial assistance.

Figure 50: Three year average: Earned Income Ratio



There is not a preferred EIR, but the closer it is to 100%, the better. As one can see in figure 50, very few of the organisations have a ratio that is even above 30%. Most of them barely have a ratio higher than 20%. That means most of them rely heavily on foreign financial assistance.

Figure 51 below shows how much the organisations spent on their personnel over the three years. There is also no preferred PCR; the ratio greatly depends on the nature of the organisation's activities. It is advisable to monitor the PCR over the years to explain and note any changes that seem to be out of the ordinary.

Figure 51: Three year average: Personnel Cost Ratio

Looking at figure 51 above, organisation J had a very low PCR. Eleven organisations had a PCR higher than 40%, eight had a PCR ranging between 20% and 40%, and one had a PCR less than 20%.

5.3.23 Conclusion

Based on the ACR's and SSR's calculated for each organisation, it seems that of the twenty organisations, fifteen were not self sustainable, and only five were self sustainable. This means that most organisations rely on donor funds to be operational. Donors often provide funds to organisations on condition that the organisations contribute a portion of the resources needed for the programs themselves. This forces organisations to find income generating activities. Hopefully this kind of requirement will encourage organisations to become self sustainable.

5.4 WERE FUNDS USED FOR WHAT THEY WERE INITIALLY INTENDED FOR?

As already mentioned, donors do not want their funds to end up paying for the organisation's administration costs. Therefore the Administration Cost Ratio (ACR) is one of the ratios donors and other outsiders look at when giving out aid. ACR gives donors an idea of how much of their funds is used on the organisation's administration. Spending a

huge portion of donor funds on administration cost would be money not well spent and not used for its purpose.

For the purpose of this study, the ACR has been used to assess whether each program's funds were used for its intended purpose. During the three year period, four projects were at some point spending more than 30% of the program's total expenses on administration costs. Even those that spent more than 30% spent only slightly more. The rest managed to keep administration costs very low and spent the funds on what it was intended for. Of the 20 organisations, four spent less than 10% on administration costs, which is also not ideal. However, if an organisation can run the program at such a low administration cost, and still achieve the desired and intended program results, then donors would not have a problem.

Based on the findings above, one could say that, indeed, the funds were used for their intended purposes. This means that 60% of the programs were spending an acceptable amount on administration, 20% spent less than acceptable, and only 20% spent slightly more than what is acceptable.

5.5 CONCLUSION

Seventy five percent of the programs analysed above were run by organisations that were not self sustainable, which means that there is a chance that those organisations might have been relying on the programs to take care of most the organisation's needs. Most programs invested their funds in personnel.

As already mentioned, donors prefer to see their funds spent on resources that are mainly responsible for achieving the program's goals, which could be activities or personnel costs, but not on administration costs. Therefore, on any program, one can either expect to see activity or personnel costs making up a big portion of the total programs' cost. It should never be the administration cost. Therefore, if the administration costs happen to make up the biggest portion of the program's total cost, there would be serious questions.

Figure 52: Three year average cost per cost category for each program per organisation

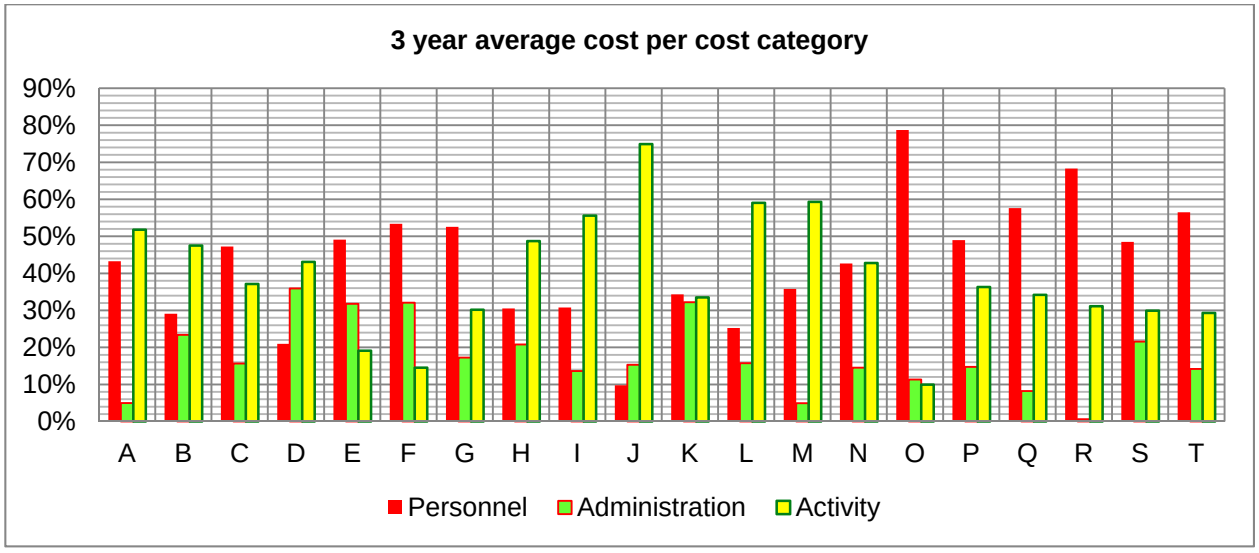


Figure 52 above shows how much each program spent on the three cost categories over the three years. One can see that all programs spent the least on administration costs, except for program K.

Figure 53: Three year average ratio per organisation

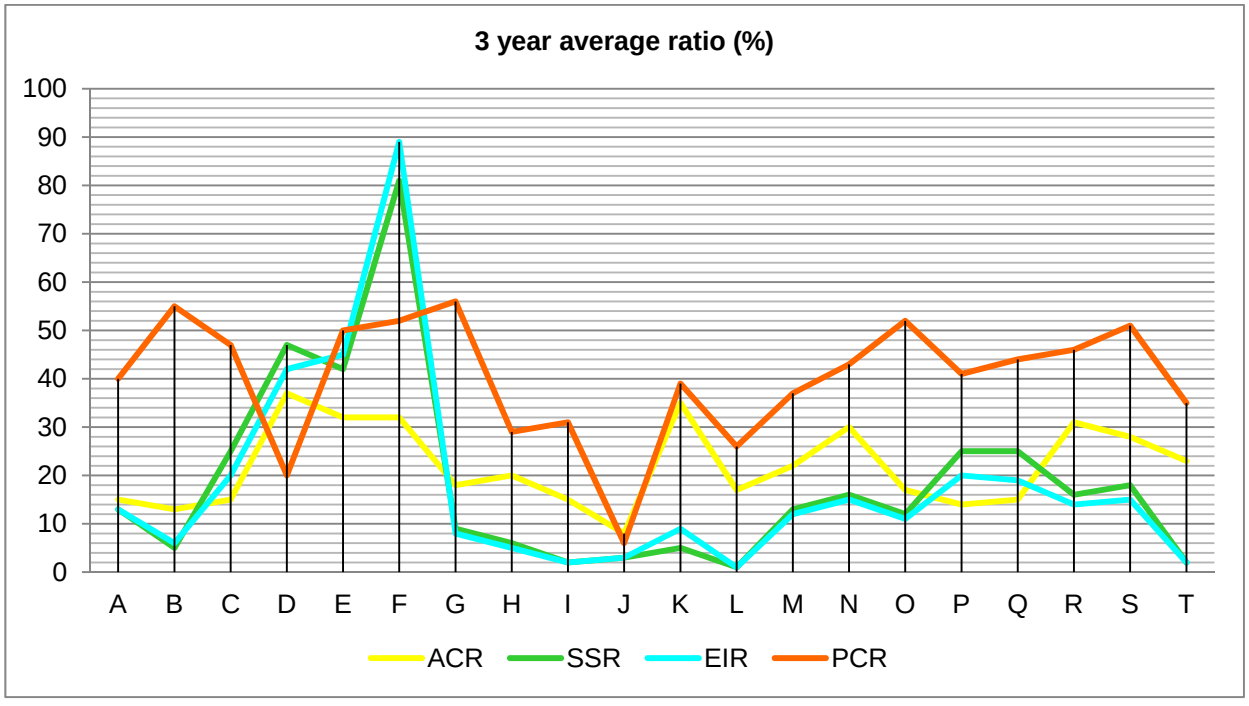


Figure 52 above shows the average three year ratio for ACR, SSR, EIR, and PCR for all twenty organisations. The average EIR and SSR seem to have a relationship; an increase in EIR causes an increase in SSR. The average EIR and SSR seem to be more or less equal. There does not seem to be any relationship between ACR and PCR. The programs from G to L, and T seem to have a very low EIR and SSR compared to the others. This is one of the major problems with NGOs in Namibia. Very few organisations are able to continue running without the assistance of the donor funds. That is why most of the organisations assessed were unable to even generate income to cover their administration costs.

6 CONCLUSION AND RECOMMENDATIONS

6.1 INTRODUCTION

The purpose of this study was to look at the financial management of donor funds in Windhoek-based NGOs in Namibia, and, more specifically, at the relationship between the three cost categories, namely personnel cost, administration cost, and activity related cost. The study highlighted how an influence on the relationship between the three cost categories could have an effect on the overall results of any program. This chapter looks at the major findings of the study while trying to satisfy the objectives of the study, followed by the limitations which were encountered during the study and recommendations for future studies. A concluding remark follows thereafter.

6.2 SUMMARY OF FINDINGS

In the process of satisfying and achieving the objectives of this study, the following observations were made;

- Looking at the relationship between the three cost categories of all the programs analysed show that in most programs, there was an indirect relationship between personnel and activity cost. In most programs, when the personnel cost increased, the

activity cost decreased and vice versa. In most programs, the personnel cost made up the biggest portion of the total program cost, although over the three years the cost on personnel kept reducing, and the activity costs kept increasing. This may mean that the estimates for activity cost were commonly underestimated, leading to a steady increase over the three years.

- One of the factors that seem to have had an influence on the administration costs is that changes took place in both the number of personnel and the volume of activities. Depending on which is the core cost of the program, the administration costs seem to be influenced by what is happening to the core activities of the programs. In programs where a huge personnel force is required, a slight reduction or increase in the number of personnel had a great influence on the amount spent on administration. In programs where activities were the core function, a change in the volume of activities had a great influence on the amount spent on administration.

- The under- and over estimation of costs per year was also one of the factors which had an influence on the relationship between the three cost categories. Most programs seem to have overestimated personnel costs during the three years in question, therefore, as the years pass, the cost of personnel decreased steadily and the activity costs increased. This means that the estimates of costs of activities were underestimated most of the time. As the estimates of costs improve over the years, the portions of the cost categories changed to reflect a more realistic picture. This means that the activities which were carried out were limited to the amount which was underestimated thus limiting the progress made.

- Another factor is the limitation of funds to be invested in the administration function. In some programs, the donors may have put a limit on how much they will invest in the organisation's administration functions. This kind of limitation may explain why some programs' administration costs made up such a small portion of the program's total costs. This limitation may result in an improper administration of that particular program and force the organisation to cover any shortfalls of the program's administration cost

from its own funds. In cases where an organisation does not have its own funds, this limitation could have a significant negative impact on the success of the program.

- Donor funds should be allocated to a program's main activities. If the program's core function is personnel costs, then under-estimating this cost category can result in overworked and unhappy personnel who are reluctant to perform their duties properly. This can ultimately lead to program failure. An over-estimation of personnel cost could lead to unnecessary personnel expenses.

- Under-estimating the cost of activities can be a serious problem because this can either result in some activities not being performed at all, or activities being performed poorly. It is not always easy for an organisation to shift funds between cost categories during a particular year, but a reallocation can usually be budgeted for in the next financial year. This means that if an activity is under budgeted, it will only be allocated more funds in the next budget. It is therefore crucial to ensure that the most accurate cost estimates of the program's activities are made. Inaccurate cost estimates may result in targets not reached in a particular year, which in turn slows down the achievement of the program's overall goals.

- It is also important that both the organisation's and the program's administration costs stay reasonable to ensure that both run smoothly. Donors do not want to see most of their funds invested in the administration functions because they want their funds to be used on an activity that will deliver service to the intended beneficiaries. Donors therefore keep a close eye on the administration cost ratio of the organisation as a whole and of the program.

- Analysing whether or not the organisation is self sustainable without donor funding, by using the self sufficiency and the earned income ratios to assess the sustainability of the organisation shows that only few organisations were self sustainable. Organisational sustainability is important because it can have a negative impact on programs should the organisation relay entirely on donor funded programs. This means all cost incurred have to be covered by the donor funded programs.

- Determining whether donor funds were utilised for intended purposes or not, the administration cost for each program was used to highlight how much the program's funds was spent on the programs' administration costs. A few organisations were found to have their program's administration costs making up more than 30% of the program's total cost, and a few had their administration costs making up less than 10% of the program's total cost. If the administration cost is too high then it means fewer funds for the personnel and activities, which could compromise the program's performance. A little investment in the administration activities could also have a negative impact on the program's performance.

6.3 STUDY LIMITATION AND RECOMMENDATIONS

The following limitations were encountered during the execution of this study.

6.3.1 Study limitations

- There were line items which were difficult to categorise into the three cost categories. Therefore personal judgement was used to categorise them.
- Some of the programs that were assessed had a life span longer than three years. Therefore the whole picture of the program's spending trend may not have been captured.
- The sample for this study was limited to those organisations that were registered with Namibian Non-Governmental Organisation Forum (NANGOF). Therefore the results may not be applicable to NGOs in other countries.
- The sample for the study was limited to those organisations whose head offices were based in Windhoek at the time the study was conducted. Therefore the results may not be applicable to all NGOs outside Windhoek.

6.3.2 Recommendations

For the purpose of further studies on this same topic, the following would be recommendable to ensure a more effective, clearer, in-depth study:

- *Research concentrate on a smaller sample size to acquire better in-depth information that is specific and manageable to an extent that the researcher is able to study each organisation to a desired or intended extent.*
- *A focus on financial ratios will provide a better understanding and accurate assessment of the organisational sustainability for NGOs.*
- *A focus on the fluctuation in the administration ratio alone would be informative and would interest both donor agencies and their recipient organisation.*
- *The researcher should select only those organisations that do not wish to remain anonymous, waive the confidentiality clause, and are willing to collaborate throughout the study. This kind of flexibility will eliminate some assumptions which had to be made during this study. The researcher will be able to acquire more information which could lead to a much more specific assessment without having to withhold so much information about the organisations.*

6.4 CONCLUDING REMARKS

This study has explored the various factors that affect the relationship between the three cost categories of donor funds. The study highlighted how these factors could have an impact on the overall program goals and an organisation as whole. It also assessed whether donor funds were used for their intended purpose. The study also looked at the possibility of any of the selected organisations being able to continue their operations in the absence of donor funding.

In all the cases, it was found that all programs spent their funds for the purpose for which the funds were initially provided. The fluctuations that were found were due to various reasons such as under- and over-estimations of cost. Because the assessment for self

sustainability was conducted on the organisation as a whole, most organisations were not found to be self sustainable and would close down if donors were to withdraw their funds. An organisation's ability to sustain itself greatly depends on its ability to generate its own income.

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APPENDIX A

-Ratios for the assessment of organisational sustainability of NGOs

	Ratios	Administration Cost Ratio (ACR)	Self Sufficiency Ratio (SSR)	Earned Income Ratio (EIR)	Current Ratio (CR)	Personnel Cost Ratio (PCR)
A	2009	14%	15%	13%	3.85	38%
	2008	12%	11%	12%	0.97	37%
	2007	19%	12%	13%	3.71	43%
B	2009	12%	8%	8%	5.07	53%
	2008	14%	4%	4%	1.15	53%
	2007	14%	4%	7%	1.12	58%
C	2009	14%	21%	17%	0.54	50%
	2008	17%	16%	13%	0.50	46%
	2007	13%	37%	31%	0.22	44%
D	2007	29%	54%	59%	0.29	32%
	2006	39%	62%	38%	0.38	17%
	2005	44%	26%	27%	0.15	11%
E	2010	34%	31%	28%	12.58	51%
	2009	29%	49%	39%	10.11	48%
	2008	34%	46%	67%	3.41	51%
F	2009	30%	70%	81%	0.30	57%
	2008	25%	88%	95%	0.43	53%
	2007	41%	87%	92%	0.73	47%
G	2009	18%	5%	5%	1.50	51%
	2008	19%	18%	13%	2.19	57%
	2007	16%	5%	5%	0.42	60%
H	2009	20%	5%	7%	392.54	30%
	2008	19%	3%	3%	255.78	30%
	2007	22%	8%	6%	361.27	27%
I	2009	15%	1%	1%	4.39	30%
	2008	16%	2%	2%	2.53	26%
	2007	13%	2%	2%	46.18	35%
J	2009	5%	3%	5%	53.30	3%
	2008	7%	0%	0%	42.68	4%
	2007	11%	6%	3%	36.03	10%
K	2009	32%	4%	16%	22.42	32%
	2008	34%	5%	4%	14.53	32%

	Ratios	Administration Cost Ratio (ACR)	Self Sufficiency Ratio (SSR)	Earned Income Ratio (EIR)	Current Ratio (CR)	Personnel Cost Ratio (PCR)
	2007	40%	6%	6%	1.68	53%
L	2009	16%	1%	1%	2.91	22%
	2008	21%	2%	2%	6.16	30%
	2007	13%	1%	1%	7.62	27%
M	2008	12%	11%	12%	0.97	37%
	2007	19%	12%	13%	3.71	43%
	2006	33%	16%	12%	14.22	30%
N	2008	36%	18%	24%	50.39	43%
	2007	28%	18%	13%	132.93	29%
	2006	25%	11%	8%	117.86	58%
O	2008	21%	6%	6%	4.52	48%
	2007	15%	10%	10%	3.36	58%
	2006	14%	19%	18%	3.47	51%
P	2009	13%	19%	18%	0.55	39%
	2008	14%	15%	10%	0.43	38%
	2007	14%	41%	33%	0.25	45%
Q	2007	14%	21%	16%	0.48	49%
	2006	18%	16%	10%	0.32	44%
	2005	14%	37%	31%	0.23	40%
R	2005	38%	19%	17%	50.93	47%
	2004	28%	20%	16%	71.09	31%
	2003	26%	11%	8%	84.62	60%
S	2005	36%	22%	20%	42.26	50%
	2004	24%	17%	15%	55.32	40%
	2003	25%	14%	9%	70.00	62%
T	2005	28%	2%	1%	3.09	37%
	2004	22%	2%	2%	6.76	33%
	2003	17%	1%	1%	6.87	33%