

# FINANCIAL SUSTAINABILITY OF NONGOVERNMENTAL ORGANIZATIONS IN NEPAL A QUALITATIVE STUDY

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## Abstract

This paper explores the financial sustainability of Nepalese NGOs, drawing insights from the resource dependency theory. The primary data were collected from the key informant interviews (N=15) with executives of development NGOs. The data were analyzed thematically based on Braun and Clarke's (2006) framework using NVivo software. The findings showed that internal funding sources could not support NGOs financially. They were found to have suffered from resource constraints due to a decline in external funding opportunities. NGOs also appeared weak in adopting strategies necessary to maintain financial sustainability. The findings indicated the possibility of further resource constraints if the government and NGOs do not consider diversifying funding sources. Future studies should explore the internal financial management strategies of NGOs for maintaining their financial sustainability by employing case studies.

**Keywords:** *NGOs, internal resources, external resources, financial sustainability, Nepal*

## Introduction

Although the history of voluntarism and voluntary organizations has existed for hundreds of years (Clarke, 1998; Fernando & Heston, 1997), "the concept of NGOs emerged when many colonies and territories were seeking their independence from colonial powers ... during the transition from colonial rule to self-rule" (Taylor, 2013, p. 614). Once the term NGOs was first officially used in the Charter of the United Nations in 1945 (Clarke, 1998; Fernando & Heston, 1997), they gradually became new actors in international development discourse and the developing world.

International donor agencies, governments, and policymakers realized that traditional

development strategies in the 1970s failed to address the poor living conditions in developing countries (Midgley, 2003). Since then, they have emphasized the roles of nongovernmental organizations (NGOs) in development, and NGOs have gradually emerged as a development phenomenon (El-Gack, 2016). The NGO sector gained strength at the beginning of the 1990s (Micah & Luketero, 2017) once development aid agencies began to channel their aid through NGOs in developing countries like Nepal. The government of Nepal (GoN) defines NGOs as private, non-profit-making, and politically neutral organizations carrying out programs to support public importance (National Planning Commission [NPC], 1992). In Nepal, voluntary organizations traditionally focused on achieving social development goals through welfare approaches (Neupane, 2002). However, the emergence of modern NGOs is a more recent development (Rijal, 2004). The democratic political system implemented in 1990, the establishment of the SWC in 1992, policy reforms, and a liberal political and administrative environment have all contributed to the growth and institutional development of NGOs and INGOs across various sectors of development (NPC, 1997).

The GoN has implemented a policy to utilize foreign development aid through NGOs to support its national development priorities (Ministry of Finance, 2019). According to the SWC website, as of July 14, 2021, 51,513 NGOs and 230 INGOs were affiliated with SWC (SWC, 2021). The NGO sector has become a crucial player in national development (Neupane, 2002), and NGOs have been actively involved in national development efforts (SWC, 2021).

NGOs primarily rely on volunteers and voluntary contributions (Stirrat & Henkel, 1997). However, they also need to hire paid staff as they grow (Anheier, 2005) and require consistent funding to carry out their work effectively (Alcock, 1996). Every stakeholder in the society bears equal responsibility for balancing progress and quality of life (Gautam & Thapa, 2023). Therefore, like private and government agencies, NGOs depend on financial resources to achieve their objectives (Zaharrudin et al., 2018).

Three sources of NGO funding are reported in the extant literature: private donations, government grants, and revenue generated from commercial activities (Froelich, 1999; Hodge & Piccolo, 2005; Khieng, 2014). Private donation is the dominant form of NGO funding strategy (Hodge & Piccolo, 2005). NGOs operating in developing countries obtain funds and projects from external donors and INGOs (El-Gack, 2016; Islam, 2014). However, such external resources may not be a reliable and sustainable source of NGO funding (Hodge & Piccolo, 2005).

The government also provides funds to NGOs to encourage them to support its priority areas. The government funding to NGOs is based on the assumption that “organizations

that wish to secure funds in the future might decide to avoid running the risk of ‘biting the hand that feeds them’ (Crepaz & Hanegraaff, 2020, p. 382). Thus, it is expected that government funding may lead to better collaboration between the two sectors.

A variety of commercial activities have gained increasing popularity as a source of NGO funding (Froelich, 1999). The underlying wisdom is that NGOs need to be self-reliant, maintain organizational autonomy, and sustain their programs over time to engage in social enterprises (SEs) (Stirrat & Henkel, 1997). Similarly, it is argued that NGOs must be entrepreneurial and utilize several sources to generate sufficient resources (Denison, et al., 2019). In their recent study, Farinha, et al. (2020) found that NGOs need to be more entrepreneurial in providing and promoting social services. In this regard, social entrepreneurship has been one of the emerging discourses for NGO funding.

In the case of Nepal, in its thirteenth periodic plan, the GoN adopted a policy to reduce the dependency of NGOs on foreign donors and encourage them to generate a domestic source of funding (NPC, 2014). The government also claims that NGOs have gradually gained corporate earnings and mobilized internal financial resources to become self-sustaining (NPC, 2016). However, NGOs still seem to lack sustainable funding to continue their operations.

Funding matters for all types of organizations for their smooth operations. Thus, NGOs should have sufficient annual revenue to continue their operations and fulfill their missions (Denison et al., 2019). Financial sustainability focuses on the diversity of funding sources (Alymkulova & Seipulnik, 2005). As NGOs’ financial sustainability is often threatened by a lack of regular sources of funding (Chepkemoi & Njeru, 2017), diversity in funding might ensure their financial sustainability.

Local governments allocate a portion of their budget to NGOs for small-scale development projects (Thapa & Malla, 2002). The government has implemented policies to utilize international development aid through NGOs to improve the quality of life for marginalized communities (Ministry of Finance, 2019). In the thirteenth plan, the government aimed to reduce NGOs’ dependence on foreign donors and encourage them to generate revenue within the country (NPC, 2013). The government also stated that NGOs have gradually generated income and used internal financial resources to become self-sustainable (NPC, 2016). Therefore, NGOs must maintain relationships with external donors and government agencies to meet their funding needs for their financial.

In their study (Arhin, et al, 2018), the NGOs’ financial sustainability was measured by a framework. The framework consists of six strategies: eggs-in-multiple-baskets, cost-cutting, strength-in-numbers, security-under-partnership, credibility-building,

and visibility-enhancing. It suggests diversification of funding sources, efficient use of resources, engagement in coalitions among NGOs, long-term working relationships with resource providers, making organizations trustworthy, and promoting public image for maintaining NGOs' financial sustainability.

Several studies (such as Arhin et al., 2018; Chepkemoil & Njeru, 2017; El-Gack, 2016; Farinha et al., 2020; Froelich, 1999; Islam, 2014; Shava, 2020) have explored financial matters of NGOs. However, there is a dearth of scholarly works on NGOs' financial sustainability in the Nepalese context. This study attempted to fulfill this gap by seeking to answer the following two questions:

1. **What is the situation of NGO funding in Nepal?**
2. **How far are Nepalese NGOs financially sustainable?**

## **Theoretical framework**

This study is informed by resource dependency theory (RDT) developed by Pfeffer and Salancik in 1978 (Shava, 2020). The RDT holds that the need for resources makes organizations more dependent on the resource providers (Pfeffer & Salancik, 2003). It assumes that "organizations experience dependency when they require resources found outside their organizations, thereby creating a management issue for addressing those external dependencies" (Shava, 2020).

The resource constraints are more complex in developing countries than in developed ones, and NGOs strive to survive by obtaining new and harvesting existing resources (AbouAssi, et al., 2021). The RDT is appropriate to understand how NGOs obtain resources, how resource providers exercise control over dependent NGOs, and what strategies NGOs adopt to protect their autonomy (Arhin et al., 2018). This paper demonstrates how NGOs depend on resource providers to continue their operations.

## **Methodology**

The study employed a qualitative research approach to explore and describe NGOs' financial sustainability based on respondents' experiences from a small sample (Leavy, 2017). In the study, primary data were collected from the executive heads of foreign-funded development NGOs implementing programs inside ( $n = 8$ ) and outside Kathmandu Valley ( $n = 7$ ) in five thematic areas: education, health and sanitation, poverty and livelihoods, women and children; and community empowerment. NGOs and their executives were sampled purposively by employing the principle of maximum variation based on their programs, gender, and localities, as mentioned in the project approval record of the SWC in the fiscal year 2077/078 BS (July 15, 2020, to July 14, 2021). Patton (2015) notes that the maximum variation sampling strategy is appropriate for selecting a small sample from a larger heterogeneous population to make the sample more representative.

The data were collected by using semi-structured interviews. Ten of the executives were interviewed face-to-face, while five were interviewed virtually between April and July 2021. The executives were duly informed about the study's purpose and the confidentiality of their responses. Codes NGO executive 1 NE1, NE2...NE15 was used to identify each executive to protect their identities. Audio-recorded interviews were transcribed verbatim and analyzed thematically using the framework suggested by Braun and Clarke (2006) employing NVivo software.

## **Findings of the study**

This section presents the respondents' views, experiences, and perceptions based on the major themes related to the research questions.

### **RQ 1: What is the situation of NGO funding in Nepal?**

The analysis of responses regarding NGO funding sources generated three themes: internal sources, external donors' funding, and alternative funding sources.

#### **Internal sources**

NGO executives shared that locally based NGOs may mobilize voluntary contributions and financial resources within the community. Two executives stated that due to the lack of capacity and access to external donors, locally operating small scale NGOs mobilized resources and voluntary contributions by performing social, cultural, and religious activities to fulfill their financial needs (NE1 & NE5). However, in their view, such local resources were nominal for several reasons. First, "there is no common practice of employing volunteers and voluntary contributions in community works in Nepal" (NE9). Second, "about 95 percent of the community members think that NGOs should do everything" (NL13). Third, "the government has imposed several obstacles such as tax, VAT, and police reports over locally based small NGOs impeding their motivation to work voluntarily and mobilize local resources" (NE15). These quotes indicate that voluntary contributions from the community were nominal for NGO funding.

The respondents' views contradicted that voluntarism is the prevailing practice in NGO operations (Hall & Midgley, 2004) and that NGOs rely on voluntary support from the community (Bratton, 1989). These findings suggest that voluntarism is not prevalent in the community.

Regarding government funding, two executives commented that only a few ministries and local governments are interested in carrying out their programs through NGOs and may provide up to NPR 50,000 per year (NE5 & NE8). Although the local governments (i.e., municipalities) often carry out small-scale programs through NGOs, local government, in the views of NGO executives, were unable to maintain fairness and

justice in mobilizing their resources because of the “lack of clear policies and criteria” (NE1), “influence of few individuals who serve as mediators between government officials and NGOs” (NE3), and “funding based on personal and political links with local governments” (NE5).

Four executives (NE1, NE6, NE12, and NE14) revealed several malpractices in mobilizing government funds. They shared that individuals closely linked with elected political leaders and municipalities may register NGOs. Elected political leaders would also suggest their favorites to register NGOs. Thus, NGOs linked with politicians and government authorities often obtain government-funded projects. Their views revealed why individuals register NGOs and how government officials utilize their funds to fulfill their vested interests. A study by Jamil and Dangal (2009) in Nepal supported executives’ opinions, revealing that favoritism towards a specific group was prevalent because family, personal, and social relationships were misused to obtain undue advantages and privileges from government authorities.

#### External sources of funding

According to the NGO executives, bilateral donors and INGOs were the primary sources of funding. An executive estimated that “more than 80 percent of NGOs obtain resources from donors and INGOs” (NE15). However, another executive criticized the government for not acknowledging the importance of the external sources of NGO funding and said, “The government does not realize that if NGOs implement donor funded projects, it assists national development efforts” (NE10). Likewise, two executives (NE15 and NE5) revealed several hidden malpractices. They shared that government bureaucrats dealing with foreign-funded projects tended to maintain relationships with donors, INGOs, and NGOs to engage in the NGO sector after their retirement. Their previous relationship can influence donors to mobilize their funds to favor themselves and their favorites. These findings are similar to previous studies conducted in Uganda and Cambodia (Khieng, 2014) and Haiti (Dietrich, 2013). Mobilizing external funds can involve malpractices when acquiring external resources becomes unmanageable, complicated, and time-consuming (Barr et al., 2005).

NGO executives also pointed out several limitations of donors’ funding, particularly raising the issue of institutional development costs. For example, three executives (NE2, NE10, and NE14) shared that donors often provided funds for carrying out projects and only bore administrative and operating expenses. Therefore, many NGOs may not have funds to support their daily expenses after completing their projects and may not continue their operations beyond the project cycle. NGO executives were dissatisfied with the donors as previously they used to provide 10 percent of the project costs as institutional development costs. As a result, NGOs now often face financial difficulties



after completing their projects.

## **Alternative sources**

When respondents were asked about the situation of internal sources, they highlighted two possible alternative sources: government funding and social enterprises (SEs), referred to as semi-commercial and income-generating activities, as discussed in this section. Scholars (e.g., Anheier, 2005; Froelich, 1999; Hodge & Piccolo, 2005; Khieng, 2014) also emphasized government for specific programs and semi-commercial activities of NGOs as sources of NGO funding.

Government funding: NGO executives opined that government funding might be a sustainable source of NGO funding. They believed that if the enormous resources of local governments were mobilized by utilizing NGOs' experience, expertise, and capacity, better results could be obtained. For example, two executives (NE6 and NE7) stated that government agencies had substantial financial resources but seemed to lack clear ideas, policies, and programs to utilize their funds. Thus, if government agencies identify genuine NGOs facing financial difficulties and collaborate, NGOs can make a difference and not depend on external donors.

Similarly, two other executives, NE8 and NE9, also stressed that local governments have not utilized their allocated funds, often frozen at the end of the fiscal year. Elected representatives also shared with them that the government cannot utilize resources themselves. They were concerned with how to finish their budget rather than how to use their funds effectively. The executives' views highlighted that local governments, particularly municipalities, were facing problems utilizing their funds. In such a situation, it would have been better to funnel the resources through NGOs that can utilize government in the interests of target groups, the NGO executives thought.

Concerning the NGO executives' opinions, the government authorities may hesitate to work with NGOs if they mistrust and misunderstand NGOs and show their opportunistic behaviors (Nahapiet & Ghoshal, 1998). Similarly, if NGOs lack institutional linkages with government agencies, they may fail to achieve financial support from the government (Ostrom & Ahn, 2009).

Likewise, two executives (NE15 and NE12) suggested that if local governments adopted policies and programs to mobilize community members to develop their infrastructure through NGOs, NGOs would not need to search for external donors for funding. The government can adopt specific mechanisms to provide funds and work with NGOs. NGO executives tended to believe that government funding might be one of the regular sources of NGO funding. However, they were aware that the government had no such policy and, perhaps, ideas to work with NGOs. They pointed to government municipalities for misusing their resources in the name of development.

Social enterprises: Five executives, NE15, NE4, NE5, NE11, and NE12, viewed that engaging in social enterprises is the best option for NGOs to generate funding in Nepal. Three executives mentioned that NGOs need to engage in social business to maintain their financial resources. They should mobilize, utilize, and capitalize on internal resources and search for marketing for their self-sustainability (NE4, NE12 & NE12). Likewise, another executive further elaborated on the contributions of SEs as illustrated below:

NGOs can generate income employment, mobilize local resources, and utilize such funds for social welfare activities through social entrepreneurship. If they have resources internally, they can sustain their social services and do everything because they have expertise, knowledge, and experience. (NE10)

In line with the NGO executives, scholars assert that NGOs should seek SEs and engage in income generating activities for their regular and sustainable internal funding sources (Denison et al., 2019; Khieng, 2014; Zaharrudin et al., 2018).

Although seven NGO executives (NE1, NE3, NE4, NE5, NE10, NE11, and NE12) stressed SE as the primary alternative funding for NGOs to avoid dependency on external donors, maintain their financial sustainability, and deal with financial uncertainty, they also noted that government policy and legal restrictions were preventing NGOs from engaging in SEs. Three executives (NE1, NE5, and NE12) stated that NGOs could not engage in profit-making enterprises under existing government policies and laws. So, they suggested that the government should redefine NGOs as social organizations to allow them to engage in SEs without the provision of distributing the profit among members like cooperatives. The current definition of NGOs as nonprofit organizations, in their views, restricted NGOs from engaging in SEs.

According to Coston (1998), government authorities considered NGOs as rivals and competitors due to their refusal to accept institutional pluralism. Additionally, the government policy aimed to promote self-sufficiency by encouraging them to generate internal financial resources (NPC, 2013), and the claim made by the government that NGOs were mobilizing internal resources to achieve self-sustainability (NPC, 2016) was seen as a political rhetoric.

## **RQ 2: How far are Nepalese NGOs financially sustainable?**

The following sections illuminate the NGO executives' views on the availability of financial resources and financial sustainability.



## The financial situation of NGOs

While talking about the financial situation of NGOs, respondents revealed several ground realities. First, one NGO executive revealed that “genuine NGOs working at the local level lack financial resources, the government funding is nominal, and only a limited NGOs having access to external funding are operating smoothly” (NE5). Second, some NGOs discontinue their operations when they stop receiving “funds from the government and donors” (NE6), as indicated in the fact that “of about 230 INGOs in Nepal, more than 100 INGOs completed their projects and discontinued their works,” stressing that “the financial situation of NGOs is like a balloon” (NE11). Third, “NGOs genuinely working for women, children, and their welfare at the local level, were unable to “obtain support from donors, INGOs, and the government” (NE9). The quotes underscore the possibility of a financial crisis if external donor agencies did not support NGOs.

Regarding the financial situation of Nepalese NGOs, Khieng’s (2014) study has suggested that these NGOs face a financial crisis when they heavily rely on external donors for funding if their donors encounter financial constraints. The reliance on external donors discourages NGOs from establishing a robust local resource mobilization base (Dupuy et al., 2015). Consequently, when the availability of external funds decreased, it deepened the financial crisis for externally dependent Nepalese NGOs.

NGO executives identified several obstacles hindering access to resources. The first was the restrictive policy adopted by the government “to mobilize external funds to implement donor-funded programs resulted in fear and confusion among donors and uncertainty over external funding in the future” (NE12). Second, the funding was based on the interest of external donors. One participant stated, “External donors may provide funds until they wish to assist. If they are not satisfied with us, they may not provide funds” (NE15). Third, the donors could not support NGOs because they “have suffered from financial crisis themselves, and may not have priorities to assist us” (NE11). Fourth, hindering factors were the “donors’ funding based on their short-term interest” and their lack of “concerns over the sustainability of their partners” (NE6). These quotes truly reflect the ground reality of the NGO funding situation in Nepal, indicating the need for the stakeholders’ collective responsibility to think about NGOs’ future financial sustainability.

## Financial sustainability

In the given situation, the researcher was interested in exploring whether NGOs adopted strategies such as resource diversification, cost-cutting, forming NGOs alliances, long-term collaboration with donors, and building credibility and public image to maintain financial sustainability.

When asked about the possibility of their resource diversification, NGO executives said that the diversification of sources for funding NGOs was rare. First, they “rarely employ and mobilize volunteers to support them” (NE9). Second, government funding seemed to be a token that assisted small-scale NGOs to survive only a few months (NE5 & NE8). And lastly, “the existing legal framework does not allow them to generate income” (NE5). Therefore, it was found that resource diversification has become a complex problem due to the lack of alternative funding sources.

Reducing unnecessary costs and their operations were the strategies to manage financial resources. So, when talked about their strategies to deal with resource constraints, one executive said, “I remember, previously, we used to have 28-30 donor funded projects and used to implement them in several districts. This year, we are implementing seven projects in five districts” (NE4). One executive shared that they used limited resources to perform several functions, as shown in the following quote.

We locally based NGOs often face financial difficulties. So, executive members receive only monitoring and traveling expenses if we go to the fields. If donors provide institutional development costs, board members obtain nominal expenses and utilize such funds to implement programs in the future. (NE9)

However, except for a few, most of the NGO executives did not mention specific strategies for the efficient use of their available resources to deal with resource constraints. When respondents were asked about their relationship with other NGOs and forming alliances to mobilize funds from donors, one respondent noted “the competition among NGOs because they seek more resources than others” (NE15) and wanted “to lead separate organizations to be leaders within the NGO community and donors” (NE5). Poor relationship among NGOs is also reflected in the following quote:

In our network, there were 20 NGOs, then reduced gradually to 15 and, at present, seven NGOs. If new executives are appointed, our relationship with them may differ. In particular, resourceful NGOs with good relationships with high-level government officials and key resource providers tend to work alone. NGOs maintain secrecy in their linkages with donors because they fear other NGOs can keep their relationship and access resources. (NE3)

The quote provides important insights into how NGOs view their counterparts and hold self-interested behaviors on funding matters. Rather than forming alliances, it seemed they were motivated by self-interest and tended to maintain secret relationships with donors. Long-term working relationships with donors were meaningful for NGOs to obtain resources in the future. In this regard, an executive revealed the hierarchical and conflictual relationship as shown in the following quote:

The officials of donor agencies often show their arrogant behaviors toward us. They often feel they are donors, have power, and control resources. Usually, NGOs remain closed on Saturdays and Sundays. However, they unnecessarily direct us all days and all times, early morning and evening (NE5).

Similarly, another executive criticized donors for providing funding to NGOs not working in the relevant field:

Donors may provide their projects to their pocket NGOs. Our organization has also suffered from such behaviors. Previously, a donor provided a women empowerment project to an organization working in the mass media. We formed a committee, lobbied against the donor, published it in the newspaper, and revised its previous decision. Not only INGOs but such practices are also common in the UN agencies. (NE4)

NGO executives' views indicated that a conflictual situation between donors and NGOs impeded their long-term relationships. One executive revealed that "when I was affiliated with regulatory agencies, a few complaints were also registered claiming that NGO selection by donors was not fair and requested to solve their concerns by reviewing the process" (NE15). Although NGOs are implementing their programs in collaboration with donors, their relationships are short-term, and there might be possibilities of hostilities between them. Similarly, NGOs' credibility was vital to obtaining support from funding agencies, as can be inferred from the following quote:

We obtain funds and other assistance only from those individuals, organizations, and external donors who independently judge our work and trust us. For example, two foreigners working in Nepal Scout and prison homes observed our work for several years. As a result, they assisted us in mobilizing external funds after the earthquake in 2015. Once we received funds, we grew up gradually. (NE3)

Despite their awareness of credibility, they asserted that their credibility has deteriorated in recent years due to several malpractices and previous scandals within the NGO sector. For example, one executive opined that "a few politically motivated NGOs misused donors' funds in the past. Due to a few scandals, manipulation of funds, and lawlessness within the NGO sector, negative perceptions towards NGOs still exist" (NE5). Likewise, another executive shared an experience in which "a team of NGO executives, including me, went to inform and discuss our problems with the authorities and political leaders of the Ministry of Social Welfare. Instead, the cabinet minister directly blamed and said NGOs sell children" (NE3).

The quotes illustrated that NGOs' activities might have hindered their credibility and

raised the question of why government authorities hold such attitudes and why the minister blamed NGOs. However, when asked about their strategies to build credibility, it was found that such strategies were rarely employed. Instead, executives repeated that individuals register NGOs to earn monetary gains, and political leaders may assist a few politically motivated NGOs to engage in malpractices.

## **Findings and discussion**

This study explored how Nepalese NGOs manage their financial resources and whether they are financially sustainable. This section highlights results based on thematic analysis of data to answer research questions.

NGOs are primarily guided by voluntarism, and voluntary contribution is considered one of the funding sources. It was found that voluntary contribution has rarely been adopted in the NGO sector. It seemed that local governments' funding was nominal, and if local governments utilized their resources through NGOs, it might assist NGOs in dealing with financial constraints. These findings coincide with the view of Froelich (1999) and Khieng (2014). They asserted that government agencies themselves primarily rely on external donors in developing countries, and their funding strategies may vary with the changes in political leadership and public policy. Islam and Morgan (2012) also found that lack of government support impeded NGOs' interventions in social development in Bangladesh.

The study demonstrated that although self-generated income was considered the most viable option for NGOs to deal with external dependency (Shava, 2020), the NGOs were restricted from engaging in such income-generating activities because they are defined as nonprofit organizations. Therefore, in the current situation, internal funding sources do not appear to provide sustainable financial support to NGOs, leading them to depend on external donors and INGOs. These findings affirm the results reported by AbouAssi et al. (2021) and Bowman et al. (2021). They found that the challenges of resource dependence were more intensified in developing countries due to the limited internally available resources to NGOs.

The study found that internal resources were limited, and external resources did not seem to be in easy access to NGOs, complicating their financial sustainability. Further, the findings demonstrated that large-scale NGOs primarily depended on external resources, particularly INGOs, for their funding. Previous studies have revealed several impacts of the external dependency of NGOs for resources. First, over-reliance on donors may result in "slave-master" relationships between NGOs and donors (Shava, 2020) because NGOs must fulfill the priorities of donors (El-Gack, 2016). Such donor-controlled preferences might gradually deteriorate and undermine their existence (Garilao, 1987) and reduce

their flexibility to be innovative social organizations (Edwards & Hulme, 1996). For example, El-Gack's (2016) study conducted in Sudan found that NGOs dependent on external resources could not play effective roles in development.

Findings also indicated that donors might not consider NGOs' experience, expertise, and capacity in their funding decisions and were suffering from project-based funding. NGOs often perceived that donors tended to pressure them unnecessarily even though they were implementing their projects honestly. A study by Shava (2020) in Zimbabwe reported similar findings where NGOs struggled to maintain a good relationship with donors. The study revealed that most NGOs lagged behind in diversifying their funding strategies for reducing external resource dependency. These findings do not affirm Arhin et al.'s (2018) findings, showing that NGOs were searching for diverse funding sources and models of resource mobilization and adopting efficient management and procedures for dealing with financial constraints.

The executives highlighted that NGOs competed with each other for more funds rather than engaging in coalitions to seek financial resources collectively and through long-term strategic partnerships with their resource providers. Such competition may result in hostility, reducing their credibility and public image. Contrary to these findings, the study of Ghanaian NGOs (Arhin et al., 2018) showed that coalitions among NGOs, deepening relationships with donors, enhancing credibility, and promoting public image through radios and bulletins were common strategies of NGOs in response to the financial uncertainty and constraints.

Another study by Alymkulova and Seipulnik (2005) reported those local and flexible funding sources, information sharing, capacity building, financial accountability, marketing of activities, and corporate planning assisted NGOs in reducing their external dependency and promoting self-financing. However, NGOs involved in this study rarely used such strategies for financial sustainability. From the RDT perspective, financial constraints and dependency on external resources affected NGOs and their operations.

In such cases, as Mitchell (2014) pointed out that, NGOs might be compelled to adopt business-oriented activities, may not adopt innovative programs leading to goal displacement, manipulate their programs in line with the donor's preferences, and finally lose their identity as NGOs.

## **Conclusion**

The proliferation of NGOs has been a common phenomenon in Nepal because the government has adopted a policy to consider NGOs as development partners to fulfill the needs of marginalized communities. However, when the number of NGOs increases constantly, it leads to competition among themselves for resources. Such a competition would decrease the opportunities to obtain resources from donors and condone

malpractices in funding matters. In addition, NGOs may face a further financial crisis if they do not have access to opportunities to mobilize internal resources. Due to the scarcity of funding opportunities, NGOs may become financially vulnerable.

In addition, maintaining financial sustainability appears to be a complex issue for NGOs in Nepal due to legal restrictions for them to engage in SEs, lack of government support, decrease in external funds, and NGOs' poor resource management strategies. Thus, the government, NGOs, and stakeholders need to rethink to diversify funding resources to ensure effective NGO operations so that they can contribute to development. Local governments should recognize trustworthy NGOs in their areas, appreciating their knowledge and practical experience in addressing community issues by providing financial assistance to support the NGOs' development endeavors. To enhance efficiency in the NGO sector, the government should introduce a new NGO act permitting them to participate in SEs and utilize their surplus for the betterment of society.

Despite the useful insights drawn from the study, its limitations need to be acknowledged before making any generalizations. This study involves only the views of a limited number of NGO executives working in five thematic areas. Thus, future studies should explore how NGOs working in several areas address financial constraints and their financial positions through individual case studies and review of their internal financial management system.

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