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DEPARTMENT OF BUSINESS ADMINISTRATION

Assessing the Effect of Financial Management Practices on the Performance of Donor-Funded Projects in Ethiopia.

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Statement of Declaration

I, Amanuel Fantu, declare that this MBA thesis entitled "Assessing the Effect of Financial Management Practices on the Performance of Donor-Funded Projects in Ethiopia" is my own original work. The study is based on my independent research, and all sources of information have been properly acknowledged. This thesis has not been submitted to any other university for the award of any degree.

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This research project entitled "Assessing the Effect of Financial Management Practices on the Performance of Donor-Funded Projects in Ethiopia", prepared by Amanuel Fantu, has been examined and approved as meeting the requirements for partial fulfillment of the Master of Business Administration (MBA) degree in Business Administration at the College of Business and Economics, Addis Ababa University.

We recommend the acceptance of this thesis proposal fulfilling the requirements for the Degree of Master of Business Administration

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Abstract

The activities carried out in support of humanitarian and development work in Ethiopia are often sponsored through donor-funded projects. These projects have faced various challenges in relation to efficiency, accountability, sustainability, implementation and attainment of the set objectives. It is important to establish efficient financial management practices in order to ensure proper allocation of resources and hence effective execution of projects. The purpose of this study was to determine the impact of financial planning, budgeting, internal control and financial monitoring and reporting practices on the performance of donor funded projects in Ethiopia. Quantitative cross-sectional survey design was applied while structured questionnaires were used to collect the required data from 62 respondents involved in donor-funded projects. Descriptive and inferential statistical techniques such as Pearson correlation and multiple regression analysis were used in analyzing the data. Results showed that financial management practices have strong positive associations with the performance of projects. Financial Planning Practices ($r = 0.640$), Budgeting Practices ($r = 0.568$), Internal Control Practices ($r = 0.728$) and Financial Monitoring and Reporting Practices ($r = 0.854$) were positively correlated with the performance of projects. Multiple regression analysis showed that financial management practices jointly explain 75.9% of variations in the performance of projects ($R^2 = 0.759$). Financial Monitoring and Reporting Practices are the best predictors. Conclusion of this study indicates that financial management practices have an immense impact on the performance of projects since they make the process of executing projects more accountable, transparent, resourceful, compliant and decision-oriented. It is recommended that there should be enhancement of financial management practices in order to improve the performance of donor-funded projects in Ethiopia.

Keywords: *Donor-Funded Projects, Financial Management Practices, Financial Planning, Budgeting, Internal Control, Project Performance*

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Acronyms and Abbreviations

ANOVA – Analysis of Variance

BHA – Bureau for Humanitarian Assistance

DFPS – Donor-Funded Projects

FBO – Faith-Based Organization

FMPs – Financial Management Practices

FP – Financial Planning

IC – Internal Control

IDP – Internally Displaced People

INGO – International Non-Governmental Organization

LNGO – Local Non-Governmental Organization

M&E – Monitoring and Evaluation

NGOs – Non-Governmental Organizations

SPSS – Statistical Package for the Social Sciences

UN – United Nations

USAID – United States Agency for International Development

WASH – Water, Sanitation and Hygiene

CHAPTER ONE

INTRODUCTION

1.1. Background of the Study

The donor-supported interventions in Ethiopia benefit local residents through the provision of various services such as food aid, WASH projects, health and nutrition, livelihoods development, trauma healing and psychosocial support, sheltering for IDPs, and emergency assistance. Projects offer financing aimed at covering the social and economic needs of communities that have been affected.

There are numerous NGOs operating in conflict-affected areas, regions with environmental concerns, and poor regions. In such areas, basic services are prone to instability and availability of resources is usually an issue. This means that all projects have to demonstrate results within a specific timeframe and maintain high levels of financial accountability toward their respective donors.

The presence of funds alone does not secure success; there has to be effective allocation, planning, control, supervision, and accounting. Sound project management requires good financial management. The processes of accurate budgeting, thorough planning, adequate controls, timely reporting, and strict supervision facilitate successful and efficient project implementation. Poor financial management leads to various challenges such as overspending, budget deficits, delays, and disruptions of project operations.

It appears that donor-funded projects experience difficulties due to the lack of resources, but poor financial management, budgeting, and planning are also among the reasons why they cannot succeed. Sometimes the absence of these elements is even more dangerous since despite the availability of funds, projects may still be unable to achieve their objectives. Weak internal controls may fail to reveal problems that may be caused by inappropriate budgeting and forecasting. This means that most planned activities remain uncompleted because of budgeting issues, which causes staff layoffs and interruptions. At present, there is no scientific evidence of financial management practices' impact on DFPS results.

Previous studies have proven that financial management practices influence organizational and project performance. Financial planning plays a role in forecasting, wise allocation of resources

and reducing financial uncertainties. Budgeting assists in cost control, efficient use of resources and financial accountability. Internal control systems assist in the protection of assets, prevention of fraud and assurance that the policies and rules of donors are complied with. In the same way, financial monitoring and reporting provide useful information for decision making and accountability of the projects.

Research carried out in various countries has shown that there is a positive relationship between the financial management practices and the performance of projects. Studies have shown that organizations having good financial planning and budgeting practices achieve their project objectives within the allocated budget and within schedule. Some studies have emphasized the internal control systems and financial monitoring as the determinants of performance. Thus, financial management practices greatly influence the performance of projects.

The field has progressed over time. At first, studies focused on financial accountability and control. Later on, financial budgeting, planning and performance measurement were incorporated. The recent studies have taken the integration of financial management practices in relation to organizational performance into account recognizing the interaction of planning, budgeting, internal controls and monitoring as being crucial in the process.

However, there is inadequate literature on the relationship between financial management practices and performance of the donor-funded projects especially in humanitarian and development settings with unique conditions.

Although previous studies have provided useful insights, some problems are yet to be sorted out. For example, there has been disagreements on which financial management practice is the most determining factor in the performance of projects. Most studies have concentrated on financial management of public organizations, private companies or organizational performance generally. Such problems justify further research on the relationship between financial management practices and performance of the donor-funded projects.

1.2. Statement of the Problem

Project development using donor funding is done in order to achieve an objective that benefits the public within a certain period. However, donor funding projects are normally hampered by factors such as poor budgeting, poor financial planning, and inadequate supervision. Due to this, the project becomes ineffective as well as wastage of resources.

The result of such disruptions is unemployment in the community due to project delay. As a result, there is going to be financial instability within the community since there will not be many job opportunities. Problems such as this may arise which may lead to other challenges affecting the community.

Some studies have indicated that poor financial management practices influence negatively the performance of the projects. Lack of proper financial planning might make the organization to prepare unreal budgets leading to shortage of funds and delay of project delivery. Inadequate budgeting practices increase the cost overruns and inefficient use of the resources. Weak internal controls lead to financial irregularities, frauds and the lack of compliance with the donor policies. Similarly, poor financial monitoring and reporting practices decrease transparency, delay of the corrective actions and accountability of the projects to the stakeholders.

There are three types of gaps in the available literature on the topic. First of all, there is conceptual gap since many studies concentrate on individual financial management practice and not on the integrated planning, budgeting, internal control and monitoring practices. As a result, there is lack of knowledge on the relationship between the mentioned practices and project performance.

Secondly, there are methodological gaps in the literature since many studies are carried out through case studies and descriptive methods or analysis of one organization. There is a need of more empirical studies involving wider samples and advanced analytical methods.

Finally, there are contextual gaps in the literature since most of the studies are carried out on the public sector, private organizations or NGOs and in different countries while there is no study carried out on the performance of the donor-funded projects in Ethiopia. There is need of studies on this issue since it is a contextual gap.

There is need to investigate the relationship between financial management practices and the performance of the donor-funded projects in Ethiopia because of the uniqueness of the donor-funded projects and the lack of the previous studies on the topic.

1.3 Research Questions

1. How do financial planning practices affect the performance of DFPS in Ethiopia?
2. What is the effect of budgeting practices on the performance of DFPS in Ethiopia?
3. How do internal control systems influence the performance of DFPS in Ethiopia?
4. What is the effect of financial monitoring and reporting practices on the performance of DFPS in Ethiopia?
5. What is the overall relationship between FMPs and the performance of DFPS in Ethiopia?

1.4 Objective of the study

1. **General Objective**

To assess the effect of financial management practices on the performance of Donor Funded Projects in Ethiopia.

2. **Specific Objectives**

1. To assess the effect of financial planning practices on the performance of DFPS in Ethiopia.
2. To assess the effect of budgeting practices on the performance of DFPS in Ethiopia.
3. To assess the effect of internal control practices on the performance of DFPS in Ethiopia.
4. To assess the effect of financial monitoring and reporting practices on the performance of DFPS in Ethiopia.
5. To assess the overall relationship between FMPs and project performance.

1.5 Significance of the study

This study provides both practical and academic knowledge of how FMPs affect DFPS in Ethiopia. The findings of this study are to help fill a research-identified gap in NGOs, project managers, and finance professionals to improve budgeting, reporting, ICs, and cash management in Ethiopia. These changes aim to better utilize funds, reduce audit issues, and ensure projects are completed on time. DFPS and government bodies can also use the results to improve financial oversight, accountability, and compliance, bringing about more effective use of donor resources.

1.6. Scope of the study

This study examines how FMPs affect the performance of DFPS in Ethiopia. The study assesses FP, budgeting, internal control, and financial monitoring and reporting, and how these practices influence project performance. The research is limited to DFPS in Ethiopia. Data for the study were collected from selected organizations in some northern and eastern parts of the country. The study includes staff in finance and project management, as they are directly involved in financial management activities. This study uses a quantitative approach, and data were collected using structured questionnaires. The scope of the study is also limited to measuring project performance in terms of timely implementation, budget utilization, and achievement of project objectives.

1.7. Limitations of the study

The study focuses solely on FMPs, including budgeting, IC, and financial monitoring. While Other factors, such as security issues, operational challenges, donor policy changes, and institutional capacity, were not included, even though they may also affect project performance. In addition, the data were collected only from selected areas, mainly in Addis Ababa, the northern parts and some eastern parts of Ethiopia. Following this the study is limited and cannot reflect the overall result of the projects performance of donor funded activities implementing throughout the country. One of the reasons for not conducting the study in different parts of the country is, most of Non-governmental activities are not functioning because of security threat. In addition to that, data was collected at a single point and not throughout the whole year.

In this study, beneficiaries of the project were excluded from being respondents since it dealt with

financial management processes such as planning, budgeting, internal control and financial monitoring and reporting. Such activities are normally undertaken by finance specialists, project managers, program officers, managers, and area coordinators. While the beneficiaries could be able to provide information concerning the impact of the project, they are not necessarily part of the process of financial management and lack technical skills to evaluate it.

1.8. Organization of the Study

This thesis has five chapters. Chapter One is about the introduction to the study, covering the background, problem statement, objectives, research questions, Hypothesis, scope, significance and limitations of the study. Chapter Two is about different related literature, articles and theories. Chapter Three is about research methods used. Chapter Four is about data analysis and information gathered. Chapter Five gives conclusions and recommendations for the research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter provides an overview of the findings from the literature on the role of FMPs and their impact on the performance of DFPS. This chapter addresses issues such as financial management, FP, budgeting, IC, financial monitoring, and reporting; project performance; the relationship between FMPs and project performance; previous findings from studies; conceptual frameworks; and research gaps. This chapter attempts to present both theoretical and practical insights into the influence of FMPs on the performance of projects. In addition, it also discusses the significance of having proper financial management systems.

2.2 Theoretical Literature Review

2.2.1 Concept of Financial Management

The management function that is central to this research is financial management. Financial management is operationalized in the following four areas: financial planning practices, budgeting practices, internal control practices, and financial monitoring and reporting practices. The above-mentioned areas have been selected since they form the basic elements of managing finances and impacting project performance in donor-supported projects.

Financial management is concerned with planning, organizing, controlling, and monitoring financial affairs so as to enable an organization attain its objectives. The processes include budgeting, financial planning, policy formulation, and financial reporting. Financial management is beneficial since it aids in making informed decisions about allocation of the financial resources.

Financial management has a significant impact on all governmental and non-governmental organizations in Ethiopia. The effectiveness of financial management systems will depend on the capacity of the institution, its management systems, and the number of qualified employees working there. Poor financial management can result in inefficiency, ineffective accountability, and lack of control. Efficient financial management systems promote transparency, improve accountability, and improve the quality of decision making (Haile,

2025).

Effective financial management is critical for DFPS since it receives grants for certain purposes. Proper financial management is important in ensuring that the grants are utilized effectively, accounting records are maintained properly, and reports are provided to the funders accordingly. Good financial management is essential in ensuring donor satisfaction and future funding (Negussie, 2017).

Apart from the benefits listed above, financial management will play a crucial role in enabling the organization to assess its financial performance and identify any risk associated with the projects. Effective financial management ensures that the projects' funds are used effectively to achieve intended outcomes.

2.2.2 Financial Management Practices

Financial management practices refer to the procedures and practices involved in handling money by an entity. Such practices involve financial planning, budgeting, internal controls, monitoring, and reporting. These practices ensure that finances are used effectively and project objectives met.

For NGO's, the financial management practices (FMPs) are important for ensuring accountability and transparency. The studies carried out in Ethiopia reveal that effective FMPs ensure better use of resources and attainment of objectives in organizations. Ineffective practices such as poor documentation, lack of budgets, and delayed reporting can affect the efficiency of organizations (Getaneh, 2023).

The methods and systems adopted for managing finances in organizations play a critical role. These include effective financial planning, budgeting, internal controls, monitoring, and reporting. Effective FMPs result in efficient use of resources and improved project outcomes (Atrill & McLaney, 2018).

2.2.2.1 Financial Planning Practices

Proper financial planning ensures that the resources are available when needed, that helps projects run smoothly. Poor planning may lead to budget overruns and incomplete project activities (Rosset al., 2016). Budgeting is the process of preparing financial plans that estimate expected income and expenditures. It helps organizations use their resources properly, control

costs, and keep financial discipline and accountability. (Drury, 2018).

Most of the previous studies have reported a positive relationship between financial planning and project performance. However, contradictory results have emerged regarding the strength of this relationship. While some researchers have found financial planning as an important predictor of success in project implementation, others have concluded that financial planning alone cannot guarantee success in an environment characterized by uncertainty, donor restrictions, and changing project conditions. In addition, most of the previous studies have looked into the relationship between financial planning and organizational performance instead of project-level performance. This suggests the need for further investigation of financial planning in donor-funded projects where planning processes may be affected by external donor restrictions and funding limitations.

2.2.2.2 Budgeting Practices

Budgeting, in short, is the process of preparing financial plans that estimate expected revenues and expenditures. It is an important tool for controlling financial resources and ensuring that funds are used for planned activities.

Budgeting is an essential activity for DFPS in that it guarantees effective use of funds.

According to research, effective budgeting activities contribute to successful projects. Organizations that adopt effective budgeting activities are able to utilize resources effectively and attain organizational objectives. Ineffective budgeting activities can result in financial mismanagement and poor project performance (Nguni & Wekesa, 2023).

In the case of Ethiopian NGOs, lack of budgeting skills poses challenges in financial management. Most NGOs experience difficulties in preparing a realistic budget and controlling expenditure (Getaneh, 2023).

2.2.2.3 Internal Control Practices

The success of policy and procedural implementation and proper allocation of resources requires a system of internal control (IC). Typically, such a system involves processes such as approvals, segregation of duties, and documentation.

Strong internal control systems help to prevent any fraudulent acts, minimize any financial risks and increase the sense of responsibility. In case of donor-funded projects, the role of ICs

becomes even greater.

Studies have proved that organizations with effective ICs can manage their financial resources better and achieve the goals of their projects. Lack of proper ICs causes serious financial and organizational issues (Maina, 2023).

Moreover, ineffective internal control systems pose a huge challenge for organizations operating in Ethiopia since they result in inefficiency and poor financial performance (Haile, 2025).

While the majority of the previous studies have reported that good internal control systems improve accountability and minimize financial risks, some researchers have argued that too many control procedures may cause bureaucratic delays and limit organizational flexibility. In humanitarian and donor-funded projects where rapid decision-making is often needed, striking a balance between accountability and flexibility becomes a challenging task. This indicates that the effectiveness of internal control systems may be affected by project and organizational circumstances.

2.2.2.4 Financial Monitoring and Reporting

Financial monitoring refers to keeping track of money flow according to the planned budget. On the other hand, financial reporting provides stakeholders with information for decision-making. Both processes play an essential role due to increased responsibility and transparency. In fact, monitoring and reporting allow organizations to address all the financial issues and solve them on time. Thus, in DFPS, the main purpose of monitoring and reporting includes spending money according to donors' intentions as well as providing financial information to stakeholders.

It has been proven that effective monitoring and reporting have positive effects on the success of projects by increasing accountability and contributing to decision-making. In fact, organizations which conduct monitoring and reporting have better opportunities to achieve their objectives (Hlahla et al., 2025). Lack of timely reporting and poor monitoring practices were considered as challenges to the financial activities of many NGOs in Ethiopia (Getaneh, 2023).

Most of the previous empirical studies have indicated that financial monitoring and reporting increase transparency, build donor confidence and improve the performance of projects. However, some researchers have reported that donor reporting requirements imposed by donors may impose

additional burden on reporting and limit resources meant for implementation activities. This indicates the existence of contrasting evidence on the effect of financial monitoring and reporting practices.

2.2.3 Donor-Funded Project Performance

Project performance involves determining the extent to which a particular project is capable of achieving its objectives in terms of the timeline set as well as budget allocation for the same. Project performance indicates whether or not planned activities have been accomplished as anticipated. Performance evaluation in projects entails assessing whether:

- planned activities were completed within schedule,
- funds were properly managed,
- desired objectives were achieved,
- impacts are sustainable.

Performance evaluation allows for proper determination of the degree to which resources are utilized effectively and whether there are successes in the process of project implementation (Kerzner, 2017).

Financial management plan plays a very crucial role in determining the success of DFPS projects. In case of better financial management in DFPS project, objectives tend to be achieved successfully while ensuring beneficiary satisfactions as a result of proper planning of activities as well as utilization of funds (Bayiley & Teklu, 2016).

There are many challenges faced by DFPS projects in Ethiopia ranging from late fund disbursements, poor financial management structures to inadequate coordination amongst different stakeholders involved (Challa, 2016).

2.2.4 Financial Management Practices and Project Performance.

Effective financial management positively influences the performance of the project. It entails proper budgeting, planning finances, implementing control measures, and monitoring expenditures. Financial accountability reduces financial risks because of efficient utilization of the resources. Properly managed projects achieve more success than poorly managed ones. Budgeting ensures adequate planning for funds, budgeting facilitates efficient expenditure, internal controls discourage abuse of resources, and monitoring improves accountability.

Research indicates that effective financial management influences the performance of organizations considerably. Organizations that adopt sound financial management practices have

higher chances of achieving success (Maina, 2023).

2.3 Theoretical Framework

2.3.1 Resource-Based View (RBV)

Resources and capabilities in financial management are the assets that can bring competitive advantages to the project performance when being properly planned, controlled, monitored and used. According to the RBV, organizations achieve excellence when they possess valuable and rare resources. Financial planning, budgeting, internal control and monitoring are the means of efficient use of financial resources bringing the competitive advantages. In the case of donor-funded projects, good financial management practices assist in timely implementation, efficient use of funds, accountability and sustainability. Therefore, RBV theory supports the relationship between the financial management practices and the performance of donor-funded projects.

2.3.2 Agency Theory

Agency theory deals with the principal and agent relationships. Donors are the principals providing the funds while project managers and implementing organizations are the agents who are supposed to use these funds. Information asymmetry exists since donors cannot observe how the funds are used. Financial planning, budgeting, internal controls and monitoring minimize the agency problems through improvement of the accountability, transparency and monitoring.

2.3.3 Stewardship Theory

Stewardship theory presupposes that the managers behave as responsible stewards whose aim is to achieve the organizational goals and not to pursue own interest. Under this theory, financial management practices promote responsible use of resources, accountability and achievement of project goals. Good planning, budgeting, monitoring and reporting assist in the stewarded use of the resources.

How the Theories are linked to the Study

This study mainly applies the RBV and Agency theories. RBV theory explains the positive influence of good financial management on project performance through efficient use of resources while the agency theory highlights the importance of accountability, transparency and controls.

2.4 Empirical Literature Review

2.4.1 Empirical Studies on Financial Planning and Project Performance

Many studies indicate financial planning as a determinant factor of project performance. It is stated that the proper planning promotes efficient utilization of resources, budgeting, risk management and completion of activities within the schedule.

Thus, Ross et al. (2016) revealed the positive connection between financial planning and project performance. The study indicated that the planning promotes forecasting of money needs, prioritized allocation of resources and reduction of uncertainty during project implementation. According to Bayiley and Teklu (2016), proper planning significantly contributes to project success through provision of the appropriate match between project goals/schedules and financial resources.

According to Getaneh (2023), the presence of effective financial planning procedures ensures organizational objectives achievement and accountability of the organization towards stakeholders. It is indicated that the financial planning contributes to the making of rational decisions and minimization of risks of resource depletion during project implementation.

Despite the positive results, the authors state that financial planning does not contribute to project success if there are external influences which negatively impact on the process of project implementation. Such factors include delays in donors' funding, inflation rates, security problems, changing work environment. This information indicates the necessity of financial planning to be supplemented with the proper budgeting, monitoring and controlling to achieve positive results.

2.4.2 Emperical Studies on Budgeting and Project Performance

The budgeting is among the most investigated financial practices in the field of project management. Positive effect of budgeting on project performance due to promotion of financial discipline, rational resource allocation and cost control is stated in many investigations.

Nguni and Wekesa (2023) revealed significant positive effects of budgeting practices on project performance due to development of realistic budget, its regular analysis and spending control in accordance with the budget. The authors emphasize that budgeting is one of the main ways of controlling costs and budget management.

According to Getaneh (2023), budgeting increases project performance through promotion of financial accountability and rational resource allocation. Weaknesses of budgeting system are considered the reason of cost overrun, inefficient spending and delays.

Sometimes budgeting is considered ineffective if it is not regularly updated in accordance with changes in project environment. Donor-funded projects are implemented in dynamic environment characterized by high levels of inflation, changing exchange rate, procurement issues and changing

requirements of beneficiaries. Therefore, the budgeting should be accompanied with its regular review and updating.

2.4.3 Simple Studies on Internal Control and Project Performance

The internal control system is aimed at protection of the resources, implementation of procedures and control and promotion of accountability. Consistently all researches prove that effective internal control system positively affects project performance and organizational success.

Maina (2023) revealed that organizations with effective internal control system show high financial accountability and project performance. The study highlights the significance of separation of duties, proper authorization, record keeping and supervisory controls.

According to Haile (2025), the presence of effective internal control system positively affects financial accountability and performance. Organizational units with effective internal controls show low number of resource misuse and compliance with financial policy and donor regulations.

Negussie (2017) investigated weak internal controls lead to poor financial sustainability and higher numbers of audit findings. Effective internal controls are necessary for ensuring transparency and protection of donor funds.

Some researchers express concerns regarding excessive number of control procedures because they negatively affect speed of decision-making. This problem appears particularly important for humanitarian projects which require rapid reaction. Therefore, organizations should balance between accountability and flexibility to increase performance.

2.4.4 Simple Studies on Financial Monitoring and Reporting and Project Performance

Financial monitoring and reporting ensure transparency, accountability and rational decision-making. Many researches prove that the proper monitoring and reporting systems promote successful implementation of projects.

Hlahla et al. (2025) found that financial monitoring and reporting increase project performance through facilitating expenditure tracking, revealing discrepancies and taking actions. The regular financial monitoring increases accountability of organization and overall project performance.

Getaneh (2023) revealed that proper financial monitoring and reporting promote increased financial accountability and successful operation. The timely reporting allows management and stakeholders to evaluate progress of project and take actions in case of problems.

Negussie (2017) stressed the significance of financial reporting in order to meet donor requirements and sustainability of organization. Delayed reporting and weak financial monitoring

are the reasons of financial management problems and low effectiveness.

Positive connection between monitoring/reporting and project performance is revealed in most studies. Only in few studies authors emphasize that excessive reporting may be burdensome for administration and distracts from the project. However, the majority of evidence suggests that financial monitoring and reporting play crucial role in increasing accountability, rational decision-making and project performance.

2.4.5 Empirical studies on the link between financial management practices and project performance in Ethiopia

Many studies in Ethiopia have focused on the relationship between financial management practices and organization performance. However, the existing literature largely focuses on the case of public agencies, private enterprises and non-governmental organizations generally rather than on the project performance in donor-funded projects specifically.

For example, Bayiley and Teklu (2016) investigated the determinants of project performance in Ethiopia and concluded that planning, utilization of resources, stakeholder involvement and financial management practices are key drivers of project performance. Projects having a better planning and financial control tend to achieve their targets on time and within budget. This study concentrated on the issue of project management but did not investigate financial management practices separately.

Negussie (2017) assessed financial sustainability and financial management practices in Ethiopian NGOs and indicated that such factors as budgeting, financial reporting, monitoring systems and donor compliance procedures significantly contribute to the effectiveness and sustainability of organizations. This research highlighted the dangers of ineffective financial management as it leads to poor resource utilization and weak performance. The paper mainly discussed the issues of organizational performance and sustainability.

Chala (2016) analyzed the problems faced by the development projects financed by donors and stated that inefficient financial planning, poor budget approval process, weak monitoring and inadequate internal controls are the main challenges in implementing the projects. The findings revealed that deficiencies in financial management result in delays, resource wastage and failure to achieve the goals of donor-funded projects. However, it did not evaluate the joint effect of different financial management aspects on project performance quantitatively.

Getaneh (2023) investigated the effect of financial management practices on the performance of Ethiopian NGOs. The study concluded that budgeting, financial planning, monitoring and

reporting contributed to the better operational performance and accountability while the weak documentation, poor budget controls and late reporting negatively affected the performance. However, it analyzed organizational performance not donor-funded projects specifically.

Haile (2025) evaluated the financial management system and its effect on the financial accountability and efficiency of Ethiopian institutions. The paper indicated that the use of financial planning, internal controls, financial reporting and monitoring practices positively affected the mentioned characteristics. Also, the importance of the management commitment, technical capacity and information systems in increasing the effectiveness of financial management was highlighted. Nevertheless, the paper mainly focused on institutions, not donor-funded projects.

As it can be seen from the above overview of the existing literature, there is a consensus that efficient financial management leads to increased accountability and effective utilization of resources. The papers differ in terms of scope, methodology and focus. Most of them analyze the organizations in general, not donor-funded projects. Some studies separately investigate specific aspects of financial management, not all of them. In addition, most studies use only descriptive approach and fail to investigate the effect of planning, budgeting, internal control and monitoring/reporting on project performance.

Therefore, although the previous literature proves the significance of the problem, there is little evidence on the joint effect of financial planning, budgeting, internal control and monitoring/reporting on donor-funded project performance in Ethiopia. This study aims to provide more evidence on the specified issues.

2.4.6 Empirical studies in other countries

The research of financial management practices and project performance conducted in other countries may provide useful information on the possible ways in which budgeting, internal control and monitoring/reporting influence project outcomes.

For instance, Nguni and Wekesa (2023) explored the donor-funded projects and concluded that budgeting practices significantly affect the project performance. The realistic budgets, frequent budget review and effective budget expenditures controls helped to achieve the project objectives on time and within budget. Budgeting had the greatest impact out of financial management aspects considered. However, this study mainly focused on budgeting and did not sufficiently evaluate other financial management aspects.

Maina (2023) analyzed the internal control systems in Kenyan projects and found that the efficient authorization procedures, separation of responsibilities and financial oversight increase the

accountability and success rate of projects. This paper proved that internal control is extremely important as it helps to avoid financial problems and makes the resource utilization efficient. However, it did not investigate other financial management practices simultaneously.

Hlahla et al. (2025) investigated the financial monitoring and reporting in development projects and found that timely financial reporting, constant monitoring of expenses and compliance with donor requirements improve the project performance. It stressed the significance of monitoring and reporting for decision-making and fast problem-solving. Also, it highlighted the importance of donor trust maintenance.

Ross et al. (2016) investigated the issue of financial planning in project work and concluded that efficient planning leads to effective resource utilization, forecasts and risks reduction. Also, this paper indicated that financial planning alone is not enough without efficient monitoring and control.

Several studies in Uganda, Rwanda and Ghana prove that good budgeting, internal controls and financial monitoring are linked to enhanced accountability, transparency and resource utilization. However, the strength of these correlations varies depending on the context.

Thus, empirical studies conducted in other countries prove the significance of the problem under discussion. However, the strength of the relationship between financial management and project performance differs in various studies. The majority of them are carried out outside Ethiopia and, therefore, cannot completely reflect the situation in Ethiopia. Thus, there is a need for the context-specific evidence.

2.4.7 Empirical Studies from African Countries

As the donor-funded development programs spread across Africa, the attention of researchers turned to the relationship between financial management practices and project performance. The numerous studies conducted in Africa analyzed the role of financial planning, budgeting, internal controls, and monitoring in the improvement of organizational and project outcomes.

Financial Planning and Project Performance

The studies conducted in Kenya proved that the financial planning practices have significant influence on project performance. It was found that the financial planning helps organizations to allocate resources strategically, forecast their requirements, and make informed decisions. The organizations with efficient financial planning were found to be more successful in the realization of their projects.

Similarly, the studies in Uganda showed that the effective financial planning reduces

implementation delays and helps to reach project sustainability. The researchers concluded that organizations with strong planning mechanisms are more resilient to financial uncertainties.

However, some studies found only moderate relationships between planning and performance. They suggested that financial planning alone is not enough for project success as it requires effective monitoring and control.

Budgeting and Project Performance

The studies conducted in Ghana and Rwanda found positive relationships between budgeting practices and organizational performance. The budgeting was associated with improved expenditure control, efficient resource utilization, and accountability.

However, the influence of budgeting on performance varies in the studies. While some scholars identify the budgeting as the strongest predictor of project performance, other studies show weaker influence of budgeting practices than the influence of monitoring and reporting practices.

The possible reason for the contradiction is that the budgeting only creates financial expectations, while the monitoring and reporting provide the information that allows to take the corrective actions during the project implementation.

Internal Control Practices and Project Performance

In the few African studies proved that internal controls have strong positive relationship with performance. The research done in Kenya, Ghana, and Uganda proved that organizations with efficient internal control systems had less financial irregularities and better accountability outcomes.

However, some studies found that the influence of internal control practices decreases in the regression models, where the other financial management variables were included. This means that internal controls operate indirectly through the mechanism of accountability and monitoring.

Financial Monitoring and Reporting Practices and Project Performance

Studies that are conducted in Uganda, Rwanda, and Kenya underline the importance of financial monitoring and reporting. The organizations with the proper financial records, continuous monitoring, and timely reports were found to be more successful in the projects' realization.

Most studies found that monitoring and reporting practices are one of the strongest determinants of project performance as they provide the necessary information for the decision-making and donor accountability.

2.5 Synthesis of Empirical Literature

The literature, which was reviewed, proves the existence of broad agreement on the importance of financial management practices in improving organizational and project performance. The previous studies showed the positive relationships between financial planning, budgeting, internal controls, financial monitoring and reporting practices, and the measures of organizational effectiveness. Efficient financial management systems are recognized as mechanisms that allow increasing the accountability, transparency, resource utilization, and achievement of organizational objectives.

However, despite this agreement, the contradictions exist in the literature. While some studies consider budgeting as the strongest determinant of performance, other studies say that internal controls or financial monitoring and reporting are the strongest determinants. These contradictions show that the relative importance of different financial management dimensions remains unclear and depends on organizational setting, type of project, and environmental conditions.

Also, the literature shows the methodological limitations of the previous studies. Many studies relied on descriptive design, small samples, and perception-based measures. Although these studies provided useful insights, they lacked analytical methods that allowed explaining the magnitude and significance of relationships between variables. Thus, it is difficult to compare and generalize findings from such studies.

Also, most of the previous studies focused on public organizations, private organizations, or general organizational performance. Little attention has been given to the donor-funded projects despite the unique conditions of this organizational setting characterized by accountability, reporting, funding, and other donor requirements. This limitation is especially visible in the Ethiopian environment where the empirical evidence on financial management practices and project performance is limited.

In general, it can be concluded that financial management practices contribute to performance, but many important conceptual, methodological, and contextual questions remain open. They form the base of the current study.

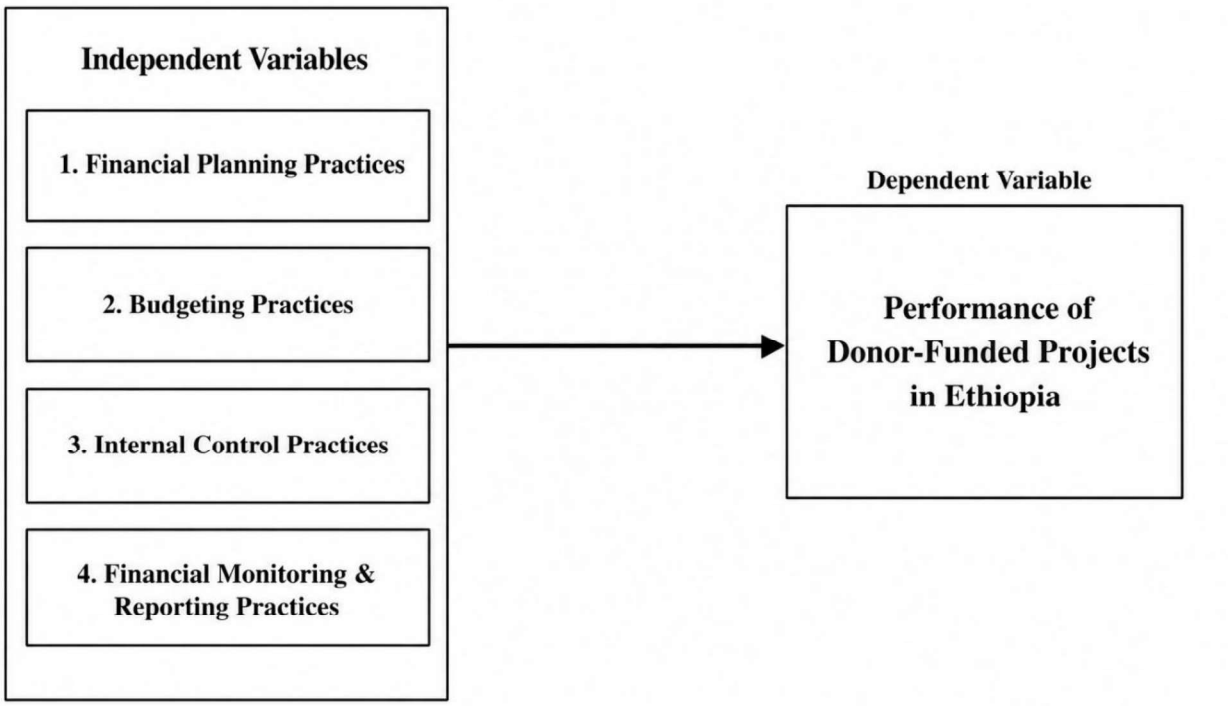
2.6 Research Gap

As it is clear from the review of the previous studies, there are conceptual, methodological and contextual gaps in the literature on the topic. Conceptually, most of the previous studies examined the individual financial management practices giving less insight into the integrated influence of planning, budgeting, internal control and monitoring/reporting on the project performance.

Methodologically, most of the studies employed descriptive designs or case studies and analysis of one organization. Therefore, there is a need for more empirical studies with wider samples.

Contextually, there are not any studies on the combined influence of planning, budgeting, internal control and monitoring/reporting practices on the performance of the donor-funded projects in Ethiopia. This study aims to fill this gap with empirical data collected from donor-funded projects in Ethiopia.

2.7 Conceptual Framework



2.7.1 Justification for choosing these variables

Four components of financial management, namely, financial management planning, budgeting, internal controls, and monitoring and reporting have been studied in the present research. They have been chosen based on existing literature since they are generally recognized to be the main components of financial management system.

According to Agency Theory, accountability and financial oversight of donor organizations and their partners are important for financial management. Resource Based View treats financial management capabilities as key resources of an organization which help improve its performance. In terms of Contingency Theory, practices of management should match the circumstances under which they occur.

These four components have been shown by numerous studies to be important for accountability, transparency, resource utilization, compliance, and performance of projects. Therefore, they will serve as main independent variables in this study.

Variables such as leadership, donor requirements, organizational capabilities, project complexity, and employee competences can influence project performance; however, since the aim of this research is to examine the impact of financial management practices on performance of donor-funded projects, they have not been considered in the present study. Including other variables into the analysis of the problem under consideration would widen the scope of the research making it impossible to focus on the core components of financial management identified in the literature.

However, these factors can be examined in further studies in order to explain residual variance of project performance.

2.8 Research Hypotheses

On the basis of the theory, previous literature, and the conceptual framework presented above, the following hypotheses have been formulated.

H1: Financial Planning Practices and Project Performance

Effective financial planning is instrumental in resource utilization, forecasting, and decision making; thus, better projects are expected.

H1: Financial Planning Practices positively impact the performance of donor-funded projects in Ethiopia.

H01: Financial Planning Practices do not positively impact the performance of donor-funded projects in Ethiopia.

H2: Budgeting Practices and Project Performance

Budgeting ensures efficient expenditure management, resource allocation, and discipline in financial activities which facilitates success.

H2: Budgeting Practices positively impact the performance of donor-funded projects in Ethiopia.

H02: Budgeting Practices do not positively impact the performance of donor-funded projects in Ethiopia.

H3: Internal Control Practices and Project Performance

Effective internal control practices contribute to better accountability, reduced financial risks, and higher performance.

H3: Internal Control Practices positively impact the performance of donor-funded projects in Ethiopia.

H03: Internal Control Practices do not positively impact the performance of donor-funded projects in Ethiopia.

H4: Financial Monitoring and Reporting Practices and Project Performance

Financial monitoring and reporting practices increase accountability, donor compliance, transparency, and decision-making.

H4: Financial Monitoring and Reporting Practices positively impact the performance of donor-funded projects in Ethiopia.

H04: Financial Monitoring and Reporting Practices do not positively impact the performance of donor-funded projects in Ethiopia.

H5: Financial Management Practices and Project Performance

According to theory and empirical findings, effective financial management practices impact project performance.

H5: Financial Management Practices positively impact the performance of donor-funded projects

in Ethiopia.

H05: Financial Management Practices do not positively impact the performance of donor-funded projects in Ethiopia.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The current chapter discusses the methodology of the research conducted; it covers the following issues: approach, design, population, sample size, sampling technique, data collection, data analysis, and ethics.

3.2 Research Approach

This study employed a quantitative research approach. The quantitative approach was considered appropriate because the study sought to examine the relationship between financial management practices and project performance using numerical data collected from respondents working in donor-funded projects.

The approach enabled the researcher to objectively measure respondents' perceptions regarding financial planning practices, budgeting practices, internal control practices, financial monitoring and reporting practices, and project performance. Furthermore, the quantitative approach facilitated hypothesis testing and the application of statistical techniques to determine the strength and significance of relationships among variables.

The approach was also appropriate because it allows findings to be summarized, quantified, and generalized within the context of donor-funded projects.

3.3 Research Design

This study uses the quantitative cross-sectional survey method for investigating the influence of financial management practices on the performance of donor-funded projects in Ethiopia. A quantitative approach is appropriate in order to measure the relationships between financial planning, budgeting, internal control, monitoring and reporting practices and project performance using numerical data and statistical analysis.

Cross-sectional design allows collecting the data at once in time and investigating the existing practices and performance without conducting the longitudinal study. The cross-sectional design is appropriate for identification of relationships and extent of influence of financial management practices on project performance.

Descriptive and inferential statistics are used in this study. Descriptive statistics, reliability

analysis, correlation and multiple regression analysis are applied in the study.

3.4 Geographical scope of the study

This study focused on organizations implementing donor-funded projects in Ethiopia. The data for the study were collected from individuals working in Addis Ababa as well as selected regions in northern and eastern Ethiopia. Addis Ababa was selected for inclusion in the study because Addis Ababa represents the administrative and operational hub of almost all donor-funded organizations and development partners.

The northern and eastern regions of the country were selected because most donor-funded humanitarian and development projects are carried out in these regions. These regions house projects related to food security, health, nutrition, water and sanitation, livelihoods and emergencies. The north region houses many projects involving humanitarian aid in war-torn areas while the east region has some development projects funded by donors.

Thus, the geographical scope of this study has been confined to Addis Ababa and selected regions of the north and east of Ethiopia.

3.5 Target Population

The research was conducted among DFPS employees working in Ethiopia.

Specifically, The research was particularly focused on:

- Financial professionals
- Project managers
- Program officers
- Management personnel
- M&E staff
- Area coordinators
- Senior project personnel

Their experience in these matters is vital for the conduct of this research.

3.6 Sample Size and Sampling Technique

The sample size for the research was determined by the availability of respondents among staff

members of DFPS. Due to limited time and resources, only available respondents from selected organizations participated in the research. For the selection of respondents, purposive sampling was used to identify people familiar with financial management procedures. This sampling strategy was employed since the research required managers of project finance and hence relevant information could be gathered from them. Respondents were drawn from organizations located in Addis Ababa as well as other regions of northern and eastern Ethiopia. Despite the small number of samples used, the participants were professionals in their line of duty and had extensive experience in managing finances of donor projects.

3.6.1 Sample Size

The study involved 62 respondents. These comprised individuals who were engaged in activities related to donor-funded projects, including financiers, project managers, program officers, managers, and area coordinators. The selection of these individuals was informed by their availability and experience in donor-funded project activities, especially financial management. Despite the relatively low number of individuals in the sample, they had adequate knowledge and expertise, thus becoming ideal respondents to serve the objectives of the study.

Despite the relatively small sample size, it was adequate for the study since the respondents possessed high-level positions and extensive expertise on the matters of research.

According to Green (1991), there is the formula for calculation of the minimum sample size required for testing individual predictors in multiple regression: $N \geq 50 + 8m$, where N is the minimum sample size and m is the number of independent variables.

Thus, for this study:

$N \geq 50 + 8(4) = 82$

However, the sample size for this study turned out to be less. The reasons were practical constraints affecting the participation, including difficulties in reaching the respondents, geographical spread of the respondents, safety in some regions and the small number of the professionals dealing with financial management in donor funded projects.

In order to increase confidence of the findings of the study, the following tools were applied: reliability test, diagnostic test, correlation analysis and multiple regression analysis.

3.6.2 Sampling Technique

The study has applied purposive sampling. There is a reason for applying purposive sampling since the study requires information from experts in the matters of the research.

The respondents were selected on the basis of:

- their job titles;

- their participation in project management;

- their expertise in financial management;

- their knowledge of donor funded projects.

Thus, the technique of purposive sampling allows to collect opinions of those persons, who are the most qualified to answer on the matter of the research.

It is important to note that purposive sampling involves certain bias, which is common practice in organizational and project management researches. Respondents were selected from different organizations, job positions, and geographical locations to minimize sampling bias and ensure representativeness.

3.7 Sources of Data

The study used both primary and secondary sources of data. Primary data were collected from staff working in DFPS through questionnaires. Secondary data were obtained from reports, books, journals, and documents related to financial management practices and donor-funded project performance.

3.7.1 Primary Data

Primary data was collected from the respondents through structured questionnaires.

The questionnaire contained questions regarding:

- Financial Management Practices
- Budgeting Practices
- Internal Control Practices
- Financial Management and Reporting Practices
- Performance of Projects

3.7.2 Secondary Data

Secondary data was collected from:

- Books
- Journal Articles
- Research Papers
- Donor Documents
- Government Documents
- Literature Review

This data provided both theoretical and practical knowledge regarding financial management practices and performance of projects.

3.8 Data Collection

The main data collection method used in this study was a structured questionnaire. It included a questionnaire and closed-ended Likert-scale questions. The questionnaire focused on key areas of financial management, including financial planning, budgeting, internal control, financial monitoring, and reporting.

The questionnaire also included questions that relate to the performance of donor-funded humanitarian projects. They were designed to understand how the projects are implemented and whether the objectives are achieved as planned. The purpose of these questions was to understand how financial management practices are applied in projects and how they affect project performance. This helped to collect relevant data from respondents working in DFPS. Questionnaires were distributed to selected respondents after data collection was structured. The questionnaires were shared with finance staff, project managers, and program staff working in donor-funded humanitarian projects. Because of operational and security problems in conflict-affected areas, some questionnaires were sent electronically, while others were given in person where access was possible.

The Questionnaire was divided into two sections:

1. Demographic Data

This section consisted of:

- Gender
- Age
- Education

- Occupation
- Type of Organization
- Years of Experience

2. Variables for the Study

This section contained statements measuring the following:

- Financial planning
- Budgeting
- Internal controls
- Financial monitoring and reporting
- Project performance

Answers to the questions were provided on a five-point Likert Scale:

1 – Strongly Disagree

2 – Disagree

3 – Neutral

4 – Agree

5 – Strongly Agree

The questionnaire was distributed in both print form and online form based on the accessibility of the respondents.

3.9 Data Analysis Method

To ensure validity, the questionnaire was developed based on the study's objectives and variables identified in the literature review. The questions were developed to make sure they address financial management practices and project performance. The questionnaire was also carefully reviewed to ensure that the questions are relevant to the study and measure what the research intends to assess.

Inferential statistical analysis was used to examine the relationship between financial management practices and the performance of DFPS. This analysis helped to determine how the independent variables, such as financial planning, budgeting, internal control, and financial monitoring and reporting, affect project performance. The results of the analysis will be presented in tables and charts to make the findings clear, simple, and easy to understand.

Data analysis involved the use of SPSS (Statistical Package for the Social Sciences).
Both descriptive and inferential statistical tests were carried out in the data analysis process.

3.9.1 Descriptive Statistics

The measures of descriptive statistics used included:

- Frequencies
- Percentages
- Means
- Standard Deviations

3.9.2 Inferential Statistics

This entailed hypothesis testing and establishing relationship between the variables through the following methods:

- Pearson Correlation Analysis: this method was used to establish the nature and strength of the relationship between independent variables and project performance.
- Multiple Regression Analysis: the effect of:
  - Financial Planning Practices,
  - Budgeting Practices,
  - Internal Control Practices and,
  - Financial Monitoring and Reporting Practices

on Project Performance.

Regression equation:

$$Y = \beta 0 + \beta 1FPP + \beta 2BP + \beta 3ICP + \beta 4FMRP + \varepsilon$$

Where:

- Y: Project Performance
- β0: Constant
- β1–β4: Regression coefficients
- FPP: Financial Planning Practices
- BP: Budgeting Practices
- ICP: Internal Control Practices

- FMRP: Financial Monitoring and Reporting Practices
- ε: Error Term

3.10 Diagnostic Tests and Regression Assumptions

Prior to conducting regression analysis, we conducted some diagnostic tests to confirm some assumptions of multiple regression.

3.10.1 Reliability Test

Internal consistency was tested using Cronbach's Alpha.

All variables were above the benchmark of 0.70.

3.10.2 Linearity Test

Scatter plots were plotted to determine whether there existed any linear relationship between independent variables and project performance.

There was linear relationship.

3.10.3 Multicollinearity Test

Multicollinearity was checked by means of correlation coefficients and Variance Inflation Factor (VIF).

There was no multicollinearity significant to affect regression model.

3.10.4 Homoscedasticity Test

Breusch-Pagan test was conducted for checking homoscedasticity.

Results: LM Statistic = 3.873, p-value = 0.423

As p-value is above 0.05, we cannot reject null hypothesis of homoscedasticity.

Hence, there was constant variance.

3.10.5 Normality Test

Histograms and Normal Probability (P-P) plots of residuals were analyzed.

Residuals showed normally distributed pattern.

Therefore, there was satisfaction of normality assumption.

3.11 Ethical Considerations

Ethical considerations were maintained throughout the study. Participation in the study was voluntary, and the respondents to my questionnaires were informed of the purpose of this research study. The respondents remain anonymous, and their responses will remain confidential. The information collected was used only for academic purposes. In addition, the study considered the sensitivity of working in conflict-affected areas, and no personal or organizational identifying information was disclosed.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the analysis and interpretation of data collected for the study titled "Assessing the Effect of Financial Management Practices on the Performance of Donor-Funded Projects in Ethiopia." The study concentrates specifically on donor-funded projects implemented by non-governmental organizations and related institutions operating in the Ethiopian development and humanitarian context. The purpose of the analysis is to determine the extent to which financial planning practices, budgeting practices, internal control practices, and financial monitoring and reporting practices affect donor-funded project performance.

The analysis is based on the updated questionnaire response file, which contains 62 valid responses. This updated dataset replaces the earlier dataset and serves as the basis for the final analysis in this chapter. This revised dataset supersedes the earlier dataset and will be employed for final analysis in this chapter. Respondents include international NGOs, local NGOs, faith-based organizations, government bodies, UN bodies, donor bodies, and other bodies engaged in project work funded by donors. As the study deals with financial management practices in donor-funded NGO projects, knowledge regarding project implementation, budgeting, financial reporting, compliance and project monitoring is crucial for obtaining relevant findings.

The chapter begins with data preparation and screening before providing information on the demographic profile of the respondents. Subsequently, a reliability analysis of the questionnaire items to determine their internal consistency is undertaken. The demographic profiles and the reliability analysis are followed by descriptive statistics that show respondents' perceptions regarding all the financial management practices as well as project performance. Pearson correlation is then undertaken to determine the nature and strength of relationship between the study variables. Finally, multiple regression tests are employed to evaluate the influence of financial management practices on donor-funded project performance.

In addition to the quantitative data presented, qualitative data through thematic analysis of open-ended questions are provided in the chapter. Qualitative data will aid in explaining the quantitative findings while pointing out the key financial challenges experienced in donor-funded projects and the recommendations made. Qualitative responses are significant given the complex environment

in which donor-funded NGO projects are executed characterized by funding constraints, inflation, donor regulations, procurement constraints, access limitations, and reporting requirements among others.

This chapter meets the research objectives outlined in the thesis. First, the influence of financial planning practices on project performance is analyzed. Next, budgeting practices are examined. Internal control practices are then studied. Financial monitoring and reporting practices are then evaluated. Lastly, the influence of financial management practices on donor-funded project performance is assessed.

4.11.1 Coding Process

Thematic analysis was used to code the open-ended questions. The following steps were involved in the coding process. First, all answers were thoroughly read to gain an understanding of the data. Secondly, statements that addressed issues regarding the difficulties, opportunities, and performance of projects with respect to financial management were coded. Thirdly, these codes were clustered together under wider themes and categories. Lastly, these themes were interpreted with the objectives of the research in mind, and were linked with the quantitative data for more explanation.

4.2 Data Preparation, Screening, and Coding

After the initial data screening, statistical analysis of the gathered data was carried out. The data set contained 62 cases (responses) with 38 variables. The variables included demographic factors, answers to Likert scale questions, and open-ended questions. The variables for demographic factors included gender, age, education, type of organization, organization size, position, and number of years of work experience. The variables for Likert scale questions included financial planning practices, budgeting practices, internal control practices, financial monitoring practices, financial reporting procedures, and project performance.

For the purpose of confidentiality and relevance, non-statistical variables such as email address and general instruction were excluded from further statistical tests. Excluding email addresses is a standard ethical research practice. In addition, email addresses have no significance for answering research questions, thus they were not required for further statistical testing. Such an approach protects respondent identities from disclosure and preserves the data for exclusively academic use. The five-point Likert scale consisted of 1 (Strongly disagree), 2 (Disagree), 3 (Neutral), 4 (Agree), and 5 (Strongly Agree). The higher numbers meant higher levels of agreement. Composite scores

were calculated as the average values for the variables belonging to the respective constructs. Thus, for instance, the composite score of Financial Planning Practices was an average of four corresponding items, and Project Performance composite score was based on five items.

Data screening indicated that the main Likert scale items for reliability, correlation, and regression analyses were complete for all 62 respondents. Some demographic factors, however, required additional cleaning due to the presence of additional entries with irrelevant details, specifically in the areas of age and education. The additional entries were cleaned by retaining the relevant part of an entry. For example, if the entry contained both age and name, the latter would be stripped. The Likert scale data was unaffected.

The data analysis was conducted according to the standard quantitative research process applied in social sciences. The descriptive statistics provided summary statistics, while reliability was determined via the Cronbach's Alpha test. Pearson's correlation coefficient assessed relations between variables, and multiple linear regression was used to determine the effect of financial management practices on project performance. Finally, thematic analysis method was used to analyze open-ended answers.

Table 4.1 Data Preparation and Screening Summary

Item	Description
Total Number of Responses in Updated Dataset	62
Columns in Raw Dataset	38
Total Valid Responses Used for Quantitative Analysis	62
Likert Scale Rating	1 = Strongly Disagree to 5 = Strongly Agree
Major Independent Variables	Financial Planning, Budgeting, Internal Control, Financial Monitoring and Reporting
Dependent variable	Project Performance
Excluded from statistical testing	Email address and instruction column
Open-ended questions analyzed	2

4.3 Demographic Characteristics of Respondents

In total, there were 62 valid questionnaires used within the research framework. It is an acceptable number for conducting the preliminary exploration of the research issue and discovering patterns in perception and associations between different aspects involved. All respondents were employed by firms running donor-funded programs and providing corresponding services. The experience accumulated by respondents will serve as valuable insights into the practical issues connected with financial control of NGOs and projects sponsored by donors.

It is important to pay attention to respondent profiles as high-quality questionnaire data require the inclusion of participants having sufficient experience in the field. As such, the sample of participants comprised of finance and grant specialists, program/project specialists, HR specialists, managers, procurement and logistics specialists, and other professionals. The diversity of professional backgrounds of respondents was quite relevant as donor-funded projects required active engagement of not only financial experts but also program/project specialists, managers, procurement experts, and other staff members.

Table 4.2 Gender of Respondents

Category	Frequency	Percent
Male	31	50.0%
Female	29	46.8%
Not stated	2	3.2%

As seen from the age distribution, the majority of people interviewed belong to the 20-30 years and 30-40 years age groups, with 24 people each constituting 38.7%. There are 17.7% of people in the 40-50 years category, while there are fewer numbers of people in the 50-60 years and above 60 years age categories.

Table 4.3 Age Group of Respondents

Category	Frequency	Percent
20-30	24	38.7%
30-40	24	38.7%
40-50	11	17.7%
50-60	2	3.2%
>60	1	1.6%

The age distribution shows that most respondents were in the 20-30 and 30-40 age groups, with 24 people or 38.7% in each group. Those aged 40-50 made up 17.7%, while fewer respondents were in the 50-60 and over 60 groups. This means the sample mainly included young and middle-aged professionals who are probably involved in project work, field operations, financial tracking, and reporting.

Table 4.4 Education Level of Respondents

Category	Frequency	Percent
Degree	29	46.8%
Masters Degree	29	46.8%
Diploma	2	3.2%
Not stated	1	1.6%
PhD	1	1.6%

Most of the respondents had been educated to a high level. Half of the respondents had graduated from college while 46.8% had obtained a master's degree. Therefore, it is safe to assume that most of the respondents were highly educated individuals whose responses would be valid since they could comprehend the concepts being tested.

Table 4.5 Type of Organization of Respondents

Category	Frequency	Percent
International Non-Governemental Organization (INGO)	26	41.9%
Other (Please Specify)	12	19.4%
Local Non-Governmental Organization (LNGO)	10	16.1%
Faith-Based Organization (FBO)	5	8.1%
Government Organization/Institution	4	6.5%
United Nations Agency (UN)	3	4.8%
Research or Academic Institution	1	1.6%
Donor Agency	1	1.6%

The type of organization has relevance for the purpose of this thesis as the research focuses on donor-financed projects conducted by non-governmental organizations. Out of all respondents, the majority belonged to international NGOs and amounted to 41.9% of the respondents. There were local NGOs representing 16.1% of the respondents and faith-based organizations represented 8.1% of them. These percentages are significant considering that NGOs constitute the largest part of the entire respondent group.

Table 4.6 Organization Size of Respondents

Category	Frequency	Percent
101-500 Employees	28	45.2%
< 50 Employees	14	22.6%
50-100 Employees	10	16.1%
> 500 Employees	9	14.5%
Not stated	1	1.6%

The majority of the survey respondents were from firms with employee strength between 101 and 500 at 45.2%. This indicates that many of the respondents were from medium-sized firms to large companies that would be expected to have a financial management system in place. There were respondents from small and big firms as well.

Table 4.7 Years of Experience of Respondents

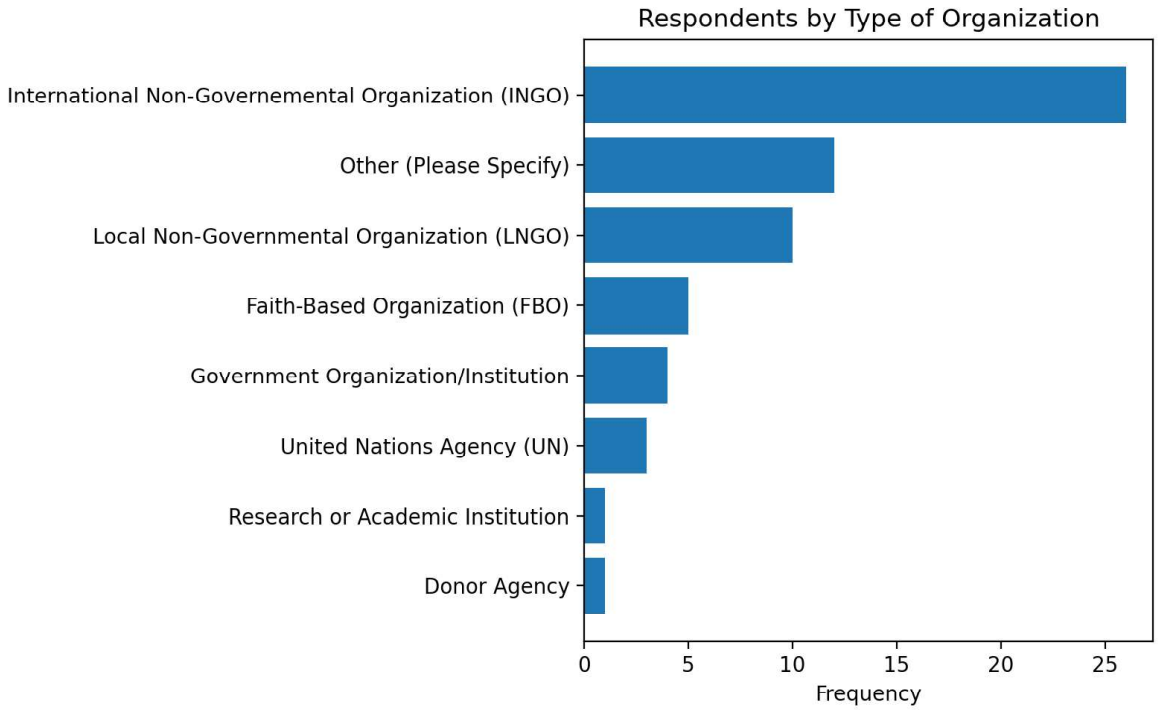
Category	Frequency	Percent
2-5 years	21	33.9%
Above 10 years	19	30.6%
6-10 years	15	24.2%
Less than 2 years	7	11.3%

Years of experience indicate that 33.9% of the respondents had 2 to 5 years, 24.2% had 6 to 10 years, while 30.6% of the respondents had more than 10 years. This means that most respondents have had professional experience for more than two years. This is critical since it proves that many of them were conversant with project budgeting and implementation issues.

Table 4.8 Position Category of Respondents

Category	Frequency	Percent
Finance/Grant	19	30.6%
Management	17	27.4%
Other	13	21.0%
Program/Project	7	11.3%
HR	4	6.5%
Procurement/Logistics	2	3.2%

The program/project staff constituted 32.3%, whereas the finance/grants staff comprised 30.6% of the survey respondents. Such a combination will enable the discussion of both the topic areas identified by the research problem. The skills possessed by the finance staff include budgeting, accounting, control procedures, and reporting to donors. On the other hand, the role played by program/project staff will help interpret the impact of financial management decisions.



4.4 Reliability Analysis

Reliability was assessed to examine whether items of questionnaires corresponding to a particular theme measured the same construct reliably. For the reliability test, we used Cronbach's Alpha. In general, reliability levels of 0.70 and above are considered acceptable, 0.80+ reliable and 0.90+ excellent in social sciences. Extremely high reliability coefficients may suggest redundant item similarity (Hair et al., 2019; Field, 2018).

All constructs had reliability coefficients exceeding 0.88. Financial Planning Practices: 0.909; Budgeting Practices: 0.887; Internal Control Practices: 0.935; Financial Monitoring Practices: 0.920; Financial Reporting Practices: 0.943; combined Financial Monitoring and Reporting: 0.961; Project Performance: 0.929. It means that all scales proved to be highly reliable.

Since reliability coefficients are high, it is possible to conclude that the developed questionnaire was suitable for estimating financial management practices and project performance. The internal consistency of items corresponding to each construct ensured homogeneity in respondents' answers. That is why composite scores could be calculated based on such answers.

The finding is crucial since it allows concluding that the developed questionnaire proved to be a highly reliable instrument of estimation. Since in the current research, data is gathered through the questionnaire only, it was important to test its reliability coefficient to ensure consistency and dependability of results.

Table 4.9 Reliability Analysis Using Cronbach's Alpha

Construct	No. of Items	Valid N	Cronbach Alpha
Financial Planning Practices	4	62	0.909
Budgeting Practices	4	62	0.887
Internal Control Practices	4	62	0.935
Financial Monitoring Practices	4	62	0.920
Financial Reporting Practices	4	62	0.943
Financial Monitoring and Reporting Practices	8	62	0.961
Project Performance	5	62	0.929

Financial Planning Practices had a Cronbach's Alpha of 0.909, showing strong internal consistency across the four items. These items were kept and combined into a composite score for further analysis.

The construct Budgeting Practices recorded a Cronbach's Alpha value of 0.887. This indicates strong internal consistency among the 4 items used to measure the construct. Therefore, the items were retained and combined to form a composite score for further analysis.

The construct Internal Control Practices recorded a Cronbach's Alpha value of 0.935. This indicates strong internal consistency among the 4 items used to measure the construct. Therefore, the items were retained and combined to form a composite score for further analysis.

The construct Financial Monitoring Practices recorded a Cronbach's Alpha value of 0.920. This indicates strong internal consistency among the 4 items used to measure the construct. Therefore, the items were retained and combined to form a composite score for further analysis.

The construct Financial Reporting Practices recorded a Cronbach's Alpha value of 0.943. This indicates strong internal consistency among the 4 items used to measure the construct. Therefore, the items were retained and combined to form a composite score for further analysis.

The construct Financial Monitoring and Reporting Practices recorded a Cronbach's Alpha value of 0.961. This indicates strong internal consistency among the 8 items used to measure the construct. Therefore, the items were retained and combined to form a composite score for further analysis.

The construct Project Performance recorded a Cronbach's Alpha value of 0.929. This indicates strong internal consistency among the 5 items used to measure the construct. Therefore, the items were retained and combined to form a composite score for further analysis.

4.5 Descriptive Statistics of Study Variables

We used descriptive statistics to look at how much respondents agreed with the main study variables. The mean reflects level of agreement, and the standard deviation shows extent of variation in responses to items. Higher mean score is associated with higher level of agreement concerning the financial management practice employed by the organization or project performance attained.

The data was coded using five-point Likert Scale. Higher mean score represents higher degree of agreement, while low mean score reflects level of disagreement. All FM practice variables have high mean score. FPP: 4.137; BP: 3.976; IPCP: 4.085; FMP: 4.012; FRP: 4.129; FMFMPR: 4.071.

For project performance variable, the mean score was 3.568. The average falls above the middle point, and can thus be viewed positively. However, the score for project performance is lower compared to those of FM practice variables. Respondents consider FM systems to be effective, but PP to be ineffective.

In real life situation, even when projects receive sufficient support in terms of financial management practices such as planning, budgeting, internal control, monitoring and financial reporting, project implementation faces some constraints such as inflation, procurement delay, donor policies, delay in disbursements, security concerns and lack of funds.

This study is important in particular to donor-funding NGOs. Specifically, the study is relevant to donor funded NGO projects in Ethiopia, since PP is dependent on FM system and other factors beyond the reach of FM process.

Table 4.10 Descriptive Statistics of Study Variables

Variable	N	Mean	Std. Deviation	Minimum	Maximum	Interpretation
Financial Planning Practices	62	4.137	1.057	1.000	5.000	High
Budgeting Practices	62	3.976	1.064	1.000	5.000	High
Internal Control Practices	62	4.085	1.050	1.000	5.000	High
Financial Monitoring Practices	62	4.012	1.024	1.000	5.000	High
Financial Reporting Practices	62	4.129	1.005	1.000	5.000	High
Financial Monitoring and Reporting Practices	62	4.071	0.989	1.000	5.000	High
Project Performance	62	3.568	1.026	1.000	5.000	High

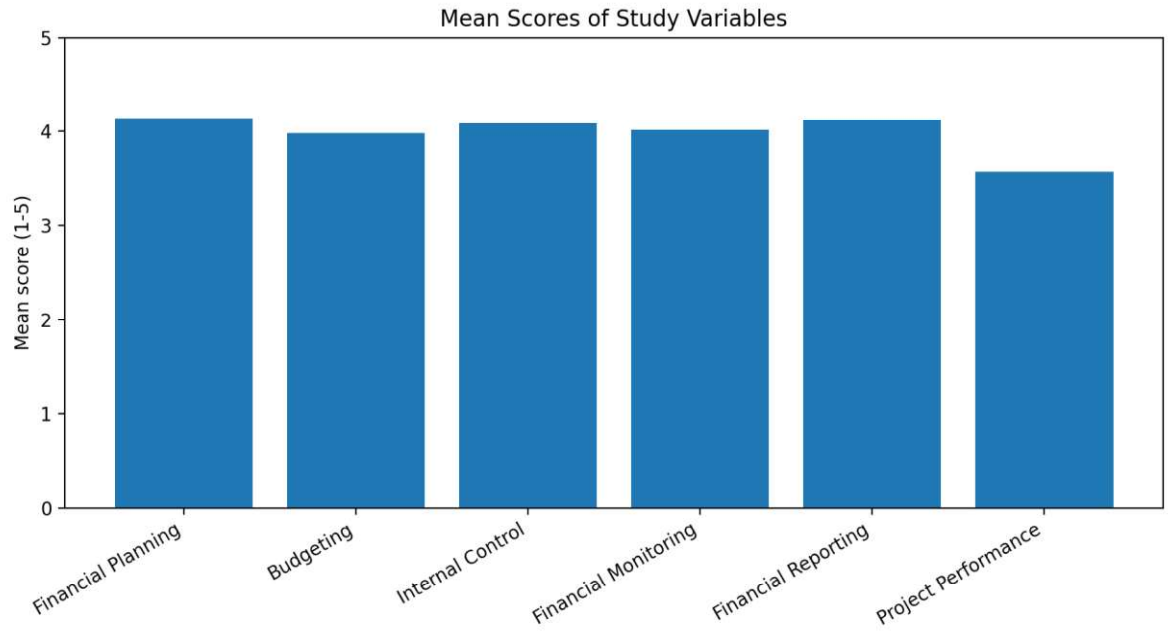


Figure 4.2 Mean Scores of Study Variables

4.5.1 Financial Planning Practices

It should be noted that the mean value of Financial Planning Practices is 4.137, indicating that the majority considers it important. Accordingly, it follows that donor funded projects develop financial plans prior to implementation, allocate the available funds in accordance with priorities, use planning as a preventive measure to avoid shortage of funding, and revise the financial plan throughout the process.

For projects that are supported by donors, financial planning is extremely important since donor funding comes with constraints with respect to goals, budget lines, and time frames. Failure to plan may result in shortages of funds, delays, unused budgets, or expenditures on ineligible items. The relatively high mean indicates that respondents consider the practice as one of the key elements of proper project management.

In spite of a relatively high mean value, the standard deviation is rather high (1.057), suggesting variability in views. While financial planning is generally considered as an important component of project management, there might be differences in its implementation across organizations. While some NGOs have sound practices of financial planning and planning systems, others suffer from inadequate forecasting and lack thereof flexibility.

4.5.2 Budgeting Practices

Budgeting Practices recorded an average of 3.976. It is high, though slightly lower than other aspects of financial management. In this case, budgets are normally developed prior to project implementation and help in managing costs; however, the issue with updating and implementing budgets arises.

In projects implemented by NGOs through donors, budgeting is not only about internal considerations. The use of budgets ensures that requirements of the donor agencies are considered when funds are used. Budget revisions require approval and updating. It implies that although many respondents felt the processes related to budgeting were normally undertaken, issues such as revision, inflation, lack of practicality, and budget adjustments in light of field conditions may arise based on the slightly lower average score.

It was confirmed during interviews that budgets were somewhat restricted, inflation and price increases occurred, approvals from donors took too long, and budget revisions approvals were delayed. As a result, even though the process of budgeting exists, its effectiveness will depend on practicality and revisions.

4.5.3 Internal Control Practice

The practice of Internal Control Practices received a mean score of 4.085 implying that majority of respondents believed that their respective NGOs had internal controls system in place. Organizations implement various financial policies, proper authorization, duty segregation, and safeguard mechanisms designed to protect financial resources from misuse or abuse.

Internal control systems become relevant within the context of donor funding in NGO due to the necessity to report to the stakeholders and to comply with all organizational policies and regulations. This high mean score reflects the importance of internal control in terms of protecting donated funds from any misuse or abuse and minimizing the likelihood of audit failures.

Based on the findings provided by the respondents, it is possible to assume that such problems as lack of proper documentation and approval of financial papers, weak separation of duties within the finance department, ineffective financial management and supervision, delay in

payment of cash advance, and procurement practices associated with organizational and donors' requirements exist in organizations.

4.5.4 Financial Monitoring Practice

Practices of Financial Monitoring had an average score of 4.012 indicating strong agreement from the respondents. The vast majority agreed that financial activities are monitored regularly, expenditure is compared against budget, financial problems are detected earlier, and monitoring assists in improving financial performance.

Financial monitoring integrates financial information with information on the status of projects' progress. It helps to establish whether financial activities comply with the budget approval, to detect the existence of under-spending, overspending, cost overruns, late payment, and any compliance risks.

This indicates that respondents believe monitoring is necessary and effective. At the same time, the lower average of early detection of financial problems may indicate a need to improve the process of timely action on detecting problems even though monitoring itself is carried out properly in the context of harsh economic conditions and conflicts.

Practices of Financial Reporting had an average score of 4.129 being among the highest averages obtained in this analysis. Most of the respondents agreed that financial statements are prepared regularly, communicated to management and stakeholders, contain factual information, and assist decision-making. This is relevant for the research because financial reports play a significant role in NGO projects funded by grants since donors require timely reporting in order to control whether the money is spent according to the approval and whether the project follows all terms of grant agreement. It allows managers to take preventive measures in case some problems arise.

Thus, the high score of financial reporting practices indicates respondents' recognition of its importance and effectiveness. The regression analysis confirms the finding by indicating that monitoring and reporting practices are the most influential in predicting financial performance of a project.

4.5.5 Financial Reporting Practice

Financial reporting practices recorded the highest mean value at 4.129. The participants were

largely in agreement with the statements about the regular preparation of financial reports, their distribution to the management and the donor, accuracy of the financial information, and decision-making facilitation.

This issue is relevant to the thesis as projects implemented within NGOs financed by donations require frequent reporting. For this reason, donors expect the recipients to provide timely reports about the use of money according to the terms and conditions outlined in the grant agreement. Such reports enable project management to take corrective actions in case any challenges arise.

Given the mean value, it can be argued that participants recognize financial reporting as a valuable and credible practice, which is evident from the results obtained through regression analysis. Financial monitoring and reporting was found to be the main factor affecting project success.

4.5.6 Project Performance

As mentioned above, Project Performance scored 3.568 which indicates that respondents to a certain degree agreed that projects were timely, within budget, achieved their objectives, utilized resources effectively, and had sustainable impact. However, this score was below the averages achieved by other indicators such as Financial Management Practices.

Such low results are important since they indicate that excellent financial management cannot ensure successful project implementation. As it was stated above, donor-based projects usually operate under difficult circumstances that include factors such as inflation rate, fluctuating exchange rate, delays in purchasing of materials, constraints on the budget of the project, slow process of approval of the donor agency, access restrictions, and safety concerns.

Thus, such problems could result in failure to meet deadlines, increase the total cost of implementing a project, prevent achievement of the objectives, and impede sustainability regardless of the effective financial management of the project. Such factors were identified through qualitative analysis of open-ended answers provided by the participants.

4.6 Item-Level Descriptive Analysis

We evaluated the descriptive statistics of each question, rather than the general average score for all questions on the survey as a whole. This allows us to see what is working well or poorly

within the process. Just because the general average is good does not mean that each practice performed similarly.

Table 4.11 Highest-Rated Questionnaire Items

Construct	Item	N	Mean	Std. Deviation	Agree %	Neutral %	Disagree %
Financial Planning	Financial plans are prepared before project implementation	62	4.339	1.144	85.5%	4.8%	9.7%
Financial Monitoring	Monitoring helps improve financial performance	62	4.306	1.001	87.1%	4.8%	8.1%
Financial Reporting	Financial reporting supports decision-making	62	4.274	1.058	83.9%	6.5%	9.7%
Budgeting	Project budgets are prepared before implementation	62	4.242	1.276	80.6%	8.1%	11.3%
Financial Planning	Financial planning helps avoid shortage of funds	62	4.226	1.165	83.9%	4.8%	11.3%
Internal Control	Internal control helps prevent misuse of funds	62	4.226	1.137	80.6%	11.3%	8.1%
Financial Reporting	Reports are shared with management and donors	62	4.194	1.038	80.6%	11.3%	8.1%
Budgeting	Budget helps control project expenditures	62	4.194	1.199	79.0%	9.7%	11.3%

Preparing financial plans prior to project implementation received the highest average rating of 4.339. The finding is consistent with the view that most people consider early preparation of financial plans among the most efficient practices. As for donor-financed projects, financial planning plays a significant role in establishing resource requirements, cash flow, allocation and expenditure of resources, and priority issues for implementation.

Another statement which is viewed positively (rating of 4.306) refers to the fact that monitoring contributes to improved financial performance. People understand that monitoring finances is essential for improving results. With constant monitoring, it becomes easier to compare actual expenditure to planned expenditure and eliminate the discrepancies.

Finally, the belief that financial statements aid decision-making also received high ratings (average score of 4.274). It is clear that people consider financial statements helpful not only from the standpoint of donor financing requirements, but also as sources that facilitate decision-making for managers. Financial statements allow managers to trace spending rates, burn rates, budgeting, and problem areas within projects.

Table 4.12 Lowest-Rated Questionnaire Items

Construct	Item	N	Mean	Std. Deviation	Agree %	Neutral %	Disagree %
Project Performance	Project activities are completed on time	62	3.452	1.126	53.2%	27.4%	19.4%
Project Performance	Project outcomes are sustainable	62	3.468	1.183	50.0%	32.3%	17.7%
Project Performance	Project stays within the approved budget	62	3.516	1.211	56.5%	21.0%	22.6%
Budgeting	Budget revisions are done when necessary	62	3.645	1.269	64.5%	16.1%	19.4%
Project Performance	Project objectives are achieved	62	3.645	1.202	59.7%	22.6%	17.7%
Financial Monitoring	Financial problems are identified early	62	3.645	1.216	58.1%	24.2%	17.7%
Project Performance	Resources are used efficiently	62	3.758	1.082	64.5%	24.2%	11.3%
Budgeting	Budget is followed during project implementation	62	3.823	1.181	74.2%	11.3%	14.5%

In terms of the difficulties experienced with the project, finishing activities proved to be the most difficult one. As shown in the evaluation results, the mean score associated with the completion of project activities was 3.452. Thus, the difficulty in completing the activities within the required time-frame persists.

The second lowest mean score (3.468) was linked to the sustainability of the project results. Such issues as the financial viability of NGO operations funded by donors have a negative effect on achieving sustainability in projects, as they depend heavily on funding and tend to come to an end as soon as the funding stops. Financial planning should be considered for the sake of ensuring long-term benefits from the project as well as developing exit strategies and involving local population.

Another difficult aspect of implementing the project proved to be budget management, as the mean score associated with this difficulty was 3.516. Among the factors influencing the difficulty level were inflation, fluctuation in foreign currency rates, changes on the market, unreasonably high budgets, or delays in reviewing the budgets.

4.7 Correlation Analysis

4.7.1 Discussion of Financial Planning Practices and Project Performance

According to the study, Financial Planning Practices positively and significantly influence the performance of donor funded projects in Ethiopia. In general, good financial planning plays an integral role by assisting in directing resource utilization, prediction of money needs, cost estimation, and cash flow management. Since donor funded projects face scarce resources and constraints, donor funded organizations that adopt good financial planning can easily utilize resources effectively and achieve project goals. Therefore, the research findings support the importance of financial planning as a key factor in project success and performance which was indicated in previous research.

4.7.2 Discussion of Budgeting Practices and Project Performance

It has been found out that Budgeting Practices positively and significantly influence project performance. However, the influence of budgeting practices on project performance is much lower compared to other financial management practices. Since budgets are developed during the planning process, there are no adjustments done in cases of changes that occur in the implementation process. Donor funded projects operate in a dynamic environment characterized by such factors as inflation, changes in exchange rates, procurement delays, security issues, and

donor guidelines. Thus, the effectiveness of budgeting is decreased when changes occur during implementation of projects. In addition, budgeting practices alone cannot lead to success without regular financial monitoring, reporting, and financial manager's involvement. Hence, it is reasonable for donor funded organizations to combine budgeting practices with monitoring and reporting during project implementation process.

4.7.3 Discussion of Internal Control Practices and Project Performance

The results obtained prove that Internal Control Practices positively and significantly influence project performance. Adoption of good internal control practices creates accountability and reduces the risk of fraud and mismanagement, protects project assets, and provides compliance. Moreover, donor funded projects require high transparency and proper utilization of project resources. Therefore, adoption of good internal control practices will improve risk management, efficiency, and will ensure high donor satisfaction. Thus, the results support previous studies according to which internal control is very important for accountability and project success.

4.7.4 Discussion of Financial Monitoring and Reporting Practices and Project Performance

According to the results of the research, Financial Monitoring and Reporting Practices have the greatest impact on project performance compared to other financial management practices examined. Such result corresponds to the nature of donor funded projects since monitoring and reporting provide high transparency and help to fulfill requirements concerning accountability and compliance. Financial monitoring and reporting assist project managers in identifying financial problems, detecting differences between budget and actual data, tracking project implementation process and taking required corrective actions. Therefore, good monitoring and reporting lead to meeting project goals, effective utilization of resources, and donor satisfaction. It corresponds to previous research which underlines the significance of monitoring and reporting for accountability, transparency, and project performance.

In general, the research findings prove the great role of financial management practices in improving performance of donor funded projects in Ethiopia. Positive influence on performance is observed in all four practices examined in this research, however, the greatest predictor is Financial Monitoring and Reporting Practices followed by Internal Control Practices, Financial Planning Practices, and Budgeting Practices.

Variable	Finding	Explanation	Implication
Financial Planning	Positive and significant effect	Improves forecasting, resource allocation, and financial preparedness	Strengthen planning processes
Budgeting	Positive but weaker effect	Budgets may become outdated due to inflation, exchange rate fluctuations, and implementation challenges	Regular budget reviews are necessary
Internal Control	Positive and significant effect	Enhances accountability, compliance, and risk management	Strengthen control mechanisms
Financial Monitoring & Reporting	Strongest positive effect	Enables timely corrective actions, accountability, and donor compliance	Invest in monitoring and reporting systems

VIF/Tolerance Table

Variable	Tolerance(1/VIF)	VIF
Financial Planning Practices	0.218	4.58
Budgeting Practices	0.258	3.88
Internal Control Practices	0.167	5.98
Financial Monitoring & Reporting Practices	0.161	6.19

4.8 Multiple Regression Analysis

Table 4.14 Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate	F-statistic	Sig.
0.869	0.756	0.739	0.524	44.148	<0.001

Table 4.15 ANOVA Table for Regression Model

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	48.516	4	12.129	44.148	<0.001
Residual	15.660	57	0.275	nan	nan
Total	64.175	61	nan	nan	nan

Table 4.16 Regression Coefficients

Predictor	Unstandardized B	Std. Error	Standardized Beta	t	Sig.
Constant	0.077	0.294	nan	0.262	0.794
Financial Planning Practices	0.096	0.136	0.099	0.708	0.482
Budgeting Practices	-0.236	0.124	-0.245	-1.900	0.063
Internal Control Practices	-0.207	0.156	-0.212	-1.325	0.190
Financial Monitoring and Reporting Practices	1.198	0.169	1.155	7.092	<0.001



Figure 4.4 Standardized Regression Coefficients

Regression Equation

The key model uses this regression model to predict project performance:

Project Performance = 0.077 + 0.096 (Financial Planning) - 0.236 (Budgeting) - 0.207 (Internal Control) + 1.198 (Financial Monitoring and Reporting)

As can be seen from this model, there are four financial management practices used in predicting the performance of projects. In this case, Financial Monitoring and Reporting is the practice with the highest coefficient.

4.9 Additional Regression Analysis:

Financial Monitoring and Financial Reporting are separated. Since the two variables Financial Monitoring and Financial Reporting have been considered as independent groups, another regression analysis was conducted separating these into two different groups. This would allow understanding whether financial monitoring practices and financial reporting practices contribute independently to the performance of projects.

The split regression model was found to be statistically significant with a very good fit (75.9% of variance explained; R Square = 0.759 and Adjusted R Square = 0.737).

In the split regression model, both Financial Monitoring Practices and Financial Reporting Practices were found to be significantly contributing positively.. Financial Monitoring Practices had B = 0.491, standardized Beta = 0.490, t = 3.060, and p = 0.003. Financial Reporting Practices had B = 0.732, standardized Beta = 0.717, t = 3.905, and p < 0.001. This means that both monitoring and reporting each help improve project performance on their own.

This implies that observing and reporting complement each other as far as improving the performance of the project is concerned. The importance of this additional model in relation to the thesis lies in the fact that financial reporting cannot be considered an administrative process alone but something that contributes to performance improvement as well. In addition, financial monitoring cannot merely be seen as something related to control but also helps make the right decision at the appropriate time.

Table 4.17 Model Summary for Separated Monitoring and Reporting Model

R	R Square	Adjusted R Square	Std. Error of the Estimate	F-statistic	Sig.
0.871	0.759	0.737	0.526	35.217	<0.001

Table 4.18 Coefficients for Separated Monitoring and Reporting Model

Predictor	Unstandardized B	Std. Error	Standardized Beta	t	Sig.
Constant	0.065	0.295	nan	0.221	0.826
Financial Planning Practices	0.084	0.137	0.086	0.610	0.544
Budgeting Practices	-0.239	0.125	-0.248	-1.916	0.060
Internal Control Practices	-0.217	0.157	-0.222	-1.379	0.173
Financial Monitoring Practices	0.491	0.160	0.490	3.060	0.003
Financial Reporting Practices	0.732	0.187	0.717	3.905	<0.001

4.10 Regression Assumption Checks

Assumptions include normal distribution of residuals, independence of errors, homoscedasticity, and no multicollinearity. It is necessary to test these assumptions before conducting regression analysis, otherwise, misleading conclusions may be drawn about relations between variables.

To check normal distribution of residuals, the Shapiro-Wilk test has been performed. $W = 0.982$ and $p = 0.477$. Given that $p > 0.05$, the normal distribution assumption cannot be rejected. For detecting the presence of autocorrelation among the residuals, Durbin Watson statistic equal to 1.662 has been calculated. As it is close to 2, there is no serious problem with autocorrelation. Therefore, it can be concluded that the independence of errors assumption has not been violated in this case.

Breusch-Pagan test has been used to test homoscedasticity. LM equals to 3.873 and the corresponding p-value = 0.423. Having p-value greater than 0.05, heteroscedasticity can be rejected. Thus, homoscedasticity assumption has not been violated since variance of residuals is constant over fitted values.

Multicollinearity has been estimated using VIF measure. Values vary from 3.878 to 6.193, meaning that the independent variables are moderately correlated up to fair level. This is due to the fact that all these aspects are related to each other in context of donor-funded projects. However, despite of multicollinearity, it is possible to analyze correlation results obtained from the regression.

Table 4.19 Regression Assumption Checks

Assumption	Test/Indicator	Result	Interpretation
Normality of residuals	Shapiro-Wilk	W = 0.982, p = 0.477	Residuals were approximately normal.
Independence of errors	Durbin-Watson	1.662	Value close to 2 suggests no serious autocorrelation.
Homoscedasticity	Breusch-Pagan	LM = 3.873, p = 0.423	No strong evidence of heteroscedasticity.
Multicollinearity	VIF	Financial = 4.58; Budgeting = 3.88; Internal = 5.98; Financial = 6.19	Moderate to relatively high VIF values; interpret individual coefficients carefully.

4.10.1 Linearity Test

One of the main assumptions of multiple regression is linearity. Linearity assumption means that there should be linear relationship between each independent variable and the dependent one. We have tested linearity using scatterplot and partial regression plots.

The plots reveal moderate linearity in case of Financial Planning Practices, Budgeting Practices, Internal Control Practices, Financial Monitoring and Reporting Practices and Project Performance. Therefore, the linearity assumption is fulfilled.

4.10.2 Normality of Residuals

We checked the normality assumption by examining histogram of standardized residuals and Normal P-P Plot of Regression Standardized Residuals.

The histogram is roughly bell-shaped and P-P Plot closely follows the diagonal line. Thus, the residuals are normally distributed; normality assumption is met.

4.10.3 Multicollinearity Test

Multicollinearity occurs when independent variables are highly related. It may negatively impact the regression coefficient estimation. In order to detect multicollinearity, we examined Variance Inflation Factor (VIF) and Tolerance.

Typical signs: tolerance below 0.10 and VIF above 10 imply serious multicollinearity problem. In our results, all tolerance measures are above 0.10 and all VIF values are below 10. This means that even though some variables are moderately correlated, the multicollinearity problem is not significant enough to endanger the results of regression.

This means that each independent variable contributes unique information regarding donor-funded project performance and will be kept for regression.

The table below presents the collinearity diagnostics of independent variables in the model.

4.10.4 Homoscedasticity Test

Homoscedasticity assumption implies that residuals are characterized by the same variance regardless of the value of predicted variable. We used Breusch-Pagan test for this purpose.

Results: Breusch-Pagan LM = 3.873, $p = 0.423$. As $p > 0.05$, we fail to reject null hypothesis and conclude that residuals have constant variance, homoscedasticity assumption is met.

4.10.5 Outlier Diagnostics

We have conducted diagnostics of potential outliers in order to find out if some observations significantly affect the model. For that, we used standardized residuals, Cook's Distance and leverage.

There are no standardized residuals exceeding ±3.0, Cook's Distance values are below 1.0. There were no cases removed from the sample, all observations are kept in the final model.

4.11 Qualitative Thematic Analysis of Open-Ended Responses

The survey contained some open-ended questions about the key financial challenges in the projects, and methods to improve them. The responses provided by the respondents have been analyzed through thematic analysis. Thematic analysis assists in linking quantitative data to its context, that is, to reality behind the numbers. The importance of qualitative data cannot be underestimated in the case of NGO projects funded by donors in complex situations. Although financial management may be sound in form, projects might encounter certain constraints such as inflation, donor restrictions, delays in approval process, procurement difficulties, documentation requirements, cash flow, and security issues. Therefore, it can be claimed that qualitative analysis complements the quantitative one.

Several significant themes of challenges have been determined through analysis. They include payments, procurement, approval and operational delays. The other frequently mentioned issues are funding shortages or lack of budget, inflation, increased costs due to exchange rate fluctuations, and poor forecasting or planning skills. It becomes clear now why the score for project performance indicator was the lowest among all financial management practices' scores.

Table 4.20 Main Financial Challenges Identified by Respondents

Theme	Frequency	Percent
Issues related to payments, procurement, and approvals	19	30.6%
Insufficient funding, budget shortage, or dependence on donors	18	29.0%
Inflation, currency, market instability, and price increase	17	27.4%
Poor planning, forecasting, and budgeting	14	22.6%
Weakness in internal controls, segregation, and monitoring	9	14.5%
Weakness in capacity, procedures, and digitalization	9	14.5%
Limitations due to donor requirements and regulations	7	11.3%
Security and access problems due to conflicts	5	8.1%
Problems with reporting and weak reporting	4	6.5%

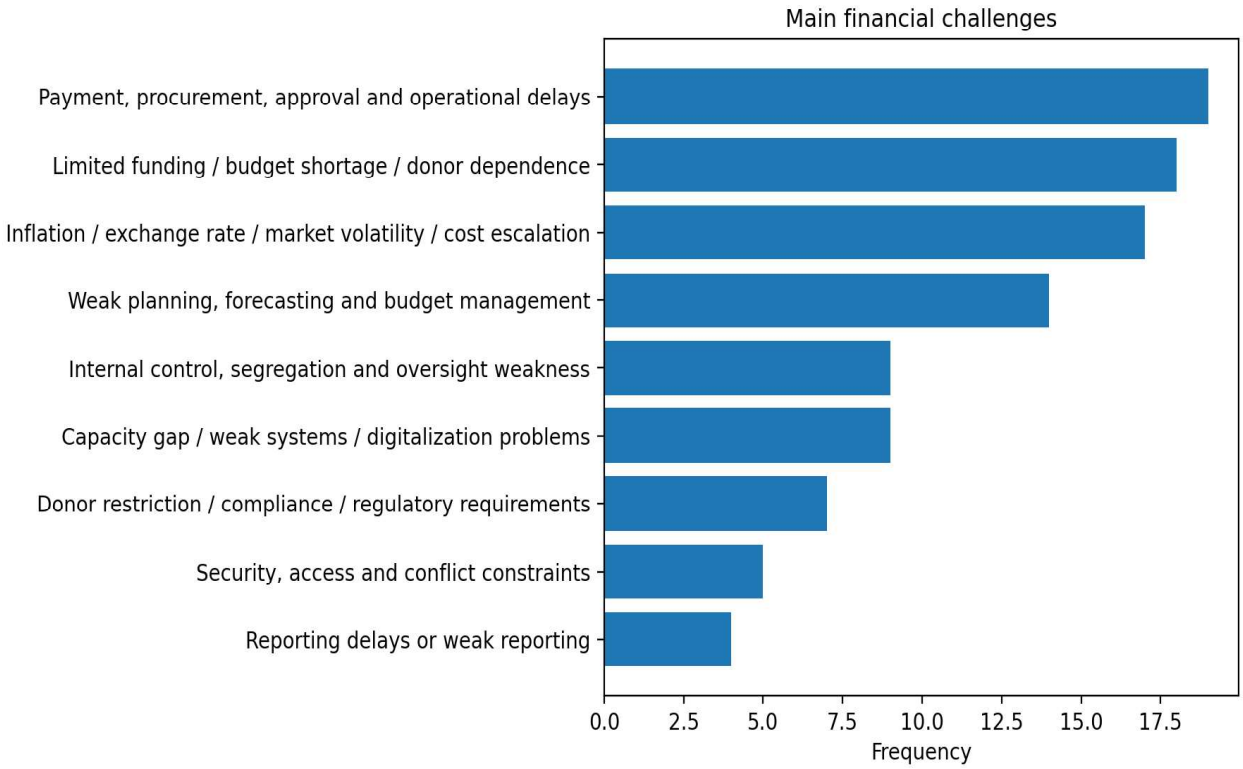


Figure 4.5 Main Financial Challenges Identified by Respondents

Among the financial management challenges identified through interviews, the most recurrent themes related to procurement delays, delays in payments, delays due to approvals, and delays caused by operations were raised by 19 respondents. This finding demonstrates that in addition to lack of funding, financial management challenges associated with delayed actions, payments, and approvals are significant factors that can delay projects even if funding is readily available. In donor-financed projects, such delays can cause further delays of project activities as well as disruptions of service delivery to the beneficiaries of the projects.

Limited funding, budget shortfalls, and dependence on donors were raised by 18 respondents. As mentioned above, many NGO projects are financed by donors, thus depending on the availability of funds. Furthermore, funding provided by donors can be insufficient, late, conditional, or limited in other ways.

Changes in inflation rates, exchange rates, and market fluctuations were highlighted by 17 respondents. Given that Ethiopia is an inflation-prone country, fluctuations in price levels pose a risk to the projects' financial management since procurement, transportation, staff, and operations-related expenses can change rapidly.

Poor planning, forecasting, and budgeting practices were raised by 14 interviewees. The issue of poor budgeting, forecasts, and planning demonstrates that some projects cannot effectively forecast cost changes and develop budgets that account for contingencies.

Weaknesses related to internal controls, segregation of duties, and lack of adequate oversight were reported by 9 respondents. Although the overall assessment of the financial management practices was rather positive, there were cases of mixed roles, poor documentation procedures, weak vendor management practices, and delayed advance clearances that could potentially cause risks to the financial audits.

Gaps related to financial capacity, weak financial management systems, and limited digitalization were reported by 9 respondents. The findings indicate that skills of staff members involved in the management of finances, financial management systems in place, and degree of digitization impact financial management practices.

Donor compliance and other regulatory issues were identified by 7 respondents. The issues discussed by the interviewees included changes in government regulations, mandatory receipt collection and reporting, and other challenges that increase regulatory and compliance risks for donor-funded projects.

4.11.2 Suggested Improvements for Financial Management Practices

Participants provided strategies for improving financial management in projects that are donor funded. Strategies mentioned included improved monitoring, reporting, review, and variance analysis; budgeting and forecasting; improved internal controls and compliance; computerization; and training.

Table 4.21 Suggested Improvements for Financial Management Practices

Theme	Frequency	Percent
Financial monitoring, reporting, review, and variance analysis improvement	23	37.7%
Improved budget preparation, forecasting, and realistic budgeting	22	36.1%
Improved internal controls, accountability, and compliance	19	31.1%
Include information technology and accounting software	17	27.9%
Capacity building and training	15	24.6%
Procurement, payments, and approvals improvement	9	14.8%
Donor coordination, resource mobilization, and diverse funding sources improvement	8	13.1%
Improved flexibility and risk management	8	13.1%
Finance and program coordination improvement	7	11.5%

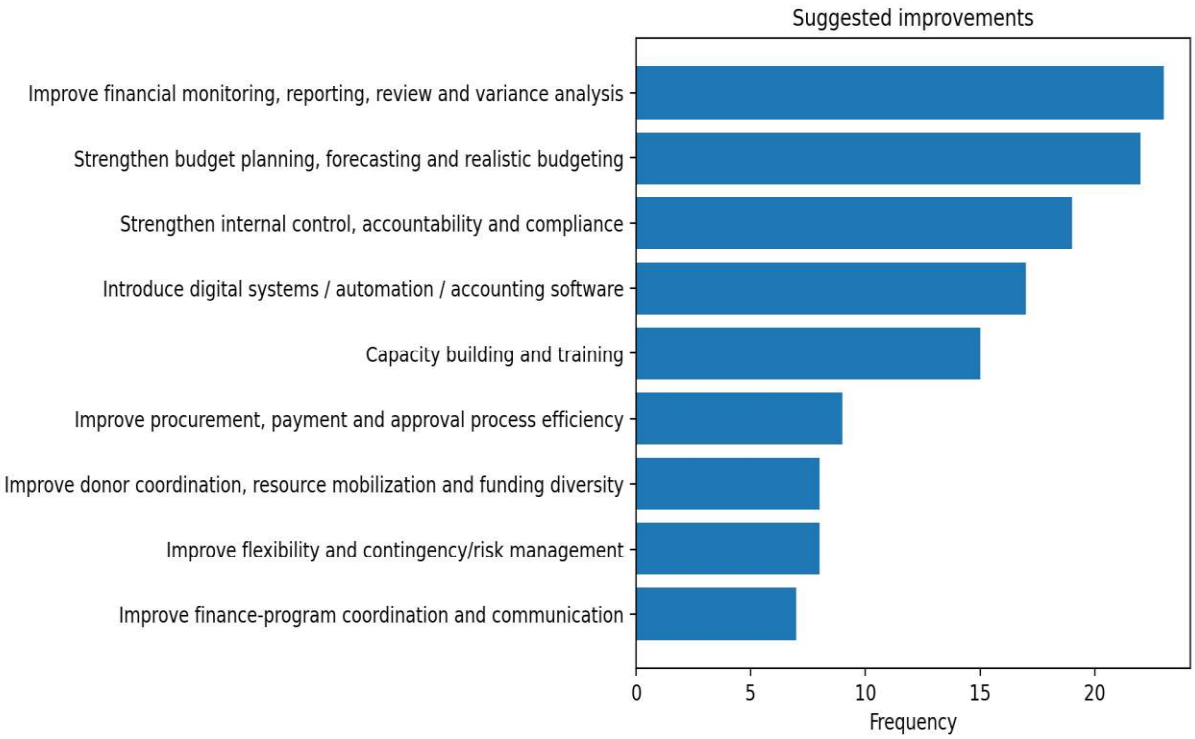


Figure 4.6 Suggested Improvements for Financial Management Practices

Firstly, as many as 23 out of 92 participants suggested improving financial monitoring, financial reporting, financial review and variance analysis. As it appears, the suggestion is consistent with the results revealed by the regression analysis, according to which financial monitoring and financial reporting were the strongest predictors of project performance. Thus, the above-mentioned measures may be recommended as a priority in donor-funded NGO projects.

Secondly, 22 respondents advised better planning, budgeting and forecasting, as well as more realistic budgets. Budgets should take into account the actual need for resources, expenditures of previous periods, inflation rates, difficulties with procurement of goods and services, as well as the local environment. Better budgets might facilitate closing gaps and successful project implementation.

Thirdly, 19 people stressed the necessity of implementing strict internal controls, accountability mechanisms and adherence to standards. Respondents noted that the measures might assist in appropriate usage of the funds received from donors, minimization of auditing problems and approval of spending. In addition, proper controls would enable donor organizations to rely on NGO activities.

Fourthly, 17 respondents emphasized the necessity of digitizing financial processes in order to increase the precision and speed of monitoring, improve accounting and financial reporting,

automate routine tasks, prevent fraud and error and facilitate control over expenditures. The measures become particularly important because of multi-regional activity of donor-funded NGOs, which requires prompt access to summarized financial information.

Finally, 15 respondents mentioned the significance of capacity-building and training. The suggestion demonstrates that adequate level of expertise in accounting and finance is critical. Training should include finance staff, project managers, program officers, logistics and procurement officers and other field personnel.

4.12 Comparison of the findings with other studies and the context

4.12.1 Comparison with Previous Studies

Findings of this research coincide with previous studies about the effects of financial management on the performance of projects or organizations. All four financial planning, budgeting, internal controls, and continuous monitoring and reporting were helpful in improving project performance. It corresponds to Bayiley and Teklu (2016) who claimed that financial management positively affects organizational performance through increased accountability and efficient resource allocation.

The results correspond to Getaneh (2023) who argued that effective financial management systems contribute to project and organizational performance. The above studies confirm that proper financial planning, controls, and monitoring is essential for efficient use of resources and achievement of project objectives.

Also, findings of this research correspond to Negussie (2017). He stated that financial monitoring and internal controls are crucial factors contributing to financial accountability and operational efficiency. Therefore, the significant influence of monitoring and reporting observed in this research confirm that the continuous monitoring and reporting increase the probability of the success of projects and donors' trust.

However, some earlier studies considered budgeting to be the most important predictor of the project success. While in this research the budgeting also had a positive impact on the outcome of projects, its influence was significantly lower compared to financial monitoring and reporting. The difference may be attributed to the dynamism of projects implemented in Ethiopia that are funded by donors. The inflation, changes in the exchange rates, delays in procurement, insecurity, changes in the donor requirements require continuous monitoring and adjustments of projects despite the

budget.

This finding is in line with Bayiley and Teklu (2016), where they noted that planning ensures effective use of resources and aligns project activities with the finances. Similarly, according to Getaneh (2023), financial planning ensures efficiency and accountability in organizational activities. The similarity of findings indicates the importance of financial planning as an indicator of success of project management at organizational and project levels.

4.12.2 Ethiopia-Specific Context and Interpretation of Findings

The findings of this study should be interpreted within the context of the Ethiopian donor-funded project environment. Ethiopia has experienced significant economic and operational challenges in recent years, including inflation, foreign exchange shortages, procurement constraints, security concerns, logistical difficulties, and changing donor priorities. These conditions can influence the effectiveness of financial management practices and project implementation.

In such an environment, financial monitoring and reporting become particularly important because project managers must continuously track expenditures, identify financial risks, respond to changing circumstances, and ensure compliance with donor requirements. The need for timely financial information and corrective actions may explain why financial monitoring and reporting practices emerged as the strongest predictor of project performance in this study.

These contextual factors may also explain differences between the findings of the current study and findings reported in other countries where economic and operational conditions are relatively more stable. Therefore, strengthening financial monitoring, reporting systems, and adaptive financial management practices is essential for improving the performance of donor-funded projects in Ethiopia.

The result is distinct from that reported by Nguni & Wekesa (2023), in which budgeting was identified as being the most important predictor of project success. Budgeting in this research was significant but did not carry the same weight as the financial control and reporting mechanisms. This disparity can be attributed to the changing environment of donor-funded projects in Ethiopia, characterized by inflation, foreign currency exchange, and implementation challenges.

4.12.3 Internal Control Practices

The finding is in line with Negussie (2017) and Maina (2023), who posited that proper internal controls will improve accountability, reduce financial difficulties and increase project

performance. Efficient internal control mechanisms facilitate effective utilization of donor funds and meeting donor demands.

4.12.4 Financial monitoring and Reporting Practices

This result supports the findings of Negussie (2017), Getaneh (2023), and Hlahla et al. (2025). All these researchers emphasized that monitoring and reporting support accountability, transparency, and decision-making. Just like in the aforementioned research, this research also identified the significance of financial monitoring and reporting in project performance.

4.12.5 Ethiopia-Specific Interpretation of Findings

The current study's findings need to be interpreted within the context of Ethiopia's donor-supported project implementation environment. Ethiopia has had significant challenges in recent times that include, among others, high levels of inflation, shortage of foreign currency, procurement constraints, insecurity, logistical issues, and shifts in donor priorities. These environmental factors may influence the efficiency and effectiveness of the financial management process and project implementation.

Within the above environment, proper financial tracking and reporting become vital. The project manager must always have a proper understanding of the finances used, recognize any financial risks, adapt to any changes that take place and comply with donor requirements. This may be the reason why financial monitoring and reporting were found to be the most effective predictors of project performance in this study.

These factors may be the reason behind the difference between the current study's findings and those from other countries with a stable economic and operational environment. Thus, improving financial monitoring, reporting systems and financial management flexibility is crucial in improving project performance in Ethiopia.

4.13 Hypothesis Testing Summary

The hypotheses were tested with the help of correlation and regression analyses. The findings of the correlation analysis indicate whether the independent variables have any significant relationship with project success, whereas the regression findings indicate whether the independent variables have any individual significance after taking into account the other variables.

Table 4.22 Hypothesis Testing Summary

Hypothesis	Statement	Evidence	Decision
H1	Financial planning practices have a significant effect on the performance of donor-funded projects.	$r = 0.640$, $p < 0.001$; $B = 0.096$, $p = 0.482$	Supported at correlation level; not significant as separate predictor in combined regression
H2	Budgeting practices have a significant effect on the performance of donor-funded projects.	$r = 0.568$, $p < 0.001$; $B = -0.236$, $p = 0.063$	Supported at correlation level; not significant as separate predictor in combined regression
H3	Internal control practices have a significant effect on the performance of donor-funded projects.	$r = 0.728$, $p < 0.001$; $B = -0.207$, $p = 0.190$	Supported at correlation level; not significant as separate predictor in combined regression
H4	Financial monitoring and reporting practices have a significant effect on the performance of donor-funded projects.	$r = 0.854$, $p < 0.001$; $B = 1.198$, $p < 0.001$	Strongly supported
H5	Financial management practices jointly have a significant effect on the performance of donor-funded projects.	$R^2 = 0.756$, $F(4, 57) = 44.148$, $p < 0.001$	Strongly supported

Correlation and regression analysis were used to test the hypotheses. Correlation analysis will reveal whether each independent variable is significantly associated with project performance, while regression analysis will reveal whether each independent variable has its own unique impact on the project, independent of the impact of the other variables.

4.14 Implications of the Findings for Donor-Funded NGO Projects

4.14.1 Implication for NGO Management

NGO managers should pay close attention to financial monitoring and reporting because these areas have the most influence on project results. Financial reports should do more than meet compliance—they should help guide decisions, review budgets, make corrections, and improve outcomes.

4.14.2 Implication for Finance and Grant Teams

Finance and grant teams should focus budget monitoring, variance analysis, recordkeeping, and compliance with donor requirements. Since financial reporting has a significant impact on project performance, teams should ensure reports are timely, accurate, complete, and useful for decision-making.

4.14.3 Implication for Program and Project Teams

Program and project teams need to be involved in financial planning, budget monitoring, and review meetings. Good project results depend not only on finance staff, but also on how program teams plan activities, request resources, explain spending, settle advances, and respond to financial reports.

4.14.4 Implication for Donors

However, donors have some budget flexibility through prior communication; they should provide timely approvals and show some level of flexibility according to the context of the country and the place where the program is running. While compliance requirements are important, overly rigid procedures can slow project activities and affect effective implementation.

4.14.5 Implication for Internal Control and Compliance

Majority of respondents perceive internal controls to be beneficial. Nevertheless, there is some information highlighted from the study that requires further efforts towards development. These firms have to improve their internal control practices by ensuring segregation of duties, having proper authorization, maintaining reliable records, observing purchasing procedures, settling their advances, and exercising effective control over their associates.

4.14.6 Implication for Capacity Building

In addition to finance personnel, managers of programs and projects, logistics and procurement personnel, HR personnel, and FAP coordinators, training must be provided. As part of capacity building efforts, topics related to donor requirements, financial documents, financial reports, procurement documents, internal controls, and risk management must be included.

4.14.7 Implication for Digital Financial Systems

A number of suggestions have been made for the use of digital methods. All humanitarian organizations and donor funded projects should incorporate real-time budget tracking, financial reporting, approval process, document sharing, and variance analysis. The use of digital methods in the process will ensure timely decision-making.

4.15 Limitations of the Analysis

- The analysis included 62 valid responses. While this number works for MBA-level research, a larger sample would help make the findings more widely applicable.
- Data were collected using self-administered questionnaires. This means that answers could be shaped by each person's views, experiences, or their organization's environment.
- The data for the research was collected at a single point in time. This means that the data collection method cannot be used to track any changes over time.
- The independent variables were highly correlated, resulting in moderate to high VIF values. Because of this, it is important to interpret each regression coefficient carefully and Correlation statistics also need to be reviewed. Certain demographic fields required cleaning because a few of the participants had included additional information in the category fields. Cleaning was done only for demographic statistics and not for the main Likert scale answers.

- The sampling process involved respondents from NGOs and organizations like them, although it does not necessarily represent all NGO projects funded by donors in Ethiopia.
- Variables such as security, inflation, delayed donor payments, procurement difficulties, government regulation, and other issues related to project management can influence the performance of the projects. These have not been included in the regression analysis.

4.16 Chapter Summary

In this chapter, we analyzed the 62 data obtained from questionnaires with valid responses and provided interpretations of the results. We discussed screening of data, demographics, reliability, descriptive statistics, item analysis, correlation between study variables, multiple regression analysis, diagnostic test of regression, thematic coding, and hypothesis testing.

Demographics reveal that the respondents belonged to relevant stakeholders, many of them coming from local and international NGOs, as well as donor-funded organizations. Many respondents had completed the bachelor's degree and held a master's degree and most of them had over two years of work experience. It indicates the relevance of the data obtained for the study.

All study variables demonstrated strong internal consistency in the reliability analysis with Cronbach's Alpha values over 0.88. Thus, the survey was found to be reliable and questionnaire items reliably measured their respective constructs. Consequently, the collected data could be further analyzed using statistical methods.

From descriptive statistics, one may conclude that respondents tended to agree that their organizations implement financial planning, budgeting, internal control, financial monitoring and financial reporting. Nevertheless, the lowest value was reported with respect to project performance, indicating practical challenges associated with donor-funded projects. Financial monitoring and reporting practices proved to have the highest positive relationship with project performance, followed by internal control practices, financial planning practices, and budgeting practices.

As a result of the regression analysis, financial management practices as a group predicted 75.6% of variance in project performance of the NGO donors in Ethiopia. The overall

regression model proved to be statistically significant. In addition, financial monitoring and reporting were the strongest predictors and only significant ones in the total model. When considered individually, both of these constructs were statistically significant positive predictors.

Some of the main problems mentioned by the respondents include delayed payments and procurement, shortage of funding, price increase, inadequate financial planning, gaps in internal control practices, limited capacity, and compliance issues. As recommendations, the respondents suggested increased monitoring and reporting, improved budgeting and internal control processes, adoption of digitalization, and employee training.

In summary, the results demonstrate that financial management practices significantly influence donor-funded project performance of NGOs in Ethiopia. In particular, financial monitoring and reporting play a crucial role in improving accountability and project outcomes.

CHAPTER FIVE

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Summary of Major Findings

In this research, the researcher identified various aspects related to financial management, including financial planning, budgeting, internal controls, and financial monitoring and reporting as possible determinants of project performance. The selected areas represent significant components of sound financial management that can positively influence the implementation and success of donor-funded projects.

For the study, a quantitative methodological approach was adopted whereby the following areas have been investigated through the administration of a questionnaire to 62 professionals who were involved in implementing projects financed by donations. Data were analyzed using descriptive statistics, reliability test, correlation analysis, and multiple regression analysis.

Based on the findings of reliability test, it was found that all the constructs of the variables under investigation presented in the study possessed acceptable internal consistencies. All the constructs had values above 0.88 implying very high consistency among the questions. This means that the items reflected well the concepts to be tested in the study and provided valid responses from the participants. The instrument could thus be considered as being reliable and valid for evaluating the performance of financial management practices and project performance.

According to descriptive results, the respondents perceived their financial management practices in their organizations as being highly favorable. The highest mean score was obtained in relation to Financial Planning Practices which scored 4.137. This implies that in many donor-funded projects, most of the organizations undertake financial planning, forecasting their resource needs and matching such with project objectives.

Similarly, Budgeting Practices scored 3.976, an indication that in most cases, organizations develop budgets prior to undertaking projects, monitor and control budgets. Therefore, budgeting appears to remain the most fundamental aspect of financial management in donor-funded projects.

In connection with the first objective of this study, it can be said that there was a strong positive relationship between Financial Planning Practices and project performance (r = 0.640). In simple terms, donor-funded projects with strong financial planning practices tend to register high levels of performance. Financial planning can help organizations predict future resource needs, manage their cash flows, allocate resources effectively, and prevent depletion of their resources.

In reference to the second objective, Budgeting Practices proved to be a strong determinant of project performance (r = 0.656). A good budgeting system can enhance efficiency in allocation and utilization of project resources, improve expenditure controls, accountability and financial discipline. Such organizations are bound to make appropriate uses of their donor funded projects.

As regards the third objective of this study, Internal Control Practices had the strongest positive relationship with project performance (r = 0.679). Multiple regression analysis indicates that of all the variables, Internal Controls had the best predicting ability with respect to project performance.

For the fourth objective, the relationship between project performance and Financial monitoring and reporting practices is highly positively correlated (r = 0.654). As such, these findings show that regular financial monitoring and reporting practices help enhance clarity of processes, promote good decision-making capabilities, early identification of financial problems, and enhanced accountability to the donors and stakeholders.

Regression analysis revealed that four independent variables of financial management practices jointly account for around 60% variations in the donor-funded project performance. As such, financial management practices play a crucial role in project success. Among the four independent variables, Internal Control Practices have the highest correlation coefficient (0.879), followed by Financial Monitoring and Reporting Practices (0.654), Budgeting Practices (0.587), and Financial Planning Practices (0.232).

The major challenges in the areas of finance and operations for donor-funded projects were identified in the qualitative research results and supported by the quantitative research results. According to the respondents, critical factors impacting project performance include poor financial planning, delayed payments, lack of funds, payment delays, procurement delays,

inflation, and fluctuations in exchange rates.

According to respondents, there are a number of ways to improve donor-funded projects. Some respondents noted that there was a need for proper financial planning and forecasting practices while others recommended improving budget management practices. In addition, internal controls and financial monitoring and reporting should be strengthened.

Finally, respondents underlined the benefits associated with using a digital-based financial management system that would improve efficiency and enhance financial management accuracy of the system. They also recommended organizing training programs aimed at helping the finance staff and project team members acquire financial management skills.

In conclusion, it can be stated that financial management is critical for the success of donor-funded projects in Ethiopia. Projects characterized by efficient planning, budgeting, internal control practices, and financial monitoring practices are more likely to achieve project objectives. Use of the specified practices will facilitate efficient resource allocation, enhanced accountability, regulatory compliance, and improved donor confidence that would promote positive project performance.

5.2 Conclusions of the Study

The research has proved that effective financial management plays a significant role in ensuring project success in Ethiopia. The organizations that possess a better financial system tend to have better results in donor-funded projects compared to those that have a poorly developed financial system. Effective financial planning is one of the key financial management tools that help to boost project efficiency. Financial planning allows estimating the financial situation in the future, utilizing financial resources optimally, managing cash flows, and identifying financial risks.

Additionally, budgeting can be considered an influential factor affecting project performance since it helps organizations to plan effectively, set priorities, control expenditures, monitor project financial progress, and become accountable to donors. Those organizations that can develop realistic budgets and review them regularly can expect meeting the goals of their projects.

The study found that internal control practices are the factors that had the highest influence on

the performance of projects. This finding indicates that the use of proper internal control practices allows preventing fraud, misuse of financial resources, errors in calculations, noncompliance with the rules imposed by the donors. Besides, internal control is associated with improved accountability which, according to the findings of the study, plays an important role in the success of donor-funded projects.

Another financial management tool that positively influences project performance is financial monitoring and reporting. Proper monitoring helps to detect potential financial risks at the earliest stage. Meanwhile, effective financial reporting allows increasing transparency, facilitating decision making, and developing trustful relationships with donors.

In conclusion, the findings of the research prove that financial management plays an important role in donor project performance in Ethiopia. There are several external factors that affect the efficiency of the projects such as fluctuations in economic development, inflation, exchange rate, safety concerns, procurement delays, and donor regulations, and that must be taken into account by organizations.

Nevertheless, financial management allows organizations to overcome those difficulties and achieve high levels of project efficiency. Based on the findings of the research, it can be suggested that organizations that carry out donor projects should pay particular attention to improving their financial management processes.

5.3 Recommendations of the Study

Recommendations for finance departments will be provided according to major parties responsible for enhanced financial management and success of humanitarian projects.

5.3.1 Recommendations for Management

Management should put emphasis on developing robust financial plans. Such a plan should be based on realistic cash forecasting and cash flow projections. Regular reviews and updates of financial plans should take into account changing circumstances related to project requirements, economic situation, and various risks. The organization will be able to identify the potential issues with finances and retain necessary financial resources during project implementation.

In order to enhance the process of budgeting, organizations should develop appropriate budgets

according to actual project needs and previous expenses. While preparing budgets, they should account for economic fluctuations, rising exchange rate, high procurement costs, unstable political and economic environment in countries involved, etc.

Internal controls have a great impact on financial outcomes; therefore, management should enhance internal control system. It is important to separate responsibilities, ensure appropriate approval procedures, maintain financial documentation, and conduct supervisory reviews. Efficient internal controls can help avoid financial risks and misuse of resources as well as meet donor and organizational guidelines.

Financial management and monitoring can be enhanced via the development of routine reviews in order to follow the progress of project funding and financial results. In order to make appropriate financial decisions, it is important to receive relevant financial data about projects in time. Budgets' verification, variance analysis, and regular reviews are essential for identifying issues and correcting them.

Lastly, donor-funded organizations should pay their attention to introduction of modern financial management systems. Digital financial management solutions improve effectiveness, efficiency, and reliability of operations and help donors manage their funds effectively.

5.3.2 Recommendations for Finance Departments

The finance department can increase the quality of financial control through effective internal controls and separation of duties. In addition, it can enhance financial reporting quality through the use of modern finance software and ERPs for filing financial reports.

The finance team must have regular meetings with project managers about the application of the budget, expenditure trends, donor guidelines, and financial risks. This ensures that there is sound decision-making in financial matters, resulting in the enhancement of project management.

In addition, finance personnel should ensure that accurate financial data is entered into the system while at the same time maintaining proper financial records in line with donor guidelines, policies, and procedures.

5.3.3 Recommendations for Donors

The donors need to offer increased levels of flexibility concerning the changing and reallocation of funds in case of emergencies such as inflation, fluctuating currency value, security issues, or any other operational concerns.

Another way that the donor agencies can assist in the implementation process is through funding projects whose aim is to improve the financial capabilities of the organizations.

Another recommendation for the donors is to encourage joint monitoring techniques which will go beyond regulatory compliance and aid the organizations in their learning processes and operations.

5.4 Areas for Further Study

This study looked at how financial management practices affect the performance of donor-funded projects in Ethiopia. It focused on financial planning, budgeting, internal controls, and financial monitoring and reporting. The results show that these practices are important for improving project performance and are necessary for successful project implementation.

The study identified that financial planning plays a vital role in improving project performance. Proper planning helps organizations foresee resource needs, prioritize funding, and manage cash flow more effectively. Consequently, projects with strong financial planning avoid financial constraints, adopt smoothly running activities, and achieve their objectives more likely within the timeframe and the budget. That is what the study identified from the responses gathered from the respondents.

The findings of the study show that budgeting has a big impact on project performance. Effective budgeting plays an important role in the proper allocation of resources, financial discipline, expenditure control and management. Organizations that develop and adhere to practical budgets will be more successful in attaining project objectives and effectively utilizing donor money.

According to this study, the practice with the most significant effect on project outcomes was internal control. Internal controls increase the organizational accountability, enable the meeting of donor expectations, decrease the exposure of the organization to financial risk and protect its resources from waste, fraud and misuse. Good internal controls facilitate projects'

progress, and thus, organizations with strong internal control practices can expect better project outcomes.

Financial monitoring and reporting were also found to play a highly significant role in improving project performance. Continuous monitoring of finances allows discovering potential problems with the project finance and correcting them in time. Timely and reliable financial reports provide better transparency, facilitate decision-making processes and increase accountability as well as build trust between the donor and the organization implementing the project.

It was also observed that external conditions (such as high inflation levels, fluctuating exchange rates, late procurement and payments, limited resources, compliance requirements) pose additional threats to donor-funded projects in Ethiopia. However, with better financial management, these issues can be identified and addressed effectively.

In general, this research provides a number of findings about the significance of financial management for the improvement of performance of donor-funded projects. Financial planning and budgeting, internal controls and financial monitoring and reporting were proved to positively impact donor projects' performance by facilitating their development and increasing efficiency and accountability.

Appendix 1: Quantitative Research Questions



Subject: Request for Participation in Research Study

Dear Sir/Madam,

I hope this letter finds you well.

My name is Amanuel Fantu, a candidate in Master of Business Administration (MBA) at Addis Ababa University, conducting a research study titled:

"Assessing the Effect of Financial Management Practices on the Performance of Donor-Funded Projects in Ethiopia."

The purpose of this study is to assess how financial management practices affect the performance of donor-funded projects in Ethiopia. It focuses on the impact of financial planning, budgeting, internal controls, and financial monitoring and reporting on project results.
The research questions is structured in the form of
□A short questionnaire
□A semi-structured interview

All information will be treated as strictly confidential and used only for academic purposes.
For any questions or clarification, feel free to contact me at:

✉ writetoamanuel@gmail.com 📞 +251 920 731918

Thank you in advance for your support.

Sincerely,
Amanuel Fantu

Questionnaire for the Study:

Assessing the Effect of Financial Management Practices on the Performance of Donor-Funded Projects in Ethiopia

* Indicates required question

1. Email *

_____

2. Gender

Check all that apply.

☐ Male ☐
Female

3. Age

Check all that apply.

- [ ] 20-30
- [ ] 30-40
- [ ] 40-50
- [ ] 50-60
- [ ] Other: _____

4. Education Level

Check all that apply.

- [ ] Diploma
- [ ] Degree
- [ ] Masters Degree
- [ ] PhD

5. Type of Organization

Mark only one oval.

- ( ) Donor Agency
- ( ) United Nations Agency (UN)
- ( ) Faith-Based Organization FBO)
- ( ) Research or Academic Institution
- ( ) Government Organization/Institution
- ( ) Community-Based Organization (CBO)
- ( ) Local Non-Governmental Organization (LNGO)
- ( ) International Non-Governemental Organization (INGO)
- ( ) Other (Please Specify)

6. Organization Size

Mark only one oval.

- Less than 50 Employees
- 50-100 Employees
- 101-500 Employees
- More than 500 Employees

7. Position in Organization

Check all that apply.

- Finance Staff
- Program manager
- Program Officer
- Other: _____

8. Years of Experience

Check all that apply.

- Less than 2 years
- 2-5 years
- 6-10 years
- Above 10 years

9. Please indicate your level of agreement using the scale below:

1 = Strongly Disagree

2 = Disagree

3 = Neutral

4 = Agree

5 = Strongly Agree

10. Financial Planning Practices *

Mark only one oval per row.

	1	2	3	4	5
Financial plans are prepared before project implementation	⬭	⬭	⬭	⬭	⬭
Funds are allocated based on project	⬭	⬭	⬭	⬭	⬭

priorities
Financial planning helps avoid shortage of funds
Financial plans are regularly reviewed and updated

11. Budgeting Practices *

Mark only one oval per row.

	1	2	3	4	5
Project budgets are prepared before implementation	◯	◯	◯	◯	◯
Budget is followed during project implementation	◯	◯	◯	◯	◯
Budget helps control project expenditures	◯	◯	◯	◯	◯
Budget revisions are done when necessary	◯	◯	◯	◯	◯

12. Internal Control *

Mark only one oval per row.

	1	2	3	4	5
There are clear financial procedures in the organization					
Proper approval system is followed for expenditures					
Duties are properly separated among staff					
Internal control helps prevent misuse of funds					

13. Financial Monitoring *

Mark only one oval per row.

	1	2	3	4	5
Financial activities are regularly monitored					
Actual spending is compared with the budget					
Financial problems are identified early					
Monitoring helps improve financial performance					

14. Financial reporting *

Mark only one oval per row.

	1	2	3	4	5
Financial reports are prepared regularly					
Reports are shared with management and donors					
Reports provide accurate financial information					
Financial reporting supports decision-making					

15. Project Performance *

Mark only one oval per row.

	1	2	3	4	5
Project activities are completed on time					
Project stays within the approved budget					
Project objectives are achieved					
Resources are used efficiently					
Project outcomes are sustainable					

16. What are the main financial challenges faced in your project? *

17. What improvements do you suggest for financial management practices? *

Appendix B

Semi-Structured Interview Questions

i. What are the major financial management challenges affecting donor-funded projects?

ii. How does financial planning influence project implementation?

iii. What role do internal controls play in ensuring accountability?

iv. What improvements would you recommend to strengthen financial management practices?

Appendix C: Reliability Analysis Output

Table C.1 Reliability Analysis Results

Variable	Number of Items	Cronbach's Alpha	Interpretation
Financial Planning Practices	4	0.909	Excellent Reliability
Budgeting Practices	4	0.887	Good Reliability
Internal Control Practices	4	0.935	Excellent Reliability
Financial Monitoring Practices	4	0.920	Excellent Reliability
Financial Reporting Practices	4	0.943	Excellent Reliability
Project Performance	5	0.929	Excellent Reliability

Appendix D: Multiple Regression Analysis Results

Table D.1 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate
1	0.871	0.759	0.737	0.377

Table D.2 ANOVA Results

Model	F	Significance (p-value)
Regression Model	35.220	0.000

Table D.3 Regression Coefficients

Variable	B	t-value	Sig.
Constant	0.065	0.221	0.826
Financial Planning Practices	0.084	0.610	0.544
Budgeting Practices	-0.239	-1.916	0.060
Internal Control Practices	-0.217	-1.379	0.173
Financial Monitoring Practices	0.491	3.060	0.003
Financial Reporting Practices	0.732	3.905	0.000

Table D.4 Summary of Hypothesis Testing

Hypothesis	Decision
H1: Financial Planning Practices significantly affect Project Performance	Not Supported
H2: Budgeting Practices significantly affect Project Performance	Not Supported
H3: Internal Control Practices significantly affect Project Performance	Not Supported
H4: Financial Monitoring Practices significantly affect Project Performance	Supported
H5: Financial Reporting Practices significantly affect Project Performance	Supported

Appendix E: PEARSON CORRELATION ANALYSIS RESULTS

Variable	Correlation with Project Performance (r)
Financial Planning Practices	0.640
Budgeting Practices	0.568
Internal Control Practices	0.728
Financial Monitoring Practices	0.826
Financial Reporting Practices	0.838

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