THE EFFECT OF DONOR FUNDING ON THE ORGANIZATIONAL PERFORMANCE OF GOVERNMENT MINISTRIES IN KENYA

NASMA JELIMO CHEBOI

A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF SCIENCE IN FINANCE, SCHOOL OF BUSINESS UNIVERSITY OF NAIROBI

OCTOBER, 2014
DECLARATION

This research project is my original work and has not been presented for a degree in any other university.

Signature……………………………………. Date…………………………………………..

Nasma Jelimo Cheboi
D63/76356/2012

This Research project has been submitted with my approval as the University of Nairobi supervisor.

Signature……………………………………. Date…………………………………………..

Mr. Cyrus Iraya
Lecturer Department of Finance and Accounting,
School of Business, University of Nairobi
ACKNOWLEDGEMENTS

First and foremost, I give thanks and praises to our Almighty God for His blessings, guidance and protection while carrying out this study.

I would like to convey my sincere gratitude to my supervisor, Mr. Cyrus Iraya for his kindness and well executed professional and intellectual guidance offered to me while conducting this project study. The advice and guidance was not only reliable and perfect but very much learning oriented may God bless you so much.
DEDICATION

To my parents Philip and Elizabeth Cheboi who have always had good intentions and struggle for me. Thank you very much and God bless you.
TABLE OF CONTENTS

DECLARATION .......................................................................................................................................................... ii
ACKNOWLEDGEMENTS ........................................................................................................................................ iii
DEDICATION .......................................................................................................................................................... iv
LIST OF TABLES .................................................................................................................................................. viii
LIST OF ABBREVIATIONS ................................................................................................................................... ix
ABSTRACT ............................................................................................................................................................... x

CHAPTER ONE: INTRODUCTION .......................................................................................................................... 1

1.1 Background of the Study ...................................................................................................................................... 1
  1.1.1 Donor Funding ............................................................................................................................................... 3
  1.1.2 Performance .................................................................................................................................................. 4
  1.1.3 Donor Funding and Performance .................................................................................................................. 6
  1.1.4 Government Ministries in Kenya ................................................................................................................... 7

1.2 Research Problem ............................................................................................................................................... 8

1.3 Research Objective ........................................................................................................................................... 10

1.4 Value of the Study ............................................................................................................................................. 10

CHAPTER TWO: LITERATURE REVIEW .............................................................................................................. 11

2.0 Introduction ...................................................................................................................................................... 12

2.1 Theoretical Framework .................................................................................................................................... 12
  2.2.1. Agency Theory .......................................................................................................................................... 12
  2.2.2. Dependency Theory .................................................................................................................................. 14
  2.2.3 Big Push Theory ......................................................................................................................................... 14

2.3 Determinants of Performance in Government Ministries .................................................................................. 15
  2.3.1 Incentives and Human Resource Management Practices ........................................................................ 16
  2.3.2 The Scale of Operations ............................................................................................................................. 16
APPENDICES

Appendix 1: Government Ministries in Kenya in the Years 2008 to 2012
Appendix II: Performance contracting Score Grading Scale Based on Annual Government Ranking
Appendix III: Donor Funding to Kenya
LIST OF TABLES

Table 4.1: Descriptive Statistics................................................................. 32
Table 4.2: Correlation Analysis................................................................. 32
Table 4.5: Model Summary........................................................................ 34
Table 4.3: Analysis Of Variance................................................................. 35
Table 4.4: Coefficient Summary................................................................ 35
LIST OF ABBREVIATIONS

ADB - African Development Bank
A.I.A - Appropriations in Aid
GDP - Gross Domestic Product
GOK - Government of Kenya
LDCs - Lesser Developed Countries
MDGs - Millennium Development Goals
ODA - Official Development Assistance
OECD - Organization of Economic Cooperation and Development
OP - Organizational Performance
PIU - Project implementation unit(s)
SAPs - Structural Adjustment Programs
SPSS - Statistical Package for Social Sciences
ABSTRACT

The study sought to find out the effect of donor funding on the performance of government ministries in Kenya. It was interested in the analysis of this relationship because the country receives a considerable amount of foreign aid yet the country has not achieved the desired or expected results, the country still experiences considerable poverty levels. Performance score based on government annual ranking was used to determine the performance of the government ministries. One of the significant management reforms in the public service in recent times aimed at addressing the agency problem has been the introduction of performance contracts. Performance Contracting is part of broader public sector reforms aimed at improving efficiency and effectiveness in the management of the Public service. Part of the strategies of improving this is providing enough finances to run the agencies programs and donor funding has been very instrumental. However, little is known on how the donor funds affect the performance of government Ministries. Thus, the objective of the study was to establish the relationship between donor funding and performance of government Ministries in Kenya. The descriptive study targeted a population of 42 government ministries that existed during the coalition government. The study used secondary data sources from the Treasury and Ministry of Devolution and Planning for 2008/2009 to 2012/13. Simple linear regression analysis was conducted. The findings show that, at 95% confidence level, there were significant negative linear association between donor funding and performance. The study concludes that on average, there is a negative linear relationship between donor funding, total debt (control variable) and performance score based on annual government ranking.
1.1 Background of the Study

Over the last half century, donor funding/foreign aid has emerged as a dominant strategy for alleviating poverty in the third world. Not coincidentally, during this time period major international institutions, such as the United Nations, World Bank, and International Monetary Fund gained prominence in global economic affairs. Yet it seems that sixty years later, the lesser developed countries (LDCs) of the world continue to suffer from economic hardship, raising questions of whether foreign aid is a worthwhile and effective approach to boosting growth and development in recipient economies (Hjertholm and White, 2003).

The empirical evidence obtained from extensive studies has been mixed. In between, however, are some others who argue on the role of economic policy in determining the effectiveness of foreign aid in aid recipient countries. Pedersen (1996) argues that it is not possible to conclude that the foreign aid has a positive impact on growth. Morrissey (2001) claimed that aid works well conditional on other variables in the growth regression, Boone (1996), and Jensen and Paldam (2003) found evidence to suggest that aid has no impact on growth and performance. Many other authors find no evidence that aid affects growth in developing countries (Mosley, 1980).

Kenya has experienced major standoffs with the donor community, which has sometimes led to aid freezes (Wawire, 2006). As a result, donor funding disbursements were short-lived due to the continued uneasiness amongst the donors with Kenya’s implementation of aid conditionalities. For example, the World Bank in July 1982 did not release the second tranche of US$50 million on the basis that Kenya was lax in undertaking policy reforms. The resumption of funding in 1984 was partly attributable to the humanitarian gesture of
providing large volumes of food aid in response to the devastating drought that year. Further freezes were experienced in 1992 and 1997 (Njeru, 2003).

The last decade or so has, however, seen a radical criticism of foreign aid. This has been driven by the perception that foreign aid has not produced the desired or expected results. This perception is based on two premises. The first is that foreign aid can only raise growth in a good policy environment. This premise is mainly based on evidence from cross-country regressions (Burnside and Dollar, 2000; World Bank, 1998). Hence foreign aid can be a double-edged sword. Where the economic and political environment is right, it can be very helpful in supporting economic and social progress. Where it is not, it will have no positive effect and will be wasted at best. At worst, it can set development back through the potential negative economic and political impacts it may have (Lancaster, 1999).

It is only recently that critics have recognized the principal–agent relationship between donors (the principal) and governments (the agent) who have conflicting views about the desirability of poverty alleviation. Concisely, an agency problem emerges when there is both a divergence of interests between those who perform tasks (agents) and those on whose behalf the tasks are performed (principals), and there is asymmetric information between the two parties (Azam and Laffont, 2003).

The aid relationship is in fact characterized by a chain of principal–agent relations, each of them offering the potential for incentive misalignment. Many agency problems are inherent to the aid delivery process, notably as a result of: (a) the existence of multiple principals and objectives, with no clearly defined trade-offs between these alternatives, (b) the existence of a ‘broken information feedback loop’ (that is, the people for whose benefit aid agencies
work are not those from whom their revenues are obtained, which leads to stronger incentive biases), and (c) the trend towards more institutional reform aid (which increases agency problems as less tangible outputs are more easily subject to post contractual uncertainties) (Martens et al, 2002) Moreover, particularly large information asymmetries weaken incentives (Dixit, 2003).

This study focuses on the relationship between donor funding and the performance of government ministries in Kenya. Government ministries mainly draw their funding from the consolidated fund. However due to limitations of budgetary allocation, they receive donor funding to enable them achieve their objective. The current structure of the Ministries is a result of several rounds of government restructuring that have taken place over the last decade. In 2008, the Ministries were split to make 42. Then in 2013; the 42 Ministries were merged and reorganized to come up with the current 18 ministries.

1.1.1 Donor Funding

Donor funding or foreign aid for the purposes of this study, refers only to Official Development Assistance (ODA). Donor funding is a loan or a grant administered with the objective of promoting sustainable social and economic development and welfare of the recipient country. It comprises of both bilateral aid that flows directly from donor to recipient governments and multilateral aid that is channelled through an intermediary lending institution like the World Bank (Abuzeid, 2009).

Traditional development economics has long viewed foreign aid as a tool for overcoming the savings gap in developing countries. Foreign aid is based on the assumption that the Third World is poor because it lacks the capital necessary for making income-generating
investments. Mainstream economics literature suggests that aid can help developing countries by closing this financing gap that otherwise leaves them stuck in a poverty trap (Schabbel, 2007).

Official financial flows are traditionally classified as concessional on the basis of the OECD’s Official Development Assistance (ODA) classification, and aid flows are traditionally measured by the corresponding Net ODA statistic. For example, the World Bank’s Global Development Finance uses Net ODA information to analyze trends in aid flows over time as well as across recipients and donors. (Measuring aid flows: A new approach, 1998).

1.1.2 Performance

Organizational performance (OP) has been one of the most extensively researched issues since the early development of organizational theory (Rojas, 2000). Despite some consensus, there is still significant lack of agreement on the definition and operationalisation of this concept (Cameron, 1986). The definition of ‘organizational performance’ is a surprisingly open question with few studies using consistent definitions and measures (Kirby, 2005). Performance is so common in management research that its structure and definition is rarely explicitly justified; instead its appropriateness, in no matter what form, is unquestionably assumed Performance is referred to as being about doing the work, as well as being about the results achieved. It can be defined as the outcomes of work because they provide the strongest linkage to the strategic goals of an organization, customer satisfaction and economic contributions. (March and Sutton, 1997).
Organizational Performance Management and Measurement is one of the most popular terms in today’s public sector management terminology. The idea of managing organizational performance is being widely accepted and adopted all over the world. It spread rapidly from the private sector to the public sector in the developed world and has recently found its way in many developing countries. New initiatives and legislations continue to being issued as a sign of governments’ insistence on following the new focus on performance orientation.

Performance measures can be grouped into two basic types: those that relate to results (outputs or outcomes such as competitiveness or financial performance) and those that focus on the determinants of the results (inputs such as quality, flexibility, resource utilization, and innovation). This suggests that performance measurement frameworks can be built around the concepts of results and determinants. In the context of organizational financial performance, performance is a measure of the change of the financial state of an organization, or the financial outcomes that results from management decisions and the execution of those decisions by members of the organization.

The literature suggests a wide variety of management options from, for example, strategic processes drawn out of the balanced scorecard (Kaplan and Norton, 1992), improved management of teams (Meyer, 1994), return on management activities (Simons and Davila, 1998), ABC activities (Ness and Cucuzza, 1995), the performance management manifesto (Eccles, 1991).
1.1.3 Donor Funding and Performance

Donor funding is expected to be an increased direct source of funding which is factored either in investing or financing activities of the ministries. This provision of funds which are long term and cheaper may lead into improved performance of the ministries. Therefore it is assumed that there is a direct relationship between donor and ministries performance. Why aid now appears to work in promoting growth, after decades of little or no clarity in research circles over its effectiveness is a matter of speculation. A widespread view as to why this is so is that donors, following the demise of the Cold War, are paying more attention to developmental criteria in the design and application of aid activities (McGillivray, 2002).

According to McCormick et el, 2007 development aid is a mixed blessing for the countries that receive it. It provides much needed resources to build infrastructure, bolster production, provide health care and education, and facilitate a whole range of economic, political, and social processes. At their best, the interactions between donors and recipients foster mutual learning and are themselves a benefit. But development aid has its downside. Some aid comes with strings and conditionality that reduce its effectiveness and leave governments feeling that they have lost their autonomy.

The complex funding and administrative arrangements that surround aid projects require governments to devote time to everything from proposal writing to entertaining dignitaries from the home country of the donor. The more projects and donors there are, the more time and effort governments must spend to satisfy these requirements. Observers over the years have pointed out that such effort may affect the state’s capacity to carry out its own development responsibilities. The capacity of
the Ministries management, funds disbursement (donor conditions) and procurement related activities have been sighted as some of the factors that affect donor funding. Absorption capacity can be defined as the extent to which a state is able to fully spend the allocated financial resources from the donor funds in an efficient and effective way.

This capacity is necessary for making a maximum contribution to economic and social cohesion with resources available from the donor funds. This refers to conditions imposed by the donors that must be followed in projects that they finance. This refers to several factors that directly or indirectly determine the implementation progress of projects. These include such factors as, length procurement procedures, too many authorization requirements especially for donor funded projects (in form of Letters of no Objection) and lack of skills in donor procurement procedures which creates absorption capacity problems affecting calendar time, (Vitek, 1999).

1.1.4 Government Ministries in Kenya

The government ministries derive their mandate from the Constitution of Kenya, which provides for proper budgetary and expenditure management of government financial resources. As a main function, the Ministries are charged with the responsibility of formulating financial and economic policies. The ministries are responsible for developing and maintaining sound fiscal and monetary policies that facilitate socio-economic development in all the government sub sectors.

The government ministries coordinate government departments in the preparation of the annual national budget. It is the responsibility of the Ministry to initiate and guide all departments to prepare their ministerial budgets. The purpose of setting up a Government is
to gain much more economic benefits and social order. However, it is argued that the only way to increase economic benefits is to raise the level of productivity and improve management quality. Raising the level of productivity requires governments to tap potential manpower, material and financial resources, making full use of now available resources for production and operation (Guoming, 2007).

Donor funding given to ministries as revenue grants and loans is provided on the budget, using treasury systems. However, support provided as Appropriations in Aid (AIA), both as grants and loans, is disbursed by donors using other payment systems. In 2007/08 more than half of all aid flows (or Kshs 49.2 billion out of a total of Kshs 81.7 billion) were provided as AIA (Njeru, 2009).

In Kenya the National Treasury is designated to coordinate donor finance and acts as the main intermediary between external donors and the governments’ line ministries. It handles both grants and loans. The National Treasury is responsible for Soliciting funds from Development Partners while focusing on development priorities stipulated in current policy documents on behalf of the ministries (Njeru, 2009).

1.2 Research Problem

Foreign aid has for over half a century been used by developed countries to enhance social and economic development. Aid to developing nations becomes even more important in 1990 with the endorsement of millennium development goals which were to be achieved by 2015. In some instances aid is channeled through the National Treasury while in others the aid has been channeled direct to the projects. However, empirical literature points out that for over 50 years, the impact of foreign on social and economic development remains very
small compared to the annual donations of over $80 billion (Abuzeid, 2009). Studies point out to lack of proper supervision on the donor funds (Svensson, 2000; Alesina, and Weder, 2002) and the use of donations to implement political agendas among others (Alesina and Dollar, 1998).

Inadequate supervision on the utilization of funds has been largely associated with the low impact of the donor funding on development in Sub-Saharan Countries. There is no compelling evidence that donors pay attention to institutional quality or corruption considerations in their aid allocation decisions. Research has also that there is insufficient systematic evidence that bilateral or multilateral aid goes disproportionately to less corrupt governments (Svensson, 2000; Alesina and Weder, 2002). Alesina and Dollar, (1998) provide considerable evidence that patterns of aid allocation by bilateral donors are far more robustly dictated by the political and strategic interests of the donors than by concerns over good governance in the recipient nations.

Since independence in 1963, Kenya has been dependent on foreign aid for capital investments such as roads, power, water supply, and telecommunications. On the other hand, a good policy environment is a prerequisite for a positive effect of aid on economic growth. Towards this end, Kenya has undertaken a number of macroeconomic policy reforms largely at the behest of the donor community. Whereas the effects of these reforms have largely been judged to be positive, it is unclear whether they have helped in enhancing the effects of foreign aid on investment and economic growth (Burnside and Dollar, 1997).

Several studies have been conducted in the field of donor funding but focused on different aspects other than relationship between donor funding and performance of government

Studies on how donor funding affect the function of government ministries remain scanty, hence, this study seeks to determine the effect of donor funding on performance of government ministries in Kenya by answering the following research question: How does donor funding affect performance?

1.3 Research Objective
To determine the effect of donor funding on performance of government ministries in Kenya.

1.4 Value of the Study
In many cases developed nations have used foreign aid to implement their political agenda in the poor nations by creating the state of dependency. However, there are no comprehensive studies on the negative effects of donor funds in running government ministries. This study will bring into light how donor funding affects the functioning of government ministries in Kenya. By bringing this knowledge into book, the current study will benefit Kenya among other sub-Saharan countries in planning for the sources of funds in key ministries and government projects.
To the Government of Kenya, the study findings and policy implications thereof are of significance in as far as enhancing economic growth and improving the country's relations with the private sector and development partners. This study also points to areas that Kenya's development partners should improve on in line with their international commitments on aid effectiveness. The study also is significant to the private sector in so far as its increased role in Kenya's economic development. This research will contribute to this ongoing debate of foreign aid that has been driven by the perception that foreign aid has not produced the desired or expected results by shedding light on what can be done to make aid more effective.

The study will also add knowledge to existing literature on the effects of donor aid on economic performance of recipient countries. This research will contribute to this ongoing debate of foreign aid that has been driven by the perception that foreign aid has not produced the desired or expected results by shedding light on what can be done to make aid more effective. The study will also add knowledge to existing literature on the effects of donor aid on economic performance of recipient countries.
CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

The Literature review will be obtained from Secondary sources obtained from relevant magazines and journals, institutional research publications and reports, financial text books, government publications and projects among others.

2.1 Theoretical Framework

The complex nature the world of foreign aid/donor funding can be noticed in the academic researches and scholars debates. It is common for scholars to focus on certain perspectives of aid and policy frame works instead of developing consistent foreign aid theories (Van der Veen, 2011). Consequently, it has not been yet developed a separate operating theory for foreign aid in various academic literatures. This section will examine 3 theories: Agency theory, dependency theory and the big push theory.

2.2.1. Agency Theory

Agency theory was first written by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). Agency theory addresses the relationship where in a contract one or more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent (Jensen and Meckling, 1976).

As demonstrated by Odedukun (2003), in this case, the donor can be referred to as the Principal whereas the recipient country is the agent. The donor determines the level of funds to be disbursed and channels the same to the borrower who acts based on aid conditions agreements thereby deciding on expenditure patterns which eventually lead to outcomes such as economic growth, infrastructure development, access to education and health care. The donor reviews these outcomes based on a structured monitoring and evaluation system and chooses the funding level to influence the choice of action by GOK and hence outcomes. This funding level chosen maximizes the donor’s preferences, subject to reaction
by GOK who also has her own set of preferences and shows actions the latter would choose for each funding level.

The theory assumes that the donor and GOK are unitary entities such as governments represented by only a set of preferences and that the donor is concerned with the poor more than GOK. It is on this basis that the donor is able to institute conditionalities in loan protocol agreement based on actions by the recipient. The donor can induce GOK action through offer of unconditional funds disbursement hence the donor is dominant and better off given his preferences and the assumption that the donor cares more for the poor than the poor’s own government hence the borrower has no choice. According to Walker 2003, the agency theory model anchored on the fact that information asymmetries and pursuant of self-interests, principals lack basis to trust their appointed agents and will seek to mitigate these concerns by putting in place mechanisms to align the interests of agents with principals and to reduce the scope for information asymmetries and opportunistic tendencies (Keng’ara, 2013).

Jensen and Meckling (1976) assert that stakeholders may have differing interests as opposed to a single agent. In this case, GOK may be in possession of information which donors may not have and may not readily or wholly supply the donor with all critical information for decision making and therefore methods for aligning these must be crafted so that both parties are not disenfranchised. One such method is use of loan protocol document which among other things contains disbursement procedures that must be complied with, hence trust is created. However, from a practical perspective, these alignments sometimes tend to favor the donor at the expense of the recipient country to an extent that funds disbursement becomes so erratic and unpredictable (Keng’ara, 2013).
2.2.2. Dependency Theory

Dependency theory originates with two papers published by Hans Singer, and Raul Prebisch (1949) in which they observed that the terms of trade for underdeveloped countries relative to the developed countries had deteriorated over time, the underdeveloped countries were able to purchase fewer and fewer manufactured goods from the developed countries in exchange for a given quantity of their raw materials exports (Jeffrey, 2012).

In dependency theory, the developed nations actively keep developing nations in a subservient position, often through economic force by instituting sanctions, or by proscribing free trade policies attached to loans granted by the World Bank or International Monetary Fund (Sunkel, 1966).

Dependency theory also posits that the degree of dependency increases as time goes on. Wealthy countries are able to use their wealth to further influence developing nations into adopting policies that increase the wealth of the wealthy nations, even at their own expense. At the same time, they are able to protect themselves from being turned on by the developing nations, making their system more and more secure as time passes. Capital continues to migrate from the developing nations to the developed nations, causing the developing nations to experience a lack of wealth, which forces them to take out larger loans from the developed nations, further indebting them (Amin, 1976).

2.2.3 Big Push Theory

The big push model is a concept in development economics or welfare economics that emphasizes that a firm's decision whether to industrialize or not depends on its expectation.
of what other firms will do. It assumes economies of scale and oligopolistic market structure and explains when industrialization would happen (Rosenstein-Rodan, 1943).

The theory emphasizes that underdeveloped countries require large amounts of investments to embark on the path of economic development from their present state of backwardness. This theory proposes that a bit by bit investment programme will not impact the process of growth as much as is required for developing countries. Injections of small quantities of investments will merely lead to wastage of resources (Abuzeid, 2009).

The big push argument holds that a poor country can be caught in a low-equilibrium i.e. a poverty trap, a large inflow of aggregate aid in social and productive sectors will result in growth across all sectors of society and push the economic into the better equilibrium allowing a take-off into sustained growth (Abuzeid, 2009).

2.3 Determinants of Performance in Government Ministries

After decades of downplaying the role of the state in development in Africa, there is now a shift in paradigm and a rediscovery of the importance of the state in the development process and the need for a more capable public sector. The search for effective public sector reform strategy for Africa has been led by the World Bank and other international development agencies. Indeed, many African countries including Ghana, with the support of donor agencies especially the World Bank—have since the 1980s experimented with various reform strategies. Although the policies have been successful in some countries in reducing the size of the public sector, in many cases, they have created a demoralized and unmotivated public sector, largely incapable of performing basic functions. Several reasons have been advanced for the apparent failure of these policies (Mutahaba and Kiragu, 2002).
This section briefly summarizes the findings of the literature regarding the potential institutional drivers of performance:

2.3.1 Incentives and Human Resource Management Practices

Includes wages and salaries received by employees for services rendered as well as discretionary payments (i.e. fringe benefits). Generally, better benefits packages promote higher performance. The soft aspects of human resource management, such as employee satisfaction and morale, are considered to be the most important drivers of performance. (Kiltgaard, 1997).

While wages are still important for staff, non-monetary incentives are also essential. High wage levels compared to similar work in the private sector could lead to inefficiencies, although governments often are model employers and their wage policies reflect equity concerns as well. Wages are also important for attracting and retaining qualified staff, especially in case of skill shortages. Performance-related pay initiatives appear to have a low impact on staff motivation (Owosu, 2006).

2.3.2 The Scale of Operations

Based on evidence collected mainly in the education and health sectors. This effect is attributed to economies of scale that result from savings in overhead costs and fixed costs in tangible assets. However, the impact on other public sector values such as equity, access to services, and the quality of services needs to be taken into account (Owosu, 2006).

2.3.3 Open and Competitive Recruitment Procedures.

Organizations that use open and competitive recruitment procedures are more likely to get highly professional and capable staff than those that hire based on personal connections (Grindle, 1997). Analysis also show that the recruitment practices of good and poor
performing organizations in differ significantly: employees in poor performing organizations are more often hired based on personal (family and/or political) connections. For example, 10 percent of employees in bad performing institutions reported that most of the employees in their organization were hired because they had personal connections. In contrast, only about 5 percent of the employees in good performing organizations gave a similar response.

The data therefore suggest that organizations that employ open and competitive recruitment procedures, including skill tests, screening processes and a series of interviews, send an indirect but powerful message to new employees that they are the best among the competitors and are joining a professional group. Alternatively, organizations that hire people based on the political patronage system would have difficulty instilling a sense of professionalism and the expectation of high performance in the new employees and make it morally difficult for management to demand professionalism from existing employees (Owosu, 2006).

### 2.3.4 Performance Expectations and Evaluation

Performance expectation refers to the degree to which employees are given clear signals about how diligently they should work and about the quality of work expected of them (Grindle, 1997). Performance evaluation refers to the degree to which employees know and understand, on a continuous basis, how effectively they are performing. Organizations that have clear and consistent performance expectations and evaluation procedures are expected to perform better (Owosu, 2006).
2.3.5 Employee Autonomy

Refers to the degree to which employees are offered the freedom, independence and discretion to make decisions pertaining to the substantive and other procedural aspects of their jobs. Since the impact of autonomy on performance varies depending on the level of organization under consideration, we would expect organizations with “responsive autonomy” to perform better (Rainey and Steinbauer, 1999).

2.3.6 Organizational Culture.

The concept of organizational culture can be defined as the core values that are shared by members of an organization (Barney, 1986), including beliefs about organizational purposes and how they should be achieved (Weiner, 1988). The relationship between culture and organizational success has been widely debated in the management literature (Lim, 1995). The major disputes concern the dimensions of culture and their relationship with performance. Important insights into these issues are provided by Cameron and Freeman's (1991) examination of the relationship between organizational effectiveness in 334 institutions of higher education and three cultural variables. Their results suggest that different types of culture are associated with different dimensions of performance (e.g. clan cultures are positively related to staff morale and adhocracy cultures are positively related to innovation). An implication is that an exclusive focus on one type of culture is likely to boost some aspects of performance at the expense of others (Marcoulides and Heck, 1993).

2.3.7 Donor Funding

Organizations frequently require resources in order to pursue their objectives. Organizations are resource-insufficient and rely on external stakeholders who control resources and make certain demands. The heavier the dependence of the organization on these resources, the
more influential the demands of the donors are. Donor funding is expected to be an increased direct source of funding which is factored either in investing or financing activities. (Pfeffer, 1982).

2.4 Empirical Review

There seems to be extensive work examining the direction between aid and growth the results from these various studies are mixed (while some suggest a negative relationship, some others suggest a positive association). Under this section of the study, we provide a review of the findings of the major studies including the recent dimension into the relationship between aid, growth and performance before examining briefly those on aid predictability.

Ali et al. (1999) observed that donors may use aid to advance a political agenda driven by the political concerns of their domestic electorates which vary over time. Also, donor procedures for disbursement may be so cumbersome that even when funds are committed, there may be long and unpredictable lags before governments are able to utilize these resources. Volatile or unpredictable aid flows do little to bolster good governance, coherent government expenditure or the development of sound institutions accountability in recipient countries hence the need for specific donor coordination with a view to committing long-term, predictable flow of resources.

Burnside and Dollar (1997) argue that if only aid were channelled to environments that practice sound macro-economic policy, it would spur growth and development. However, there have been numerous cases in which there has been no compliance to aid conditionality but aid has been released. In most cases, donors apply the carrot and stick concept in that
more aid is given where there are sound macro-economic policies in place by the recipient country and reduced aid flow to those who fail to institute and promote sound macroeconomic policies in their operations as pointed out by Kaufmann (2012). Donors are sometimes viewed as promoting their own self-interests when setting conditions for the aid recipients. Conditions are imposed on unwilling recipients at the time of contract signing where both parties know that these are only paper conditions whose outcome is determined by the fact that both parties need to maintain a sustainable normal relationship and flow of aid. A case in hand are the austerity measures introduced by World Bank in early 1990s such as Structural Adjustment Programs (SAPs), which it has admitted as having failed and hurt African economies. At the end of it all, aid flows have not helped in developing Africa, neither have they helped in development of policies they were meant to be conditioned on.

Bulir and Lane (2002) observed that project funds disbursement to LDCs which are heavily aid-dependent is up to 7 times more volatile than domestic fiscal revenue. This has a negative impact on spending and economic growth and therefore has a significant impact on the performance of the recipient. In certain cases, there is over-optimism by government planners about levels of aid that can be disbursed in a given time. Besides, this leads to low absorption capacity for existing funds where projects end up utilizing only 70% of total allocated project funds at completion as pointed out by ADB (2009). Bulir and Lane (2002) observed that donors (usually) are not natural, philanthropic givers of gifts as they are subject to national and international political interests that can influence their decisions on program and services support to the detriment of local needs hence donor interests override local needs. Donors do set a number of conditions that govern the entire disbursement of funds to recipients. It also sets out the accountability criteria for previously disbursed funds before additional tranches are released to PIUs. The process is rigorous and time consuming
and moreover, the borrower must abide by all rules and regulations for disbursement of funds failure to which may lead to suspension of aid.

A study by Chenery and Carter (1973) using data from 50 countries over the period 1960-1970 and following the two-gap model of Chenery and Strout (1966), showed that the effects of official development assistance (ODA) on the development performance of countries under study were different among certain groups of countries. The study found that foreign assistance accelerated economic growth in five of the countries, namely Kenya, Korea, Iran, Taiwan and Thailand, and retarded growth in six countries, namely, Colombia, Ceylon, Chile, India, Ghana and Tunisia). In comparison to a no-aid pattern of growth, post-aid growth rates could be higher or lower depending upon three factors: (i) initial poverty of a country; (ii) additional rise of government consumption as percentage of aid received; and (iii) the term of aid. Ceteris paribus, a given amount of aid tended to increase post-aid growth if domestic savings ratio was higher, the percentage of aid fungible into government consumption was lower, and the term of aid was longer. The critical assumptions were that government replaced portions of its savings with aid and then allocated the freed money to other programmes, which could not be cut back once started.

Knack (2000), in a cross-country analysis, indicated that higher aid levels eroded the quality of governance indexes, that is, the rule of law, corruption, and bureaucracy. The study argued that aid dependence could potentially undermine institutional quality. This would be feasible through a number of ways such as encouraging corruption and rent seeking on one hand and fomenting conflict over control of aid funds on the other hand. It was also argued that the siphoning off of scarce talent from the bureaucracy and the resultant alleviation of pressures to reform inefficient policies and public institutions could be the other factors. Large aid inflows did not necessarily result in general welfare gains, and high expectation
of aid could increase rent-seeking and reduce the expected public goods quality. Moreover, there was no evidence that donors took corruption into account seriously while providing aid.

Mwega (2009) did a study on how foreign aid has been erratic in terms of commitments and unpredictable in terms of both the timing and the volume of funding, the study observed that donors may use aid to advance a political agenda driven by the political concerns of their domestic electorates which vary over time. Also, donor procedures for disbursement may be so cumbersome that even when funds are committed, there may be long and unpredictable lags before governments are able to utilize these resources. Volatile or unpredictable aid flows do little to bolster good governance, coherent government expenditure, or the development of sound institutions accountability in recipient countries hence the need for specific donor coordination with a view to committing long-term, predictable flow of resources.

Njeru (2003) sought to examine the effects of aid on government fiscal behaviour, the study examined the fiscal response models in an attempt to analyse the effect of aid on various components of government revenue and expenditure. In this respect, the fact that aid is fungible. This implies that aid can be used to fund activities that the recipient government intended to finance in its absence. This has made researchers to examine the extent to which the freed up government resources have been used elsewhere to finance for example, consumption, and debt servicing or tax reductions. This has to some extent been linked with possibilities for creating opportunities for corruption as the freed up resources are not directed to their intended objectives.

Riddell (2007) presents a more balanced analysis of why aid has not lived up to performance by discussing the systemic impediments at the donor level (such as distortions
caused by mixed interests, voluntarism in aid-giving and multiplicity of donors) and the issues of commitment, capacity, owner-ship and governance at the recipient end. He outlines a cluster of motives that have historically influenced aid allocation. They are (1) to address emergency needs; (2) for development – growth and poverty reduction goals; (3) to show solidarity; (4) to promote donor’s commercial, political and strategic interests; (5) historical ties; (6) to reduce the ill effects of globalization; and (7) aid giving dependent on recipient’s human rights record. Riddell concludes that although aid has made a difference, it could make a greater difference by having a long-term, systemic or sustainable impact on the lives of the poor when the roadblocks are removed. This suggests that aid is not necessarily ‘a good thing’ but that it can be beneficial.

Snyder (1993) analyzed the relationship between foreign aid inflow and the growth rate of gross domestic product in 69 developing countries over three periods (the 1960s, the 1970s and 1980-1987), while incorporating country size (measured by gross domestic product) in the model. The study argued that when country size was not included, the effects of aid on economic growth were small and insignificant, but when country size was taken into account, the coefficient of aid became positive and significant. The study emphasized that previous econometric analysis had not made allowance for the fact that larger countries grew faster but received less aid. The study also claimed that donors favored small countries for a number of reasons. First, donors who were seeking support from recipient countries found it better to provide aid to many small countries than to focus on just few large countries. Thus, given the same amount of aid, the proportion of aid over GDP was bigger in small countries compared to that of larger countries, and as a result, gave them more credits.
Second, there was pressure on multilateral donors to deliver aid to all member countries. In this respect, small countries tended to receive more aid than they expected due to their feasible project size. Third, small countries tended to have historical colonial relations with donor countries, which were somewhat influential to donors’ aid giving decisions. The last reason was that trade normally had larger fraction of GDP in small countries than in big ones, and therefore, these countries could be gaining more weight in donors’ assessment.

Zimmerman (2005) argued that donors had not been able to make multi-year financial commitments that would enable the recipients to rely on during their planning and budgeting process. They have continued to apply complicated and inconsistent conditionalities, and have in a secretive and slow way been determining how to allocate the resources. Thus, donors have continued to use different disbursement mechanisms and monitoring procedures instead of coordinating their activities. The government may plan using the amounts committed, but sometimes donors disburse less than they committed to give. Therefore, at the point of planning, the government is not in a position to plan well using the commitments, since it cannot predict how much of the commitments will actually be disbursed. The Government of Kenya has continued to factor foreign aid in her national budget, but on commitment basis (Republic of Kenya, 2011). This is despite the fact that commitments are poor predictors of disbursements, this therefore ends up affecting the performance since the funds that had been budgeted for are not received on time.

2.5 Summary of Literature Review

Although the three theories use different approaches in analyzing the effect of donor funding on performance it appears that they share the view that the reason why the aid is not effective are found within recipient countries. The dependency approach recognized that aid is ineffective in changing recipient’s bad behaviour and accused both recipients and
Donors’ faults are: giving insufficient amount of aid (big push approach), giving aid to countries lacking good policies and good institutions (aid dependency approach). It appears thus that donors are ignorant for many decades and are not at fault. However recipients could not be held as the main responsible for aid ineffectiveness. Donors are equally, or even greatly responsible for why aid does not work in developing countries, especially in SSACs. Recent studies have acknowledged the existence of failures, other than giving too much or too small aid, at donor’s side whereas aid quality issue has gained increasing importance following the Monterey conference, leading to the Paris declaration and the Accra agenda.

The chains of principal–agent relations characterizing the aid delivery system raise the potential for incentive misalignment, primarily due to conflicting views about the desirability of poverty alleviation or the production of developmental goods. Agency problems are likely, since developing countries are characterized by large information asymmetries. The aid contract through which the donor makes transfers to the recipient government in return for poverty reduction may be subject to both moral hazard (hidden actions by the agent) and adverse selection (hidden information with respect to the agent’s capacity or degree of altruism). Together with incentive problems within donor agencies, this places constraints on the performance of aid programs.

Empirical review shows that study on performance and donor funding are inconclusive and incomprehensive. For instance, Dang, Knack and Rodgers (2009) studying economic crisis, donor funding and performance of public agencies established that the crisis puts high demands on the public sector, they are more likely to reduce the aid budget than other types of recessions or economic slowdowns. Nderitu (2007) did a study on Telkom Kenya, a state
agency and established various loopholes which if not acted upon may lead to high cash lose for the firm. Mwega (2009) established that foreign aid has been erratic in terms of commitments and unpredictable in terms of both the timing and the volume of funding to effectively improve performance of government ministries. The research, therefore, sought to establish if the there is any relationship between donor funding and performance of government ministries in Kenya.
CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction
This Chapter describes how the research was carried out. It also outlines the general methodology used in the study. It also served as the operational plan of the study. It specified the research design, the target population, data collection procedures and data analysis procedure and techniques.

3.2 Research Design
The study was conducted through the use of a descriptive design. Descriptive research portrays an accurate profile of persons, events, or situations (Kothari, 2000). Therefore, the descriptive survey was deemed the best strategy to fulfill the objectives of this study. The research will include all the 42 ministries in the study.

3.3 Population of the Study
The target population was the 42 government ministries that existed between 2008 and 2012, which receive donor funds. According to Ngechu (2004), target population in statistics is the specific population from which information is desired. Mugenda and Mugenda (2003) note that if the target population is less than 100 units, then a census should be carried out.

3.4 Data Collection Methods
The study used secondary data (financial records) to find out the difference between budgeted figure and the actual accomplishment for the last five financial years. The key type of measure was the donor’s funding component which was determined as a percentage
the total amount of funding allocated to a particular ministry in a single financial year. The secondary data was collected from printed estimates, for the period between the year 2008 and 2012 for comparative purposes.

3.5 Data analysis techniques

Quantitative data was be analyzed using Statistical Package for Social Sciences (SPSS version 17.0) program. The data collected was be run through various models so as to clearly bring out the impact of donor funding on performance of government ministries in Kenya.

The results obtained from this model were presented in tables to aid in the analysis from which the inferential statistics was be drawn. Simple regression model below was be used in determining the relationship with a significance test of 0.05 level of significance. The data was collected for the five-year period: 2008/09 to 2012/13.

3.5.1 Analytical Model

Simple linear regression analysis technique was used to establish the relationship between donor funding and performance of government ministries in Kenya. The test was done at 0.5 level of significance. The descriptive statistics included; mean, standard deviation, median, minimum and maximum. The study will seek to establish the relationship between donor funding and performance where;

\[ Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \varepsilon \]

\( Y \) = Performance score based on government annual ranking
\( \beta_0 \) - \( \beta_2 \) = Model coefficient
\( X_1 \) = Donor funding in a particular financial year
\( X_2 = \) Total amount of Debt in a particular financial year (control variable)

\( \varepsilon = \) Error Term

### 3.6.2 Test of Significance

Pearson correlation coefficients will be used to test the relationship between donor funding variables (independent variable) and performance of government ministries (dependent variable). These inferential tests will be conducted at 95% confidence level. The result obtained will be tested for correlation co-efficient the higher the correlation co-efficient the test retest reliable.
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction
This chapter presents the data findings on effect of donor funding on the performance of government ministries in Kenya. Annual data on donor funding to the government ministries and on money allocated to the same by the government was obtained from Treasury for 5 financial years (2008/09 to 2012/13). Performance score based on government annual ranking was obtained from the Directorate of Performance Contracting in the Ministry of Devolution and Planning, Vision 2030.

4.2 Descriptive Statistics
From the descriptive statistics presented in Table 4.1 donor funding increased every year from ksh million 439,967 in 2008/09 to ksh million 774,555 in 2012/13. The average donor funding was Ksh. 609.468 Million with a standard deviation of ksh million 137,077.62. The average ration of donor funding to total debt was 0.49 with a Std. Dev of 0.02 as the average performance contracting scoring was 2.6421 with a standard deviation of 0.2221. When compared to the total debt, donor funding was shown to remain constant in the year 2008/09 and 2009/10. In both years, the ratio of donor funding to total debt stood at 0.51. This figure decrease to 0.46 in 2010. In the year 2011, the ratio of donor funding to total debit increased to 0.49 decreasing to .47 in 2012. From these results it can be observed that the donor funding ratio neither increased nor decreased change from 2008 to 2009. There was decrease in the donor funding ratio in the year 2010 as it increased in 2011 and later decreased in 2012.

The study used the donor funding as a ratio of total debt to compare to performance contracting score. The results showed in 2008 the ratio was 0.51 and performance
contracting score was 2.917. In the year 2009, the ratio was 0.51 and performance contracting score was 2.8467. When the ratio donor funding as a ratio of total debt was 0.46 in the year 2010, the performance contracting score was 2.5228 and when the donor funding as a ratio of total debt was 0.49. In 2011, the performance contracting score was 2.4408. In 2012, donor funding as a ratio of total debt was 0.47 and performance contracting score 2.4834.

The results indicated that when donor funding as a ratio of total debt increased, performance contracting score increased too. For instance form 2008 to 2009, the ratio remained 0.51 and the performance contracting score slightly increased from 2.917 to 2.847, which attained the performance contracting score as being “Good”. So there was no change in performance contracting score rating. From 2009 to 2011, the donor funding as a ratio of total debt decreased from 0.51 to 0.46 and the performance contracting score increased from 2.847 to 2.5228. Although the performance contracting score rating remained at “Good”, there was a significant increase in the rating.

The ratio of the donor funding to total debt decreased from 0.46 to 0.49 in 2011 as the performance contracting score changed from 2.5228 to 2.4408. This change caused the performance contracting score rating (appendix ii) to increase from “Good” to “Very Good”. In the year 2012, ratio of the donor funding to total debt decreased from 0.49 to 0.49 as the performance contracting score decreased from 2.4408 to 2.4834. The results show that whenever, donor funding increased in a particular financial year, the performance contracting score decreased, indicating that donor funding was associated to performance contracting score.
Table 4.1: Descriptive Statistics

<table>
<thead>
<tr>
<th>Year</th>
<th>( Y )</th>
<th>( X_1 ) (ksh million)</th>
<th>( X_2 ) (ksh million)</th>
<th>( X_1/X_2 )</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008/2009</td>
<td>2.9170</td>
<td>439,967</td>
<td>870,579</td>
<td>0.51</td>
</tr>
<tr>
<td>2009/2010</td>
<td>2.8467</td>
<td>540,875</td>
<td>1,059,382</td>
<td>0.51</td>
</tr>
<tr>
<td>2010/2011</td>
<td>2.5228</td>
<td>569,138</td>
<td>1,229,406</td>
<td>0.46</td>
</tr>
<tr>
<td>2011/2012</td>
<td>2.4408</td>
<td>722,805</td>
<td>1,487,028</td>
<td>0.49</td>
</tr>
<tr>
<td>2012/2013</td>
<td>2.4834</td>
<td>774,555</td>
<td>1,633,385</td>
<td>0.47</td>
</tr>
<tr>
<td>Maximum</td>
<td>2.9170</td>
<td>774,555</td>
<td>1,633,385</td>
<td>0.51</td>
</tr>
<tr>
<td>Minimum</td>
<td>2.4408</td>
<td>439,967</td>
<td>870,579</td>
<td>0.46</td>
</tr>
<tr>
<td>Median</td>
<td>2.5228</td>
<td>569,138</td>
<td>1,229,406</td>
<td>0.49</td>
</tr>
<tr>
<td>Mean</td>
<td>2.6421</td>
<td>609,468.00</td>
<td>1255956.00</td>
<td>0.49</td>
</tr>
<tr>
<td>Std Dev</td>
<td>0.222132</td>
<td>137077.6155</td>
<td>309721.08</td>
<td>0.02</td>
</tr>
</tbody>
</table>

Source: Research Data (2014)

4.3 Correlation Analysis

The study used Pearson correlation analysis to establish if linear relationship exists between donor funding and performance of government ministries. The correlation analysis was conducted at 95% confidence level.

Table 4.2: Correlations Analysis

<table>
<thead>
<tr>
<th>Performance Score</th>
<th>Total Donor Funding</th>
<th>Total Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Performance Score</strong></td>
<td>1.000</td>
<td></td>
</tr>
<tr>
<td><strong>Ranking</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Donor Funding</strong></td>
<td>-.900*</td>
<td>1.000</td>
</tr>
<tr>
<td><strong>Total Debt</strong></td>
<td>-.861*</td>
<td>1.000**</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed).**
*. Correlation is significant at the 0.05 level (2-tailed).

Source: Research Data (2014)

The results of correlation analysis in table 4.3 show that under the Pearson correlation, donor funding and total amount of debt (the Independent Variables) were statically significant to performance score ranking. From the results; donor funding \((r = .900, p\)-value \(= .037)\) and; total amount of debt \((r = .861, p = .037)\) had their \(p\)-values less than .05 for each.

For each Independent Variables, \(p<.05\), the relationship is very significant. It was shown that donor funding had a very high relationship \((r=.900)\) followed by total amount of debt \((r = .861)\), which was also very high the study found that all the independent variables; donor funding and total amount of debt can be used to explain performance score ranking, which allowed for further analysis to establish the regression model.

### 4.4 Regression Analysis and Hypothesis Testing

In determining the relationship between dependent (performance of government ministries) and independent (donor funding), the study used linear regression analysis:

\[
Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon
\]

where;

\(Y\) = Performance score based on government annual ranking

\(\beta_0\) - \(\beta_2\) = Model coefficient

\(X_1\) = Donor funding in a particular financial year

\(X_2\) = Total amount of Debt in a particular financial year (control variable)

\(\varepsilon\) = Error Term
Further, the adjusted $R^2$ was 0.527, meaning that 52.70% of variation in Performance score based on government annual ranking is explained by the independent variables; donor funding and total debt as shown in Table 4.3, which indicates that the coefficient of determination was 0.527. This implies that a variation in Donor Funding and Total Debt explains the Performance score based on government annual ranking. It should also be noted that the predictor variables; Donor Funding and Total Debt had their $\beta$-values were negative. This was an indication that both Donor Funding and Total Debt were indirectly proportional to Performance score based on government annual ranking.

Analysis of Variance (ANOVA) was used to determine whether a significant relation exists between variables (dependent and independent variables). The ANOVA results are presented in Table 4.4

### Table 4.3: Regression Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>F</th>
<th>Sig. F</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.756$^a$</td>
<td>.613</td>
<td>.527</td>
<td>.0925213</td>
<td>.713</td>
<td>10.528</td>
</tr>
</tbody>
</table>

Source: Research Data (2014)
Table 4.4: ANOVA Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.180</td>
<td>.090</td>
<td>10.528</td>
<td>.037</td>
</tr>
<tr>
<td>Residual</td>
<td>.017</td>
<td>.009</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>.197</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Research data (2014)

Table 4.5: Coefficients Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>Un-standardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>3.464</td>
<td>2.136</td>
</tr>
<tr>
<td>Donor Funding</td>
<td>-2.808</td>
<td>2.885</td>
</tr>
<tr>
<td>Total Debt</td>
<td>-.048</td>
<td>.020</td>
</tr>
</tbody>
</table>

Source: Research data

From the results in Table 4.5, the p-value for Donor Funding is .046 and Total Debt is .022. Since the p-value for each predictor variable was less than 0.05, there is an indication that there was a significant relationship between each independent variable; Donor Funding and Total Debt, and the dependent variable; Performance score based on government annual ranking. This is to say that all the predictor variable; Donor Funding and Total Debt estimated the dependent variable, Performance score based on government annual ranking. The coefficient for Donor Funding is -2.808 and Total Debt is -.048. The model was therefore fitted as 

\[ Y = 3.464 - 2.808X_1 - 0.048X_2 \]

as shown in Table 4.5.
4.5 Discussions of Research Findings

The data analysis from descriptive analysis showed that donor funding was associated to performance contracting score. Such that whenever, donor funding increased in a particular financial year, the performance contracting score decreased, indicating that donor funding was associated to performance contracting score.

The results showed that donor funding (p-value=.043) and total amount of debt (p-value = .013) had a significant relationship between with performance contracting score, since p-value or each variable was less than 0.05. That the p value for each variable; was less than 0.05, then both donor funding and total amount of debt were found to be predictors of performance contracting score.

The chapter found that an increase in donor funding which is an increase in debt would cause a decrease in Performance score based on government annual ranking and agrees with the study by Knack (2000), in a cross-country analysis which indicated that higher aid levels eroded the quality of governance indexes, that is, the rule of law, corruption, and bureaucracy. The study argued that aid dependence could potentially undermine institutional quality. This would be feasible through a number of ways such as encouraging corruption and rent seeking on one hand and fomenting conflict over control of aid funds on the other hand. It was also argued that the siphoning off of scarce talent from the bureaucracy and the resultant alleviation of pressures to reform inefficient policies and public institutions could be the other factors. Large aid inflows did not necessarily result in general welfare gains, and high expectation of aid could increase rent-seeking and reduce the expected public goods quality.
The study further found that when the total debt increased the performance contracting score declined. So the total amount of debt in a particular financial year increased as the performance contracting score declined in that year. The study therefore found that the total amount of debt, which was the control variable, was associated to performance contracting score. The association between total amount of debt and performance contracting score was indirect.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
The study sought to find out the effect of donor funding on the performance of government ministries in Kenya. The sample size targeted was 42 government ministries. This chapter presents summary of the research findings. The implications from the findings and areas for further research are also presented. The findings from the study are presented in comparison to what other scholars have said as noted under literature review.

5.2 Summary of Findings
The study provided two types of data analysis; namely descriptive analysis and inferential analysis. The descriptive analysis helped the study to describe the relevant aspects of the donor funding variable. The mean and standard values were determined. For the inferential analysis, the study used a simple linear regression analysis technique to establish the relationship between donor funding and performance of government ministries in Kenya based on government annual raking for the five year period: 2008 to 2012.

The study found that the performance contracting score rating started from good in the year 2008 and changed from “Good” to “Very Good”. It stayed at “Very Good” for two years (2010 and 2012), after which it went back to “Good. In the year 2012 these results showed that the performance contracting score was not consistent in growth or decline. It was not clear what the trend of performance contracting score was.

The study further found that the ratio of donor funding to total debt decreased was in sync with the performance contracting score but indirectly. Whenever donor funding increased in a particular financial year, the performance contracting score decreased that year. The study found that indicating that donor funding was associated to performance contracting score.
The results show that an increase in donor funding in a financial year was associated with a decline in performance contracting score that year, indicating that donor funding was associated to performance contracting score. So, donor funding affected performance contracting score negatively.

The study found that the total debt changed whenever performance contracting score but indirectly. When the total debt increased, performance contracting score declined, usually from “Very Good” to Good” and a decrease total debt occurred when performance contracting score increased. The study therefore found that the total amount of debt (control variable) was associated to performance contracting score. Such that total amount of debt in a particular financial year increased, performance contracting score in that year declined.

From these results, the study found that donor funding and total amount of debt were indirectly proportional to performance contracting score. It was also revealed that wither donor funding or total amount of debt or both happened when there was decline in performance contracting score in that year declined. It was established that there was a significant relationship between donor funding (p-value = .033) and total amount of debt (p-value = .013) and financial performance of the public sectors institutions, since the p value for each predictor variable was less than 0.05. It was found that 52.70% of variation in financial performance is explained by the donor funding and total amount of debt. The study there found that donor funding and total amount of debt were associated to financial performance in Kenya and influenced it positively.
5.3 Conclusion

The study found that whenever donor funding increased in a particular financial year, the performance contracting score decreased that year. So donor funding was associated to performance contracting score. The association between donor funding and performance contracting score was indirect. An increase in donor funding occurred when there was decline in performance contracting score.

The study further found that when the total debt increased the performance contracting score declined. So the total amount of debt in a particular financial year increased as the performance contracting score declined in that year. The study therefore found that the total amount of debt, which was the control variable, was associated to performance contracting score. The association between total amount of debt and performance contracting score was indirect.

The study found that donor funding and total amount of debt were indirectly proportional to performance contracting score and so the two variables were associates to the performance contracting score. It was also revealed that there was an increase in donor funding or total amount of debt or both when there was decline in performance contracting score in that year declined.

Lastly, the study found that donor funding (p-value=.043) and total amount of debt (p-value = .013) had a significant relationship between with performance contracting score, since p-value or each variable was less than 0.05. That the p value for each variable; was less than 0.05, then both donor funding and total amount of debt were found to be predictors of performance contracting score. An increase in either donor funding and total amount of debt or both was associated with a decline in financial performance and vice versa. 52.70% of
variation in financial performance is explained by the donor funding and total amount of
debt, therefore the effect of donor funding on performance of government ministries in
Kenya indirect.

5.4 Recommendations

The study made some recommendations depending on the findings. This was after the study
found that found that donor funding and total amount of debt were indirectly proportional to
performance contracting score and the two variables were associates to the performance
contracting score. An increase in donor funding or total amount of debt or both there was
decline in performance contracting score. The study first recommends that the National
Government of Kenya should seek to reduce the amount for donor funding each year and
result to other form of findings it development and recurrent expenditure. GoK should
design effective policy for establishing better source of financing their development and
recurrent expenditure. They should adopt cheaper sources of funds for their financing
options as they avoid overreliance on donor funding.

The government of Kenya should review/design financing policies to ensure that the debt
capital amount is reduced. They should be design effective mechanism to avoid the
overutilization of the total debt financing. GoK should evaluate the available option and
devise effective financing mechanisms.

The study, additionally, recommends that government should continue using
performance contracting as a tool for monitoring and improving performance. Further, there is need to review the relationship between performance contracting,
performance appraisal and performance of the organization. This can help the government
to do only one report which is wholesome instead of doing different reports which are
similar yet they are never brought up for comparison. Stability and availability of resources is vital for the success of performance contracting and therefore the top leadership must ensure that necessary resources are available at all time. This involves ensuring that adequate budget is allocated to the agencies for capital, development and recurrent programmes expenditure.

5.5 Limitations of the Study

The study faced various limitations that may have affected the findings. First, the study sought for data from Government ministries and agencies. Some of the ministries and agencies had been not been operational for a long time, which made it difficult for them to supply data. So the study relied on caretakers of the relevant data, such as Kenya National Bureau of Statistics (KNBS). The challenge was facing in gaining access to this data. Some caretakers of the data opted not to supply sufficient data, which compelled the study to do the computation from the raw data that was available. The study did not get the real explanation of some terms. To mitigate this, the researcher sought for the explanation from consultants in financial management.

Secondly, the study was constrained by data collection process, where the study used data computed by the researcher since the actual data was not available and the data caretakers were not cooperative to supply the data. In some instance, the researcher had to write a request letter to request for supply of some data, which was classified by National Treasury as confidential. Even after writing the letter, the study did not get the actually required data. The researcher had to move from one office to another, which was time consuming and it also showed how scattered government information is and it is hard to get data that is in the public offices. The researcher had to use the goodwill of friends to obtain some data.
Thirdly, the performance score criteria measurement has been changing by using different performance contracting evaluation methods during the review stages with a view to improve it, which means that the scores used for different financial years could not have been similar. Fourthly, the study used secondary data in all its analysis and it should be noted that secondary data is intended for other purposes, which make the study unreliable. This could include convincing readers that the Kenya Government performance contracting performs well while there is a decrease in donor funds component, the study model was also limited as it showed that 52.70% variation of Performance score was cause by change in Donor Funding and Total Debt, which means that there are other factors accounting for the remaining 47.30%, the present study did not account for the 47.30%.

5.6 Suggestion for Further Research

The performance score criteria measurement has been changing by using different performance contracting evaluation methods during the review stages with a view to improve it, which means that the scores used for different financial years could not have been similar. There is therefore need to a conduct a study that would evaluate the performance contracting evaluation approaches used to establish their effectiveness and efficiency.

The study found that 52.70% variation of performance score was caused by change in Donor Funding and Total Debt, which means that there are other factors accounting for the remaining 47.30%. Since the present study did not account for the 47.30%. There is need to carry out a study to establish other factors that would affect the performance score.

The study recommends that further studies can be done on the effect of donor funding, performance contracting score and public service delivery. This would augment the study
and enlighten Kenya populace on the effectiveness of performance contracting score as there is general complaint that the ministries that are rated highly have poor service delivery. There is need to study both the public servants’ perceptions on the role of performance contracting in improving service delivery to the end users. This will confirm whether the objectives of implementing performance contracting are being achieved in the public sector.
REFERENCES


APPENDICES

Appendix 1: Government Ministries in Kenya in the Years 2008 to 2012

<table>
<thead>
<tr>
<th>No.</th>
<th>Ministry Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ministry of State for Public Service</td>
</tr>
<tr>
<td>2</td>
<td>Ministry of Foreign Affairs</td>
</tr>
<tr>
<td>3</td>
<td>Office of The Vice President and Ministry of Home Affairs</td>
</tr>
<tr>
<td>4</td>
<td>Ministry of Planning National Development &amp; Vision 2030</td>
</tr>
<tr>
<td>5</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>6</td>
<td>Ministry of State for Defense</td>
</tr>
<tr>
<td>7</td>
<td>Ministry of Cooperative Development &amp; Marketing</td>
</tr>
<tr>
<td>8</td>
<td>Ministry of Agriculture</td>
</tr>
<tr>
<td>9</td>
<td>Ministry of Medical Services</td>
</tr>
<tr>
<td>10</td>
<td>Ministry of Local Government</td>
</tr>
<tr>
<td>11</td>
<td>Ministry of Roads</td>
</tr>
<tr>
<td>12</td>
<td>Ministry of Transport</td>
</tr>
<tr>
<td>13</td>
<td>Ministry of Labor And Human Resource Development</td>
</tr>
<tr>
<td>14</td>
<td>Ministry of Trade</td>
</tr>
<tr>
<td>15</td>
<td>Ministry of National Cohesion, Justice And Constitutional Affairs</td>
</tr>
<tr>
<td>16</td>
<td>Ministry of Gender and Children Development</td>
</tr>
<tr>
<td>17</td>
<td>Ministry of Livestock Development</td>
</tr>
<tr>
<td>18</td>
<td>Ministry of Water and Irrigation Development</td>
</tr>
<tr>
<td>19</td>
<td>Ministry of Environment And Natural Resources</td>
</tr>
<tr>
<td>20</td>
<td>Ministry of East Africa Community</td>
</tr>
<tr>
<td>No.</td>
<td>Ministry Name</td>
</tr>
<tr>
<td>-----</td>
<td>-------------------------------------------------------------------</td>
</tr>
<tr>
<td>21</td>
<td>Ministry of Energy</td>
</tr>
<tr>
<td>22</td>
<td>Ministry of Education</td>
</tr>
<tr>
<td>23</td>
<td>Ministry of Higher Education Science and Technology Education</td>
</tr>
<tr>
<td>24</td>
<td>Ministry of Information and Communication</td>
</tr>
<tr>
<td>25</td>
<td>Ministry of State for Special Programs</td>
</tr>
<tr>
<td>26</td>
<td>Ministry of Lands</td>
</tr>
<tr>
<td>27</td>
<td>Ministry of State For National Heritage And Culture</td>
</tr>
<tr>
<td>28</td>
<td>Ministry of Housing</td>
</tr>
<tr>
<td>29</td>
<td>Ministry of Tourism</td>
</tr>
<tr>
<td>30</td>
<td>Ministry of Public Health and Sanitation</td>
</tr>
<tr>
<td>31</td>
<td>Ministry of Forestry And Wildlife</td>
</tr>
<tr>
<td>32</td>
<td>Ministry of Fisheries Development</td>
</tr>
<tr>
<td>33</td>
<td>Ministry of Nairobi Metropolitan Development</td>
</tr>
<tr>
<td>34</td>
<td>Ministry of Development Of Northern Kenya And Other Arid Lands</td>
</tr>
<tr>
<td>35</td>
<td>Ministry of Public Works</td>
</tr>
<tr>
<td>36</td>
<td>Ministry of Industrialization</td>
</tr>
<tr>
<td>37</td>
<td>Ministry of State for Immigration and Registration of Persons</td>
</tr>
<tr>
<td>38</td>
<td>Ministry of State for Provincial Administration and Internal Security</td>
</tr>
<tr>
<td>39</td>
<td>Ministry of Youth and Sports</td>
</tr>
<tr>
<td>40</td>
<td>State law office</td>
</tr>
<tr>
<td>41</td>
<td>Judicial Department</td>
</tr>
<tr>
<td>42</td>
<td>Ministry of Regional Development Authorities</td>
</tr>
</tbody>
</table>
## Appendix II: Performance contracting Score Grading Scale Based on Annual Government Ranking

<table>
<thead>
<tr>
<th>Criteria Value Range</th>
<th>Upper</th>
<th>lower</th>
<th>Span</th>
<th>Performance Grade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.00</td>
<td>1.00</td>
<td>1.49</td>
<td>0.49</td>
<td>Excellent</td>
</tr>
<tr>
<td>1.50</td>
<td>1.50</td>
<td>2.49</td>
<td>0.99</td>
<td>Very Good</td>
</tr>
<tr>
<td>2.50</td>
<td>2.50</td>
<td>3.49</td>
<td>0.99</td>
<td>Good</td>
</tr>
<tr>
<td>3.50</td>
<td>3.50</td>
<td>3.59</td>
<td>0.09</td>
<td>Fair</td>
</tr>
<tr>
<td>3.60</td>
<td>3.60</td>
<td>5.00</td>
<td>1.40</td>
<td>Poor</td>
</tr>
</tbody>
</table>

Appendix III: Donor Funding to Kenya

### Kenya

<table>
<thead>
<tr>
<th>Receipts</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net ODA (USD million)</td>
<td>1,629</td>
<td>2,482</td>
<td>2,654</td>
</tr>
<tr>
<td>Bilateral share (gross ODA)</td>
<td>69%</td>
<td>62%</td>
<td>64%</td>
</tr>
<tr>
<td>Net ODA / GNI</td>
<td>5.1%</td>
<td>7.4%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Net Private flows (USD million)</td>
<td>-175</td>
<td>387</td>
<td>-123</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>For reference</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population (million)</td>
<td>40.9</td>
<td>42.0</td>
<td>43.2</td>
</tr>
<tr>
<td>GNI per capita (Atlas USD)</td>
<td>800</td>
<td>800</td>
<td>850</td>
</tr>
</tbody>
</table>

### Top Ten Donors of gross ODA (2011-12 average) (USD m)

1. United States: 768
2. IDA: 284
3. IMF (Concessional Trust Funds): 269
4. Germany: 263
5. Japan: 193
6. AFDF: 184
7. EU Institutions: 183
8. United Kingdom: 162
9. France: 115
10. Sweden: 77

### Bilateral ODA by Sector (2011-12)

- Education
- Health and population
- Economic Infrastructure & Services
- Production
- Programme Assistance
- Action relating to Debt
- Other social sectors
- Multisector
- Humanitarian Aid
- Other & Unallocated/Unspecified

Sources: OECD - DAC, World Bank; www.oecd.org/dac/stats