

**ST. MARY'S UNIVERSITY
SCHOOL OF GRADUATE STUDIES**

**EVALUATION OF CAPACITY DEVELOPMENT
SUPPORT ON THE ACCOUNTING PRACTICES OF
LOCAL NGO's: The case of Pact Ethiopia**

By: Tewodros Tamene

**A Thesis Submitted to the School of Graduate Studies of St.
Mary University in Partial Fulfillment of the Requirements for
the degree of Masters of Accounting and Finance [MBA]**

Advisor: Abebe Yitayew (PhD)

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Letter of Declaration

I, Tewodros Tamene, declare that this work titled “**EVALUATION OF CAPACITY DEVELOPMENT SUPPORT ON THE ACCOUNTING PRACTICES OF LOCAL NGO’s: The case of Pact Ethiopia**”, is my own effort and study and that all sources of materials used for the study have been duly acknowledged. I have produced it independently except for the guidance and supervision of the research advisor.

This study has not been submitted for any degree in this university or any other university. It is offered for the partial fulfillment of the Master of Accounting and Finance [MBA].

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List of Acronyms

- ENSEI – Ethiopia NGO Sector Enhancement Initiative
- FIDO – Faayya Integrated Development Association
- HIDA – Hiwot Integrated Development Association
- HVC – Highly Vulnerable Children
- IP’s – Implementing Partners
- LNGO – Local Nongovernmental Organization
- MCAT – Management Capacity Assessment Tool
- PACT – Private Agency Collaborating Together
- USAID – United State Agency for International Development
- YB – Yekokobe Berhan

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Abstract

This study was aimed at assessing the effect of the capacity development support of Pact as a donor agency on the accounting practice of local NGOs working as implementing partners of Yekokeb Berhan for highly vulnerable children program in Addis Abeba. Quasi experimental design was applied in the analysis of the change in the capacity of the NGOs involving both qualitative and quantitative data. From nine NGOs working with Pact, 6 were selected using convenience sampling technique. Three people from each of this IPs were selected and included in the study based on their position and knowledge of the capacity development support. Semi structured in-depth interview guide and standard management capacity assessment tool (MCAT) were used to collect data. Calculation of means and standard deviations as well as one sample t-test were used to analyze the quantitative data while narrative analysis technique was used in analyzing the qualitative data. The major findings of the study showed that the capacity development supports of Pact are effective in improving the accounting systems and practices of the implementing partners. This is clearly observed in the improvement of the management capacity assessment tool scores of the implementing partners and the major critical gaps identified during the baseline. Even if the capacity development support of Pact was found to be effective in reducing the grant managing risk and improving their gaps identified at the initial stage of the project, there are areas that need to be improved for better results. Based on the findings of the study the need to increase the frequency of MCAT, emphasizing on mentoring, applying appreciative inquiry for effective communication, and timely release of cash to assure smooth operation were recommended.

Keywords: *Local NGO's, Capacity Development, Accounting Practices, Capacity Development Support.*

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Capacity development is about institutional, organizational and behavioral outcomes. Indicators of capacity development usually focus on the performance of some sort of organizational function or activity such as decision making, leadership, service delivery, financial management, ability to learn and adapt, motivation, organizational integrity and organizational internal and external activities (UNDP, 1998). An organization's capacity in simple terms is its potential to perform. As the definition of (Ker, 2003) it is 'ability to successfully apply its skills and resources to accomplish its goals and satisfy its stakeholders' expectations'. According to (UNDP, 1997) definition of capacity development, targeted on an organization's performance, as an ongoing process to increase the abilities of organizations to perform core functions, solve problems and achieve objectives.

Capacity development was identified as one of seven key themes for the 4th High Level Forum on Aid Effectiveness held in Busan, Korea, in November 2011(Pact, 2013). The overall goals and efforts of capacity development are to improve organizational performance which includes improvements to physical and human capital such as knowledge, infrastructure and staff skills (i.e. what resources the group or organization or network of organizations have). And it does include behaviors both within individual organizations and those that occur amongst groups or systems of organizations so that, it have interrelated connection with individual, community and organizational development in order to ensures the effectiveness of all levels of development (Morgan, 1996).

Not for profit organizations must comply with all legal financial requirements and should adhere to sound accounting principles that produce reliable financial information, ensure fiscal responsibility and build public trust. Similarly to for-profit organizations, they should use their financial resources to accomplish their missions in an effective and efficient manner and should establish clear policies and practices to regularly monitor

how funds are used (National Disability Service, 2015). Financial management entails planning, organizing, controlling and monitoring the financial resources of an organization to achieve objectives (Fikre, 2014).

Although NGOs work “not for profit” and are, in most cases, exempt from tax, they are still accountable to each stakeholder in various forms and thus need to be transparent in their practices (Ebrahim, 2003). They are under spotlight; their motive, management and operation have come under scrutiny. The various stakeholders in the NGO system require a high standard of accountability and transparency.

In order to maintain the high degree of public trust, they need to portray a morally responsible image. NGOs tread on a fine line in many respects. NGOs are aware that they now operate in a more questioning environment and are more exposed to reputational risk (Vibert, 2006, p. 11) The need for accountability and transparency in financial management has become more important than ever (AL-Ramalawi, 2012).

The Ethiopian Government passed the Charities and Societies has issued Proclamation, Proclamation No. 621/2009, in 2009. The regulations addressed many requirements for registration, operation and financial resource use and income generation. Many NGOs failed to meet the requirements proclaimed in order to continue operation, thus, large number of NGOs were closed especially due to resources shortage or incapability of poor accounting practice and financial managements.

To strengthen the capacity of such indigenous NGOs working in diverse development sectors, donors invest in enhancing the accounting system, improving the quality of financial reports and adherence to sound accounting practices (AL-Ramalawi, 2012). The capacity development supports usually include provision of trainings, mentoring and coaching, and provision of material supports like computers (Dar, 2015). Evaluations are needed to test the theories and assumptions on which capacity development programs are based, to document their results, and to draw lessons for improving future programs. However, few capacity development programs have been systematically and thoroughly evaluated” (Horton et al., 2000) (Measure Evaluation, 2003). This study is also concerned about the effect of such supports on the accounting practice of local NGOs.

Pact is one of the major donor organizations in Ethiopia since 1996. Currently, Pact is financing the local NGOs for the implementation of different projects. One among the projects is YB for highly vulnerable children program which is one of the largest USAID funded project in the country. The project is being implemented by Pact and its 34 implementing partners (local NGOs) in five regions of Ethiopia: Oromia, Addis Abeba, SNNPR, Tigray and Amhara (Pact, 2016). For convenience and ease of management the study took the project implementing partners in Addis Abeba as a case for the study.

1.2 Organizational Background

Pact Ethiopia is dedicated to contribute to the growth of civil societies, where citizens acting together can express their interests, exchange information and strive for mutual goals. It achieves this mission by assisting NGO's, community groups, networks and coalition by strengthening their organizational and technical capacity, grants provision, and creating linkages across government, business and citizens in social responses to pressing issues.

The Institute has exceptional experience assisting NGOs around the world in building their local capacity and expanding their reach, ultimately improving and capable their ability to aid underserved populations across the world.

Pact Ethiopia has started operating in Ethiopia in 1995. It has been operational after signing a Cooperative Agreement with the USAID funded Ethiopia NGO Sector Enhancement Initiative (ENSEI).

Since 1996 Pact has focused on organizational capacity development as a means of strengthening CSOs' ability to perform and achieve better performance. The initiative's main purpose to strengthen Ethiopian Non-governmental organizations dedicated to working with and helping people of the role of making decisions that affects their lives by supporting them in organizational development, targeted training and technical assistance, mentoring and tutorial guidance for individual organizations and a program of small grants.

ENSEI was fundamentally a capacity building program aimed at improving the service delivery, influencing and relational practices of partners. “ENSEI seeks to strengthen the Ethiopian community of non-governmental organizations (NGOs). The purpose of the project is to strengthen and improve institutional capacity of NGO and umbrella/support organizations in Ethiopia to address the needs of targeted sectors: rural development, women’s development, education; street children and orphans.

The key objectives of ENSEI were:

- 1) Improved enabling environment for local NGOs.
- 2) Improved local NGO capacity for service delivery;
- 3) Increased civil society participation in public policy formulation and Review.
- 4) Formal and informal umbrellas/networks established.

The partners include a broad range of civil society organizations including youth and women’s associations, Networks working in specific or integrated programs; as well as Government. Towards the end of the ENSEI period, Pact Ethiopia made a strategic decision to focus more on various development sector projects. Currently, Pact is managing variety of projects in partnership with various donors in Ethiopia, which include 5 projects. The present active projects are;

- a) Yekokeb Berhan (YB) Program for Highly Vulnerable Children funded by USAID Ethiopia. The project is implemented in the nine regional states of Tigray, Afar, Amhara, Oromia, Benishangul Gumuz, SNNPR, Gambella, and Harari and two city administrations, Addis Ababa and Dire Dawa.
- b) SIPED II – Strengthening Institutions for Peace and Development, funded by USAID worked in four regions (Oromiya, Gambella, SNNPR and Somle Regions).
- c) EAC/REACH- Educate A Child Program (EAC) to implement “Reaching Educational Attainments of Children in the Hinterlands.”
- d) GOFORI- Godre Forest initiatives funded by USAID in Gambella Regional State.
- e) ASM – Artisanal and Small Scale Mining funded by World Bank.

In line with frequently the regular capacity development supports, the organization also made financial and grant monitoring visit to each local NGO on every

quarter. The aim of this monitoring visit involves comparing actual performance with plans to evaluate the effectiveness of plans, identify weaknesses early on and take corrective action if required. (Mango, 2003) and during financial and grant monitoring visit, the organization provides ongoing support to strengthen financial management including accounting, documentation, analysis and internal and external reporting through regular site visits and according to the identified NGO's needs from the gap analysis.

1.3 Yekokeb Berhan (YB) for HVC Project Profile and Its Capacity Development Support Packages

In April 2011, USAID/ Ethiopia awarded YB a \$92 million, 5-year cooperative agreement to work with FHI360, Child Fund, government and over 50 local implementing NGOs to improve the well-being of highly vulnerable children (HVC) in Ethiopia. YB was operating in 228 Woredas across the nine regional states (Tigray, Afar, Amhara, Oromia, Benishangul Gumuz, SNNPR, Gambella and Harari) plus the two City Administrations, Addis Ababa and Dire Dawa. It had worked with over 55 local NGOs based in Ethiopia since April 2011-2013. In the mid of 2013, the project operation was limited to five regions due budget constraint and revision of program focus. In connection to this, the geographic coverage of the project was limited to Oromia, Amhara, Addis Abeba, Tigray and SNNPR. This has resulted in the reduction of the number of local partners working with the program to 34.

The primary objectives of the program are:

1. Build the capacity of stakeholders to effectively use improved data management systems and employ a national HVC supervision system;
2. Employ effective and efficient family-centered, age-based and inclusive HVC care management system;
3. Enhance the capability of communities for coordinated and improved responsiveness towards HVC care; and
4. Establish effective and efficient monitoring, evaluation, reporting and learning systems ensuring evidence- based programming and policy formulation.

To make sure the realization of the project objectives, Pact is providing capacity development support for its implementing partners. The capacity development support covers both programmatic and financial and accounting aspects. To this effect the capacity of the implementing partners was assessed prior to the beginning of the project and appropriate institutional strengthening plans were developed. A number of trainings were given and materials were provided. Moreover, the progress and emerging capacity issues are continually being monitored and appropriate support is being provided through mentoring and coaching. The financial and accounting capacity development supports mainly contain the following areas:

- Establishing and strengthening financial management systems including accounting software, policies and procedures, etc
- Effective financial management analysis and reporting tools development to ensure accurate and verifiable internal and external financial reporting
- Interpretation and understanding of relevant donor and government rules and regulations.
- Budget development, revision, and implementation of policies and procedures, such as procurement, disbursements, petty cash, travel, administration and human resources management.
- Experience sharing and lesson best practices among them.

1.4 Statement of the Problem

The capacity development support for the local NGOs is thought to improve the performance of the implementing partners. In connection to this, though management capacity assessment was done prior to granting the implementing partners, there is no systematic review of the effect of the support in the implementation process or at the end of projects. Rather once the risk mitigation and capacity development support plans are developed based on such assessments, the focus shifts to the regular monitoring of the IPs accounting practice and provision of feedback. Even when mid-term and/or terminal evaluations of projects are undertaken, the change in the accounting practice of IPs is not

covered yet. This is well reflected in most of the project evaluation conducted so far including YB for highly vulnerable children program midterm evaluation.

As a result it is difficult to know the actual effect the capacity development investment has on the accounting practice of the IPs; making it difficult to have empirical evidence on the capacity development intervention programming-not being able to facilitate wise investment. Evaluations are needed to test the theories and assumptions on which capacity development programs are based, to document their results, and to draw lessons for improving future programs.

Thus, this study add value through systematic analysis of the support and related changes. Besides, there is no such kind of similar study was made on the organization level and also one of the other reasons for this study is moderately to fill the knowledge gap.

1.4.1 Basic Research Questions

The study attempts to answer four basic questions:-

1. What kinds of capacity development supports are being actually extended to these NGOs?
2. Which of the capacity development support influence the system of accounting practices?
3. What is the effect of Pact Yekokeb Berhan project on the accounting practice of local NGOs in Addis Abeba?
4. What should Pact Yekokeb Berhan project do to enhance the capacity of NGOs on accounting practices?

1.5 Objectives of the Study

1.5.1 General Objectives

The general objective of the study is to assess the effect of the capacity development support of Pact on the accounting practice of local NGOs working as implementing partners of Yekokeb Berhan for HVC Program in Addis Ababa.

1.5.2 Specific Objectives

This study is designed to achieve the following specific objectives:-

1. To assess the nature of the capacity development support provided to the local NGOs working as YB for highly vulnerable children program in Addis Abeba.
2. To assess the appropriateness and responsiveness of Pact capacity development supports to the implementing partners of YB for highly vulnerable children Program in Addis Ababa
3. To assess and measure the contribution of the program in bringing change in the accounting practice of the local NGOs working as implementing partners of YB for highly vulnerable children program in Addis Abeba.
4. To identify the major challenges faced during capacity development support program on each LNGO's the accounting practices.

1.6 Operational Definitions

Capacity Development:

Planned development of (or increase in) knowledge, output rate, management, skills, and other capabilities of an organization through acquisition, incentives, technology, and/or training (McKinsey, 2001).

Capacity Development Support:

Response/capacity development actions that are based on capacity development assessments and address one or more of the capacity development needs of a system (Bowman, W, 2011).

Accounting Practice:

This refers to the normal, practical application of accounting and/or auditing policies that occurs within a business (Ebrahim A, 2003).

Local NGO:

An organization established and managed by people with a social welfare purpose; without a profit making objective (Lewis, D., 2001).

1.7 Significant of the Study

Capacity development is a dynamic field. Capacity of organizations changes from time to time due to a number of reasons. Yet, capacity development supports are aimed at improving performance; meaning they intend to influence performance positively. This requires well thought and evidence based interventions. Learning how capacity development support interventions are affecting the accounting practices of the support recipients will be an invaluable input in improving the effectiveness and efficiency of capacity development support investments.

In light of this, the systematic evaluation of the effect of the capacity development support of YB for highly vulnerable children project on the accounting practice of local NGOs will add value to the field by providing empirical evidence from the field for existing endeavors and future programming. Moreover, it lends experience for other projects within Pact and across the donor community. It can also help for the research as an input.

1.8 Scope of the Study

The scope of the study include review and assessment of the change in the accounting system of the organizations, the quality of the financial reports, the use of the financial reports, and auditing. These areas was be assessed against GAAP in addition to the set organizational policies and procedures.

Geographically and programmatically, the study limited to the implementation partners of Pact in the implementation of YB for HVC project in Addis Abeba cluster.

This specifically includes in this study are Hiwot Integrated Development Association (HIDA), Projaynist, Bezalehiwot Ethiopia Charitable Association, Arda Child & Family Charitable Society, Brehan Lehetsanat (Kore) and FAAYYAA Integrated Development Organization (FIDO).

1.9 Limitations of the Study

According to the YB project implementing areas, the local NGOs are scattered throughout country, however the study was limited only for Addis Abeba level, so it was difficult to generalize the result of this study on the selected number of local NGOs.

The needed respondent and necessary documents may not be available as the researcher wants to see the previous local NGOs performance on the accounting practices. In addition, the result of this study may not be the capacity development support for YB project effect only. There are also involved other party such as other donors, organizations, government, supports and recommendations will also affected on the result of the study.

1.10 Organization of the Study

This study is consolidating into five chapters. Chapter one provide a brief background to the study, briefly discusses statement of the problem with basic research questions, scope and limitation, and significant of the study. Chapter two review the details related to literature of the study. Chapter three present a methodology of the study; it includes the research design, data collection method, instruments and tools and sample size of the study. The fourth chapter focuses on the results analysis, interpretation and presentation of the study and finally in chapter five summary, conclusion and recommendations is draw based on the results of the study.

CHAPTER TWO

REVIEW OF RELATED LITERATURES

2.1 Concept of Financial Management Capacity Building

Traditionally, capacity building was viewed as a methodology to improve skills for those working in the financial sector; it was further considered a developing tool of the financial system through linking with finance. Notably, it can lead to empowered staff, improved sustainability, and better program and quality impact, (Eade & Deborah, 2007). Building the financial management capacity of the working staff can be a good alternative to hiring accounting specialists that's so related to the same staff (De Vita & Fleming, 2001).

Capacity is the “means”, or the "ability", to fulfill a task or meet an objective effectively, and capacity has been often referred to the skills of staff and specific organizational strengths; therefore, training and hiring staff or maximizing the capabilities of one organization has been equated with capacity building (De Vita & Fleming, 2001).

(UNESCO, 2006) states that capacity building focuses on building the individual and organizational capacity to perform core tasks, solve problems, and extensively work on accomplishing their developmental needs. This statement is supported by Morgan who referred to capacity building as improving or promoting the person's, teams' and institution's ability, to carry out their tasks and achieve goals over a certain time limit. In addition, capacity building is substantial for all individual and or national corporate organizations (Horton, 2002). Capacity building also denotes to building community organizational capacities and supporting the creation of non-profit organizations (NPOs) (Paul & Thomas, 2000).

Capacity building processes can be initiated from within or from outside. They can facilitate links with local areas for individuals and organizations to further pursue and manage their development goals with greater sustainability. United Nations Development Program (UNDP) reported in 2009 that “Capacity building means to know how to work

out development mechanisms. Self-dependence and ownership are part of the process of capacity building." Both self-dependence and ownership are very key to the development process (McKenzie, 2003, as cited in UNESCO, 2006).

Researchers introduced four common approaches to capacity building; top to bottom, bottom to top, partnership, and community organization approaches. Capacity building has never been that important for organizations to integrate economic and social research and development as of today (Horton, 2002). Nevertheless, capacity building can be costly and time-consuming at the same time (Low and Davenport, 2002).

‘Capacity building’ is a term beset by conflict and confusion (Lewis, 2001). It is open to a number of different interpretations. At one level, it is concerned with building the organizational capacities of NGOs to survive and fulfill their mission. At another, it is concerned with building the capacity of civil societies in its broadest sense, and strengthening the capacity of key stakeholders, including communities, families and individuals, to participate in the political and social arena (Eade, 1997).

There is particular confusion and conflict over the approach adopted by donors and Northern NGOs to strengthen Southern NGOs due to the inherent issues of power and autonomy in such partnerships. There is no one universally accepted definition of capacity building in the diverse literature. Furthermore, capacity building as a term is not easily translated into different languages and perhaps not surprisingly, it is rarely used outside the development community or the non-profit sector (Eade, 1997; Lewis, 2001; Smillie & Hailey, 2001, James 2002).

As ‘capacity building’ has been increasingly prioritized at the core of many development strategies, there is a growing interest in the dynamics and efficacy of different capacity building interventions, as well as an appreciation of the need to assess their long-term impact. This paper highlights some of the challenges for those involved in assessing the impact of capacity building interventions. It seeks to move beyond the easy option of merely posing difficult questions. By drawing on the experience of International NGOs Research and Training Centre (INTRAC’s), there were evolving attempts to monitor and evaluate capacity building work in Africa and Central Asia, as well as some of the initial analysis of the new Praxis Program in this area.

The term ‘capacity building’ emerged as a lexicon of international development during the 1990s. Today, “capacity building” is included in the programs of most international organizations that work in development, the World Bank, the United Nations, and NGOs like Oxfam International. Wide usage of the term has resulted in controversy over its true meaning. Capacity building often refers to strengthening the skills, competencies and abilities of people and communities in developing societies so they can overcome the causes of their exclusion and suffering.

Capacity building is a real challenge; the need is great and institution strengthening takes a great deal of time, effort, and commitment. There are a number of challenges, such as the tendency to build dependency or overwhelm a fledgling organization with funds and demands. Experience to date suggests that capacity building for its own sake does not work very well. Positive results have been obtained through a combination of relevant training programs and gradual increases in responsibility and decision-making power. Partnerships between organizations with different strengths, such as management capacity and local technical knowledge, have been effective, although there needs to be a commitment to hand implementation responsibility over to the local organization within an agreed upon time frame. International funding organizations must also promote mentoring of local NGOs to enable them to become intermediary organizations (Foster, 2005).

UNDP was one of the forerunners in developing an understanding of capacity building or development. Since the early 1970’s, UNDP offered guidance for its staff and governments on what was considered “institution building.” In 1991, the term evolved to be ‘capacity building’. UNDP defines capacity building as a long-term continual process of development that involves all stakeholders, including ministries, local authorities, non-governmental organizations, professionals, community members, academics and others. Capacity building uses a country’s human, scientific, technological, organizational, institutional and resource capabilities. The goal of capacity building is to tackle problems related to policy and methods of development, while considering the potential, limits and needs of the people of the country concerned. UNDP outlines that capacity building takes place on an individual level, an institutional level, and a societal level (Economic and Social Council, 2006).

The term capacity building originated and was defined in the 1950s and 1960s as a procedure used in the fields of technical assistance and development cooperation (Horton et al., 2003).

"Capacity is said to develop in stages of readiness which indicates improvements or decline" (Goodman & RM, 1998). In all cases, capacity exists for the purpose of performing a certain action or enabling performance (Goodman, 1998) describes capacity as "the ability to carry out stated objectives."

The concept of capacity building is also somewhat intangible. Theoretical discussion, found largely in the published literature, discusses capacity building in broad terms and focuses on making the case for building the capacity of organizations and health systems to deliver services in developing countries (Bossert, 1990).

Penlope Mcphee and John Bare (2001), define capacity building as "the ability of nonprofit organization to fulfill their mission in an effective manner". Dohrey and Mayar (2003,P3) were more specific in defining capacity building as "the combined influence of an organization's abilities to govern and manage itself, to develop assets and resources, to forge the right community linkage, and to deliver values service, all combining to meaningfully address its mission".

2.2 History of Financial Management Capacity Building:

There have been four periods of capacity building. Initially, in the 1950s and 60s, capacity building was focused on institution building. Secondly, in the 1970s it changed to focus on development management. Thirdly, in the 1980s there was more emphasis on private sector development, and by the early 1990s, capacity building became embedded within development organizations (Wubneh, 2003).

According to (Adams et al. 2007), between the 1960s and 1970s, developing countries lacked experience in management. Capacity was seen to be limited as a result of lack of sufficient skills and development experience of public servants. Therefore, rural development focused on delivering management courses to public servants, and providing training to aid managers. The educational methodology gradually changed from training courses to workshops, from teaching to sharing experience, and from instructing to facilitating.

The term ‘capacity building’ has evolved from past terms such as institutional building and organizational development. In the 1950s and 1960’s these terms referred to community development that focused on enhancing the technological and self-help capacities of individuals in rural areas. In the 1970s and following a series of reports on international development, an emphasis was put on building capacity for technical skills in rural areas, and also in the management sectors of developing countries. In the 1980s the concept of institutional development expanded even more. Institutional development was viewed as a long-term process of building up a developing country’s government, public and private sector institutions, and NGOs (Smillie & Ian, 2001).

Precursors to “capacity building” existed before the 1990s were not as powerful forces in international development as during the 1990s. New philosophies that promoted empowerment and participation, such as Paulo Freire’s Education for Critical Consciousness (1973), emphasized that education could not be handed down from an omniscient teacher to an ignorant student, rather it must be achieved through the process of a dialogue among equals. Commissioned reports and research during the 1980s, such as the capacity and vulnerabilities analysis posited three assumptions (Deborah & Eade, 2005):

- Development is the process by which vulnerabilities are reduced and capacities are increased
- No one develops anyone else
- Relief programs are never neutral in their developmental impact in international developmental approaches.

During the 1980s many low-income states were subject to “ structural adjustment packages”... the neo-liberal nature of the packages led to increasing disparities of wealth. In response, a series of... “Social dimension adjustments were enacted.” The growing wealth gap coupled with... “social dimension adjustments” allowed for an increased significance for NGOs in developing states as they actively participated in social service delivery to the poor (UNDP, 2001).

Today, capacity building is recognized as a must for grass-roots organizations globally, in order to achieve sustainable development. Capacity building is becoming an increasingly popular activity in many sectors, including natural resource management

(water and agriculture sectors). For example, the World Bank has endorsed mainstreaming of capacity building activities into all of its operations. Since 1996, capacity building has remained on top of the priorities of the agenda of the World Bank, particularly with the vision of institutional building and development of a partnership framework. The World Bank is promoting institutional capacity building, believing that it is critical to successful, sound and equitable development (World Bank, 1997). Therefore, capacity building is not a new concept and like many other concepts, its meaning depends on the context where it is introduced.

Moreover, it has many different meanings such as "institutional development", "institution building", "institutional strengthening" and "human resource development" (Biswas, 1996). Capacity building requires a variety of sources of technology development, dissemination and integration of institutional networks. In the past ten years capacity building was also related to the strengthening of national agricultural education institutions (Crowder, 1996).

2.3 Types of Capacity Building

According to Limited Liability Company (LLC), there are many approaches to providing capacity building services, including (LLC, 2009):

- 1- Providing access to repositories of information and resources, e.g., databases, libraries and web sites.
- 2- Publications
- 3- Trainings (public, customized or on-line)
- 4- Consultation (for example, coaching, facilitating, expert advice and conducting research)
- 5- Coordinating alliances.

Clients often describe projects in terms of the types of capacity building activities, rather than of the overall nature of the project. For example, they might refer to the project as "fundraising" or "strategic planning," rather than "resource development" or "setting the long-term direction for the organization". Clients often hire consultants based on how closely the consultant's services match what the client believes the activities should be. For example, they might seek a fundraiser or a strategic planner. Consequently,

consultants often list their services in terms of common capacity building activities (Connolly & York 2003).

However, usually there is more of how clients select a type of capacity building than merely by matching terms. Many times, clients do not even realize how they chose a particular capacity building service or consultant. This suggests that the type of capacity building activities undertaken by particular nonprofit organizations (NPOs) depends on certain factors, including:

1. **Organizational resources**, including time, skills, expertise, money, facilities and equipment.
2. **Organizational readiness**, especially if the NPOs has the ability to discern real underlying causes of issues
3. **Organizational life cycle**, for example, new nonprofits need help to create, while others focus on efficiency
4. **Access to capacity builders and associated resources and tools**, for example, Trainings, consultants or peer networks (Connolly & York 2003).

2.4. Levels of Capacity Building

2.4.1 Individual Level

Capacity building on an individual level requires the development of conditions that allow individual participants to build and enhance existing knowledge and skills. It also calls for the establishment of conditions that will allow individuals to engage in the “process of learning and adapting to change” (Economic and Social Council, 2006).

Capacity building may relate to leadership development, advocacy skills, training or speaking abilities, technical skills, organizing skills, and other areas of personal professional development (Linnell, 2003). Similarly, individual level capacity building was described as linked to personal development such as leadership development, advocacy skills, training and facilitating abilities, technical skills, and organizing skills. Often good leadership or strong leadership is needed for an efficient institution. In other words, having the right professionals is the first prerequisite for better institutions and policies, as they are more able to take care of any policy constraints even in the “absence of appropriate legal frameworks and unresponsive institutional settings” (Biswas, 1996).

Human resource development is the process of equipping individuals with the understanding, skills and access to information, knowledge and training that enables them to perform effectively (Sheng & Mohit, 1999). The knowledge, skills, attitudes, behaviors and abilities of individuals can develop through many approaches: formal and informal education, training, workshops, conferences, meetings, field day/study tours, learning by doing, and on-the-job training (UNESCO, 2006). It is also understood that developing individual capacities will automatically lead to improved organizational capacity and performance (Horton, 2002).

2.4.2 Institutional Level

Institutional development is another level of capacity building. (Bromley, 1989) defined institution as "the rules and conventions that define individual behavior." However, (Brinkerhoff and Goldsmith, 1992) pointed out that an institution may mean a variety of things. They define institution as "stable, valued recurring pattern of behavior". In practice this applies both to rules and procedures for regulating human interaction and organizational entities that are responsible for undertaking particular responsibilities.

Capacity building on an institutional level should involve aiding pre-existing institutions in developing countries. It should not involve creating new institutions, rather modernizing existing institutions and supporting them in forming sound policies, organizational structures, and effective methods of management and revenue control.

Institutions as a term are more general than organizations. They are organizations with difference, in that they survive over time and provide a service, which is valued by at least some parts of the community. Any desirable change in an institution may be termed as institutional development (Brinkerhoff and Goldsmith, 1992).

2.4.3 Organizational Capacity Building

Another form of capacity building focused on developing capacity within organizations; i.e., NGOs. It refers to the process of enhancing an organization's abilities to perform specific activities. An organizational capacity building approach is used by NGOs to develop internally so they can better fulfill their defined mission. Allan Kaplan, a leading NGO scholar argues that to be effective facilitators of capacity building in

developing areas, NGOs must participate in organizational capacity building first (Debora, 2005). Steps to building organizational capacity include, (1) developing a conceptual framework, (2) establishing an organizational attitude, (3) developing a vision and strategy, and (4) developing an organizational structure & Acquiring skills and resources (Kaplan, 2010).

Capacity building may relate to almost any aspect of an organization's work; it can improve governance, leadership, mission and strategy, administration (including human resources, financial management and legal matters), program development and implementation, fundraising and income generation, diversity, partnerships and collaboration, evaluation, advocacy and policy change, marketing, positioning and planning (Linnell, 2003).

Capacity building at this level needs to ensure that individual capacities are strengthened and utilized (UNESCO, 2006). For example, extension organizations can develop their capacities through human resource support, training in research experiments, front line demonstrations, and exposure visits. For research organizations, capacity building mostly takes place in the form of support for equipment, research consumables, and the development and training of human resources (Prasad and Reddy, 1999).

2.4.4 Systems Level

The importance of creating an enabling environment or systems in building capacity is widely accepted. (Frank and Smith, 1999) stressed that without supportive policy and legislative framework, no agency will have the capacity to perform effectively however capable the individuals within it. Often the creation of appropriate policy and legal environments is not enough. It is the implementation of them that counts. However, even people with full legal and institutional authority may not be able to make appropriate decisions or take full responsibility due to lack of initiative and an entrepreneurial spirit (Biswas, 1996).

In many countries, policies and laws support the capacity building process, being effective in achieving capacity building. However, the improvements of policies and laws are not essential for facilitating appropriate capacity building conditions. As Biswas

(1996) explained, it depends on the “will and the determination of the people to take up and implement most of what can be achieved under the existing policies and laws.”

There are many system components such as administrative, legal, technological, political, economic, social and cultural, which impinge on and/or mediate the effectiveness and sustainability of capacity building efforts. Decentralization is one example. It is important to understand the country-specific decentralization context and its impacts on sector and local government agencies because decentralization is regarded as a capacity building advance (UNESCO, 2006).

2.4.5 Capacity Building of NGO

Social development in poorer nations is often contingent upon the efficiency of organizations working within that nation. Organizational capacity building focuses on developing the capacities of organizations, specifically NGOs, so they are better equipped to accomplish the missions they have set out to fulfill. Failures in development can often be traced back to an organization's inability to deliver on the service promises it has pledged to keep. Capacity building in NGOs often involves building up skills and abilities, such as decision making, policy-formulation, appraisal, and learning. It is not uncommon for donors in the global north to fund capacity building for NGOs themselves (Debora, 1997).

For organizations, capacity building may relate to almost any aspect of its work: improved governance, leadership, mission and strategy, administration (including human resources, financial management, and legal matters), program development and implementation, fund-raising and income generation, diversity, partnerships and collaboration, evaluation, advocacy and policy change, marketing, positioning, and planning. Capacity building in NGOs is a way to strengthen an organization so that it can perform the specific mission it has set out to do and thus survive as an organization. It is also an ongoing process that incites organizations to continually reflect on their work, organization, and leadership and ensure that they are fulfilling the mission and goals they originally set out to do (Debora, 1997).

Alan Kaplan (2000), an international development practitioner, asserts that capacity development of organizations involves the build-up of an organization's tangible

and intangible assets. He argues that for an NGO to work efficiently and effectively in developing country they must first focus on developing their organization. Kaplan argues that capacity building in organizations should first focus on intangible qualities such as:

Conceptual Framework- an organization understands of the world. This is a coherent frame of reference, a set of concepts which allows the organization to make sense of the world around it, to locate itself within that world, and to make decisions in relation to it.

Organizational Attitude – this focuses on the way an organization views itself. Kaplan asserts that an organization must view itself not as a victim of the slights of the world, rather as an active player that has the ability to effect change and progress.

Vision and Strategy – this refers to the organization's understanding of its vision and mission and what it seeks to accomplish and the program it wishes to follow in order to do so.

Organizational Structure a clear method of operating wherein communication flow is not hindered, each actor understands their role and responsibility.

Though he asserts that intangible qualities are of utmost importance-Kaplan says that tangible qualities such as skills, training and material resources are also imperative. Another aspect of organizational capacity building is an organization's capacity to reassess, reexamine and change according to what is most needed and what will be the most effective (Kaplan, 2000).

Since the arrival of capacity building as such a dominant subject in international aid , donors and practitioners have struggled to determine a concise mechanism for determining the effectiveness of capacity building initiatives. In 2007, David Watson, developed specific criteria for effective evaluation and monitoring of capacity building .Watson complained that the traditional method of monitoring NGOs that is based primarily on a linear results-based framework is not enough for capacity building (Waston, 2007). He argues that evaluating capacity building of NGOs should be based on a combination of monitoring the results of their activities and also a more open flexible way of monitoring that also takes into consideration, self-improvement and cooperation.

Watson observed 18 case studies of capacity building evaluations and concluded that certain specific themes were visible (Ubels, 2010).

In 2007, USAID published a report on its approach to monitoring and evaluating capacity building. According to the report, USAID monitors: program objectives, the links between projects and activities of an organization and its objectives, a program or organization's measurable indicators, data collection, and progress reports. USAID evaluates: why objectives were achieved, or why they were not, the overall contributions of projects, it examines quantifiable results that are more difficult to measure, it looks at unintended results or consequences, it looks at reports on lessons learned. USAID uses two types of "indicators" for progress. "Output indicators" and "outcome indicators." Output indicators measure immediate changes or results such as the number of people trained. Outcome indicators measure the impact, such as laws changed due to trained advocates (Duane, 2007).

Capacity Building is much more than training and includes the following:

- Human resource development, the process of equipping individuals with the understanding, skills and access to information, knowledge and training that enables them to perform effectively.
- Organizational development, the elaboration of management structures, processes and procedures, not only within organizations but also the management of relationships between the different organizations and sectors (public, private and community).
- Institutional and legal framework development, making legal and regulatory changes to enable organizations, institutions and agencies at all levels and in all sectors to enhance their capacities (Barnes and Asa'd, 2003).

2.5 Accounting Practices Effectiveness

Accounting practice has an important role in establishing financial reporting and accounting information that external and internal users use to assess the firm's financial status and performance. It enables firms to control their various units (Moilanen, 2008),

such as financial reporting present asset values, incomes, taxation expenses (Xiao, et. al, 1996).

Thus, the view accounting is a tool for administering resources efficiently, supporting to rational decision making (Quattrone, 2009), and support administrator to strategic planning, task processing improvement, and performance evaluation. Further, Hall (2009) argued that the role of accounting information can support manager to knowledge development, managerial work, and form of communication.

Accounting practice is the accounting process to collect, transform process, report, and disseminate reporting to users. Generally, accounting practice presents accounting information to organization for management (Hakansson and Lind, 2004) and it is a tool for efficient resource administration, and support appropriate decision making (Quattrone, 2009). Besides, accounting information evaluation is developed and it supports various objects such as subunits of organization, and event to be explained and evaluated performance in past, present and future. So, accounting has an influence on behavior and enhance knowledge of users, support establish cooperate for performance, monitor of administrator (Hakansson and Lind, 2004; Vosselman and Meer-Kooistra, 2009).

Accounting approach has disciplinary and calculative practice (Quattrone, 2009), such as assess cost, resource and expense allocation method, and budgets have been implemented to support effective decision making and performance measuring (Chandler and Daems, 1979).

It is defined as accounting practice to a delivery (Hakansson and Lind, 2004) and disclosure financial reporting to users appropriately, including effective information access of users. Accounting practice effectiveness provides financial reporting and then disseminate to various subunits in organization are coordinated to work so as to achieve goal and enhance adaptations of activities and resources across the boundaries of firms (Hakansson and Lind, 2004).

Likewise, accounting practice effectiveness has to provide report satisfaction for users, focusing on the benefit in helping supporting decision, resource allocation, and planning. Particularly in operating divisions, the report can be used to control and

improving division performance. The effectiveness of reporting dissemination affects administration when users can receive and understanding fast in reporting.

2.6 Financial Management Capacity Building

Financial management capacity building is a key way of achieving a more effective organization. This then leads to an improved program of activities. With strong financial management capacity, the group or organization becomes more able to control its own affairs. Without it, the future is often uncertain; it may be impossible to predict when money will be short and, crucially, it may become impossible to fund programs (Cammack, 2007).

There are four key groups who will benefit from financial management capacity-building:

- 1- Members of the management committee
- 2- The leader and managers
- 3- Non-finance and programed people
- 4- Finance people.

2.6.1 Financial Management Capacity Building for NGO Sustainability

Financial management consists of all the activities concerned with obtaining money and using it effectively and efficiently (Warren, 2005). Financial management involves careful planning and efficient use of resources. Proper financial management can ensure that financial priorities are established in line with organizational goals and objectives, spending is planned and controlled in accordance with established priorities and sufficient financing is available when it is needed both now and in the future (Pride et al., 2002). It's generally recognized that most developing countries have ineffective governmental financial control system. The serious deficiency in the financial control systems in most developing countries generally recognized as the major factor which facilitate the misuse of public resources and financial corruption in these countries (El - Nafali, 2008).

Another form of capacity building focused on developing capacity within organizations; i.e., NGOs. It refers to the process of enhancing an organization's abilities to perform specific activities. An organizational capacity building approach is used by NGOs to develop internally so they can better fulfill their defined mission. Allan Kaplan, a leading NGO scholar argues that to be effective facilitators of capacity building in developing areas, NGOs must participate in organizational capacity building first (Debora, 2005).

2.6.2 Specific Tasks of Building Financial Management Capacity

Financial management is making sure that an organization manages its resources well. The four specific tasks are the starting point for assessing and building financial management capacity as follows:

Planning and Budgeting

Top management defines their objectives for the year and forecast the cost of achieving them. This is the annual budget. As the year progresses, top management compares actual performance with budget forecasts. It can then decide whether any action is needed – for example, to increase or decrease spending, or undertake more fundraising. This regular monitoring of the budget also helps to manage donor funding and reporting.

Accounts Record-Keeping

A group or organization must keep accurate accounting records and up-to-date records of transactions. These are the basis of the information needed to manage the organization, and they will be used for internal and external financial reports

Financial Reporting

Financial reporting includes producing the annual accounting statements and reporting to beneficiaries, the donors, and (if necessary) the government.

Financial Controls

Top management is responsible for financial controls which protect property and equipment and minimize the possibility of error and theft, for example, a system for authorizing expenditure when a purchase is made. Finance staff can advise on which controls to introduce, but the leadership team must make sure that the controls are working effectively.

2.6.3 Obstacles Facing Financial Management Capacity-Building Process

Financial management capacity building can bring enormous benefits to an organization, yet, it is a challenging process. It takes time to develop a full understanding of how each organization works. Resources are not always available, so concentrate on ways of building financial management capacity that do not require high additional costs. Sometimes two organizations can help each other with no cost involved. If there are costs, for example, the costs of providing training for the staff ought to be planned in advance and discussed with the funding organization. When building any sort of capacity, it is important to be sure that the changes are ‘embedded’ into the organization as a whole. For instance, it should be ensured that more than one person is involved, and people should be encouraged to write down their new ways of working, as part of a simple procedure (Cammack, 2007).

If an individual, having been trained, decides to quit, the organization may not find the alternative. Similarly, when a donor is funding an organization a capacity building training, it may not know how long its commitment is likely to last, and whether the funding will continue. Here, it should be ensured that an organization itself ‘owns’ the capacity being built, so that any change of donor has less impact. The organization should be continually preparing itself for the eventual departure of each donor (Cammack, 2007).

CHAPTER THREE

RESEARCH DESIGN AND METODOLOGY

3.1 Research Design

The research involves both quantitative and qualitative methods. As the study is about finding out the changes brought in the accounting practice of local NGOs working with Pact in the implementation of YB for HVC program assessing both the perspective of the staffs of the organization and the empirical data would be required. In connection to this, the perspectives of the organizations' leaders, the accounting and finance section staffs and clients of the department was assessed qualitative approach. On the other hand, the practice of the accounting system and the consistency of the practice with the recommendation of GAAP was empirically tested /reviewed based on the actual practice of the organization by reviewing the accounting records, supporting documents, financial reports, monitoring findings and recommendation reports and audit reports.

The change in the accounting practice is tried to assessed using a mix of a before and after quasi experimental design and time series analysis. Pact conducts different kinds of capacity assessments before accepting implementing partners for the implementation of different development interventions. One of the capacity assessments that are expected to be conducted for such purpose is management capacity assessment tool (MCAT). The management capacity assessment covers the accounting procedures, internal controls, financial management, policy environment and sub-grant management of the potential partners (Pact, 2012). Each of these areas was assessed in detail using measures that serve as indicator for the respective category.

The performance and capacity of the potential partners was assessed using a six scale i.e.

1. Never/Definitive "no"
2. Rarely/Demonstrated capacity as limited.
3. Sometimes/Capacity evident but lacking in critical areas.
4. Usually/Adequate capacity in most areas.

5. Often/Good capacity with only minor improvements required.
6. Always/Definitive "yes"/Strong capacity.

These points were given based on review of the policies, procedures, different documents related to the specific area of assessment. The average score for each of the major categories was calculated and average of average was used as a measure of the overall capacity of the organization. Based on the findings of the assessment, write reports that include the summary of the findings, recommendations for improvement, proposed special award conditions and capacity building priorities.

As was true for the general practice of Pact, MCAT was undertaken prior to the inclusion of local NGOs in the program as implementing partners. This study used as a baseline data (the before scenario) and compare the result of MCAT that is conducted as part of this study with the baseline and approximate the change. The depth of study is enhanced using by analyzing the major gaps and strengths identified in the subsequent grant and financial monitoring visits conducted by pact team as part of the capacity development support.

3.2 Sampling and Sample Size

Convenient sampling technique was used in the selection of local NGOs working as implementing partners of Pact in the implementation of YB for highly vulnerable children program. The convenience was determined by the location of the implementing partners in Addis Abeba. Based on this, 6 implementing partners were included in the study. This number is thought to be sufficient enough to get the required data for the study purpose.

For the qualitative aspect, 3 peoples such as top level managers, finance and admin managers and lower staffs, finance officer or accountants from each IP's were interviewed in the study. But as it is true for qualitative studies, the sample size is subject to saturation criteria.

All organizations included in the qualitative data collection were included in the quantitative study also.

3.3 Data Collection Instruments and Method

Semi structured in-depth interview guide and a questionnaire were used in the collection of the qualitative and quantitative data respectively. In light of this, qualitative data was collected from key staffs who have detailed information about the organization accounting practice through the use of in-depth interviews. The interview was focused on finding out the accounting practice of the organizations, the nature and type of the capacity development support they got from Pact, and the effect of Pact capacity development support on the accounting practice of the organization.

In addition, quantitative data was collected using a 6 scale Likert scale. As the study is using the MCAT, the scales were applied to the variables thought to determine the capacity of the organization in each of the major areas of capacity assessment indicated above. In addition, all financial and grant monitoring reports and audit report conducted in the study period were reviewed as a complement to the MCAT.

The data collection tools other than the MCAT was reviewed by the experts in the area and be tested for its validity and reliability before the actual conduct of the study. The review and approval of the in-depth interview guide by veteran experts was sufficient. Given the fact that MCAT is a standard tool and modifying it might affect the measurement of change difficult, the study was use the exact copy of the MCAT tool used to assess the before case scenario at time of base line survey.

3.4 Method of Data Analysis and Presentation

The quantitative data analysis was included measure of central tendency and test of statistical significance. As measure of central tendency, mean was used. In connection to this, standard deviation of the respective analysis was calculated to see the nature of the distribution, the variation among the responses. The values were tested for significance level using related two sample t-test. Thematic and chronological analyses were used in analyzing the qualitative data. Issues were coded, grouped and analyzed thematically. Occurrences of events was analyzed and presented following their chronological time.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Nature of Capacity Development Supports and Perceived Quality

Training on USIAD rules and regulations on accounting and financial management, mentoring and feedback provision on reports were reported as the major capacity development supports provided by the implementing partners. Data from the records of Pact grant and finance unit show as staffs from IPs implementing YB for highly vulnerable are trained on financial management, internal control, grant and procurement management and also human resource and property management at different period. In addition to the training, all the IPs covered in the study reported as they have been monitored by Pact finance and grant team at least once every six month. The key informants of the IPs also reported as they get feedback on their financial reports whenever they submit financial reports for settlement and as the requirement for request for cash transfer.

Speaking about the content, quality and benefit of the trainings, almost all respondents indicated as the trainings are invaluable in equipping the staff with the knowledge and skills required to manage grants. The training covers internal control, budget monitoring, budget procedure, cost allocation, cost principles, allowable and non-allowable costs- and others which are major and important.

All of the study participants believe as the training deliver both in terms of content and facilitation is very good. In addition to the content and facilitation of the training, the key informants indicated as the inclusion of the top management in the training help to enhance the engagement and support of the top management for finance people. It was also indicated as refresher training is organized and delivered on yearly basis- giving a chance for new staffs.

Technical supports during supportive supervision visits by Pact finance and grant team are reported as the most effective capacity development support the IPs are getting. As reported by the IPs staff, during such visits the procedures being followed, the financial records and reports are carefully examined, areas of improvement are identified in a participatory manner, and corrective measures and recommendations are usually forwarded to the top management and the finance team of the IPs by the visiting team. This was indicated as instrumental in helping the IPs to improve their system and fill gaps. In connection to this, most of the respondents mentioned as the visits serves them as an internal auditor (controller) which most do not have due to their inability to hire such staff.

4.2 Perceived Benefits of the Capacity Development Supports

All of the study participants believe that the capacity development support of Pact is value adding in improving the accounting and finance system of implementing partners. The responses of most of the implementing partners staff showed that the financial management training provided to the staffs were beneficial in enhancing the knowledge and understanding of the staff on the standards and procedures of USAID. In connection to this, most of the respondents indicated as it had helped them to improve the compliance (adherence to the rules and regulation of USAID) and improve their relationship with Pact.

Moreover, most of the respondents expressed as the monitoring serve as a constant reminder to stay cautious. Here, one of the interviewee said “Sometimes when you live with problems you may not notice that they exist.

“We learn from the feedback....accounting is something where you learn new things every time.....discussing with the staff of Pact on issues of concern and addressing gaps by itself could be considered as capacity development support.....and the results are usually positive”

Head of FIDO Finance Department

When someone come and tells you your problems then these problems come to your attention and you take corrective measures.” Some of the key informants reported as their

quality of reports, burn rate, and internal control system over assets, and documentation of financial data improved.

Even those few respondents who claim as their accounting and finance system were strong before the support of Pact, reported as the support helped them to improve their capacity in the area of VAT and reimbursement, grant management and in some internal control issues. Expressing the effect the capacity development support has on the accounting and finance system said

4.3 Challenges Related to Working with Pact

The major challenges raised in relation to working with Pact and the capacity development support are haphazard transfer of funds, difference is the compliance guide of Pact and auditors on VAT and focus on a specific project.

“We have adapted a good monitoring system. We have introduced improved data management system- for example previous accounting and financial data was not available for program staff, now it is shared...the program people could also access it from the database as it is shared and make informed planning and decision using the data...this is intended to improve their responsiveness and ability to use the data(improve communication as well).....at organizational level this will facilitate the development of skill.....so in the future we can manage similar projects from distance with ease of communication”

“We can also use/apply Pact standards and manuals in the management of other projects...we will not start from the scratch”

In connection to this, it was indicated as the capacity development support is aimed at enhancing the implementation capacity of the partners on the projects being implemented with Pact. As a result apart from the top management of the organization, non-Pact project staffs do not get the chance to participate in the different capacity development trainings. On top of this, lack of focus as organizational level impedes the way the overall accounting and finance system capacity development is managed. This is because in addition to the implementation, other elements like planning (budgeting) and financing are missed.

Few of the respondents have also expressed their concern on their ability to motivate and influence given that projects are for limited period of time i.e. 3-5 years in the case of Pact. Here, it was indicated as the staff feel insecure and become unstable as the project get closer to the end just like the state the IPs are in now; making it difficult to motivate the staff. This is worse when one implements USAID project as one cannot be certain as it will even stay for the approved project life.

4.4 Perceived Limitations of Pact Capacity Development Supports

Unwillingness to take in to consideration the context in which the IPs operate is mentioned as the other key limitation of Pact capacity development support by almost all of the key informants contacted from the implementing partners. This is particularly true for demanding VAT receipts in a very rural setting, having insurance for certain kinds of facilities, and staffing requirement without allocation of proportional cost. Few of the IPs which have projects out of Addis also expressed as they are required to present headed and pre numbered receipt from areas where it is not possible to get such receipts. Advice for paying house rent on monthly bases which is practically difficult to release cash from Pact.

Some of the IPs staff also reported as Pact monitoring teams' willing to see the perspective of the IPs is very limited in most cases. Yet, all reported as they work hard to address the feedbacks regardless of the manner in which the feedbacks are given. As to some of the respondents them, this is mainly because, not addressing the issues/comments given by Pact team/ will have consequences that affect the whole organization for the fact that it is one of the major donors.

In addition, some of the respondents have indicated as sometimes some of the problems that the monitoring teams identify emanate from Pact. As an example for this one of the respondents raised the issue of delay in cash transfer which hinders the ability of the partners to implement activities as planned and result in low burn rate. Despite this, the respondent said, the will not take for granted as they had a role in the problem.

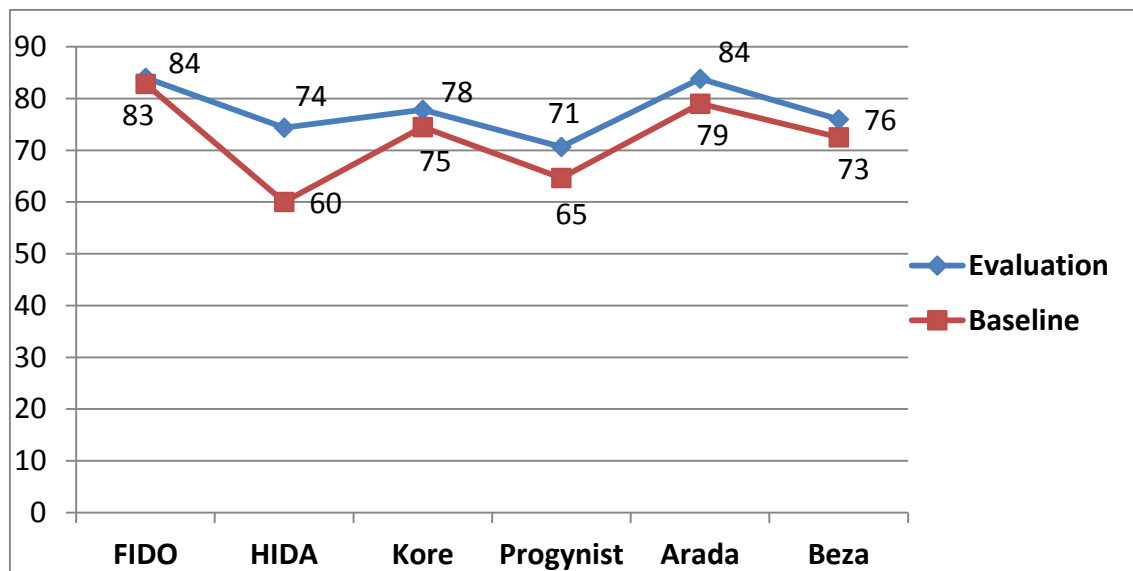
Though some respondents mention delivery of trainings based on the nature of the project as a limitation by few IPs, it is difficult to take this as such. This is because IP specific issues are being addressed through mentoring and coaching.

4.5 Changes in the Risk Level of the Implementing Partners for Grant

Management capacity assessment is one of the pre award assessments conducted by Pact to assess the risk level of potential implementing partners wherever the potential partners are considered for grant upon securing grant from donors. Potential partners with a score of 0 - 20 % are considered as extremely high risk, 21- 35% as high risk, 36 - 50 % as moderately high risky, 51 - 70% moderate risk. On the other hand, those with a score of 71 - 85% are considered to have moderately low risk while the risk with those having a score of 86 - 100% is taken as low. In light of this, the risk level of all the implementing partners has declined at the time of the study when compared with the baseline status.

As can be seen from Figure 4:1 below the score of all IPs have shown improvement i.e. the risk level has reduced. FIDO which had the highest score during the baseline seems to improve a little. In contrary to this, HIDA which had the lowest score during the baseline has shown the highest improvement. Kore, Progynist, Beza and Arada have shown a moderate improvement.

Figure 4:1 Comparison of Baseline Risk Level with the Evaluation



The statistical significance of the change in the mean score of the IPs was analyzed using one sample t test for comparison on means. Accordingly, the mean score

at the time of evaluation ($M=4.7$, $SD=0.5$) was found to be higher than that of the baseline ($M=4.3$, $SD=0.3$), $t(4.7, 5) = 35.9$, $p < 0.001$.

4.5.1 Accounting Procedures

The general accounting practice of the implementing partners covered the general system, receipts and handling of cash, disbursement and recording, bank accounts, petty cash records, ledger, journal and payroll and salary issues. The mean aggregate score of the IPs against accounting procedures was found to be 5.03. This signifies good capacity with only minor improvements as indicated in the rating scale of the tool. This is higher than the baseline figure i.e. 4.52. The change in the overall score of the accounting procedure was not found to be a function of a single construct of the accounting procedure index. Yet, higher levels of changes are observed in the area of journal, receipts and handling of cash and discernment and recording. On the other hand, changes in terms of the general system found was to be very low as can be seen from the table.

Figure 4:2 Changes in Accounting Procedures

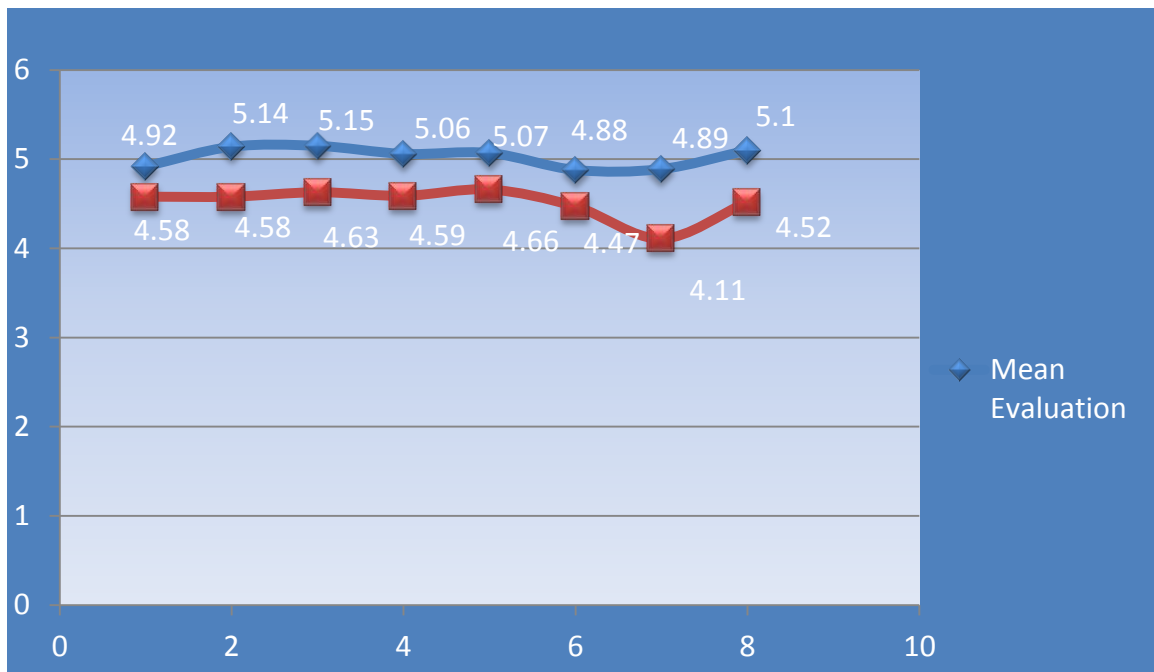


Table 4:1 Change in Accounting Procedures of Baseline & Evaluation Mean

	Mean Evaluation	Mean Baseline	Difference between the means
General system	4.92	4.58	0.34
Receipts and handling of cash	5.14	4.58	0.56
Disbursement and recording	5.15	4.63	0.52
Bank accounts	5.06	4.59	0.47
Petty cash records	5.07	4.66	0.41
Ledger	4.88	4.47	0.41
Journal	4.89	4.11	0.78
Payroll	5.1	4.52	0.58

Table 4:2 Major Baseline Survey Findings on Accounting Procedures

Major Baseline Survey Findings on *Accounting Procedures*

A. HIDA

Identified Areas for improvement at the Time of the Baseline	Current Status
1. Cash deposits are properly retained but not authorized by responsible person.	Currently all cash deposits that are received from different parties properly and regularly authorized by responsible person.
2. The details of each check payment are not recorded on the check stub.	The check stubs, details are payments description; amount, date, reference numbers are recorded properly.
3. Some procurement was not supported with respective approved purchase requisition and procurement documentations.	It is observed that most purchase have fulfilled with necessary procurement documentations.
4. VAT tracking system is not experienced	The organization maintains VAT tracking

in the organization to identify reimbursed or not.	mechanisms and reconcile with donor records.
5. Journal entries and some other records are properly prepared but not approved.	It is noted that most transactions are approved by responsible persons.
6. Payroll records are maintained, but attendance sheet did not prepare and not properly kept on the file.	The organization maintains properly kept and signed by both employee and its supervisor of attendance sheet for each month along with payroll record.
B. FIDO	
1. There was no cash book registered for all petty cash and bank accounts.	The organization starts to hold cash book register to track and reconcile its cash balance for all bank accounts.
2. No formal system of handling time sheet and it is not convenient to show clearly the time spent on projects.	Based on the recommended time sheet formats, they start to fill and charge the project as per the time spent.
3. Some Journal entries for recent transactions did not approved by the concerned parties	It is noted most transactions and journal vouchers are approved by responsible persons.
C. KORE	
1. Physical petty cash counts are only carried out at the end of the year for audit purpose.	It is observed, they start counting of petty cash remaining amount with replenished figure and surprise cash count also taken at some level.
2. Journal entries, Payment voucher, petty cash voucher are made timely, but not approved.	It is noted most transactions and payments are reviewed and approved by responsible persons.
3. There is no accounting software	It is observed that, they start to using "Peach tree" accounting software.
D. PROJINIST	
1. Sample cash receipt vouchers tested	Presently any cash collection from donors,

show that cash collections are not deposited in bank timely.	staffs, Vendors etc... Timely deposited on proper bank account and reconcile at end of the month.
2. Some payments made for making purchases are not supported by purchase request (PR) & purchase order (PO).	Essential supporting documents for purchasing process are attached on each payment clearly.
3. No official receipt and bank deposit slip is attached to support cash refund from vendors.	For any cash refund and received they gives proper cash receipts and file with other supporting documents.
4. Journal voucher (JV) was not used to transfer or adjust accounts from one ledger to another.	It is noted journal voucher system was started for adjustments and other transactions.
5. Time sheet was not used properly and regularly used by all employees. Only employees paid from Pact project prepared time sheet.	The organization keeps using uniform and regular time sheet mechanisms for all employees and projects.
E. BEZA	
1. Cash collection are immediately recorded but not timely deposited as per the organization procedure.	As per the organization policy, timely deposits any collection of cash to bank accounts.
2. Some payments are not supported with appropriate financial documents.	Most of the effected payments are supports with necessary financial documents.
3. The person who prepares the journal vouchers and the one who authorizes was the same person.	They org. create mechanisms separate persons for Journal preparation and approval on financial documents.
4. Proper memo or letter is not prepared for salary increments.	For any salary adjustments for all staffs there is properly filed letters are keep on staff personal file.
5. Timesheet is not used though the IP had been direct USAID fund recipient.	Presently based on Pact the recommended time sheet formats, they start to using and filling as per the time spent.

6. Some financial documents are missing from file.	Proper filing management systems are created for all necessary documents.
F. ARADA	
1. Sometimes cash received did not immediately deposited to bank account	Any cash received is immediately deposited and promptly recorded on the system.
2. When payments are effected necessary supporting documents did not attached.	Before any payments are effected verify and check supporting documents are fulfilled.
3. Salary payments did not accurately charge to the cost centers.	As per timesheet, salary payments are properly to the respective project.

4.5.2 Internal Control

To examine the soundness of the internal control system of the implementing partners', segregation of duties, design and use of records and safeguards over records were assessed. The internal controls mean score of the 6 IPs was found to be 4.48, showing slight improvement from the baseline which was 4.14. Though the level of segregation of duties and design and use of records are good, the performance in safeguarding over records remains to below.

Figure 4:3 Changes in Internal Control

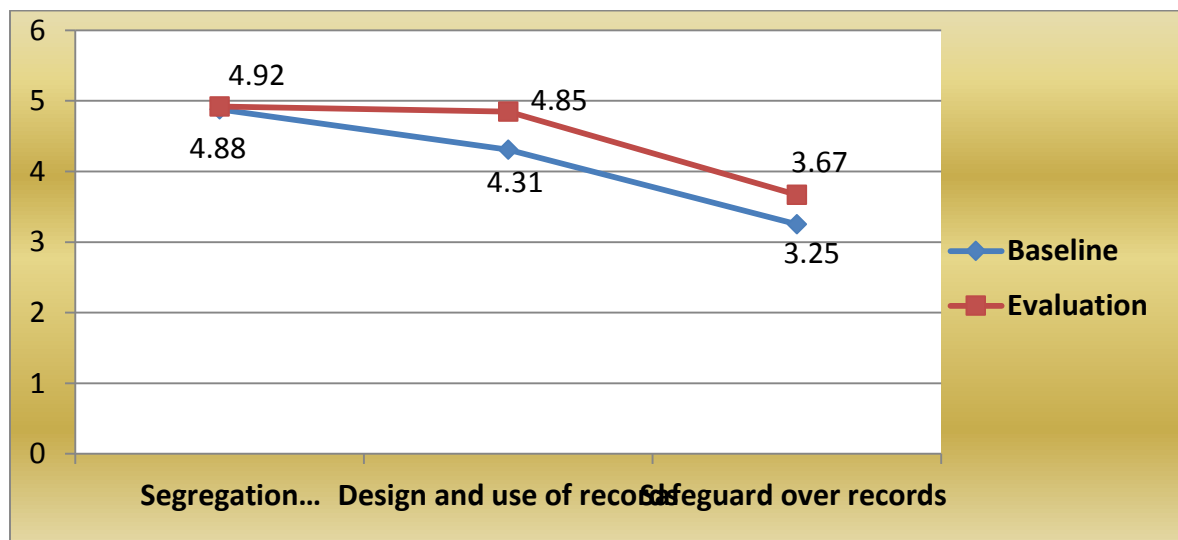


Table 4:3 Changes in Internal Control of Baseline and Evaluation Mean.

	Mean Evaluation	Mean Baseline	Difference between the Means
Segregation of duties	4.92	4.88	0.04
Design and use of records	4.85	4.31	0.54
Safeguard over records	3.67	3.25	0.42

Table 4:4 Major Baseline Survey Findings on Internal Control

Major Baseline Survey Findings on *Internal Control*

A. HIDA

Identified Areas for improvement at the Time of the Baseline	Current Status
1. Backups were not maintained on regularly basis which is risky.	Backup file is maintained in every end of the month, It helps to decreases the organization risks.
2. In some paid financial documents “paid Stamp” did not stamped.	To avoid double payments the org. start to stamp “paid stamp” on payment voucher and its supporting documents.
3. No insurance coverage for fixed assets except for vehicles	It is noted there is insurance coverage for some materials.
B. FIDO	
1. Sometimes copy of financial documents was used to process transactions or to effect payments.	It is shown that, the organization is totally avoiding copy financial documents to effect and process any payments.
C. KORE	
1. Immediately processed financial documents was not stamp “paid Stamp”.	To avoid double payments or re-used of documents the org. start to act immediate stamp “paid stamp” on financial documents.

D. PROJINIST	
1. PAID stamp is not properly used for most payment vouchers & documents.	To avoid double payments of documents the org. start to stamp “paid stamp” on financial supporting documents.
2. Insurance cover is not available for all assets except for vehicles.	Currently there is insurance coverage for office equipment’s and furniture’s.
3. The “Peach Tree” accounting system allows to make correction at any time (even after closing of accounts).	Presently the financial software does not make any correction after closing of monthly report. Rather it take adjusting entries are made in next month.
E. BEZA	
1. For short period of time check preparation and signing of check were done by the same persons.	The org. totally avoids such kind of experience and start to segregate duties.
2. PAID stamp is not properly used for payment vouchers and documents	To avoid double payments or re-used of documents the org. start to stamp “paid stamp” on supporting documents.
3. No insurance warehouse or store.	They start insurance coverage for the organization vehicles only.
F. ARADA	
1. At some level copy of documents was used to effect payments.	Only original documents are used to process transactions.
2. Insurance coverage for office materials was not adequate.	Adequately the office major materials have insurance coverage.

4.5.3 Financial Management

Budgeting, budget tracking and reporting, and auditing (statutory audits) are key elements financial management in the assessment organizational management capacity. Knowing of this fact, the capacity of the implementing partners of Pact

included the study. Accordingly, the mean score of the IP's on financial management was found to be 4.7. Examination of the score of each variables under financial management show as the score of auditing is the highest followed by budgeting and tracking and reporting as can be seen from figure 4:4. Comparison of the score with the baseline indicated as there is slight improvement in all aspects of financial management. The overall mean score at the time of the baseline assessment was 4.42 for financial management. The change in USAID experience seems insignificant. The change in the mean score of the IPs against the indicator was only 0.15, the baseline score was 4.23 while that of the evaluation is 4.38.

Figure 4:4 Changes in Financial Management

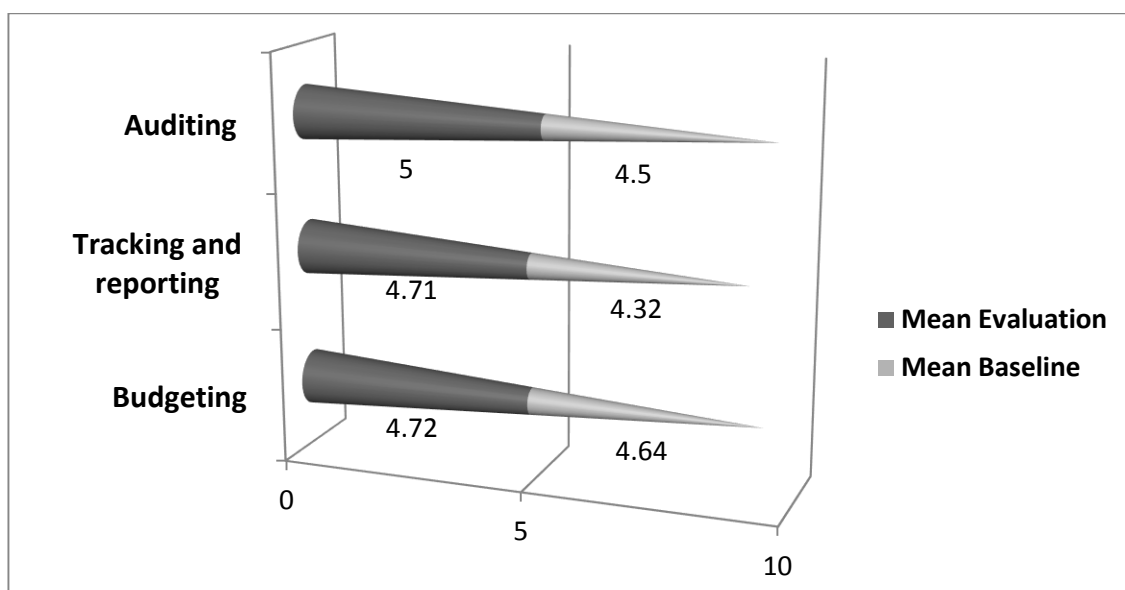


Table 4:5 Changes in Financial Mag. of Baseline & Evaluation Mean

	Mean Evaluation	Mean Baseline	Difference between the Means
Budgeting	4.72	4.64	0.08
Tracking and reporting	4.71	4.32	0.39
Auditing	5	4.5	0.5

Table 4:6 Major Baseline Survey Findings on Financial Management

Major Baseline Survey Findings on *Financial Management*

A.HIDA

Identified Areas for improvement at the Time of the Baseline	Current Status
1. Monthly financial management meetings were not regularly held with budget managers to address financial issues.	It is observed that financial management meetings are conducted to address the budget and financial issues.
2. Long term organizational financial cash projection was not made.	It is noted that annual financial cash projection is made on the org. annual financial plan.
3. Management did not timely review and take action on financial reports to donors.	Higher officials act and made a decisions timely on financial reports.
4. There was no mechanisms were maintained for VAT expenses were tracked separately.	There is a mechanism for trucking such expenses and reconcile with reimbursed VAT expenses.
B. KORE	
1. The IP's did not accounting software. It uses excel sheet for report preparation. Everybody could access the system easily.	It tries to maintain accounting software for financial transactions.
2. The management did not timely address the recommendation given by external Auditors.	The org. is acting to implement the auditor's recommendations substantially.
C. PROJINIST	
1. The community contributions cost share reports are not supported by	It is shown that cost shared reports and documentations such as minutes, attendance

verifiable documents.	sheets at market value is maintained and properly filed.
2. No purchase order (PO) system was established to purchase from winner supplier.	Purchase order (PO) system is established for purchase of office materials.
3. The management could not response timely for Audit findings.	For current Audit period the mgt takes immediate actions for the findings that are raised by the Auditors.
D. BEZA	
1. There is no access level on their accounting software.	It maintains different access level on accounting software on financial transaction level.
2. There is no regular financial meeting unless there is budget variance.	Regular financial status reporting period with program or project owners staffs.
3. There is no proper documentation of records of cost share contributions.	Properly established systems on excel sheet to truck cost share community contribution report.
E. FAAYYAA/ ARADA	No change in all financial management.

4.5.4 Policy Environment

Compliance with government laws, policies, and regulations; personnel policy and management; travel and transport policy management, property policy and management and asset and liabilities were used in constructing the index for policy measurement. As can be seen from figure 4:5, there is positive change in all of the elements of the index. Higher level of improvement is observed in the case of assets and liabilities. All the other constructs were higher at the initial stage and did not exhibit much difference at the time of the study.

Figure 4:5 Changes in Policy Environment

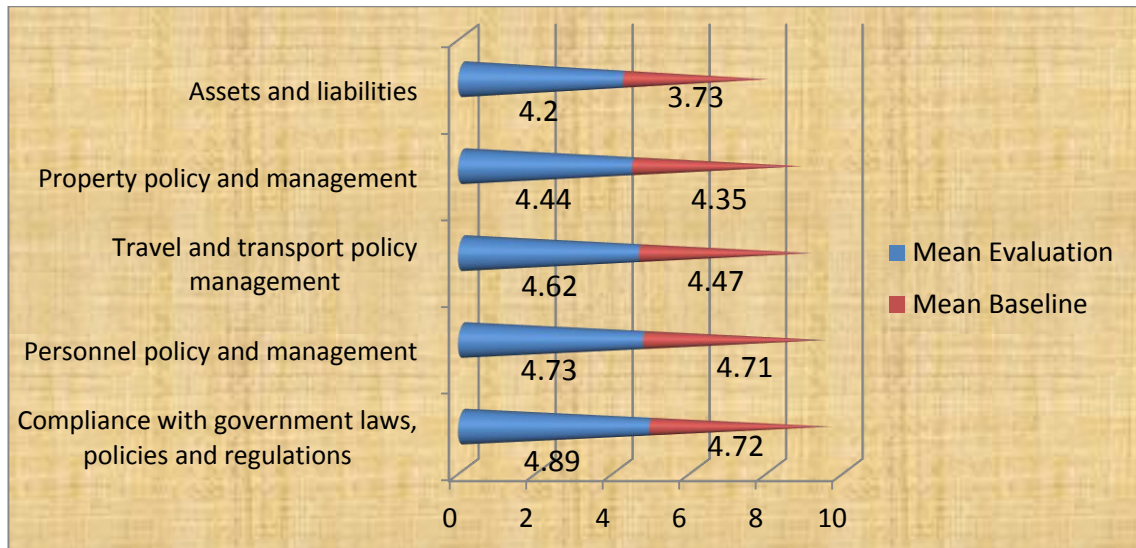


Table 4:7 Changes in Policy Environment of Baseline & Evaluation Mean

	Mean Evaluation	Mean Baseline	Difference between the Means
Compliance with government laws, policies and regulations	4.89	4.72	0.17
Personnel policy and management	4.73	4.71	0.02
Travel and transport policy management	4.62	4.47	0.15
Property policy and management	4.44	4.35	0.09
Assets and liabilities	4.20	3.73	0.47

Table 4:8 Major Baseline Survey Findings on Policy Environment

Major Baseline Survey Findings on *Policy Environment*

A. HIDA

Identified Areas for improvement at the Time of the Baseline	Current Status
1. The org. was maintained log book but it did not show the vehicle fuel consumption	The org. establishes newly form to control the vehicles fuel consumption.

per KM.	
2. Fixed asset inventory was not well documented and filled. And also some fixed assets are missed.	Timely the annual fixed asset inventory is undertaken with assigned staff members and documented on proper places.
3. Some procurement was not supported with adequate documentation including quotations, requisition notes, purchase orders.	It is observed that, before effect the payments for procurements support with necessary financial documents.
B. FIDO	
1. There was not a documented policy on "conflict of interest".	The organization starts to maintain "conflict of interest" policy and signed by all staff members.
2. The fixed asset inventory is not checked by management regularly such as yearly or quarterly bases.	At end of every year the management committee check, decide and follow on the fixed asset inventory report.
C. KORE	
1. There is a documented policy on "conflict of interest".	They start to maintain "conflict of interest" policy and signed by all staff.
2. Staff number was not adequate for program implementation and support operations	To implement the planed project operation the required staff's members are hired.
D. PROJINIST	
1. On travel policy, international travel procedure was not addressed by the travel policy.	The organization travel policy is amended and it includes the international travel procedures.
2. Fixed asset registration has not been updated & basic information like acquisition cost, model #, and engine # are not included.	The fixed asset registration sheet is updated and includes additional necessary information.
3. Policy on conflict of interest is available but not signed by all staff and attached with	The organization starts to maintain "conflict of interest" policy and signed by

personal files.	all staff members.
4. Vehicle log sheet did not address with regularly to control fuel consumption.	Log sheet is starting to use with necessary information for the trip.
E. BEZA	
1. Salary increments are not communicated to the employee in a written form.	Any salary amendments are timely given in written form to each employee and attached on their personal file.
2. Some effected payments or procurement was not supported with adequate documentation.	All procurement is supported with adequate documentation including quotations, requisition notes, purchase orders etc.
F. ARADA	
1. Additions and disposals of assets were not authorized.	Disposals and additions of assets are properly managed and recorded in the accounts and asset register.
2. Assets did keep in suitable and secure locations.	The org assets are properly keeps in a good condition stores.
3. Somehow competitive procurement process solicitation of vendors was not practiced.	For most procurement process proper quotation evaluation process are takes place with brief justification.

Table 4:9 Comparisons of Mean – One Sample T- test

	Baseline(mean score)	Evaluation(mean score)	t value	P value
Accounting procedures	4.5	5	126.8	< 0.001
Internal control	4.1	4.5	11.05	< 0.05
Financial management	4.5	4.8	50.6	<0.001
Policy environment	4.4	4.6	38.4	<0.001

As can be seen from above Figure 4:9, the hypothesis of all variables on one sample T-test to assure to compare the two groups average means. i.e. one sample t-test score of P-Values are > 0.05 . The baseline mean score of all variables are greater than that of evolution mean. Accounting practices which had the highest score during the baseline, score highest improvement also. On the other side policy environment, which had the medium score during the baseline has shown the lowest improvement. Internal control and financial management variables are shown medium improvement.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Summary and Conclusion

The study was aimed at assessing the effectiveness of the capacity development support of Pact in improving the accounting system and practice of local NGOs working with it in the implementation of YB for highly vulnerable children program in Addis Ababa. The findings of the study showed that the capacity development supports of Pact are effective in improving the accounting systems and practices of the implementing partners. This is well observed in the improvement of the MCAT scores of the implementing partners and the major critical gaps identified during the baseline.

Training on USIAD rules and regulations on accounting and financial management, mentoring and feedback provision on reports were found to be the major capacity development supports provided to the local NGOs. In connection to this, the technical supports (mentoring and coaching) during supportive supervision visits by Pact finance and grant team was reported as the most effective support. The most significant changes observed were improvement in compliance (adherence to the rules and regulation of USAID) and reduction in the risk level of all the implementing partners as measured by MCAT. The mean score of the NGOs at the time of evaluation ($M=4.7$, $SD=0.5$) was found to be higher than that of the baseline ($M=4.3$, $SD=0.3$), $t(4.7, 5) = 35.9$, $p < 0.001$.

To further enhance the capacity level of the NGOs, Pact needs to revise some of its capacity development directions. This includes conducting more frequent capacity assessment using MCAT, widen the scope of the CD support and include key staffs, make effective use of mentoring for tailored support and foster positive communication environment. Moreover, facilitating cash transfer in a timely manner as per the agreed work plan and budget needs to be addressed if the overall improvement of the IPs operation and system is desired.

5.2 Recommendations

Even if the capacity development support of Pact was found to be effective in reducing the grant managing risk and improving their gaps identified at the initial stage of the project, there are areas that need to be improved for better results. Based on the findings of the study the following actions are recommended to be considered in future capacity development support of Pact:-

1. The management capacity assessment is primarily undertaken to determine the risk level of the potential implementing partners and come up with risk reduction strategies if the implementing partners qualify for the grant. As a result the extent to which the rigorous assessment process followed and findings documented are used is very limited i.e. least used as a general guide in delivering the capacity development support. This is because MCAT is conducted only once in a project like-prior to the commencement of the implementation of the project. Yet, capacity development is dynamic by its nature and need a sustained effort. Thus, it would be beneficial if Pact considers MCAT as a key input for the continuous capacity assessment development support. A yearly exercise of MCAT might be very appropriate.
2. The capacity development support is purely focused on the implementation capacity of the implementing partners regarding the project financed/granted by Pact, limiting the scope of the capacity development support. In connection to this, it was also indicated as it is only the project staff and the top management who get the chance to participate in and benefit from the support.

It would be good if the capacity development support is broad enough to enhance the overall capacity of the finance department of the IPs while striking the balance in maintaining the focus on the project implementation capacity. This is very important as it will facilitate institutional learning and capacity development. As a result the fruits of the capacity development

support will be sustained and will not evaporate with the completion of the project.

3. Given the fact that trainings are designed based on the nature of the project and USAID requirement, alternative means of delivering tailored capacity development supports should be sought. In connection to this, mentoring could be the best option as Pact finance and grant team have a number of opportunities to provide specific technical support to the implementing partners staff.
4. Effective communication is vital in capacity development supports. Thus, demonstrating a team spirit, being open to listen and understand the perspectives of the implementing partners and being considerate of the local contexts should be considered as core principles of the capacity development support. This will help to enhance the buy in of the recipients of the support and their commitment for making a difference. Nevertheless, consideration of the local contexts should not be at the expense of the violation of the basic accounting principles and practices.
5. The knowledge and understanding of the program people on basic accounting and finance is thought to help in improving the overall performance of the finance system as they are involved in the management of such tasks on the field. In light of this, it would be good to look for means by which the program staff could get training as part of the capacity development support.
6. The operation of the implementing partners and their management of the cash and non-cash resources is highly dependent on the timely delivery of required resources to the IPs by Pact. This is particularly true for cost absorption by the implementing partners. So, the budget (cash) transfer from Pact to the implementing partners should be done in a timely manner.

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Annex 1 Interview guide

“Evaluation of Capacity Development Support on the Accounting Practice of Local NGO’s”

Semi-Structured Interview Guide

Identification number of implementing partner _____

Interviewee Identification Number _____

Identification number of the interview position in the organization: _____

Number of years of service in the organization of the interviewee _____

Name of interviewer: _____

Date of interview: (mm/dd/yy) ___/___/___

Introduction and Consent

Greetings.

How do you do?

I am Tewodros Tamene. I am a study on the effect of Pact organizational capacity development support on the accounting practice of YB for highly vulnerable children program partners in Addis Abeba. From the partners you are selected. You are selected for this interview based on the nature of the study and the role you assume in the organization. The information you will give us will help those organizations and people who work to improve the accounting practice of similar organizations in an effective and efficient manner. The interview will approximately take 20 minutes to complete. Whatever information you provide will be kept strictly confidential and will not be shown to other people.

Participation in this study is voluntary. However, I hope that you will participate in this study because your views are important. Are you willing to be interviewed to share us your view with a maximum of 20 minutes stay together?

List of Interviewee Questions:

1. What kind of capacity building supports have you got so far from Pact within the project life?
2. Have you been monitored by Pact finance/grant team members so far? If so how do you notice the importance of such monitoring visits?
3. Do you think you have benefited professionally and organizationally from the capacity development supports of Pact in general? If so, how? What specific benefits have you got?
4. What improvements have you made or introduced to the accounting practice of your organization as a result of the capacity building supports? Probe what about the leadership?
5. What are the major challenges that your organization is still facing with respect to the accounting practices?
6. How do you see the comprehensiveness and adequacy of the capacity development support of Pact?
7. Do you get similar capacity development support from other organizations? If so, do you think the capacity development supports are redundant or they are complementary? How?
8. What are the three most important things you like about the capacity development support of Pact?
9. What are the three things you do not like about the capacity development support of Pact?
10. What do you recommend to Pact to improve the effectiveness of Pact or similar capacity building supports to your organization?

Thank You!

Annex 2 Questionnaire

St. Mary University
School of Graduate Studies
MBA Accounting and Finance

The purpose of this MCAT questionnaire is to collect data for the thesis work in requirement for partial fulfillment of MSC degree in Accounting and Finance at St. Mary University.

The study aims to evaluate Yekokeb Berhan project capacity development supports on the accounting practices of local NGO's. I would like to emphasize that genuine, honest, and prompt response of yours is a valuable input for the quality and successful completion of the research paper.

I can assure you that the information you provide will be treated completely confidential and will not be used for any other purpose, it will use only for academic purposes.

I thank you very much in advance for your cooperation and for sacrificing your valuable time.

PART I: Respondents Information

1. Number of years you have worked for this organization (in years) _____
2. Number of years working on this job (in years): _____
3. Age (in years): under 25, 25-34, 35-44, 45-54, 55 and above
4. Sex: Male Female
5. Educational Qualification:
 - High school Graduate
 - Technical School graduate
 - College Diploma
 - BA/BSc Degree
 - Master's Degree
 - PhD
 - Other (please state _____)

PART II: Questions Related to the Accounting Practices of the Org.

Listed below are the major accounting practices of your organization. Please indicate your level of agreement with the statements. So that your answers to these questions will enable me to evaluate what you think about the capacity development supports on your organization accounting practices.

Please give your responses to the following questionnaire by marking (✓) **under 1** for “**No Support**”; **under 2** for “**Inadequate**”; **under 3** for “**Somewhat adequate**”; **under 4** for “**Adequate**”; **under 5** for “**Very adequate**”; **under 6** for “**Strongly adequate**”.

**MANAGEMENT CAPACITY ASSESSMENT TOOL
(MCAT)**

Name of Organization:
Date of Assessment:
Conducted by:

Assessment Scales

<u>RISK LEVEL</u> <u>DETERMINATION:</u>	RATINGS
EXTREMELY HIGH	0-20%
HIGH	21-35%
MODERATELY HIGH	36-50%
MODERATE	51-70%
MODERATELY LOW	71-85%
LOW	86-100%

Ratings:

- N/A** Not Applicable
- 1** Never/Definitive "no"
- 2** Rarely/Demonstrated capacity as limited
- 3** Sometimes/Capacity evident but lacking in critical areas.
- 4** Usually/Adequate capacity in most areas.
Often/Good capacity with only minor improvements
- 5** required.
- 6** Always/Definitive "yes"/Strong capacity.

SUMMARY OF FINDINGS

Level of Risk:

0.00

Specific findings:	
A. Accounting Procedures.	
B. Internal Controls.	
C. Financial Management	
D. Policy Environment.	
E. Sub-Grant Management.	

**MCAT- Management Capacity
Assessment Tool**

S/ N	Specific Findings	SCORE	Rating					
			No Support 1	Inadequate Support 2	Somewhat Adequate 3	Adequate Support 4	Very adequate Support 5	Strongly Adequate Support 6
A.	ACCOUNTING PROCEDURES							
1	General System							
a	There is a written policy on accounting. It is objectively reasonable and universally applied.							
b	"Cash" or "Accrual" system is defined and applied on a consistent basis.							
2	Receipts and Handling of Cash							
a	Pre-numbered receipts bearing the name of the organization are issued for all cheques and cash receipts.							
b	Unused receipt books are kept properly secured and there are proper procedures as regards their issue.							
c	Deposits from donors are promptly entered into the accounting software and filed with deposit notification							

d	All cash received is recorded immediately and promptly banked.							
3	Disbursements and Recording							
a	All payments are supported by payment vouchers.							
b	Cheque request forms are properly supported by adequate documentation and explanations.							
d	Documents are properly approved for payment and stamped PAID upon payment to ensure that duplicate payment does not occur.							
e	Payments are properly allocated to the correct accounts.							
f	Procedures are in place over access, use and safekeeping of cheques (e.g. designated person to write cheques).							
g	All cheques are signed jointly by two of at least three signatories (one check signatory is someone other than the person who has authorized payment).							
h	No cheques are signed in blank.							
4	Bank Accounts							

a	The details of each cheques payment are recorded on the cheque counterfoil (or cheque stub).							
b	Bank reconciliations with accuracy are prepared on a regular basis E.g. at the end of each month.							
c	Bank reconciliations are checked and approved by someone other than the one who prepared the reconciliation.							
d	Outstanding items on bank reconciliations are followed up promptly and out of date items written off (documented).							
5	Petty Cash Records							
a	Physical petty cash counts are carried out at intervals and the cash balance agreed to records.							
b	The petty cash impress (float) is established at a reasonable level.							
c	Petty cash expenses are supported by adequate documentation.							
d	Petty cash is approved by authorized personnel.							
6	Ledger							

a	Cash book(s) are kept for all cash and bank transactions							
b	Posting of amounts from cash book(s) to the accounts in the ledger are kept up to date							
c	An up to date chart of accounts together with account code available.							
d	Donor funds restricted to specific programs are tracked separately.							
e	VAT expenses are tracked separately.							
7	Journal							
a	Transfers between one ledger account and another are recorded in a journal.							
b	Transfers of amounts between one account and another are supported by a journal with appropriate documents.							
c	All journal entries are authorized by the finance director (or equivalent).							
8	Payroll and Salary							
a	Adequate payroll records are kept (timesheets, payslips, payroll records).							

c	Payroll records are based on employment agreements (memos/letters to inform of salary increments)							
d	The payroll is authorized and countersigned by the finance director (or equivalent)							
e	All salaried employees complete timesheets which are approved by their supervisors and salary payments are accurately charged to the cost centers as per their timesheets.							
f	All payroll taxes and other deductions are properly calculated in accordance with local regulations and paid on time							
B.	INTERNAL CONTROLS							
1	Segregation of Duties							
a	The individual responsible for the cash receipts function does not sign cheques or reconcile the bank accounts, and is not responsible for non-cash accounting records such as accounts receivable, the general ledger or the journals.							

b	The person receiving cash does not have the authority to sign checks or reconcile the bank accounts and does not have access to accounting records other than cash receipts.								
c	Different individuals are responsible for purchasing merchandise or services, receiving merchandise or services and approving vouchers.								
d	Different persons prepare checks, sign checks, reconcile bank accounts and have access to cash receipts.								
2	Design and Use of Records								
a	Receiving reports, inspection documents, etc. are matched with invoices/statements and other documents used to record delivered orders and related liabilities to provide assurance that only valid transactions are recorded.								
b	Transaction documents, such as vendor invoices and shipping documents, are date stamped and tracked to ensure that they are recorded on a								

	timely basis.							
c	Only original documents are used to process transactions.							
d	Source documents are cancelled after purchasing to provide assurance that the same documents will not be re-used and will not result in recording transactions more than once.							
3	Safeguards Over Records							
a	Procedures are established to provide reasonable assurance that current files can be recovered in the event of a computer failure.							
b	Insurance cover of stores is adequate.							
C	FINANCIAL MANAGEMENT							
1	Budgeting							
a	Program budgets are prepared annually or for the life of the program							
b	Annual operations budget are prepared taking into account departmental needs							
c	Long term and annual financial projections for the							

	organization are prepared.							
d	Financial committee or its equivalent approves the annual budget.							
e	Monthly financial statements are compared to approved budget.							
2	Tracking and Reporting							
a	There are different access levels in place through the use of passwords for using the accounting software (e.g. data entry, opening of new accounts, security).							
b	Specific transactions are approved by persons having the authority to do so in accordance with established policies and procedures.							
c	Monthly financial management meetings are held with budget managers to address material variances							
d	Policy and practice provide evidence that financial reports are Summarized monthly.							
e	Communicated with key management staff within reasonable time.							

f	Summarized accounts are distributed to relevant/interested parties.							
3	Auditing (Statutory Audits)							
a	An independent professional statutory audit of the annual accounts is arranged each year							
b	Audit findings are addressed as standard practice.							
c	The management committee and governing body consider the report and recommendations of the auditor at the meeting when the annual accounts are discussed.							
4	USAID EXPERIENCE							
a	A USAID account exist or separate account will be opened for USAID funds							
b	The organization has VAT registration number							
c	VAT expenses are tracked separately							
d	Verifiable records are maintained for the purpose of reporting cost share							
e	Cost share is consistently tracked and reported							

f	Auditors are licensed to perform audits and are on the approved USAID auditors list where applicable								
g	Project auditors visit project/end use sites on a test basis.								
h	Project audit reports are issued within a reasonable time following each project audit (e.g. 1 month).								
i	Project audit reports are adequately followed up.								
D	POLICY ENVIRONMENT								
1	Compliance with Government Laws, Policies and Regulations								
a	The organization is a legally registered entity.								
b	The organization complies with the annual minimum reporting requirements under the laws (e.g. income tax, NPO registration,).								
c	The organization is in compliance with the country's labor laws, policies and regulations (relating to employment, occupational health and safety, compensation, etc).								
2	Travel/Transport Policy and Management								

a	The organization has a travel policy and applies it on a consistent basis								
b	Travel financial support for staff, both domestic as well as regional/International, is clear in policy and practice.								
c	Mechanisms exists for reporting expenses and liquidating travel advances.								
d	A vehicles register is maintained, showing cost, date of purchase and estimated date of replacement.								
e	Vehicles are garaged in a safe place and use of vehicles is properly controlled:								
f	Use is limited to the business of the project.								
g	Users of vehicles maintain the vehicle log book, showing date, journey details, kilometers at the start and end, fuel and maintenance.								
h	Purchases of fuel are made only by authorized persons.								
3	Property Policy and Management								
a	The organization has suitable premises to accommodate the staff and to carry out its activities.								

b	If the organization owns land or buildings: the title deeds are legally registered, and kept in a secure place.								
c	Leases (tenancy agreements) have been prepared for all property rented to or from the organization.								
d	Someone has been nominated as responsible for the maintenance of all property.								
e	Adequate insurance has been taken out against fire, theft, public liability,								
f	Records are kept of agreements with persons using premises owned by the organization, including rent payable, etc.								
4	Assets and Liabilities								
a	An up to date fixed assets register is maintained and actually exist								
b	The fixed assets inventory is complete and regularly checked by management (at least once an year).								
d	Additions and disposals of assets are authorized and properly recorded in the accounts and asset register.								
e	There is adequate insurance cover								

	for all assets.							
f	Assets are kept in suitable and secure locations.							
g	Donated assets are properly valued and recorded.							
5	Procurement Policy							
a	All procurement is authorized with different authorization levels for different thresholds.							
b	All procurement is supported with adequate documentation including quotations, requisition notes, purchase orders.							
c	A competitive solicitation process is practiced and justification for selection of vendor documented.							
E	SUB-GRANT MANAGEMENT							
1	Financial Management							
a	The organization has a formalized system for grant management.							
b	There are standard formats/documentation for funds advance requests and expenses reporting.							
c	There is close monitoring of expenditures and tracking against contracted							

	amounts							
d	There is a mechanism for tracking outstanding advances and grant expenses on a monthly basis and these are documented.							
e	There is adequate staff to provide grant management support							
2	Project Management							
a	The organization has a system to support program design including setting targets for the sub grants.							
b	Sub-grants are closely monitored to ensure achievement of program objectives and this includes site visits and detailed regular program reports.							
c	There is adequate technical capacity to support sub-grants program implementation							
d	The organization reports to donors on timely basis.							
F	MONITORING, EVALUATION & LEARNING							
a	The organization has a system to collect and analyze program information as project on progress.							

c	There is a system to compare planned activity vs achievement.							
d	The organization used the monitoring and evaluation information for further action and decision.							
e	The organization has designed a monitoring checklist to be used during monitoring of sub-grantees.							
f	The organization adhered to donor reporting requirements.							