

FACTORS INFLUENCING ACCOUNTABILITY
PRACTICES IN MANAGING FUND: THE CASE OF
LOCAL NGOS IN YEMEN

BY

ABDULWAHED HAMOUD ABDULLAH AHMED

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Kulliyyah of Economics & Management Sciences
International Islamic University Malaysia

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ABSTRACT

Accountability has been one of the most problematic and prevalent issues for businesses across the globe for a long time. However, more attention and researches have been dedicated to the issue after the corporate accounting scandals of Enron, WorldCom and others. The increase in financial misappropriation and corporate scandals have had a significant influence on financial reporting interpretation and analysis as well as auditing and regulations. Poor economic management and governance by the Yemeni Government have resulted in donors shifting their attention and increasing funding to non-governmental organisations (NGOs) from the early 1990s. However, the NGOs are also facing with streams of frauds and corruptions, for example, individuals abusing disaster reliefs and donations. This raises a question on the accountability of these organisations. This study, therefore, seeks to investigate factors influencing the level of accountability practices of NGOs in Yemen. This study adopted a quantitative design. The population of the study consisted of local NGOs operating in Yemen. Data was obtained using a structured questionnaire. This study found that accountability was not widely practised among NGOs in Yemen. However, the level of accountability practices of these organisations was significantly influenced by the use of information and communication technology and the perceived motive that have a positive impact on practising accountability in Yemeni NGOs. Meanwhile, factors like size and human resources capabilities have a negative impact on accountability practices. The study also found that the level of practising accountability in Yemeni NGOs is moderate, which brings the study to recommend the formulation of policies by the relevant regulatory bodies to ensure that the NGOs enhance accountability for improved efficiency and transparency. It is also recommended to apply more social accountability by the community to make sure that the resources are well managed, and the services are delivered in an efficient and effective way.

خلاصة البحث

كانت المساءلة من أكثر المشكلات انتشارًا في جميع أنحاء العالم لزمّن طويل، بيد أنه ازداد الاهتمام والبحث في هذه المشكلة بعد الفضائح المحاسبية لشركات مثل إنرون وولردكوم وغيرها، فقد كان لزيادة الاختلاس المالي وعدد من فضائح الشركات تأثير مهم على فهم المساءلة المالية وتحليلها، ومن ثم؛ على التدقيق والقوانين، وقد أدى سوء الإدارة الاقتصادية والحوكمة للحكومة اليمنية؛ إلى تحويل الجهات المانحة اهتمامها وتمويلها لصالح المنظمات غير الحكومية منذ أوائل التسعينيات، ومع ذلك؛ تواجه هذه المنظمات عددًا من فضائح الاحتيال والفساد، وتورط أفراد في إساءة استخدام أموال الإغاثة في حالات الكوارث، مما يطرح سؤالاً عن مساءلة هذه المنظمات غير الحكومية، وهكذا؛ يسعى هذا البحث إلى سدّ هذه الفجوة من خلال التحقيق في العوامل التي تؤثر على مستوى ممارسات المساءلة في المنظمات اليمنية غير الحكومية، وقد اعتمد البحث النهج الكمي، ومجمعه من المنظمات غير الحكومية المحلية العاملة في اليمن، وجمعت بياناته باستخدام استبانة منظم، فكان من أبرز النتائج أن المساءلة لم تمارس على نطاق واسع بين المنظمات غير الحكومية في اليمن، ومما أثر في مستوى ممارسة المساءلة في هذه المنظمات تأثيرًا بالغًا؛ استخدام تقانة المعلومات والاتصالات، إضافة إلى أن للحافز الملموس تأثيرًا إيجابيًا لممارسة المساءلة في المنظمات اليمنية غير الحكومية، في حين أن لعوامل من مثل: الحجم، وقدرات الموارد البشرية؛ تأثيرًا سلبيًا على ممارسة المساءلة، وقد تبين أن مستوى ممارسة المساءلة في المنظمات اليمنية غير الحكومية متواضع؛ لذا أوصى البحث بصياغة الهيئات التنظيمية المختصة بسياسات تضمن تعزيز المساءلة في المنظمات غير الحكومية؛ لتحسين الكفاءة والشفافية، وأوصى أيضًا بتطبيق مزيد من المساءلة الاجتماعية؛ للتأكد من إدارة الموارد جيدًا، وتقديم الخدمات بكفاءة.

APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and it fully adequate, in scope and quality, as a dissertation for the degree of Master of Science (Accounting).

.....
Zaini Zainol
Supervisor

.....
Norsyahida Binti Mokhtar
Co-Supervisor

I certify that I have read this this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and it fully adequate, in scope and quality, as a dissertation for the degree of Master of Science (Accounting).

.....
Khadijah Bt. Mohd. Isa
Examiner

.....
Suhaiza Ismail
Examiner

This dissertation was submitted to the Department of Accounting and is accepted as a fulfilment of the requirement for the degree of Master of Science (Accounting).

.....
Zamzulaila Zakaria
Head, Department of Accounting

This dissertation was submitted to the Kulliyah of Economics and Management Sciences and is accepted as a fulfilment of the requirement for the degree of Master of Science (Accounting).

.....
Hassanuddeen Abd. Aziz
Dean, Kulliyah of Economics and
Management Sciences

DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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*This dissertation is dedicated to my parents for laying the foundation of what I
turned out to be in life.*

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LIST OF ABBREVIATIONS

CAIS	Computerized Accounting & Information System
CAS	Computerized Accounting System
ECHO	European Community Humanitarian Aid Office
FUND	Fund Competition
GHD	Good Humanitarian Donorship
HR	Human Resource
HRM	Human Resource Management
ICT	Information & Communication Technology
LNQLF	Converted NGOs Staff Competency Values from Nominal to Scaled
LNSIZ1	Converted NGOs Budget Size Values from Nominal to Scaled
LNSIZ2	Converted NGOs Staff Number Values from Nominal to Scaled
LNSIZE	Merged NGOs Size Values from Nominal to Scaled
MOTV	Perceived Motive
NGOs	Non-Governmental Organisations
NPOs	Non-Profit Organisations
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
OFDA	The Office of U.S. Foreign Disaster Assistance
RO1	Research Objective 1
RO2	Research Objective 2
SPSS	Social Sciences Statistical Package
US	United States of America
USAID	The United States Agency for International Development

CHAPTER ONE

INTRODUCTION

1.1. INTRODUCTION

Accountability is important in the humanitarian sector. It shows how effective and efficient development projects are in delivering social services to the intended beneficiaries. This motivates the international institutions to adopt more accountability efforts in order to achieve better results out of their projects. The accountability means that certain actors have the right to keep other actors accountable for a set of standards, to judge if they have fulfilled their commitments in the light of these standards, and to enforce penalties if they decide that those requirements have not been met (Toch, 2015). This chapter is the introduction of the study that contains nine sub-sections. The first section is this introduction. The second section highlights the background of the study and discusses accountability development in non-governmental organisations (NGOs). Also, it presents the factors affecting accountability in those organisations. The third section is about the problem statement to navigate what is currently happening in the NGOs. The aim of the study is in the fourth section. Then, in the fifth section, there is a demonstration of the objectives and the research questions for this study. The sixth section exposes the significance of the study and what kind of contributions will be added by this study. In the seventh section, the organisation of this dissertation will be explained. The eighth section is to conclude this chapter.

1.2. BACKGROUND OF THE STUDY

As per Webster's Dictionary, accountability is defined as "the quality or state of being accountable; an obligation or willingness to accept responsibility for one's actions." So, based on this concept, accountability is defined as reporting the organisational performance to stakeholders such as citizens for a public organisation, shareholders for enterprises, and donors for charity organisations. As far as the public organisations are concerned, the governmental reports are presenting useful information about the entity's performance and show accountability of using public resources.

Historically, accountability has been considered as a commitment to provide reports to the people or parties with a legitimate interest, which is the system to count possessions and classify this information. Later, this was formalised through the practice of bookkeeping and accounting in spite of the fact that the word "accountability" has developed a wider political and cultural significance beyond those financial beginnings and can rightly be considered a cultural phenomenon (Glennon, Ferry, Murphy & Greenhalgh, 2018)

In the humanitarian sector, which is the domain of this study, more and more NGOs have been established in many parts of the world due to various factors like war (Syria and Yemen), food crisis (Somalia), and political instability (Iraq and Libya). Those NGOs have received support from various parties internally and internationally. In this regard, the concept of accountability as reported by Deloffre (2016) was practices and procedures done by making its representatives accountable for fulfilling their duties and complying with ethical standards. Besides, it is a way of addressing poor performance or worst, the possibility of corruption by the management of NGOs. This could lead to electing alternative people which represents a reactive and punitive approach to accountability so that it would be answerable for

the donors and stakeholders' questions about the ways they manage the donation funds to implement a specific project.

Historically, the humanitarian sector has been developed since the end of the Cold War. More NGOs are currently working and using resources than ever. At the same time, these humanitarian organisations have faced a lot of attention and criticism due to their weakness, absence of clear impact, low proficiency, and insufficient coordination (Featherstone, 2011). After some high-profile humanitarian crises like the international intervention in response to the Ethiopian famine in 1984, it has been noticed that the way of delivering humanitarian aid was not well maintained and coordinated. Hence, international organisations did not achieve touchable impact to overcome human suffering. The same situation occurred in Rwanda during the 1990s to respond to the genocide. Thereafter, the humanitarian community became more concerned about the need to begin a coordinated work to ensure providing humanitarian services in an effective way to reinforce the collective commitment to accountability (Featherstone, 2011).

In order to achieve a good level of accountability, the use of technology became very crucial to generate good and accurate reports. As reporting mostly involved financial information, the dependence on efficient accounting reporting system for greater accountability is getting highly important. Over the time, technology has become more advanced and useful to process accounting data and generate accounting reports and information. This technology enables companies to automate a lot of manual tasks. Technology devices like networks and computers are easily available and more importantly, affordable to the general mass including cash constraint NGOs. On a computerized accounting system for managing the organization's financial management, there are plenty of systems that are relatively easy to use and affordable

too. The development achieved in technology raised the level of control and accountability. Hence, decision making became easier. The ease of supplying data and figures reduced the time, improved the routine process, and generate better reporting (Muro, Maxim & Whiton, 2019). Furthermore, Sugut (2014) highlights that accounting as a profession has been affected by the development of information technology because manual bookkeeping is not needed anymore, especially with the existence of accounting software. Generating reports can be done effortlessly with minor mistakes. All of these make accountability more achievable for a wider range of organisations and users (Sugut, 2014).

Operationally, NGOs are non-profit institutions that do not seek profit in the community system. So far, NGOs can move independently because they are institutionally free from interference of other parties. Financially, NGOs are relatively not tied to donor institutions even though, in general, they are dependent on them to finance their activities. In the new regulation, this independence will be reduced, because it is explicitly stated that the management of an NGO must be registered and validated by the government (Rahardjo, 1995: 135). Although, in most parts of the world, the legal requirements to create and operate the NGOs are very basic, because states do not require evidence about the financial capacity of those NGOs; like what is practiced in Yemen as an example. Since then, Ministry of Social Affairs and Labour, which is in charge to issue local Yemeni NGOs licences, does not require financial sources evidence or plans on how the NGO can fund its projects. The Ministry requires exclusively foundation agreement, request to establish an association or NGO, by law draft, and samples of founders' names and signatures, apart from the 1500 YER (less than 3USD) as fees (Guide of Yemeni Ministry of Social Affairs and Labour).

Accountability in NGOs is practised through self-regulatory regulations, internal rules, and procedures, which therefore need to be carefully evaluated in terms of effectiveness, risk management, and corruption. This includes looking at the organisation's governance structure and standards, independence, integrity policies/codes of conduct, transparency standards, human resource management policies, financial management standards, and downward accountability measures (Chene, 2013).

The situation is the same with NGOs in Yemen, especially during the war that started at the end of 2014 until the moment of writing this study. The government has allowed a number of NGO agencies to implement various projects that are aimed at improving the livelihoods of communities. Most of the evaluations carried out on these projects are predominantly limited. The amount of money and time spent on these projects detect that the communities should be empowered to the extent that they are able to take charge of their lives. The government monitor and audit are absent due to the circumstances of war and the corruption in the Yemeni government itself. A lot of reports, for example, a report from Maggie (Micheal, 2019) published in Associated Press Agency (AP) website, declares that "UN probes corruption in its own agencies in Yemen aid effort". This caused hundreds of Yemeni activists over many months to push for aid transparency and accountability in an online campaign called "Where is The Money?" They demanded that the U.N. and international agencies should provide financial reports about the funds being donated to the Yemeni people. Billions of dollars were poured into Yemen since 2015 but the impact of all these funds unfortunately has not been reported.

1.3. PROBLEM STATEMENT

The matter of funding is clearly of critical importance to NGOs. Especially with the current continuing global economic crisis and the accompanying search for alternative approaches for financing development activities. The issues are not always related to the availability and securing of funds. The process of obtaining financing for NGOs and for development, is a complicated and includes the question of institutional procedures, priorities, and practices of donor agencies, the constraints of the short-term nature of most funding, and problems of vulnerability and dependency for NGOs whose main sources of finance are from external sources. Nevertheless, it must be recognized that aid, or the transfer of financial resources, is only part, and not necessarily the most important of a series of measures which can help or hinder development efforts (Antrobus, 1987).

Due to the scarcity of donors and the increasing demand for services, NGOs are working in a dynamic and competitive environment that generates challenges for all participating organisations. Nevertheless, NGOs face specific obstacles regarding their particular nature. Some of the most frequent challenges are the difficulties to obtain funds. In the meantime, the majority of NGOs have experienced difficulties in getting enough and continuous funding in order to do their work. Getting donors is a hard task, and sometimes dealing with some specific donor's funding conditions can be an enormous challenge for NGOs. Additionally, most of the NGOs have a high level of dependency on donors' funds which makes them even more susceptible to donors' behaviour and requirements. For example, in Yemen, all international donors ask for bookkeeping records for all the NGO's activities, while bookkeeping in Yemen is not commonly practised. NGOs usually cannot afford to pay for a qualified

accountant to record their financial transactions unless it is required and funded by a donor.

According to Keating and Frumkin (2003), the majority of the funds granted by donors are poorly maintained by NGOs. Also, the accounting recording process in these NGOs is not efficient because of the weakness in the accounting systems in many NGOs. The majority of potential recipients of non-profit financial reporting remain confused in terms of which information is available in the financial reports of those organisation, and how to use it. Poorly, various users do not know how to read and understand financial statements (Keating & Frumkin, 2001). So, they always face problems to prepare right and timely financial statements, which is one of the major donor requirements. Furthermore, financial data plays an essential role in decision making. Hence, any improvement in reports about the financial situation of the organisation will enhance the decision-making process, which then will ameliorate the organisation's performance. NGOs are simply required to fulfil their donors' goals and requirements, and this cannot be achieved without an efficient accounting system (Ihemeje, Okereafor & Ogungbangbe, 2016)

Even though the reporting requirements are varied per donor, most donors require one or two reports per year of their NGO partners, regardless of the size of the project or program. Specifically, some donors are very strict with their reporting requirements. This is the case of US donor agencies that require quarterly updates as well as the European Community Humanitarian Aid Office (ECHO). They require considerably more (and more complex) narrative and financial reporting from NGOs than the other donors. ECHO allows its members to complete a single form that provides comprehensive documentation on standard indicators, while the US agencies demand several regular updates on projects and financial status, as well as reports on

standard indicators. For the other donors, while some templates are slightly more detailed than others (and some donors allow NGOs to use their own templates, as long as certain information are included), their narrative reporting templates are broadly similar. These also have not generally changed in the past five years according to donor representatives who were interviewed for the sake of a report commissioned by the United States Agency for International Development (USAID) and the Office of U.S. Foreign Disaster Assistance (OFDA). Financial reporting is slightly different among donors; a handful has stepped up their fiduciary oversight systems in the last five years, while one (ECHO) has recently taken steps to simplify its financial reporting requirements (Caccavale, Haver & Stoddard, 2016). In Yemen, during the years of the war and the humanitarian crisis (2014- till the moment of writing this study), most of the given funds and donations are managed and handled by international organisations like the UN Agencies, the Red Cross, Care, Save the Children etc. In the meantime, the local NGOs were given only a small share of the donations given to Yemen (<https://fts.unocha.org/>). Since donations involve public funds, it is important to properly manage the fund for its purposes as expected by donors regardless of the types of NGOs; local or international. Hence, the accountability of managing funds should be effectively discharged by them towards the betterment of society as a whole.

1.4. AIM OF THE STUDY

This study aims to identify the factors influencing the accountability of local NGOs working in Yemen in order to evaluate the level of efficiency to manage funds provided by international donors. International donors normally impose specific requirements and standards to implement humanitarian projects. In addition to the

donors' requirement, there is a need to improve the using of funds, and achieving the goals of the funded projects. According to Trent, accountability is a key aspect for funders before considering funding to an organisation, unlike commercial entities, which are commonly considered as accountable to shareholders, clients or suppliers, and regulations (2016). NGOs need to keep framework containing a good level of reputation and legitimacy. This level of reputation and legitimacy need to ensure a good level of accountability (AbouAssi & Trent,2016). There are several factors influencing the accountability of NGOs providing good reporting for the sake of getting funds from international donors. Those factors are to be added in this study for a better understanding of the challenges that prevent NGOs in Yemen to practice accountability in a proper manner. Yemeni NGOs could develop their own model for managing the donors' money, taking into consideration the difficulties they face.

1.5. RESEARCH OBJECTIVES AND QUESTIONS

The study aims to achieve the following research objectives (RO). These ROs are:

- RO1 - To investigate the level of accountability practices in local NGOs in Yemen.
- RO2 - To examine factors influencing the level of accountability practices in local NGOs in Yemen.

Based on the objective above, the research questions were developed to understand the situation of accountability in local NGOs from Yemen and the factors that affected the accountability practices by examining how the funds of those organisations were managed. The following questions would assist in addressing the principal query.

- What is the level of accountability practices in local NGOs in Yemen?

- What are the factors influencing the level of accountability practices in local NGOs in Yemen?

1.6. SIGNIFICANCE OF THE STUDY

The research aims to contribute to the empirical research on accountability practices in NGOs operating in Yemen. This case study offers insights, especially in terms of the factors influencing. The study tries to cover the lack of empirical research in accountability practices to manage funds coming from international donors. Methodologically, this study uses the contingency theory and Ebrahim's (2013) accountability framework which was proposed after a thorough review of several accountability theories with input from an Islamic perspective. This will broaden the application of Ebrahim's framework in accountability research. Consequently, the theoretical insight developed from this study can enhance an understanding on the issues of accountability in local NGOs setting and would further assist in the understanding of the limitations in adopting accountability practices under certain situations or conditions in the local NGOs. This would assist the government and practitioners to understand accountability issues in local NGOs and provide a solid foundation to develop and implement more effective policies or procedures to ensure better accountability.

1.7. ORGANISATION OF THE STUDY

This dissertation consists of six chapters. Chapter One is an introduction of the main subjects of the study. Chapter Two is the literature review on accountability from previous studies. In Chapter Three, the theoretical framework of the study is elaborated. Chapter Four discusses the research methodology of the study, including