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Effect of Climate Investment Funds on Financial Sustainability of Selected Non-Governmental Organisations in Kenya

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Abstract

Despite the global shift towards sustainable financing, green financing accounts for less than 10% of total NGO funding in Kenya, underscoring a significant gap in the adoption of environmentally aligned climate investment funds strategies. This study seeks to examine the effect of climate investment funds on the financial sustainability of registered project-based NGOs operating in Nairobi, Kenya, particularly those engaged in poverty alleviation and development. The study was anchored on the Theory of Change. Guided by a positivist philosophy and a descriptive research design, the study targeted 114 project-based NGOs headquartered in Nairobi, selected from the 161 listed by the National Council of NGOs, using Fisher's (1983) formula to determine sample size. Data was collected using structured questionnaires. Pilot study was undertaken at Hope in Action Association-Kenya to ensure appropriatness of the data collection instruments. The correlation and regression analyses revealed that climate investment funds significantly influenced the financial sustainability of NGOs in Kenya. Climate investment funds showed moderately strong correlations with financial sustainability, emphasizing their role in diversifying income streams, enhancing resilience, and attracting donor confidence. Regression analysis confirmed that climate investment funds significantly impact NGO financial performance, explaining 33.2% of the variation. The study concludes climate investment funds significantly boost NGO sustainability in Kenya. Climate investment funds provide both financial and strategic opportunities, enabling NGOs to align with global sustainability agendas while improving operational efficiency. The study therefore recommends NGOs and policymakers to adopt comprehensive, diversified, and well-regulated climate investment funds to secure both financial resilience and environmental impact.

Keywords: *Climate investment funds, financial sustainability, non-governmental organisations, Kenya.*

1.0 Background of the Study

Globally, non-governmental organizations depend significantly on grants and donations from their traditional sources, including governments, philanthropic bodies, as well as international aid organizations. This form of funding has, over the years, enabled non-governmental organizations to carry out their activities at the community level, including advocacy, as well as emergency relief operations, across a broad range of sectors (Zheng & Siddik, 2022). Nevertheless, the changing face of the global financial environment has significantly impacted the reliability of the traditional sources of non-governmental organization funding. A combination of economic recession, inflation, as well as changes in geopolitical dynamics has forced many of these bodies to withdraw their support. This has, therefore, created a state of uncertainty, which has significantly limited the ability of non-governmental organizations to carry out their activities.

The worsening global financial trend has greatly limited the donor funds available to non-governmental organizations (NGOs). As noted by Ibrahim (2021), there has been a reduction in international donor funds by over 20% in the last five years, which has had a direct impact on the operations and outreach activities of NGOs. The reduction in donor funds has forced many organizations to reduce their operations or even cease operations in some sectors, particularly in health, education, and relief efforts. In addition, administrative costs are on the increase while funds are on the decline, making it unsustainable for NGOs to operate. The reduced fiscal space is, therefore, having a negative impact on the policy influence and community mobilization capacity of NGOs. The traditional dependency on donor funds is, therefore, proving to be unsustainable in the current economic environment.

In response to these challenges, non-governmental organizations (NGOs) all over the world are looking for alternative forms of finance to ensure organizational sustainability. Some of the organizations are venturing into social enterprises, where any surplus revenues from goods or services are put back into the mission statements of organizations (Ramos & Oliveira, 2020). Other organizations are looking for impact investing, which enables them to attract finances from investors who are interested in social impact as well as financial returns. This gives more financial freedom to the organizations, which are not dependent on donor fatigue. However, this process needs a lot of capacity building, restructuring, and cultural change in NGOs. This is a hard process. In addition, these ventures are risky, which may not always generate returns to organizations, especially small to mid-sized organizations.

However, the smaller non-governmental organizations (NGOs), despite their potential to benefit from such developments in the non-profit sector, face a significant challenge in terms of the global realignment of donor priorities. This is because, as Thomson and Davey (2019) pointed out, the current global shift towards profit-oriented social investment practices favors well-established organizations with clear revenue generation potential. This is because smaller NGOs usually lack the necessary financial literacy and access to networks to benefit from these developments. Additionally, these organizations face a disadvantage in terms of funding priorities by agencies that favor data-driven approaches to problem-solving. This has created an unintentional consequence in which inequality is on the rise in the non-profit sector. While some organizations thrive in these conditions, others struggle to survive.

Thus, the emphasis in international development and non-profit financing is gradually being placed on sustainability, which is being achieved through innovation. In this regard, Smith (2022) notes that non-governmental organizations (NGOs) are being encouraged to develop business-like models to create their own sources of revenue, reducing their dependence on

donors and making them more resilient. Such a strategic shift is being viewed as critical to sustainability, particularly in the midst of global upsets like the pandemic, wars, and economic crises. The shift has also led to the creation of new partnerships between NGOs and business organizations, which has led to the creation of new forms of financing in international development. However, the transition has been characterized by challenges, with some being inadequately supported. Therefore, despite the changes in the sector, NGOs have to contend with a complex trajectory in achieving financial independence without compromising their missions.

Green finance covers investments and tools that back eco-friendly projects. These include green bonds, sustainability-linked instruments, climate funds, and renewable energy financing. Rising interest reflects recognition by investors and policymakers of environmental factors in financial choices. Such initiatives also mobilize private capital, vital for meeting UN sustainable development goals. Green bonds have gained strong ground in finance, funding projects with environmental benefits. As fixed-income securities, they are now the preferred option for sustainability-focused investors (Climate Bonds Initiative, 2021). Green bonds provide finance for a variety of projects that encompass renewable power projects, improving power efficiency, and constructing sustainable infrastructure. The green bond market has witnessed rapid growth, with global bond issuance totaling around $400 billion in 2021, indicating that there is a strong market for sustainable investment instruments (Rogers et al., 2022). This is not only a result of the change in investment trends but also a recognition of the financial risks that may arise from climate change (Schmidt et al., 2023).

In NGOs, financial sustainability means the ability to secure, manage, and use resources strategically to remain viable. This concept has been envisioned as a move towards financial sustainability by developing strategies to diversify financial resources and to develop buffers against potential financial shocks that may impact the organization in the future (Schmitz et al., 2019). Financial sustainability in the non-governmental sector would imply the capability to formulate strategies to ensure that program implementation is independent of the financial cycle. This concept would imply a continuum of financial sustainability.

Green finance rules are set by governments and regulators to drive sustainable investments and promote eco-friendly funding (UNEP, 2021). The rules and guidelines include taxation incentives, environmental reporting requirements, green bond frameworks, and complying with global climate change initiatives like the Paris Climate Change Agreement (OECD, 2022). In the case of non-governmental organizations (NGOs), the regulatory policies not only provide access to climate-related funds but also ensure accountability in line with global and national sustainability agendas (World Bank, 2023). By providing access to sustainable investments, these regulatory policies can enhance the capacity of NGOs to invest in sustainable projects like renewable energy and community development initiatives (Kim & Li, 2023). However, access to green finance relies on the clarity and consistency of regulatory policies in providing funds to support environmental initiatives. If the regulatory policies are clear and well defined, they can assist in streamlining access to capital for NGOs. However, if they are not well defined, they can limit access to funds by NGOs to achieve sustainability objectives.

Financial sustainability demands transparency and accountability in stakeholder communication, boosting performance and long-term viability (Zheng & Siddik, 2022). Organizations using green finance achieve stronger outcomes than those that don't (Fashli et al., 2019; Ringel & Mjekic, 2023; Zhou et al., 2020). Green finance blends strategies to improve economic, social, and environmental results (Zheng et al., 2021). It relies on public

and private efforts to create cleaner environments, highlights climate and pollution impacts on health, and shows the societal and long-term gains of such investments (Khan et al., 2022). Green finance thrives on innovation and adaptability. Banks now use tools like blockchain and AI to boost efficiency in green investments (Singh & Gupta, 2022). These technologies improve fund tracking, ensuring money flows to genuine projects. In addition, partnerships between the government and private organizations are vital in enhancing the scale and expansion of green financing projects.

Registered non-governmental organizations (NGOs) in Kenya are an essential part of the development landscape as they are able to reach socio-economic challenges even when the government does not or cannot fully address them. These organizations are formal entities recognized under the NGO Coordination Act of 1990, which sets the regulations for their operations (Mutua, 2021). Their main aim is to help the most vulnerable through means of development, human rights advocacy, and environmental sustainability. NGOs are of different sizes and types; there are some big international organizations, and there are also local community-based groups. These groups tackle issues in education, health, and economic growth, thereby boosting national welfare (Omollo, 2023).

The governance of registered NGOs in Kenya is marked by a strict legal framework that is designed to enhance accountability and transparency in their operations. This is in line with the role of the NGO Coordination Board, which is responsible for overseeing and ensuring that all registered NGOs in the region comply with existing laws and regulations (Mutua, 2021). This governance aspect builds trust and credibility in NGO operations, since their activities are monitored (Kibara, 2021). This is in addition to encouraging good practices and curtailing corruption, thus providing a conducive environment for service delivery to the community.

1.1 Statement of the Problem

In Kenya, the financial sustainability of registered non-governmental organizations (NGOs) is in a state of acute crisis, characterized not merely by a scarcity of funds but by a profound structural vulnerability in their financial architecture. Empirical evidence reveals that over 50% of Kenyan NGOs rely on a single donor for more than 80% of their revenue, resulting in a dangerously high Revenue Concentration Index and leaving them acutely susceptible to external funding shocks (Ondiege et al., 2022). This overdependence is compounded by critically low levels of financial autonomy and resilience, as evidenced by an average Unrestricted Funding Ratio below 20% and Operational Reserve Ratios insufficient to cover more than one month of operating expenses for most organizations (Kituma, 2023). The tangible consequence of these deficient financial constructs is operational instability, exemplified by the deregistration of over 700 NGOs between 2020 and 2023 due to financial non-compliance and insolvency (Chanyisa, 2023). Therefore, the core problem is the systemic weakness in the key constructs of financial sustainability, diversification, autonomy, and resilience, which threatens the continuity of essential social and humanitarian services across Kenya.

While the need to strengthen these financial constructs is urgent, traditional diversification strategies have yielded limited success. Emerging alternatives like green financing initiatives present a theoretically viable pathway. These instruments could potentially improve the Revenue Diversification Index by introducing non-traditional funding streams, bolster the Operational Reserve Ratio through long-term cost savings on energy, and enhance financial autonomy if structured as unrestricted or flexible funding. However, the adoption and impact

of these mechanisms remain critically low and poorly understood. For instance, less than 12% of NGO funding in Kenya is linked to green or sustainable financial products, and only 18% of organizations have accessed such options, primarily due to capacity constraints and perceived complexity (Mulandi & Mwania, 2023; Ndunge & Ondeko, 2023). This indicates a significant disconnect between the potential of green finance and its practical application in strengthening the specific pillars of NGO financial health.

A review of extant literature reveals a substantial research gap that this study intends to fill. First, prior empirical studies have predominantly focused on the environmental outcomes of green finance, while its direct impact on the core financial constructs of organizations, particularly NGOs, is under-examined. For example, Xia et al. (2023) demonstrated that green financing improved profitability and environmental performance in Chinese manufacturing firms, but such financial metrics are not directly transferable to the non-profit sustainability constructs of autonomy and reserve adequacy. Second, studies within the NGO sector, such as those by Nyaga et al. (2023), have noted the existence of green financing but failed to empirically link it to measurable improvements in financial diversification or resilience, treating financial sustainability as a monolithic outcome rather than a multi-dimensional construct. Kariuki et al. (2023) noted regulatory barriers in the enabling environment but did not assess how specific policies shape the link between green finance tools and sustainability indicators.

Trending analysis over the past five years indicates a growing but fragmented discourse. Early studies (2018-2020) primarily advocated for green finance conceptually, while more recent research (2021-2023) has begun to document low adoption rates among Kenyan NGOs. However, this recent wave of studies remains descriptive, highlighting barriers like awareness and technical capacity without quantitatively establishing the cause-effect relationship between specific green financing initiatives and the deterioration or improvement of precise financial sustainability metrics. The progression has been from advocacy to identification of the problem, but has stalled before reaching rigorous, construct-led impact analysis.

Consequently, this study is designed to generate new knowledge by investigating the effect of climate investment funds on the specific, measured constructs of financial sustainability: revenue diversification, unrestricted funding, operational reserves, and cost efficiency. It further seeks to establish how regulatory policies moderate these relationships. The expected contribution is a granular, evidence-based model that moves beyond the generic claim that "green finance is good" to specify which financial instrument most effectively strengthens which pillar of financial sustainability for NGOs in a resource-constrained setting. This will provide NGO managers with a strategic toolkit for targeted financial planning and offer policymakers and donors insights into designing and regulating green finance products that genuinely enhance long-term organizational viability alongside environmental goals.

1.2 Objective of the Study

To assess the effect of climate investment funds on financial sustainability of registered NGOs in Kenya

2.0 Literature Review

2.1 Theoretical Review

The study draws on the Theory of Change, widely used in development and non-profits to explain how and why change is expected in a given context. Emerging from 1990s evaluation

practices, it has since guided NGOs, foundations, and agencies in designing, delivering, and assessing social programs (Taplin & Clark, 2012). Unlike theories rooted in shareholder value, which focus on profit, ToC focuses on social impact, sustainability, and the interconnectedness of outcomes, outputs, and activities. ToC clearly outlines the logical progression from inputs to outcomes, making it particularly relevant to mission-driven NGOs engaged in activities like green financing and climate resilience (James, 2021).

A strength of ToC is its participatory design, bringing dialogue among beneficiaries, sponsors, and implementers. This ensures interventions fit real contexts and reflect community experience (Stein & Valters, 2012). In the case of non-governmental organizations (NGOs) in Kenya seeking to utilize green finance instruments, ToC provides a model for understanding relationships between resource investments (such as those in sustainable funds or climate investments) and long-run outcomes (such as enhanced environmental resilience and resource sustainability). Moreover, ToC can assist in developing appropriate metrics to measure intangible factors like enhanced stakeholder trust, program longevity, and institutional flexibility (Anderson, 2005). Therefore, ToC can assist NGOs in placing more emphasis not only on resource mobilization but also on social value creation.

However, while ToC can provide substantial benefits to NGOs in Kenya seeking to utilize green finance instruments, it also possesses some disadvantages. Firstly, ToC can be criticized for its assumptions, which are subjective in nature. Such assumptions can create simplistic causal relationships that are not representative of the complexities in real-world systems (Vogel, 2012). Such assumptions can undermine the accuracy of monitoring and evaluation processes in project settings. Moreover, ToC can be resource-intensive to develop, particularly in contexts where numerous stakeholders are involved (James, 2021). In contexts where resources are scarce, ToC can create operational challenges for NGOs in Kenya. In addition, ToC can create challenges in contexts where project outcomes are not clearly defined or where adaptability is not built into its design.

Nevertheless, despite the challenges that have been encountered, the Theory of Change remains an important tool for building accountability, transparency, and alignment within the nonprofit sector. This is because it allows for evidence-based planning, which facilitates continuous learning. This enables non-governmental organizations (NGOs) to make improvements to their programs on the basis of what works and what does not. In green finance, for example, the Theory of Change allows organizations to articulate how financial resources are linked to environmental and financial resilience. This ensures that resources are allocated to donors and development partners. An example is that an NGO uses the Theory of Change to illustrate how resources allocated to renewable energy projects are linked to reduced environmental degradation and improved sustainability within marginalized communities (Stein & Valters, 2012). This ensures that programs are more logical, stakeholders are engaged more effectively, and results are improved.

Moreover, the Theory of Change (ToC) enhances emergent sustainability practice in non-governmental organizations (NGOs) by underscoring systemic thinking and interdependency. ToC encourages organizations to look beyond their immediate outputs and focus on long-term social change by means of carefully crafted interventions. ToC is an important tool for NGOs in Kenya seeking to develop and execute climate change programs, ensuring they effectively manage complex, long-term change processes while factoring in environmental and financial risks. ToC is instrumental in encouraging NGOs to develop new, creative ways to fund their activities, such as the creation of climate investment funds and sustainability financing, by

aligning these with social goals, such as social empowerment and environmental protection (Taplin & Clark, 2012). As NGOs increasingly embrace sustainable finance and environmental goals, ToC acts as a powerful compass, guiding NGOs from conceptualization to realization. ToC helps NGOs justify the value of donor investment in their activities by means other than financial return, such as positive changes in resilience, institutional capacity, and environmental protection.

2.2 Empirical Review

Climate Investment Funds (CIFs) and their impact on the financial sustainability of companies have been widely discussed topics, especially with the increasing demands for businesses toensure that their operations are environmentally sustainable. Orsato and Carmona (2017) explored the role of CIFs in financing projects that mitigate carbon emissions and support sustainable practices. They observed that companies that made use of CIFs achieved financial sustainability over the medium and long term by integrating their business operations with environmental goals, enjoying in parallel cost savings from energy efficiency and strengthening their market position. Though these findings are very interesting, their potential implications for NGOs could be that they too can raise money through such funds to run sustainability programs and also enhance the efficient use of resources. The article, however, does not discuss the specific financial issues that NGOs face, such as reliance on donors and very limited generation of own funds, which could be obstacles forexposure to CIFs. Furthermore, the difficulties in understanding and securinginternational financing are even more challenging for NGOs, especially those in developing countries, since they mostly lack the technical know-how required.

Muller et al. (2019) examined the importance of climate- and impact-focused funds (CIFs) in emerging economies, proving their significance as a means of building financial resilience through the execution of sustainable projects, as well as enabling firms to create diversified product offerings. This particular study has major implications for non-governmental organizations (NGOs), as they usually operate in an environment of political and economic instability, which calls for diversified financial options. Nevertheless, the study did not provide specific industry-level insights, which makes its implications limited for exploring the impacts of CIFs on non-profit organizations like NGOs. While for-profit firms might not generate revenues through diversified product offerings, NGOs might use green funds for executing sustainable projects across multiple sectors. The emphasized political and economic instabilities are the actual scenarios of operating NGOs in emerging economies, which calls for the need for a structured green fund mechanism for the non-profit sector.

In a study by Robinson & Phillips (2020), the financial performance of companies supported by the CIF in the renewable energy, transportation, and waste management industries has been explored, revealing increased profitability and enhanced resiliency against climate-related threats. The study has implications for NGOs in similar industries, especially those involved in environmental and community development programs. The focus on attracting impact-oriented investors in line with sustainability targets resonates with NGOs reliant on donor organizations' reputation and reporting on impact. However, the study focuses on corporate entities, which does not account for the challenges facing smaller NGOs, especially in a lack of infrastructure or administrative capabilities necessary to meet the CIF reporting requirements. This limitation reveals a lack of understanding of how the system can be applied to support grassroots, community-focused NGOs.

Koutsou et al. (2022) highlight the role of climate and infrastructure finance in scaling renewable energy, cutting costs, and diversifying revenue. The non-governmental organizations (NGOs) with clean energy programs, like rural electrification or solar water pumping, would equally benefit from reduced costs and scaling up. However, the positive tone set by the study on successful firms may result in an overly positive outlook, which may not consider the challenges faced by smaller NGOs in accessing CIFs. In addition, NGOs may not have the expertise or partnerships to access regulatory policies, thus making these financial instruments inaccessible to them.

Lemoine & Schmid (2023) have established that climate investment funds (CIFs) have an impact on the process of strategic decision-making, especially in agriculture, through investing in sustainable agriculture, including precision agriculture and water management. The research, therefore, applies to non-governmental organizations (NGOs) working towards rural development or food security, as the technologies have the potential of improving their sustainability. However, as the research indicates, there is a need for firms or NGOs to have well-developed sustainability strategies for them to fully realize the benefits, which might not be the case with NGOs, especially those with limited resources for developing their strategies. The hurdles experienced by small agricultural enterprises in accessing the funds are similar to those experienced by small and medium-sized NGOs, including their low visibility, limited project writing, as well as low levels of financial absorption.

Andersson et al. (2018) describe the significance of comparative innovation factors (CIFs) in assisting the shift of automotive companies towards electric vehicles and gaining a competitive advantage. Although the automotive industry may not be directly associated with the NGO domain, it is important to note that the general implication of the study, which states that alignment with global sustainability trends can attract funding and minimize the risks associated with the shift, remains valid. Although the study does not address the issue of financial instability after funding, which is a critical issue in the case of NGOs, it is important to note that it is a critical issue in general.

Ruiz et al. (2020) examine how corporate internal frameworks shape governance by embedding ESG factors into strategic decisions. The findings are particularly pertinent to non-governmental organizations (NGOs), who are increasingly called upon to prove alignment with ESG factors to access donor funds. The capacity of CIFs to build more robust structures in accountability and transparency is particularly noteworthy in this context. However, the study does not take into account the long-term benefits to an NGO in terms of accessing funds to realize its mission objectives. In addition, in developing countries where regulatory frameworks are not robust, it can be difficult for NGOs to align themselves with CIF structures.

3.0 Research Methodology

Research philosophy is the set of beliefs guiding how knowledge is built and understood. It shapes methods, design, and interpretation. Saunders et al. (2019) note it defines the link between knowledge, researcher, and process. Four paradigms exist: positivism, interpretivism, realism, and relativism. Realism leans on numbers, relativism favors experiments and lab data. This study followed a positivist lens. Positivism relies on the assumption that this reality is open to observation, measurement, and quantification via systematic and empirical methods, though imperfectly since we are human, and have limitations. An exploratory research design is implemented when researchers want to study a problem or a situation that is not well defined.

In such cases, researchers attempt to, among other things, get a better understanding of the issue, discover new possibilities through the patterns, and come up with ideas or hypotheses for subsequent research (Kothari, 2020). Exploratory research, therefore, is the best design for this study since it tackles "what" and "why" questions and that too in situations where either hardly any studies have been done or the existing ones have only been able to reveal some pieces of the complex relationships.

This study focused on registered project-based NGOs in Kenya. Such NGOs run mainly through projects. Each project has objectives and the progress is measured through certain indicators, both financial and non-financial. Such project-based NGOs are more structured and focused on results as compared to general NGOs like faith-based or charitable organizations. The National Council of NGOs lists 331 groups, with 161 identified as project-based. The National Council of NGOs contains all the registered NGOs in Kenya and it is a self regulatory body. The council operates through the resolutions of the General Assembly which is held annually.

The National Council of NGOs, who is the umbrella organization through which all NGOs in Kenya are registered and whose conduct is also monitored, ranks project-based NGOs in Kenya at 161 units. The NGO's under focus are classified into those dealing with programs aimed at poverty alleviation and eradication, achieving and enhancing development and prosperity, enhancing entrepreneurship and social entrepreneurship as well as supporting small scale enterprises. Given the large number of registered NGOs, the study used Fisher's (1983) formula to determine sample size:

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

Where n is the size of the sample, N is the size of the population, and e is the precision level (confidence level).

N =161

$$n = \frac{161}{1+161(0.05)^2} \qquad n = 114.08 \qquad \approx 114$$

The study sample included 114 project-based NGOs. Scope was narrowed to those headquartered in Nairobi, given the city's diversity and centrality. Respondents were executives at all levels CEOs, Executive Directors, and Program Directors responsible for strategy and oversight. Program Managers, Finance Managers, and Monitoring and Evaluation Officers are the ones who lead the middle-level executives. The study used purposive sampling to select participants. This non-probability method lets the researcher choose individuals with traits that match study objectives. This technique was chosen to focus on NGOs active in green finance and sustainability. By purposely selecting NGOs whose operations are in line with the study's thematic areas, the research was able to collect data that was not only rich and detailed but also directly relevant to the research goals.

The study used a structured questionnaire to gather primary data. As Gall et al. (2012) note, such tools collect information aligned with study goals through set questions. Close-ended items on a 5-point Likert scale were applied to confine responses to the objectives. The researcher administered them to executives at all levels top, middle, and lower. A drop-and-pick later method was used, given respondents' busy schedules. The study relied on both primary and secondary data. Primary data came from structured questionnaires administered to selected NGOs. Secondary data included organizational reports, published financial

statements, and other relevant documentation that can support or triangulate the primary findings. To facilitate access to this information, an official introductory letter from the academic institution sponsoring this research was presented to the management of the targeted NGOs.

Cooper and Schneider (2017) note that data analysis is a key research tool, used to objectively capture core features of a study subject. A comprehensive approach was adopted in data analysis, which included various statistics such as mean calculation, correlation, regression, and application of f-test in ANOVA statistics, among others. Furthermore, the findings of such a comprehensive data analysis were clearly explained and demonstrated by the use of precise and clear figures and tables. It is worth noting that correlation is a vital statistic in statistics, which defines the correlation between variables applied in this research. Measures of central tendency was also applied to further illustrate the data analyzed. Regression, a powerful research tool in understanding causality, was applied in this research. To ensure conclusiveness of data analysis, data collected was analyzed and tested using Shapiro-Wilk test to ascertain normality of data collected. It is worth noting that a researcher will apply a significance level of 0.05 in data analysis to ensure a methodical approach in data analysis. Document analysis was applied in collecting secondary data, and data was integrated with primary data. Tables and figures were applied in data presentation.

In this particular investigation, there are several ethical issues that are at the heart of the matter, including disclosure, comprehension, voluntarism, consent, and plagiarism. The researcher is dedicated to abiding by the key norms and ethics that are inherent in the entire investigation. At the heart of the entire investigation is the need to gain access to a wide array of authentic documents relating to financial reporting. The goal of the researcher in this study is to encourage voluntary participation among the respondents while ensuring their privacy and anonymity are maintained. Participants were assured their information was used only for research and their anonymity protected. Upholding professionalism and respect, the researcher is committed to abstaining from using offensive, discriminatory, and vulgar words while designing interview schedules and focus groups. Furthermore, the researcher is dedicated to crediting other researchers' work while conducting this research, in accordance with APA guidelines, as outlined in the university's dissertation handbook. By adhering to this ethical framework, the researcher is committed to upholding higher standards objectively in all discussions and analyses carried out in this research.

4.0 Data Analysis, Interpretations and Discussions

4.1 Descriptive Statistics

The independent variable was climate funds while NGO financial sustainability was the dependent variable.

4.1.1 Climate investment funds

The study examined adoption of climate investment funds. Responses were rated on a five-point Likert scale, from 1 (very small extent) to 5 (very large extent). Results are presented in Table 1.

Table 1: Climate investment funds

Statement	Mean	Std. Dev
Achieving our climate related goals has been crucial with these funds.	4.40	0.874
Climate investment funds have helped to strengthen our donor relationships.	3.74	1.259
In the long run, climate investment funds have helped my organization to become more financially sustainable.	3.91	1.434
My NGO has been able to increase its financial capacity through climate investment funds.	3.88	1.169
My NGO has easy access to climate investment funds for projects.	4.19	1.173
My organization has expanded its activities with the funds allocated for climate projects.	3.77	1.568
The financial growth and sustainability of my NGO requires climate investment funds.	4.15	1.151
To diversify its revenue sources, our NGO has used climate investment funds.	4.19	0.981
We have been able to scale up our environmental initiatives through climate investment funds.	4.27	0.899
When using climate investment funds, my NGO has shown strong financial accountability.	4.04	0.999
Average Meanscore	4.06	1.151

Where VSE=Very Small Extent, SE=Small Extent, ME=Moderate extent, LE=Large Extent, VLE=Very Large Extent

Source: Research Data (2025)

The results demonstrate that climate investment funds have been adopted to a large extent by NGOs in Kenya, with the overall average mean score standing at 4.06 (SD=1.151). The highest mean was 4.40 (SD 0.874) for achieving climate goals, showing funds strongly support sustainability agendas. Scaling environmental initiatives followed with a mean of 4.27 (SD 0.899), proving climate funds drive mission-aligned outcomes. Easy access scored 4.19 (SD 1.173). This indicates that many NGOs see these resources as relatively accessible, which is important in a competitive environment. The use of these funds in diversifying revenues also scored a mean of 4.19 and a standard deviation of 0.981. This indicates that NGOs are being quite strategic in their use of climate investment funds to avoid dependency on single donors. Overall, this study confirms the significance of climate investment funds in the lives of NGOs.

Despite the positive results, there are also areas that were not as affected by the climate funds. Strengthening donor relationships had a relatively lower rating at an average of 3.74 and a standard deviation of 1.259. This shows that, while climate funds are effective in supporting technical activities, their support for relational activities may not be as significant. Expanding organizational activities through climate funds had an average rating of 3.77 and a standard deviation of 1.568, which was the highest. This shows that there are divergent results for NGOs, depending on their scale. Long-term financial sustainability through climate funds had a moderately high rating at an average of 3.91 and a standard deviation of 1.434. The high standard deviations, all above 1.2, show that there is uncertainty as to whether these funds are capable of fully supporting the long-term financial sustainability of all NGOs. This shows that while climate investment funds are generally beneficial to NGOs, there are structural inequalities in their access and utilization.

Another notable finding was the importance of climate funds in the development of financial management and accountability. The mean score for financial accountability was found to be 4.04 (SD=0.999), which suggests that NGOs perceive climate funds to have higher compliance and reporting needs. This may be a result of the expectations that donors have for transparency and governance in climate finance, which may help improve the credibility of the funding environment for NGOs. The importance of financial growth and sustainability was also related to climate funds (M=4.15, SD=1.151), which highlights the importance of climate funds in the sustenance of core operations for the NGOs. However, the high SD indicates that some NGOs may not have integrated climate funds into their financial systems for long-term growth and sustenance. Thus, climate funds provide an opportunity and a test for the financial discipline of the NGO sector.

Overall, adoption of climate funds shows a strong link between environmental goals and financial sustainability strategies. The high mean score for most indicators, at M = 4.06 overall, shows their importance in NGO operations, even as differences are shown in the standard deviation, reaching as high as 1.568. The implications are that, while climate funds are shown to be effective in improving program outcomes, enhancing accountability, and providing more diverse sources of income, their accessibility and outcomes are not necessarily equal across all organizations. While bigger and more well-structured organizations may be able to benefit more consistently from their adoption, smaller organizations may face uncertainties in their accessibility and outcomes. Nonetheless, the fact that climate investment funds are able to support both environmental and financial goals makes them an integral part of green financing strategies. Thus, climate investment funds are not just seen as supplemental resources for NGOs facing both financial and environmental challenges; they are seen as transformative resources.

4.1.2 NGO Financial Sustainability

The study examined how financial sustainability aspects applied to NGOs. Findings are presented below.

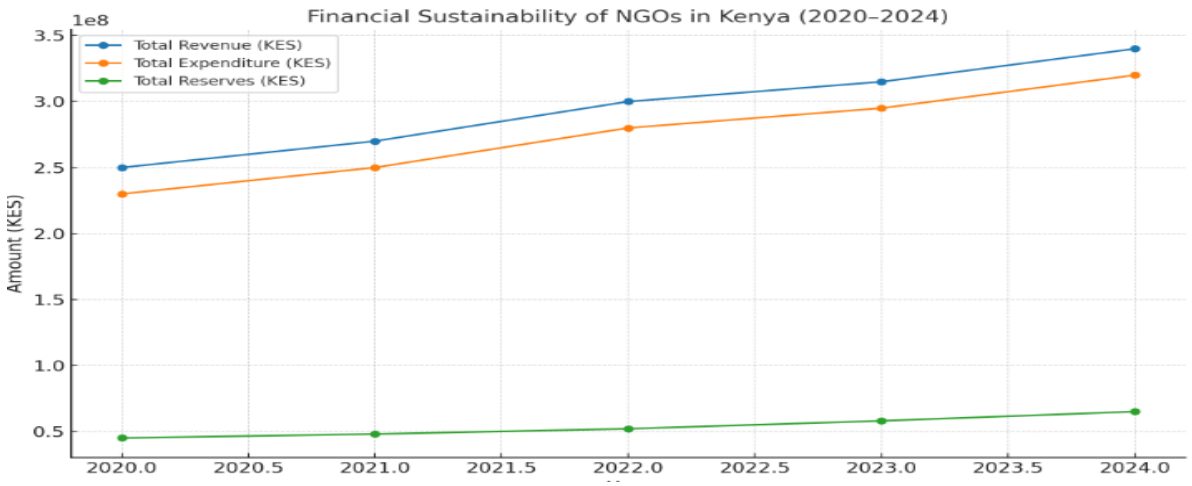

Figure 1: NGO Financial Sustainability

Source: Research Data (2025)

The findings obtained indicated that the financial sustainability of the NGOs in Kenya from 2020 to 2024 shows a gradual improvement in their financial position, as their income is consistently increasing from KES 250 million to KES 340 million, whereas their expenditure is also increasing at a slightly lower rate. One interesting observation is the decline in the percentage of donor funding from 78% to 68% from 2020 to 2024, indicating a steady and gradual diversification of their income sources and their decreasing dependency on donor funds. At the same time, their administrative expenditure as a percentage of total expenditure is consistently declining, indicating their increasing efficiency in the utilization of resources and their focus on programmatic activities rather than administrative ones. Their liabilities are showing a mild decline towards 2024, indicating their efficient management and decreasing dependency on debt. Their annual audits from 2020 to 2024 are indicating their compliance and accountability, which may have increased their donor confidence and operational efficiency.

4.2 Correlation Analysis

Correlation analysis explores links between variables, showing both strength and direction. This study used Pearson's coefficient, a common measure of relationships. Table 2 presents the results.

Table 2: Correlation Analysis

		Financial Sustainability	Climate investment funds
Financial Sustainability	Pearson Correlation	1.000	
	Sig. (2-tailed)		
Climate investment funds	Pearson Correlation	.397**	1.000
	Sig. (2-tailed)	.000	
	N	93	93

Source: Research Data (2025)

The correlation analysis indicates that the relationship between climate investment funds and financial sustainability was positive and statistically significant ($r = .397$, $p < .001$), suggesting that access to these investment funds directly impacts the resilience of the organizations. Organizations that have access to climate investment funds are likely to diversify their sources of finance and become less vulnerable to donor dependency. Therefore, organizations that have access to climate investment funds are likely to benefit in two ways.

4.3 Regression Analysis

The study examined how climate investment funds affect NGO sustainability. Multiple regression tested the independent variable with financial sustainability as the outcome. Model summary appears in Table 3.

Table 3: Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.375a	.332	.315	.817

a. Predictors: (Constant) Climate investment funds

Source: Research Data (2025)

Table 3 shows a correlation of 0.375, meaning climate investment funds positively affect NGO sustainability. Adoption of climate investment funds improves financial stability. R^2 was 0.332, so the model explains 33.2% of variation. The rest may stem from other factors such as funding sources, management, or NGO-specific traits. Table 4 presents model fitness results, confirming reliability in predicting NGO financial sustainability.

Table 4: ANOVA Analysis

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	4.862	3	1.621	2.429	.000[b]
Residual	59.396	89	.667		
Total	64.258	92			

a. Predictors: (Constant) Climate investment funds

b. Dependent Variable: Financial Sustainability

Source: Research Data (2025)

Table 4 shows model fitness with $F = 2.429 > 1.621$ and $p = 0.000 < 0.05$, confirming prediction reliability at 95% confidence. Green financing significantly affects NGO sustainability.

Regression coefficients for prediction are presented in Table 5.

Table 51 : **Model Coefficients**

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	2.822	.555		5.086	.000
Climate investment funds	.336	.069	.343	4.874	.000

a. Dependent Variable: Financial Sustainability

Source: Research Data (2025)

Table 5 shows Climate investment funds had a coefficient of 0.336. The positive sign shows they strengthen NGO financial sustainability. With $p = 0.000 < 0.05$, the effect is significant at 95% confidence. Stronger monitoring practices therefore boost NGO stability.

$$\mathbf{Y_i = 2.822 + 0.336X_1}$$

Whereby; Y_i refers to financial sustainability, and X_1 is the Climate investment funds practices.

4.4 Summary of Findings

The study aimed at finding out the extent to which climate investment funds impact the financial sustainability of NGOs in Kenya. The extent to which climate investment funds in NGOs in Kenya was established to be moderate. Climate investment funds and financial sustainability was established to have a Pearson's coefficient of correlation of 0.397 and a p-value of 0.000. The positive sign of the coefficient showed that there was a positive impact of climate investment funds on the sustainability of NGOs in Kenya. The p-value being less than

0.05 showed that the positive impact of climate investment funds was significant at a 95% confidence level. The finding that climate investment funds significantly impact the sustainability of NGOs in Kenya resonates with the trends established in other regions where finance is being used to support climate change initiatives. For instance, in Southeast Asia, Tran and Lee (2021) established that climate funds enhance local organizations' financial resilience through connection to global green finance networks.

Similary, in European municipalities, climate funds have been found to reduce dependency on conventional grants, as seen in the Kenyan NGOs, thereby promoting the diversification benefits (Böttcher et al., 2022). However, conversely, in Sub-Saharan Africa, Osei-Tutu (2021) found that climate funds are marred by bureaucratic hurdles, hence failing to attain their transformative role, indicating that moderate adoption in Nairobi may not be due to lack of interest but systemic hurdles. The Institutional Theory is also instrumental in explaining the findings, as climate funds influence the way in which NGOs operate, as they are forced to comply with the expectations of their donors regarding climate change. Moreover, studies carried out in the Latin American agricultural sector (Pereira et al., 2020) indicate that climate funds are only effective in the long term when there is effective governance, indicating that mere access to funds may not be enough to sustain their role.

5.0 Conclusions of the study

Climate investment funds are concluded to be an important driver of sustainability, offering diversification benefits and linking NGOs to global green finance networks, but their effectiveness is constrained by bureaucratic and structural challenges. The study found that climate investment funds had a significant and positive effect on the financial sustainability of NGOs in Kenya. The study concludes that although their adoption is moderate, climate investment funds remain a viable financing pathway that supports NGO stability. By improving access to resources aligned with environmental priorities, NGOs can diversify their funding streams and reduce overreliance on traditional donors. The findings imply that effective integration of climate-focused financing enhances not only financial performance but also mission-driven impact. Moreover, NGOs that leverage such funds are better positioned to align with global sustainability agendas, which can increase donor trust. Therefore, climate investment funds provide both financial and strategic opportunities for strengthening NGOs' long-term sustainability.

6.0 Recommendations of the study

The study recommends that policymakers develop frameworks that encourage wider adoption of climate investment funds among NGOs. The study recommends providing technical guidance and incentives to help NGOs integrate climate-focused financing into their operations more effectively. The study recommends that government agencies and development partners design financing instruments that are accessible and affordable to smaller NGOs. The study recommends investing in capacity-building programs targeting NGO managers to strengthen their ability to apply for and manage climate-related funds. The study recommends aligning national climate policies with NGO financing strategies to build donor confidence and enhance partnerships.

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