

**FACTORS INFLUENCING ABSORPTION OF BUDGETED FUNDS IN
THE KENYAN PUBLIC SECTOR**

BY

NAKITARE ISOKAT THOMAS

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DECLARATION

I, the undersigned, declare that this research project is my original work and that it has not been presented in any other university or institution for academic credit.

NAME: NAKITARE ISOKAT THOMAS

Reg. 16/03740

Signature Date

This research project has been submitted for examination with my approval as university supervisor.

Signed Date

Dr. GLADYS BUNYASI

Signed Date

Dr. RENSON MUCHIRI MWANGI

Dean School of Business and Public Management

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ABSTRACT

The problems that have inhibited the absorption of budgeted funds in the Kenyan ministries are largely common and have been identified as excessive controls, array of directors, recurrent political meddling, meagre management and absolute mismanagement. The main objective of this study was to analyse factors influencing absorption of budgeted funds in the Kenyan ministries. Specific objectives were to establish the influence of budgeting and planning processes influencing the absorption of budgeted funds, to establish the effect of the ministries staff capacity on the absorption of budgeted funds, to establish the influence of private sector capacity on absorption of budgeted funds and to establish the influence of donor funding on absorption of budgeted funds. For the purpose of this study, the target population was the 21 government ministries which are funded. Purposive sampling was used to arrive at the sample size. The sample was selected for ministries which had published their relevant information is readily available and those who finance their projects. A sample size of 21 ministries will be used as ranked on the performance contract scores published annually. Secondary data collection method will be used in this study. The secondary data was collected from printed estimates; corporations published statements Treasury and Division of Performance Contracting and the Ministry of Devolution and Planning. The data collected was analysed using descriptive statistics and inferential statistics. The study was conducted using several test of significance. A t-test was conducted at 95% certainty level ($\alpha \leq .05$). From the analysis of findings, strong and positive linear association was established between the independent variables (Budgeting process, staff capacity, private sector capacity, donor funding) and absorption of budgeted funds. An R-square value of 0.727 was established depicting that this relationship was very strong and the budgeting process, staff capacity, private sector capacity and donor funding accounted for 72.7% of the changes in the dependent variable i.e absorption of budgeted funds. The study recommended that the Government of Kenya should design effective policy for establishing better source of financing their development and recurrent expenditure.

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ABBREVIATIONS AND ACRONYMS

EACC	Ethics and Anti-Corruption Commission
LA	Local Authority
IPU	Inter-Parliamentary Unit
MDA	Ministries, Departments and Agencies
MNEs	Multi National Enterprises
MTEF	Medium-Term Expenditure Frameworks
NGO	Non-governmental Organisations
NIMES.	National Integrated Management Evaluation System
PM	Participatory monitoring
PME	Participatory monitoring
SRC	Salaries and Remuneration Commission
SWG	Sector Work Groups
TA	Transitional Authority
TFDK	Task Force on devolution in Kenya
TOC	Theory of change
WPI	Wales Programme for Improvement

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

A budget is an itemized review of expenditure gauges covering a financial year in concert with proposals on how to elevate the connected revenues (Rotich & Ngahu, 2015). A public budget has four dimensions, first it's a political tool that apportions limited funds amid the social and economic needs of an authority. Second, its professional and managerial instrument stipulates the methods and means of providing civic programs and services and sets out the disbursements and standards by which their activities are assessed in terms of efficiency and effectiveness. It is the budgeting process to ensure that all programs and activities in a jurisdiction are revised or appraised at least once in each year. Thirdly, a budget is a pecuniary instrument that can influence a nation's financial growth and expansion. Budgets are the primary instruments for assessing re allocation of income, stimulating financial progress and expansion. Fourth a budget is an accounting tool that clasps government administrators accountable for both the expenses and incomes of the programs over which they exercise governorship.

In Kenya, the National budget is a script that once accepted by the parliament, approves the government to increase revenue, incur debts and expenditures to achieve certain goals (Keng'ara, 2014). The budget is therefore, an important tool in setting base for the implementation of a nation's strategy over a period. The implementation of the budget substantially contributes to the accomplishment of a country's vision. The

budget implementation process commences with the disbursements of funds to the various government entities to finance their annual work plans and strategic plans. Funds disbursements to the government units are significant in ensuring effective project implementation. It is only through release of funds to public entities that project implementation occurs which translates into measurable deliverable outputs that can be assessed at conclusion of a fiscal year (Lakin & Kinuthia, 2015). The various public institutions implement their mandates and jointly ensure that the government achieves its national's strategic plan and maximizes service delivery to its citizens.

Pay-out of resources is the most critical aspect of absorption of funds for effective implementation of public projects. Disbursement is a precarious aspect of financial management since development and recurrent expenditure are demonstrated on budgeting ideologies and as such, all pertinent cash flows linked to the responsibility must be determined with a fair degree of precision so that desired returns are accomplished within the set time periods (Marinas & Prioteasa, 2016). The successful implementation of budgets can only be attained when there are consistent cash flows and the funds are optimally utilized to achieve their intended objectives. Any shortcoming in disbursements or absorption of finances in the budgeted project translates into failed accomplishment of goals and ineffective service delivery.

The study will be guided by three theories namely, agency theory, institutional theory and the stewardship theory. The agency theory explains the contractual relationship between the principal and the agent. The agent is expected to conduct their activities, take actions and make decisions that ensure the principal's welfare is maximized. In this study the Ministry of Finance (MOF) is the principal whereas the national

government entities are the agents. The MOF is responsible for disbursing funds to the national government entities who utilize the funds to attain the nation's goals. The institutional theory explains how stability and an organization's behaviour are determined by institutions in place. In the study, the theory will be used to explain how resource negotiating, bargaining, accounting, organization change and mobilizing power can be used in influencing optimal budget implementation. Lastly, the stewardship theory will be used to explain the underlying motivators that influence stewards (agents) to work towards optimizing the principal's interests. Stewardship theory will provide a compass on how things should be done in public institutions to attain efficiencies in achieving national goals (Khan & Hildreth, 2002).

1.1.1 Absorption of Budgeted Funds

Any budget whether national or institutional is a financial plan that allocates resources to various activities, projects and programmes to attain specific objectives. At the national level, budget implementation are essential drivers of economic growth, employment opportunities, improved food security, empowering producer firms and mitigating or reducing poverty conditions. One of the most substantial elements in budget implementation is the absorption of funds into projects. Absorption capacity refers to the ability of an entity to effectively and efficiently spend its budgeted funds expressed as a percentage of its allocation (Katsarova, 2013). The amount disbursed to various departments in organizations is based on the approved annual budgets. It, therefore, follows that the funds disbursed guide the implementation of the annual work plans and associated development projects. The absorption rate of budgeted funds has an effect on development and public service delivery. High absorption

capacity does not necessarily mean delivery of economic growth, however, low absorption rates translates into unattained national growth strategies. As much as high absorption of budgeted funds is a valuable policy objective, it is important to assess whether the funds are utilized for the stated purposes on the budget and have successfully attained the objectives they were designed to accomplish (Curristine, Lonti & Joumard, 2007).

Globally, absorption capacity for various countries remains a key element underlying economic growth. The European Union for instance, seeks to transition into a more dynamic and competitive economy, however it is experiencing challenges of exiting the economic crisis due to low absorption rates of structural funds by the member countries. The European Union currently is implementing a Cohesion Policy 2014-2020 to improve performance of structural funds to tackle the low spending capacity of its member states (Katsarova, 2013). In Poland, the absorption capacity of budgeted funds is low and has been largely influenced by lack of adequate human capital in public administration to implement projects (Karbownik & Kula, 2015). The low rates of spending negatively affect efficiency in attaining the nation's economic growth. Most developed countries have minimum challenges in utilizing their budgets as compared to developing countries. Romania has also experienced the lowest absorption rates of European Union (EU) funding for its structural projects of up to 52 per cent which leaves a substantial amount of the EU investment policies unimplemented (Marinas & Prioteasa, 2016). The success of budgeting is noted in various developed economies like Australia, New Zealand, Singapore, Netherlands, USA, Canada, Mauritius and Singapore (Rotich & Ngahu, 2015). In Africa success in

budget execution is highly noted in South Africa and Rwanda. While other nations have succeeded in implementing their budgets, countries like Poland, Romania, Sri Lanka and Thailand have failed as a result of low capacity to absorb resources in planned programs.

In East Africa, Uganda has over the years registered low absorption rate of up to 23 per cent of its development budget with recent increase to 50 per cent (CSBAG, 2014). However, a substantial amount of the development budget still remains unutilized and thus government projects are not efficiently implemented. Due to the low spending of budgeted funds the Ugandan government has experienced increase in the cost of acquiring debts. The Ugandan government pays high commitment charges for committed but undisbursed loans.

The Kenyan public sector is not an exception in facing challenges in budget execution. Amounts budgeted in every financial year are not fully utilized as a result, most programmes and projects whether recurrent or development are not fully implemented (Keng'ara, 2014). For example, during the financial year 2008/2009 and 2009/2010 a total of Ksh.37,995,330,420 and Ksh.54,584,282,594 respectively were surrendered back to the National Treasury in compliance to the Public Financial Management Act 2012. During the financial year 2011/2012 over Kshs.100 billion was surrendered back to the National Treasury as unutilized (Rotich & Ngahu, 2015). In 2012/2013 close Ksh.350 billion allocated to ministries and government departments were unutilized. It is clear that the rate of underutilization of budgeted funds is on an upward trend in the Kenyan public sector. The low absorption rates for funds affect implementation of projects and eventually the attainment of underlying goals. The most affected vote is

the development expenditure which has the highest amounts of unutilized funds at the close of the fiscal year. The growth funds are vital in the initiation of capital expenditures which are the vital drivers for defensible commercial growth for any nation. The failure to efficiently utilize funds allocated for development slows down the growth of the economy and especially threatens the countries development agenda on achievement of Vision 2030.

1.1.2 Factors Influencing Absorption of Budgeted Funds

Kenyan's national agenda is prescribed in the country's Vision 2030, medium-term plans and the millennium development goals (MDGs). Every government agency is guided by the three documents in setting their strategic plans and budgets. To attain the nation's agenda the process of developing budgets is participative incorporating all stakeholders in decision making and along all the budgeting phases.

The Kenyan Gazette Supplement No. 31 specifies the entities that fall under the national government. They include national government entities which are state organs and those that are government enterprises operating on the basis of commercial principles. The study will focus on national government entities which are state organs specifically the ministries. The national government comprises twenty ministries which carry out their core mandate to achieve the national agenda. The ministries undertake trade-offs by making decisions that ensure public funds are focussed on the intended priorities to enhance delivery of public services and poverty reduction.

The budgeting process in the ministries is guided by the mid-term expenditure framework over a three year period with the first year being the annual budget. The

ministries are responsible for developing their strategic plans and budget proposals covering all agencies, departments and state corporations under them. The sector working groups (SWGs) formulate and give in the initial reports on ministerial public expenditure reviews (MPERs) to the National Treasury for harmonization of the expenditure estimates and prepare the final budget estimates for execution.

The budget execution phase for most ministries to date remains a challenge specifically on absorption of development funds. For instance, the Ministry of Education, Science and Technology in the financial year 2013/2014 had unutilized development funds KES.19.1 billion from an allocation of KES.23 billion. The utilized resources represents 83 per cent of the budgeted funds. During the same financial year, the Ministry of Transport and Infrastructure did not absorb a total of 52 per cent of its allocation. Approximately during the 2013/2014 fiscal year the uptake of development funds was at 55 per cent which is still on the lower side if efficiencies in project implementation and achievement of the nation's strategic agenda are to be achieved. In 2014/2015 the ministries of Energy, Infrastructure and ICT had the lowest absorption rates by spending below one third of their budget allocation during the fiscal year (Lakin & Kinuthia, 2016). Ministries, government departments and agencies are continually struggling to utilize their financial allocations making it paramount for evaluations on factors affecting absorption of funds to be analysed and guide future budgeting processes.

1.2 Statement of the Problem

The budgetary process in Kenya has grown over the last 45 years on an incremental base with no fundamental revolutions. Nonetheless, the Country has steadily attempted

to reorganize its schemes in line with vicissitudes and necessities for noble public finance management. All this leading to implementation of MTEF budgeting. The Kenyan Government has also been fronting the contests of providing augmented services to the citizens while accepting stakeholder participation, organizational culpability and efficiency as per the new constitutional and public finance acts requirement (Rotich & Ngahu, 2015).

Marinas and Prioteasa (2016) studied the focus of factors influencing the absorption rate of European Union funds in Romania and conclude that the supply side factors that relate to administrative capacity have the greatest influence on the nation's absorption rates. Curristine, Lonti and Jourmard (2007) studied improving public sector efficiencies by evaluating challenges and opportunities and observed that lack of utilizing performance information in the budgeting process misinforms allocation of resources. In Uganda, the Civil Society Budget Advocacy Group (2014) conducted a study to identify constraints undermining budget absorption in the country. Their findings revealed that excess fund allocations to agencies, delayed release of funds, delayed implementation of public financial management reforms, reluctance to commit expenditures, legal framework, private sector capacity and staff capacity constrained the absorption of allocated funds.

The Kenyan government has not been an exception in experiencing challenges in budget execution. Numerous studies have been done locally to evaluate budget underutilization across various government departments and agencies. Keng'ara (2014) investigated the effect of fund disbursement procedures on implementation of donor projects in Homabay Kenya. He observed that the funds disbursement procedures for

donors are very rigid and result to delay in flow of funds to the projects resulting to underutilization of budgets. Rotich and Ngahu (2015) studied factors affecting budget utilization in Kericho County and observed that the complexity of tax systems in the county affects economic development in the county. From the aforementioned, little has been done in evaluating the low absorption rates at the Kenyan ministries since devolution. The study therefore seeks to fill this gap and analyse the factors that affect the absorption of budgeted funds in the Kenyan ministries

1.3 Objectives of the Study

1.3.1 General Objectives

The main objective of this study is to analyse factors influencing absorption of budgeted funds in the Kenyan Public Sector.

1.3.2 Specific Objectives

1. To establish the influence of budgeting processes on the absorption of budgeted funds in the Kenya Public Sector
2. To establish the effect of the ministries staff capacity on the absorption of budgeted funds in the Kenyan Public Sector
3. To establish the influence of private sector capacity on absorption of budgeted funds in the Kenyan Public Sector.
4. To establish the influence of donor funding on absorption of budgeted funds in the Kenya Public Sector.

1.4 Research Questions

The research will be guided by the following research questions:

1. How does the budgeting process influence the absorption of budgeted funds in the Kenya Public Sector?
2. How does the staff capacity at the ministries affect absorption of funds in the Kenyan Public Sector?
3. How does the private sector capacity affect the absorption of budgeted funds in the Kenya Public Sector?
4. How is the influence of donor funding on absorption of budgeted funds in the Kenyan Public Sector?

1.5 Significance of the Study

1.5.1 To the policy makers

The findings from the study will enable policy makers develop strategies which when implemented will significantly reduce or mitigate the challenges of budgeting leading to more efficient operation and implementation of development projects. The study findings will assist also policy makers to ensure timely utilization of public voted funds allocated to all MDAs within a financial year to avoid surrender of unspent balance to The National Treasury.

1.5.2 To the Donor partners

The donor community would be interested in the absorption of funds as their support is also pegged to GOK financial years as well as monitoring the funded projects to ensure

accountability and transparency. Continued funding by the International organizations would entirely depend on persistence occurrences of World global challenges

1.5.3 To future researchers

This research will be of immense implication to the future academics since it will take effect as a foundation of supplementary information on prudent pecuniary management in the public sector. This will augment the literature critic of future studies, and upcoming academics will find the study findings useful when casing other areas that were not included by the study. The research will operate as a locus and rouse the curiosity among academicians and thereby heartening further research on effects of optimal utilization of public funds.

1.6 Justification of study

It is expected that the study will update those charged with budgeting in the public sector on the factors influencing absorption of budgeted funds. Academicians, authors and other researchers in the turf will find its study as a dependable point of reference. In practice, finding and the recommended endorsement will authorize the relevant partakers in public sector to frame approaches which if and when implemented will enable them to mitigate budgeting challenges that could otherwise comprise the operation in the public sector.

1.7 Scope of the study

This study seeks to analyze factors affecting the absorption of funds in the Kenyan public sector. The study will focus on national government entities state organs in

Kenya and more specifically limit its scope to evaluating factors affecting absorption of budgeted funds within the public sector.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter will discuss related literature from secondary sources on factors influencing absorption of budgeted funds as presented by various authors. The chapter will also discuss the theories underpinning the study.

2.2 Theoretical Foundation

This section will examine the philosophies that will be used to advise this study on factors influencing absorption of budgeted funds. The study will be directed by the ensuing philosophies; agency theory, institutional theory and the stewardship theory.

2.2.1 Agency Theory

Alchian and Demstet (1972) were the first writers of the agency theory which was further advanced by Jensen and Meckling (1976). According to the theorists, an agency association involves an agreement where one or more individual referred to as the principal engages another person (the agent) to perform a service on their behalf and delegates decision making authority to them. The agency theory therefore seeks to describe the contractual relationships between agents and their principals where the principals entrust the agents with the responsibility to conduct activities on their behalf to accomplish their interests. For the agents to work effectively, the principals provide them with power and authority to carry out activities and make decisions on their behalf (Keng'ara, 2014).

The theory can be used to describe the budget process in the Kenyan public sector where the National Treasury is the principal and the various ministries are the agents. The National Treasury is the custodian of the public funds and disburses these money to various ministries for implementation of their approved budgets (Cheboi, 2014). The accounting officers at the ministry have the responsibility to authorize expenditures from the funds received and take responsibility for any actions undertaken by the entity to achieve national objectives. The principal agent relationship has an element of information asymmetry where the agent is more knowledgeable about the operations, desired performance and hidden motivation which require the principal to set up monitoring mechanisms for the agent's activities (Gudban et al, 2017). The National Treasury provides regulations to guide the administration of the public funds by the implementing ministries. The Public Finance Management Act 2012, the accompanying Public Finance Management Act Regulations of 2015, the Public Procurement Assets and Disposal Act 2015, the Constitution and Code of Conduct and Ethics for Public Servants among other legislations guide the budget implementation process. Additionally, as a requirement for aid the supervision and monitoring of funds disbursed the ministries submit quarterly reports on budget implementation to the National Treasury. Further, the ministries are required to prepare financial statements at the end of a fiscal year.

2.2.2 Institutional Theory

The institutional theory has its history from Max Weber who is an economist and social theorists who focused on the proposition that institutions and bureaucracy are dominating the society exposing it to the rampant iron cage that came with

institutionalization (Rotich & Ngahu, 2015). Scott (1995) however brought a new perspective to institutionalization indicating its purpose of integrating an organization. He brings in a new concept that institutions provide constancy and give connotation to a firm's social behaviour. The institutional theory places its main focus on the resilient determinants of economic actions. The proposition looks into the establishment of processes, structures and cultures which determine the norm and rules in an entity and how they become a guideline for social behaviour. The theory tries to explain the relationships between various economic factors and how they influence behaviour in an organization. The institutional theory in the context of budgeting provides a symbolic value when analysing an entities accounting processes, organization change, negotiating and bargaining for resources, concealing, mobilizing power and dealing with changes in the operating environment (Covaleski et al, 2003).

2.2.3 Stewardship Theory

The stewardship theory seeks to answer how an organization can flourish and support their development whereas upgrading the riches of its partners and meet the well-being of the community around them. The theory foundations are in psychology and sociology and helps researchers examine situations where top management (agents) are motivated to work in the interest of the principal. Stewardship theory development commences with the review of market based restructurings that have played a significant role in reshaping the public service across the world. As much as these reforms were considered to be necessary and resulted in positive outcomes, its foundational market theory propositions are not strong enough to accommodate governance and public interest which are essential tools of success in the public sector. The process of stewardship should not be viewed as

an immediate technique or strategy to correct ailments or failures but a compass that provides direction on how activities should be done in a way that efficiencies are realized in an entity. Management extends past individual concerns and, more notably, offers the situations for long-term government stability; something that the market model does not do. In other words, managers provide a summary of the struggle between market efficacy and the arduous and inflated task of preserving stability critical for government systems of public interest (Armstrong, 1997).

Steward pioneers require the strength to lead their organization's way founded on their own morals and ethos, so as to apply an optimistic impact to the longer term and a more impactful result (Khan & Hildreth, 2002). As stewards are responsible for managing the assets of the owners, they are required to act responsibly in the course of their duty. A good steward is not self-interested but rather associate with the trade they run and are persuaded to maximize organizational performance (Cosin, Ong, & Coughlan, 2015). Stewardship is essential for the success of implementation of strategic plans in an organization. With a rich sense of reason, stewardship empowers companies to guarantee that their victory is feasible and underwrites to their future success as well as the well-being of society at huge.

2.3 Empirical Review

There are a series of realistic investigations in the field of finance for various programs. The perspective and the context as perceived by researchers is diverse thereby provoking debates. Financing and assimilation of funds has been coordinated towards slightest need regions such as military rather than fundamental infrastructure and rural advancement such as roads, food generation and wellbeing.

2.3.1 Budgeting Process

A budget is an essential tool that guides decision making and coordinates the activities of departments within an organization. The process of budgeting engages the heads of departments to provide input on the needs of their units based on their planned activities. The budget therefore becomes an important tool in the organization to guide resource allocation across departments for them to realize their objectives for the year. Budgets also form a basis of setting goals and can actually be monitored and used to measure the performance of an institution.

The budgeting and planning process determines resource allocation across various units in an organization. In the public sector allocation of funds is done across government agencies and departments. The credibility of resource allocations made in the budgeting process is very important because it determines the extent to which an entities annual work plans and goals are realized (Pasachoff, 2016). Resource allocations in the budgeting process therefore need to be determined by reliable and credible metrics to avoid over or under allocation of resources which may hamper implementation of the mandate of an entity. It is possible to find that during the budgeting process some sectors and spending agencies have received funds that exceed their absorption capacity, while others have budget limits that are not in line with the mandates they should meet (CSBAG, 2014). If a departments or sectors work plan requires substantial amount of investment and less than the required funds are approved and actually released, the projects can hardly commence leaving the monies unspent. The delivery of effective public service requires an appropriate mix of inputs that are determined by analyzing the mandates of a government agency or department.

After budgets have been approved, the implementation process is set to start. Budget execution is triggered by the release of funds to the different agencies for spending. Any occasioned delays in disbursement of funds to the institutions significantly results in delayed implementation of projects and leaves an organization with unspent funds. In the public sector the National Treasury and the ministries, state departments and agencies both have a role in determining the release of funds. The National Treasury for instance releases budgeted funds based on submission of satisfactory work plans and progress reports by the spending agencies (Lakin & Kinuthia, 2015). Any delays in submission of the required reports subsequently causes delay in release of finances.

2.3.2 Staff Capacity

Human resources can contribute to the success or failure of an organization. The skills, expertise and experience that employees possess are valuable assets for a firm. The implementation of budgets is done through people and it is therefore important that an entity has a staff capacity with the rights skills to lead the execution process (Bhagheri, 2016). According to CSBAG (2014), inadequate number of staff with the right skills is a leading factor impeding the successful implementation of projects in the government leading to unutilized funds.

When an entity is operating below the approved human resource structures, they are likely to experience challenges when executing their budgets. Lack of adequate staff exacerbates other absorption constraints like inability to meet reporting deadlines, supervise contractors work, and produce effective procurement plan and monitoring frontline public service delivery.

In terms of management, the goals of the organization depend to a large extent on the conduct and assertiveness of its juniors to their responsibilities. Presently, one of the key issues stalling the staffing structure is the lack of inspiration to have an optimistic attitude to solve problems and to provide a quality public service. (Borlovan et al., 2014). Capacity and ability of dominant, provincial and residential governments to prepare appropriate plans, programs and projects in due course, to decide on programs and projects, to coordinate coordination among the main partners, to meet administrative requirements and to present reports and to finance and supervise the implementation in an appropriate manner, avoiding irregularities as much as possible is highly dependent on the human resource capacity of the institution (Marinas & Prioteasa, 2016). To successfully implement budgets, government agencies need to invest in their staff through capacity building programs to develop their skills and abilities to effectively perform their duties. Having the adequate staffing levels in the organization will also go a long way in creating efficiencies in monitoring the implementation of projects in the public sector. Organizations should therefore focus on recruiting qualified and competent staff and motivating them in a manner will drive the organization towards attaining its mandate and enhance absorption of budgeted funds.

Conferring to Gohou and Soumare (2009), for each \$ 1 invested by benefactors in Africa, you get \$ 2 more from benefactors or governments. An obstacle at the start of implementation can have a negative impact on its enactment in a number of ways, including the high closing fiscal costs due to the increase in unit prices of goods, particularly in the infrastructure sector. The IPU loses between 3 and 6 months due to the

communication between the MOF, the sponsoring ministries and the IPU before accessing the funds. This is due to the information concerning the transfer of funds by governments and donors is not communicated to the IPU in time to start the request process and incomplete registrations in supply applications, as indicated by ADB. (2006).

There is no overwhelming abuse of supply systems posing problems of governance and trust, a foundation for benefactors to suppress funds, as discovered by The procurement frameworks within the ventures are frail and lumbering due to bureaucracy and should be simplified to make it clear to all investors. Furthermore, Mwega (2009) notes that both the Korean government and the rules on donor procurement should be consistent to eradicate the scuffles that usually arise during implementation. ADB (1991) reported in his report Performance Evaluation Project Homa Bay – Rongo Strada that during the examination of the results of the prequalification race irregularity variation by UIP and the inclusion of four companies from third countries and the irregular issuance of Orders of variation in famous works. The Korean government was also charged with the bankruptcy that prevented indigenous contractors from receiving payments in foreign currency. This led to the deferral of the disbursement of funds to the project, which compromised the speed of implementation and the project was blocked for 17 months.

2.3.3 Private Sector Capacity

The public sector does not operate in isolation but rather interacts with the private sector while implementing their mandates. The government may not always have all the required resources and capacities to implement its budgets especially development projects (Naomi, 2010). As a result, the public sector agencies look for firms in the private sector to carry out projects on their behalf. The private sector capacity to

implement the given project therefore plays a crucial role in determining the effectiveness of service delivery to the public.

Due to poor domestic capacity in most developing countries, large works are usually outsourced to foreign-owned companies. The private sector contractors like the government also tend to lack qualified engineers which results to delayed implementation of budgeted activities (CSBAG, 2014). In addition to the low capacity of individual contractors, governments may also experience inadequate number of competing firms making it difficult to implement multiple projects at the same time. As a result, some development projects which were budgeted for are not initiated leading to unspent funds.

Cases emerge where an expansive portion of the project's funds are connected to the procurement. Odedukun (2003) contends that, among those who have vested interface in this angle of payment of funds are providers of products or administrations. As a consequence, the greater the percentage of aid linked to purchases, the greater the interest acquired and, therefore, the lower the translation of the supply commitment, i.e. a greater proportion between disbursements and commitments. Robust suppliers from developed countries effect benefactors in paying their shares, resulting in two levels. As a result, a high proportion of aid related to the acquisition involves a larger part of the volume of committed aid provided.

Burnside and Dollar (1997) contend that if aids were only directed into settings that exercise a sound macroeconomic policy, they encourage growth and development. Conversely, there have been many circumstances where the conditionality of the aid has not been met, but the aid has been released. In most cases, donors apply the concept

Carrot and stick in the sense that more aid is provided when the recipient country applies sound macroeconomic policies and the flow of aid to those who do not establish and promote healthy macroeconomic policies in their countries is reduced operations as noted by Kaufmann (2012).

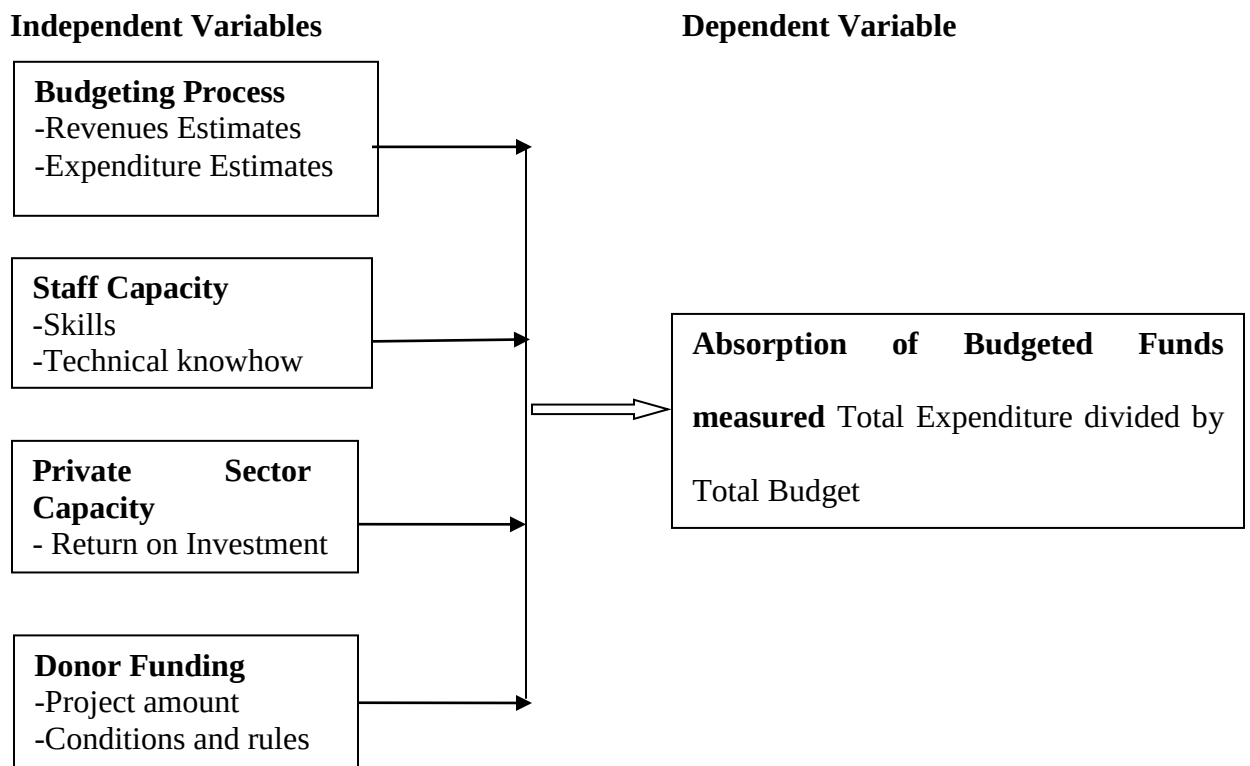
2.3.4 Donor Funding

Donor aid Effectiveness remains top precedent for international advanced public. The development partners are able to provide the funds in the areas of interest and also offer some expertise advice and backing economic growth. According to (McCormick,2017) growth aid is an assorted gift for the nations that get it. It gives much required assets to construct framework, reinforce production, giving therapeutic help and instruction and empowering an entirety extend of monetary, dogmatic and societal forms. Within the best of cases, the associations between benefactors and beneficiaries advance joint learning and are in themselves an advantage. But development aid has the drawback

Sometimes donors are considered to promote their own interests by establishing the conditions for the beneficiary's conditions to be imposed on recipients not available at the period of endorsing the contract, when both revelries recognize that it is only printed conditions whose result is resolute by the fact that both sides must preserve a normal maintain able affiliation and the flow of aid. A case in point is the austerity measures introduced by the World Bank in the early 1990s, such as the structural adjustment programs (PSAs), which have admitted that they have failed and damaged African economies. In the end, aid flows did not help the development of Africa, nor did they contribute to the development of the policies to which they were intended to be conditioned.

Musgrave (1989), in his scoreboard of fund expenditures, and Pradhan (1996), conducting an empirical study of a sample of 27 state-owned enterprises in Singapore, follow the belief that "the conformation of public expenditure must finance the combination of goods and services that capitalize on societal prosperity. However, the authors acknowledge that it is not feasible to fully apply this test of distributive efficacy in practice, and also recognize the importance of established preparations for managing public spending in pecuniary analysis. of public expenditure allocations, in particular the role of official and casual rules Schick (1998) additionally cultivates this association by addressing allocative efficacy in terms of "government capacity to distribute resources based on the effectiveness of public programs to achieve its strategic objectives "in 62 state-owned companies in Morocco, its definition is unswerving with the focus of the World Bank's Public Spending Management Manual (1998) on strategic asset allocation, and Brumby (2007) summarizes it as "interventions consistent with the company's priorities, represented by decision makers". '.

2.4 Conceptual Framework



The study will be steered by a conceptual framework as portrayed in the figure above showing the independent and dependent variables. Budgeting and planning process, staff capacity and private sector being independent variables and lastly absorption of budgeted funds being dependent. However, it often occurs that a set budget is not realized due to poor economic performance. In this case the following factors could give rise to the above variability. First Loan contract protocol which is the main supervisory document postulating the terms and conditions for issuing loan or grant funds. This is an arrangement between the donor and the borrower that specifies the roles and responsibilities of each party in relation to the approved funds. These terms and conditions linger in effect until the loan funds are returned in full. Secondly disbursement

request of funds which is an application by the recipient government entity. The requests are conveyed by a number of backup documents for the activities scheduled to be undertaken. Thirdly Government policies and circulars which are general statements that define the manner in which the expenditure is guided by stringent PFM Act of 2012 and Public Procurement and Disposal Act 2005. This affects public projects such as recruitment, gender promotion and borrowing levels. Government procedures regulate how and who to solicit from in addition to which sectors of the economy to prioritize funding.

2.5 Research Gap

In Kenya, despite the fact that the country has been financing some of its activities through donor funding, much has not been thought of these funds being channeled through state corporations. As such, few studies have been carried out in that area especially in the in relation to state corporations and donor funds. The study used a number of theories: theory of public choice, dependency theory, pecking order theory and agency theory. Theory of public choice looks at taxation and public spending, and posits that government action is necessary in reining in "market failures" such as monopolies. However, voters lack incentives to monitor government effectively leading to government failures. Dependency theory maintains that there are a trivial number of recognized nations that are recurrently fed by developing nations, at the outlay of the developing nations' own health; conveying their affluence to the industrialized nations with trifling reimbursement (Vernengo, 2004). Pecking order theory looks at how business entities go about the process of making financial decisions with regards to prioritization of their financing sources (Myers & Majluf, 1984). Agency theory looks at

the misalignment of the interests of stockholders (public), the board of directors, and/or the management of an organization (state agencies), when these parties are in conflict and how to resolve such conflicts (Eisenhardt, 1989). The research, therefore, seeks to determine what the determinants for the absorption of the budgeted funds in the ministries of Kenya.

Variable	Author & Year	Focus of study	Research Methodology	Key Findings	Gap
Budget Processes	Rotich and Ngahu(2015)	Factors affecting budget utilization in Kericho County	Random or fixed effects model was used.	Observed that the complexity of tax systems in the county affects economic development in the county.	The study only focused on the complexity of tax systems and did not look at the budget process, staff capacity, private sector capacity or donor funding
	Marinas and Prioteasa (2016)	factors influencing the absorption rate of European Union funds in Romania	Desk study methodology Interviews and consultations with key informants.	Supply side factors that relate to administrative capacity have the greatest influence on the nation's absorption rates.	The study did not focus on the effect of budget process, private sector capacity and donor funding on absorption of the budgeted funds
	Curristine, Lonti and Jourmard (2007)	Improving public sector efficiencies by evaluating challenges and opportunities	Census survey was used. This mapped seven infrastructure projects between 2009 and 2014.	The study established that lack of utilizing performance information in the budgeting process misinforms allocation of resources	The study did not include the public sector in Kenya

Staff Capacity	Mwega (2009)	Supply systems in governance and trust	Interviews and consultations with key informants.	The procurement systems in the projects are weak and cumbersome due to bureaucracy and should be simplified to make it clear to all stakeholders	The study did not focus on the effect of budget process or donor funding on absorption of the budgeted funds
	Bhagheri, (2016)	Human resources in the success and Failures of organizations	Random or fixed effects model was used.	The skills, expertise and experience that employees possess are valuable assets for a firm	The study focused on staff capacity but did not look at the influence of donor funding, private sector capacity on absorption of budgeted funds
	Marinas and Prioteasa, (2016)	Influence of Staff Capacity on successful implementation of budget processes	Desk study methodology	Government agencies need to invest in their staff through capacity building programs to develop their skills and abilities to effectively perform their duties.	The study focused on staff capacity but did not look at the influence of donor funding, private sector capacity on absorption of budgeted funds
Private Sector Capacity	Naomi, (2010)	Private sector capacity and budget Absorption in the private sector	Random or fixed effects model was used.	The public sector agencies look for firms in the private sector to carry out projects on their behalf. The private sector capacity	The study did not include the public sector in Kenya

				to implement the given project therefore plays a crucial role in determining the effectiveness of service delivery to the public.	
	Odedukun (2003)	The relationship between projected funds and acquisition of budgeted funds	Random or fixed effects model was used.	The greater the percentage of aid linked to purchases, the greater the interest acquired and, therefore, the lower the translation of the supply commitment.	The study failed to look at other factors that influence absorption of budgeted funds.
Donor Funding	McCormick, (2017)	Donor funding in absorption of budgeted funds in Kenya	Interviews and consultations with key informants	Donor funding gives much needed resources to build infrastructure, strengthen production, providing medical assistance and education and encouraging a whole range of pecuniary, dogmatic and societal processes	The study concentrated on donor funding and failed to look at other factors that may influence budget absorption such as budget processes, staff capacity and private sector capacity

	Musgave (1989)	Empirical analysis of donor funding in state owned enterprises in Singapore	Desk study methodology Interviews and consultations with key informants.	the conformation of public expenditure must finance the combination of goods and services that maximize social welfare	The study focused on donor funding but failed to look at other factor that influence absorption of budgeted funds
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Table 2.1: Operationalization of Variable

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This episode defines how the survey was conducted. It also describes the overall methodology used in the study. It serves as a functional design of the study. Specifying the research design, the target population, the sampling project, the procedures and the data collection tools, data analysis procedure and data presentation techniques that was used in the study.

3.2 Research Design

Churchill and Iacobucci (2009) present a research design as a plan detailing how the researcher collected relevant and valid data. Bryman (2008) argues that a good research design must be in a position to identify the right methodology which the researcher applied to collect valid data. Bryman further adds that there are three major categories of designs from which researchers can choose: case studies, surveys and experiments. Bryman and Bell (2012) further split surveys into longitudinal and cross-sectional surveys. Cross-sectional study design was employed in this study. It was made up of making population's observation or sample's observation at a glance (Babbie, 2012). This type of design was imperative in deciding the highlights of observed occasions additionally in attempting to see at the relationships that existed between two or more occasions (Leedy, 2001). The significance of this type of research design was it leads to in-depth survey reviews, allowed for the integration of writing and also carrying out a pilot study within the data collection process.

3.3 Population of the Study

For the purpose of this study, the target populace were the 20 government services which are financed. According to Ngechu (2004), target populace in measurements is the particular populace from which data is wanted. Mugenda and Mugenda (2003) note that in the event that the target populace is less than 100 units, at that point a census ought to be carried out. In the event that the target populace is greater than 100 units, the test measure of at least 15% of the population is considered representative (Kothari, 2014). A census was thus conducted in this study.

3.4 Data Collection Techniques

Primary data was collected through semi-structured questionnaires. Secondary data was obtained from printed estimates; corporations published statements Treasury and Division of Performance Contracting and the Ministry of Devolution and Planning. Data was collected for the period between the year 2011/12, 2013/14 and 2015/16 for comparative purposes.

The semi-structured questionnaire empowered the analyst to induce point by point data on the subject matter. The questionnaire comprised of both open ended and closed ended questions. This empowered the respondents to reply the questions without challenges. The questionnaire contained explanations guaranteeing the respondents of secrecy and security. It further made clear that the data accumulated was exclusively utilized for examination. In this way, each respondent's reaction was treated in certainty and was not discharged to any other party for whatsoever reason.

3.5 Diagnostic Tests

Diagnostic tests check on multivariate data analysis expectations (Hair et al., 2010). Multivariate procedures are a set of expectations that are based on the theory of statistics. According to Osborne and Waters (2012) it is important to check that the assumptions of multiple linear regression are fulfilled to ensure that the coefficients are unbiased and linear estimators.

3.5.1 Multicollinearity Test

Multicollinearity is a significant issue when a research uses more than one autonomous variable to foretell a predictor variable. The researcher was able to construe regression coefficients as the paraphernalia of the predictor variables on the dependent variables when collinearity is low (Keith, 2016). Multicollinearity test was performed in this study to detect multicollinearity problem on the in the independent variables. If there was strong linear association among predictor variables then multicollinearity problem would there. Variance inflation factors (VIF) was checked to detect multicollinearity problem in the model from the study variables. If value of VIF higher than five and tolerance level is less than 0.2 then it shows that presence of multicollinearity problem which needs to be corrected. In many cases this problem arises as a result of using too many independent variables to measure the same dependent variable. If this problem exists then, it can be corrected by dropping the variable with high VIF in order to convert the other variables from non-significant to significant (William, 2013).

3.5.2 Normality of Residuals Test

Selection for normality is an essential initial step when piloting multiple regression, as residuals are customarily distributed as expected (Stevens, 2009). Non-normal

distributions that are positively or negatively skewed, contain large kurtosis, or have extreme outliers can distort the obtained significance levels of the analysis, resulting in the standard errors becoming biased (Osborne & Waters, 2012). Though multiple regression is commonly considered to be fairly robust to violations of residual normality, a small sample size can increase the seriousness of non-normality of a distribution (Osborne & Waters, 2012). Multiple regression assumes that variables have normal distributions (Darlington, 1968; Osborne & Waters, 2012). It is in this view that the Shapiro Wilk test was used to identify normality of the residuals that exist in the independent variable of the study.

3.5.3 Heteroscedasticity

Heteroscedasticity is a serious issue since it tends to expand the standard mistakes, in this manner expanding the likelihood of committing a sort two mistake in theory testing, i.e. falling flat to dismiss a untrue speculation almost a coefficient. The Breusch-Pagan test will be used to test the data for heteroscedasticity. Heteroscedasticity arises when the variance of the error terms is not constant. It leads to a bias in test results due to distortion of standard errors, thereby increasing the probability of committing hypothesis testing errors. According to Vinod (2013) heteroscedasticity is a condition where the variability of a variable is imbalanced across the array of values of a second variable that predicts it. A state of homoscedasticity is when the p value is higher than 0.05 (Park, 2013). The null hypothesis of the Breusch-Pagan test is that the data is homoscedastic, i.e. the error terms have a constant variance. If the null is rejected, the conclusion is that the data is heteroscedastic, i.e. the variance of error terms is not constant.

3.6 Data Analysis

Quantitative data will be analyzed using the SPSS program. The data collected will be analyzed through different models in order to clearly show the determinants of the absorption of the budgeted funds. The results obtained from this model will be presented in tables, graphs and pie charts to help in the analysis with which the inferential statistics will be extracted. The following simple regression model was used to determine the relationship between the predictor and dependent variables with a significance test of the significance level of 0.05.

3.6.1 Analytical Model

The test was done at 0.5 level of significance. The descriptive statistics was include; mean value, standard deviation, simple percentages and frequency counts while inferential statistics was carried out to establish the linear relationships between the explanatory variables using the correlation matrix and a linear regression. Pearson correlation coefficient was used to test the absorption of Budgeted Funds. These inferential tests were conducted at 95% confidence level. The result obtained were tested for correlation co-efficient the higher the correlation co-efficient the test retest reliable. (Z) Pearson's product moment correlation co-efficient formula was used to test the reliability of the questionnaire.

The study sought to establish the factors influencing absorption of Budgeted Funds where;

The following linear regression model was adopted.

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Y= Percentage Absorption of budgeted funds (Total Income divided by the average absorbed budgeted funds)

α = represent the model Constant (intercept)

$\beta_1 \dots \beta_4$ = regression coefficient which measures unit changes included in Y for each unit change in X variables

X_1 = Budgeting Processes

X_2 = Staff Capacity

X_3 = Private sector Capacity

X_4 = Donor funding

ε = Error term.

3.6.2 Test of Significance

The test of significance for the regression model was determined using ANOVA. The coefficient of determination, (r^2) is the square of the sample correlation coefficient between outcomes and predicted values. As such it explained the extent to which changes in the dependent variable (Percentage Absorption of budgeted funds) were explained by the change in the independent variables (Budget process, Staff Capacity, Private Sector Capacity and Donor Funding) or the percentage of variation in the dependent variable that is explained by all the independent variables.

CHAPTER FOUR

DATA ANALYSIS INTERPRETATIONS AND PRESENTATIONS

4.1 Introduction

This chapter examines the elucidation and introduction of the discoveries gotten from the field. Graphic and inferential insights have been utilized to discuss the discoveries of the study.

4.2 Response Rate

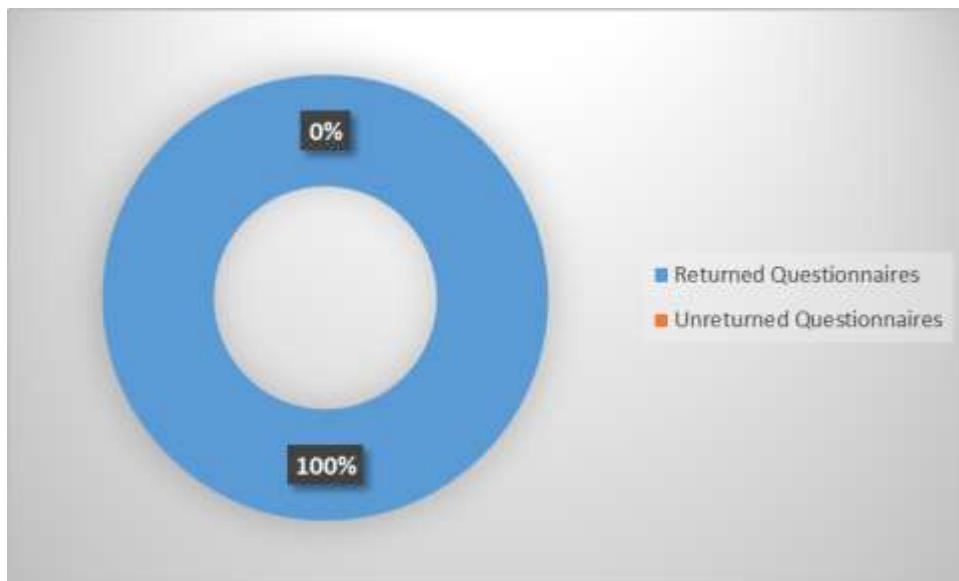


Figure 4.1: Response rate

The research embattled a sample size of 20 top level managers from which all filled in and returned the questionnaires making a reaction rate of 100%. This reaction rate was palatable to form conclusions for study. Concurring to Mugenda & Mugenda (2008), a reaction rate of 50 percent is satisfactory for investigation and announcing; a rate of 60

percent is sweet and a reaction rate of 70 percent and over is great. Based on the declaration, the reaction rate was hence considered to be great.

4.3: Validity and Reliability Analysis

Reliability of the questionnaire was assessed through Cronbach's Alpha which measures the internal consistency. Cronbach's alpha was calculated by application of SPSS adaptation 23 for reliability investigation. The esteem of the alpha coefficient ranges from 0-1 and may be utilized to depict the reliability of components extricated at 0.5 noteworthiness level from dichotomous and or multi-point designed surveys or scales.

Table 4.2 shows that had the highest reliability was staff capacity ($\alpha=0.826$) followed by budget processes ($\alpha=0.819$), Donor Funding ($\alpha=0.763$) and Private sector capacity ($\alpha=0.733$). This illustrates that all the five scales were reliable as their reliability values exceeded the prescribed threshold of 0.7 (Mugenda & Mugenda, 2008).

Table 4.2: Reliability Coefficients

Scale	Cronbach's Alpha	Number of items
Budget processes	0.819	4
Staff Capacity	0.826	4
Private Sector Capacity	0.733	4
Donor Funding	0.763	4

Source: Researcher, (2018)

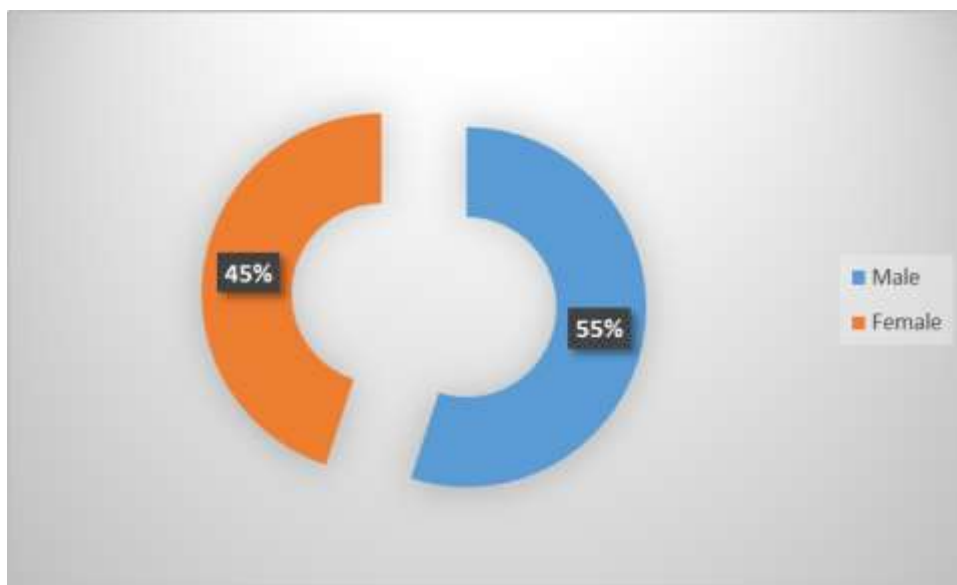
4.4: Demographic information

The study sought to establish the general information of the respondents. This included; gender of the respondents, age of the respondents, number of years worked and their highest level of education. The findings from the analysis are illustrated in the following subsections.

4.4.1: Gender of the respondents

The study sought to determine the gender of the respondents. The results from analysis are illustrated in the figure 4.2 as shown below.

Figure 4.2: Gender of the Respondents



From the analysis of findings, it was established that majority of the respondents (55%) were male respondents while 45% of the respondents were female. It was thus evident that there was disparity between the male and female respondents but the parity was not

sufficient to create any biasness on the study on factors influencing absorption of budgeted funds in the Kenyan public sector.

4.4.2: Age bracket of the respondents

The study sought to establish the age of the respondents. The results from the analysis of findings is illustrated in the figure 4.3 as shown below.

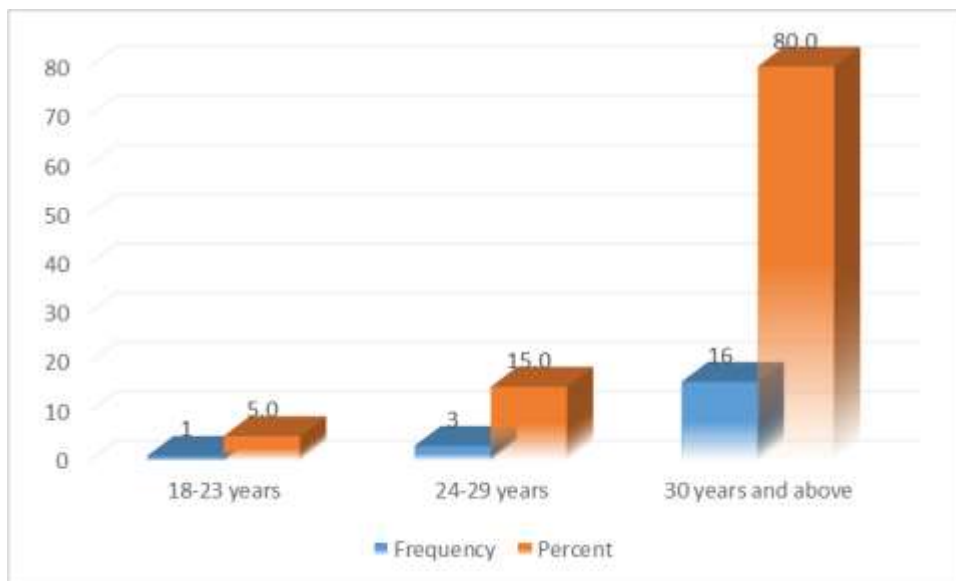


Figure 4.3: Age of the respondents

From the analysis of the findings, majority of the respondents (16, 80.0%) were over 30 years old. Closely after were respondents (3, 15%) who stated that they were aged between 24 years and 29 years. 5% of the respondents were aged between 18 and 23 years old. Majority of the respondents was seen to be more than thirty years and therefore inferred to have the experience to provide relevant information on the factors influencing absorption of budgeted funds in the Kenyan Public sector.

4.4.3: Number of years worked in the public sector

The study sought to establish the number of years the respondents had worked in the public sector. The results from the analysis of findings is illustrated in the figure below as shown.

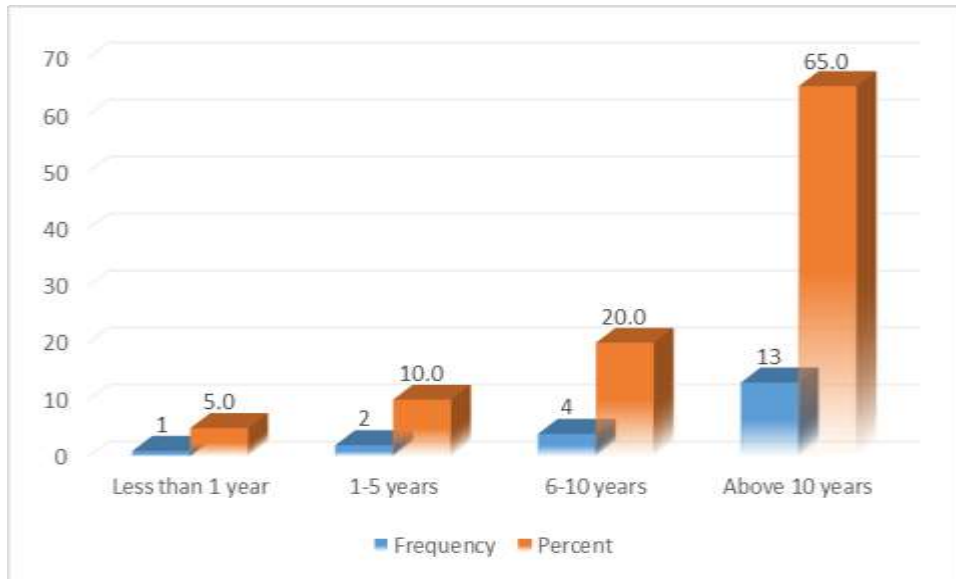


Figure 4.4: Number of years worked in the Organization

From the analysis of findings, majority of the respondents (13, 65.0%) indicated that they had a working experience of over 10 years. Closely after were respondents (4, 20.0%) who indicated that they had a working experience of 6 to 10 years. 10% of the respondents indicated that they had a working experience of 1 to 5 years while only a mere 5% of the total respondents indicated that they had a working experience of less than 1 year. From the findings it was evident that majority of the respondents had sufficient working experience to provide relevant information on the factors influencing absorption of budgeted funds in the Kenyan public sector.

4.4.4: Highest Level of Education

The study also sought to establish the education level of the respondents. The results from the analysis of the findings is illustrated in the in the figure 4.5 below.

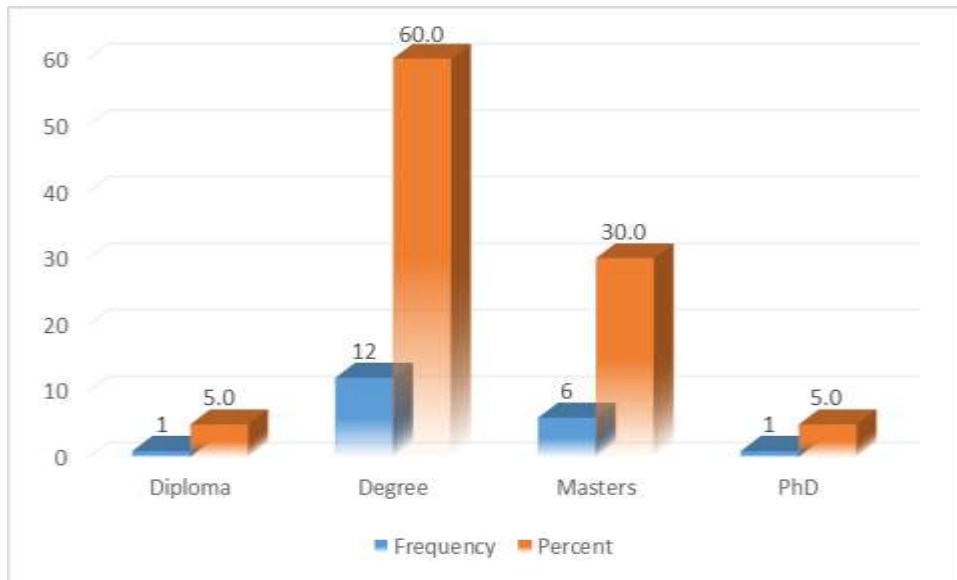


Figure 4.5: Education level of the managers

From the findings it was established that 60% of the respondent indicated their highest level as a university degree, 30% of the respondents indicated their highest education level as a Master's degree while 5% of the respondents indicated that their highest education level was a diploma and another 5% of the respondents indicated that their highest level of education as a PhD. Majority of the respondent were thus seen to have the relevant education to provide information on the factors influencing absorption of budgeted funds in the Kenyan Public Sector.

4.5 Descriptive Statistic

The study sought to establish the factors influencing absorption of budgeted funds in the Kenyan Public Sector. The results from the descriptive statistics are illustrated in the following subsections.

4.5.1: Budget process and absorption of budgeted funds

The study sought to determine whether budget processes has any influence on the absorption of budgeted funds. The table 4.3 below shows the findings of from the respondents.

Table 4.3: Budget Process and Absorption of Budgeted Funds

	N	Mean	Std. Deviation
A budget is an essential tool that guides decision making and coordinates the activities of departments	20	4.253	.63867
The budget therefore becomes an important tool in the organization's resource allocation	20	4.430	.59824
Budgets forms a basis of setting goals	20	4.341	.75394
Some sectors and spending agencies received funds that exceed their absorption capacity	20	4.433	.50262
Delivery of effective public service requires an appropriate mix of inputs	20	4.412	.50262
Budget execution is triggered by the release of funds	20	4.251	.63867
Valid N (listwise)	20		

From the findings in the SPSS analysis it was noted that majority of the respondents conceded that budget processes had a significant influence on absorption of budgeted funds. This was noted by the mean calculated in the analysis of findings. For instance, it was noted that a great number of the respondents agreed that some sectors and spending agencies received funds that exceed their absorption capacity. This was supported by the mean value calculated of 4.433. A significant number of the respondents also agreed to the statement; Delivery of effective public service requires an appropriate mix of inputs, this was inferred from the mean value calculated in the analysis of 4.412. The standard deviation of 0.503 calculated in the SPSS indicated little variation in the responses of the respondents. The study also established that a budget is an essential tool that guides decision making and coordinates the activities of departments. This was noted from the mean calculated of 4.253, which indicated that most respondents agreed to the statement and the standard deviation calculated of less than 1.5 indicates that there was little variance from the mean value. Generally, it was noted that budget processes had a significant influence on the absorption of budgeted funds in the public sector.

4.5.2: Staff Capacity and percentage absorption of budgeted funds

The study sought to establish the relationship between staff capacity and percentage absorption of budgeted funds. The findings are illustrated in the table 4.4

Table 4.4: Staff Capacity and Absorption of Budgeted funds

	N	Mean	Std. Deviation
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Human resources can contribute to the success or failure of an organization.	20	3.984	.74516
Staff capacity with the rights skills to aid in the execution process	20	4.159	.97333
Staff with the right skills are a leading factor impeding the successful implementation of projects	20	4.412	.75394
An entity operating below the approved human resource structures, are likely to experience challenges when executing their budgets.	20	4.344	.80131
Adequate staffing levels in the organization create efficiencies in monitoring the implementation of projects in the public sector	20	4.094	.78640
Donor procurement should be harmonized to eliminate the conflicts	20	4.451	.68633
Valid N (listwise)	20		

Based on the responses from the respondents, it was clear that most respondents saw that staff capacity had a significant influence on absorption of budgeted funds. This inference was realized by responses of statements relating to staff capacity and absorption of budgeted funds. It was established from the analysis that most respondents strongly agreed on the statement; Donor procurement should be harmonized to eliminate the conflicts. This was established by the high mean value calculated of 4.451. The standard deviation calculated of .686 indicates that there was very little fluctuation from the mean mark. It was also established that Staff with the right skills are a leading factor impeding the successful implementation of projects. This was seen true by the high mean value calculated in the SPSS analysis of 4.412. The standard deviation calculated in the analysis of 0.754 indicated little variance from the mean mark in the responses. Also noted from the analysis of the findings was that an entity operating below the approved human resource structures, are likely to experience challenges when executing their

budgets. This was noted true by the mean calculated of 4.344. Its standard deviation indicated that there was little variance for the mean and that most respondents generally strongly agreed with the statement. Also noted from the analysis of findings was that adequate staffing levels in the organization create efficiencies in monitoring the implementation of projects in the public sector. This was noted true by the mean calculated of 4.094. The standard deviation calculated in this case of .786 indicated little deviation from the mean mark. Generally, it was noted that staff capacity played a significant role in absorption of budgeted funds.

4.5.3: Private Sector Capacity and Absorption of budgeted funds

The study sought to establish the influence of private capacity and absorption of budgeted funds. The findings are illustrated in the table 4.5 below.

Table 4.5: Private sector Capacity and absorption of budgeted funds

	N	Mean	Std. Deviation
The public sector interacts with the private sector while implementing their mandates.	20	4.239	.69585
The government may not have the required resources and capacities to implement its budgets	20	4.358	.58714
The government may not have the required resources and capacities to implement its budgets Public sector agencies look for firms in the private sector to carry out projects on their behalf	20	4.401	.75394
Large works are outsourced to foreign-owned companies.	20	4.052	.71635
Valid N (listwise)	20		

From the analysis of the descriptive statistics, it was clear that most respondents conceded that private sector capacity had a significant influence on the absorption of budgeted funds. This was noted from the response from the analysis of findings.

For instance, it was noted that majority of the respondents indicated that the government may not have the required resources and capacities to implement its budgets. Public sector agencies look for firms in the private sector to carry out projects on their behalf. This was noted true by the mean calculated from the findings of 4.401. The standard deviation calculated of 0.753 indicated that majority of the respondents were of a similar opinion. Also noted was that most respondents agreed that the government may not have the required resources and capacities to implement its budgets. This was noted true by the mean calculated on the statement of 4.358. The standard deviation calculated in the study of 0.754 indicated uniformity in the responses from the respondents. Also noted from the analysis was that majority of the respondents conceded that large works are outsourced to foreign-owned companies. This was seen true by the mean calculated of 4.052. The standard deviation calculated of .716 indicated that majority of the respondents were of a similar opinion. It was evident from the findings that private sector capacity had a significant influence on absorption of budgeted funds in the public sector.

4.5.4: Donor funding and Absorption of budgeted funds

The study sought to determine whether donor funding had an influence on absorption of budgeted funds. The table 4.6 below shows the findings of from the respondents.

Table 4.6: Donor funding and absorption of budgeted Funds

	N	Mean	Std. Deviation
Donor Aid Effectiveness remains top precedent for international advanced public	20	4.201	.69585
Development partners are able to provide the funds in the areas of interest	20	4.650	.67082
Donors are considered to promote their own interests by establishing the conditions	20	4.101	.64072
Structural adjustment programs (PSAs) have failed and damaged African economies	20	4.332	.47016
Donor funding does not contribute to the development of the policies to which they were intended to be conditioned.	20	4.522	.61559
The conformation of public expenditure must finance the combination of goods and services that maximize social welfare	20	4.212	.61559
The government should distribute resources based on the effectiveness of public programs to achieve its strategic objectives	20	4.311	.47016
Valid N (listwise)	20		

From the findings in the SPSS analysis it was noted that majority of the respondents conceded that donor funding had a significant influence on absorption of budgeted funds. This was noted by the mean calculated in the analysis of findings. For instance, it was noted that a great number of the respondents agreed that development partners are able to provide the funds in the areas of interest. This was supported by the mean value calculated of 4.650. A significant number of the respondents also agreed to the statement; Donor funding does not contribute to the development of the policies to which they were intended to be conditioned. This was inferred from the mean value calculated in the analysis of 4.522. The standard deviation of 0.615 calculated in the SPSS indicated little variation in the responses of the respondents. The study also established that Structural

adjustment programs (PSAs) have failed and damaged African economies. This was noted from the mean calculated of 4.332, which indicated that most respondents agreed to the statement and the standard deviation calculated of less than 1.5 indicates that there was little variance from the mean value. Generally, it was noted that donor funding had a significant influence on the absorption of budgeted funds in the public sector.

4.6 Correlation Analysis

Table 4.7: Correlation Matrix

		Budget Process	Staff Capacity	Private Sector Capacity	Donor Funding	Absorption of budgeted funds
Budget processes	Pearson Correlation	1				
	Sig. (2-tailed)	.				
Staff Capacity	Pearson Correlation	0.561	1			
	Sig. (2-tailed)	0.002	.			
Private Sector Capacity	Pearson Correlation	0.891	0.358	1		
	Sig. (2-tailed)	0.019	0.032	.		
Donor Funding	Pearson Correlation	0.092	0.673	0.147	1	
	Sig. (2-tailed)	0.862	0.143	0.781	.	
Absorption of Budgeted funds	Pearson Correlation	0.818	0.523	0.672	0.336	1
	Sig. (2-tailed)	0.013	0.001	0.008	0.005	.
	N	20	20	20	20	20

The study used correlation analysis to establish the association between budget processes, staff capacity, private sector capacity, donor funding and absorption of budgeted funds. Two-tailed Pearson correlation (R) was used to establish the same at 95% confidence level. From the results, the R-value between budget processes and absorption of

budgeted funds was 0.818. This signifies strong and positive linear association between budget processes and absorption of budgeted funds. Staff capacity had a correlation value of 0.523 with the absorption of budgeted funds in the public sector. This depicts a moderate and linear relationship between staff capacity and absorption of budgeted funds. Also noted was that private sector capacity had a correlation value of .672 which indicated a significant, positive and linear relationship between private sector capacity and absorption of budgeted funds. The study also noted that donor funding had a correlation value of 0.336 with the absorption of budgeted funds. This depicts a low but positive linear relationship between donor funding and absorption of budgeted funds.

4.7: Multicollinearity

Table 4.8: Collinearity Statistics

	Tolerance	VIF
Budget processes	0.890	1.124
Staff capacity	0.409	2.445
Private sector capacity	0.433	2.309
Donor Funding	0.490	2.041

Multicollinearity test was conducted to establish if the independent variables were correlated. Multicollinearity affect regression model and its lack, thereof, is a key assumption for regression. The study conducted formal detection-tolerance or the variance inflation factor (VIF) for multicollinearity. For tolerance, value less than 0.1

suggest multicollinearity while values of VIF that exceed 10 are often regarded as indicating multicollinearity. The values of tolerance were greater than 0.1 and those of VIF were less than 10. This shows lack of multicollinearity among independent variables.

4.8 Regression Analysis

The study conducted multiple regression analysis of:

$$Y = \beta_0 + \beta_1\chi_1 + \beta_2\chi_2 + \beta_3\chi_3 + \beta_4\chi_4 + \varepsilon$$

β_0 is the regression model constant; $\beta_1 - \beta_4$ are the regression coefficients. Y is the percentage absorption of budgeted funds. χ_1 is the budget processes, χ_2 is staff capacity; χ_3 is private sector capacity; χ_4 is donor funding, and ε is the error term obtained from the F-significance from ANOVA.

Table 4.9: Model Goodness of Fit

R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
0.853	0.727	0.701	0.00455456	1.989

a. Predictors: (Constant), budget process, staff capacity, private sector capacity, donor funding

b. Dependent Variable: Percentage Absorption of budgeted funds

Table 4.9 above presents the regression model goodness of fit to establish if regression analysis is suited for the data. Pearson Correlation value of 0.853 was established depicting that the independent variables (budget process, staff capacity, private sector capacity, donor funding) had a very good linear relationship with the dependent variable (Percentage Absorption of budgeted funds). An R-square value of 0.727 was established depicting that this relationship was very strong and the budget process, staff capacity,

private sector capacity and donor funding account for 72.7 % of the percentage absorption of budgeted funds in the public sector. A Durbin Watson test for autocorrelation value of 1.989 was established depicting no (serial) autocorrelation within the regression model residuals. Thus, the random (non-stationary) data was used in the regression analysis.

Table 4.10: Analysis of Variance (ANOVA)

	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.368	4	0.592	2.385	.000
Residual	0.009	15	0.135		
Total	2.377	19			

ANOVA analysis was conducted to determine the significance of the regression model.

An F-significance value of 0.000 was established depicting that the regression model had very high significance (confidence level) ($p < 0.05$).

Table 4.11: Regression Coefficient

		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
(Constant)		4.946	1.355		1.500	0.574
Budget process		0.456	0.209	1.634	8.901	0.002
Staff Capacity		0.842	0.062	0.927	33.335	0.000
Private Sector Capacity		0.873	0.149	1.388	3.566	0.005

Donor Funding	0.345	0.058	0.992	2.994	0.012
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a. Dependent Variable: Percentage Absorption of budgeted funds

Bring out the significance levels here in your discussions variable by variable (confidence level) ($p < 0.05$) based on output model above...

The study established the following regression model:

Percentage Absorption of budgeted Funds = $2.032 + 0.456 * \text{Budget Process} + 0.146 \text{ Staff Capacity} + 0.374 * \text{Private Sector Capacity} + 0.127 \text{ Donor Funding}$

The study established that when budget process, staff capacity, private sector capacity and donor funding are zero, the percentage absorption of budgeted funds would be 2.032.

The study also established that holding other factors constant, a unit increase in the budget process would lead to a 0.456 unit increase in the absorption of budgeted funds; a unit increase in staff capacity would yield a 0.146 unit increase in the percentage absorption of budgeted funds; a unit increase in the private sector capacity would result in a 0.374 increase in the absorption of budgeted funds while a unit increase in donor funding would yield a 0.127 increase in the percentage absorption of budgeted funds. From the coefficients, it was established that each of the variables; budget process, staff capacity, private sector capacity and donor funding was significant in explaining percentage absorption of budgeted funds in the public sector.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings on an analysis of the factors influencing absorption of budgeted funds in the public sector in Kenya. The chapter also provides conclusions, recommendations and suggestions for further research.

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 independent variables. 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 budgeting processes, staff capacity, private sector capacity, donor funding and absorption of budgeted funds of government ministries in Kenya based on finding from the data collected in the questionnaires

5.2.1 Budget Processes

From the findings in the SPSS analysis, the statement, some sectors and spending agencies received funds that exceed their absorption capacity. The study established that Delivery of effective public service requires an appropriate mix of inputs. This was supported by the mean value. A significant number of the respondents also conceded that staff capacity had a significant influence on absorption of budgeted funds, this was

inferred from the mean value calculated in the analysis. The standard deviation calculated in the SPSS indicated little variation in the responses of the respondents.

From the inferential statistics, a strong positive correlation ($r=.818$) was established between budget processes and the percentage absorption of budgeted funds in the public sector. A unit increase in was seen to have a .062 unit increase in the overall percentage absorption of budgeted funds. Budget processes were thus seen to have a significant influence in the absorption of budgeted funds.

5.2.2: Staff Capacity

Based on the responses from the respondents, it was clear that most respondents saw that staff capacity had a significant influence on absorption of budgeted funds. This inference was realized by responses of statements relating to staff capacity and absorption of budgeted funds. It was established from the analysis that most respondents strongly agreed on the statement; Donor procurement should be harmonized to eliminate the conflicts. It was also established that Staff with the right skills are a leading factor impeding the successful implementation of projects.

From the correlation analysis, a strong positive correlation was established between staff capacity and the percentage absorption of budgeted funds in the public sector. A unit increase in staff capacity was seen to have a .062 unit increase in the overall percentage absorption of budgeted funds. It was conclusive from the findings that staff capacity has a significant and positive effect on the absorption of budgeted funds.

5.2.3 Private Sector Capacity

From the analysis of the descriptive statistics, it was clear that most respondents conceded that the government may not have the required resources and capacities to implement its budgets. Public sector agencies look for firms in the private sector to carry out projects on their behalf. This was noted from the response from the analysis of findings. It was established from the analysis that most respondents strongly agreed on the statement; the government may not have the required resources and capacities to implement its budgets. This was established by the high mean value calculated. It was evident from the findings that private sector capacity had a significant influence on absorption of budgeted funds in the public sector.

From the inferential statistics, a strong positive correlation ($r=.672$) was established between staff capacity and the percentage absorption of budgeted funds in the public sector. A unit increase in staff capacity was seen to have a .062 unit increase in the overall percentage absorption of budgeted funds.

5.2.4: Donor Funding

From the analysis of the descriptive statistics, it was clear that most respondents agreed that donor funding had a significant influence on absorption of budgeted funds. This was noted from the response from the analysis of findings. For instance, it was noted that that development partners are able to provide the funds in the areas of interest. This was noted true by the mean calculated from the findings. . Generally, it was noted that donor funding, budget process, staff capacity and private sector capacity had a significant influence on the absorption of budgeted funds in the public sector.

The study used correlation analysis to establish the association between donor and percentage absorption of budgeted funds. It was established that there was strong positive correlation between donor funding ($r=.336$) and percentage absorption of budgeted funds. The study also showed lack of multicollinearity among independent variables.

From the Model's goodness fit, An R-square value of 0.727 was established depicting that this relationship was very strong and budget process, staff capacity, private sector capacity and donor funding accounted for 72.7% of changes in percentage absorption of budgeted funds. A Durbin Watson test for autocorrelation value of 1.989 was established depicting no (serial) autocorrelation within the regression model residuals. An F-significance value of 0.000 was established depicting that the regression model had high significance. From the regression analysis, each of the predictor variables had a significant influence on the absorption of budgeted funds in the public sector

5.3 Conclusion

The study concluded that Decreases in income per capita also have a negative effect on aid; they estimate that the current financial crises will depress aid budgets by 20 to 30 % over the next decade. They also find evidence that other measures of economic health, including employment, have an effect on aid budgets, but they do not pursue these findings in depth. The study also concludes that that some variant of 'programme-based budgeting' or 'performance budgeting', where budget processes aim to explicitly link budget allocations to outputs and outcomes delivered, offers the best chance for increasing efficiency of allocation. Through such an explicit link, it is easier for budget decision makers to judge relative efficiency of spending (i.e. the relationship between

budgetary inputs and service outputs) both between spending areas and over time in the same area.

The study found that the ability of capacity-constrained governments to manage such complex processes is not clear. In the case studies recently reviewed by the World Bank, it was found that programme-based budgeting, along with other more complex reforms such as medium-term expenditure frameworks (MTEFs), did not achieve great impact (World Bank, 2012). As a result, given the focus of this discussion on capacity-constrained contexts, reforms aimed at delivering sophisticated tools such as programme-based budgeting or its variants do not seem an appropriate ambition.

5.4 Recommendations

The study prescribes that the National Government of Kenya ought to decrease the sum for donor funding each year and result to other forms of subsidies to fund both development and recurrent expenditure. GoK ought to plan compelling arrangements for establishing better source of financing their development and recurrent expenditure. They ought to receive cheaper sources of funds for their financing alternatives as they maintain a strategic distance from overreliance on donor financing.

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.

5.5 Suggestion for Further Research

The study sought to give an analysis of the factors influencing absorption of budgeted funds in the public sector. There is need to a conduct a study on the evaluation of performance evaluation approaches used to establish their effectiveness and efficiency.

The study found that 72.70% variation of performance score was caused by budgeting process, staff capacity, private sector capacity and donor funding which means that there are other factors accounting for the remaining 27.30%. Since the present study did not account for the 27.30%. There is need to carry out a study to establish other factors that would affect the absorption of the budgeting funds. The study also recommends that further studies should be done on the effect of donor funding, performance score and public service delivery.

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APPENDICES

APPENDIX I: QUESTIONNAIRE

SECTION A: General Information

In order to ensure confidentiality do not put down your name on the questionnaire but please answer the questions as honestly and objectively as possible. Tick the following questions where it's appropriate.

1 Gender Male []

Female []

2 Age 18 – 23 []

24 – 29 []

Above 30 []

3 Number of years worked

Less than 1 year []

1–5 years []

6-10 years []

11 and Over []

4. Highest level of Education

Diploma []

Degree []

Masters

[]

PHD

[]

Section B: Budget Processes

Please indicate the extent to which you agree with the following statements on budget processes. The scale below will be applicable:

Key 1= Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

Budget Processes	1	2	3	4	5
A budget is an essential tool that guides decision making and coordinates the activities of departments					
The budget therefore becomes an important tool in the organization's resource allocation					
Budgets forms a basis of setting goals					
Some sectors and spending agencies received funds that exceed their absorption capacity					
Delivery of effective public service requires an appropriate mix of inputs					
Budget execution is triggered by the release of funds					

Section C: Staff Capacity

Please indicate the extent to which you agree or disagree with the following statements on staff capacity. The scale below will be applicable:

Key 1= Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

Staff Capacity	1	2	3	4	5
Human resources can contribute to the success or failure of an organization.					
Staff capacity with the rights skills to aid in the execution process					
Staff with the right skills are a leading factor impeding the successful implementation of projects					
An entity operating below the approved human resource structures, are likely to experience challenges when executing their budgets.					
Adequate staffing levels in the organization create efficiencies in monitoring the implementation of projects in the public sector					
Donor procurement should be harmonized to eliminate the conflicts					

Section D: Private Sector Capacity

Please indicate the extent to which you agree or disagree with the following statements on private sector capacity. The scale below will be applicable

Key 1= Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

Private Sector Capacity	1	2	3	4	5
The public sector interacts with the private sector while implementing their mandates.					
The government may not have the required resources and capacities to implement its budgets					
Public sector agencies look for firms in the private sector to carry out projects on their behalf					
Largeworks are outsourced to foreign-owned companies.					

Section E: Donor Funding

Please indicate the extent to which you agree or disagree with the following statements on donor funding. The scale below will be applicable

Key 1= Strongly Disagree 2 = Disagree 3 = Neutral 4 = Agree 5 = Strongly Agree

Donor Funding	1	2	3	4	5
Donor Aid Effectiveness remains top precedent for international advanced public					
Development partners are able to provide the funds in the areas of interest					
Donors are considered to promote their own interests by					

establishing the conditions					
Structural adjustment programs (PSAs) have failed and damaged African economies					
Donor funding does not contribute to the development of the policies to which they were intended to be conditioned.					
The conformation of public expenditure must finance the combination of goods and services that maximize social welfare					
The government should distribute resources based on the effectiveness of public programs to achieve its strategic objectives					

Thank you for your cooperation!