FACTORS THAT AFFECT BUDGET UTILIZATION BY GOVERNMENT MINISTRIES IN KENYA

CHRISTINE KAJUJU KIRIMI

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION (MBA) TO THE UNIVERSITY OF NAIROBI

OCTOBER, 2012
DECLARATION

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

Signed ........................................
Christine Kajuju Kirimi
D61/63379/2010

Date........8/11/2012........

This research project has been submitted for examination with my approval as the University Supervisor.

Signed ........................................
Martin Odipo
Lecturer Department of Finance
University of Nairobi

Date........8/11/2012........
DEDICATION

This research paper is dedicated to my family for their inspiration, encouragement, understanding and prayers towards the successful completion of this course. I pay glowing tribute and gratitude to the Almighty God who has given me the wisdom to undertake this course.
ACKNOWLEDGEMENT

I would like to take this opportunity to acknowledge the support and contribution I got from various sources while working on this assignment. First and foremost I take this opportunity to thank God almighty for caring and protecting me throughout my course. I acknowledge with gratitude the assistance, guidance and advice from my supervisor Mr. Martin Odipo for his timely and invaluable guidance throughout this research project.

Secondly, I wish to express my sincere and special appreciation to my research assistants who helped me in typing and data collection. Most sincerely, I would like to thank my husband Mr. Kirimi, my sons Mwiti and Mwaki and daughter Kanana for their support, encouragement, prayers and assistance during my study. I also not forget to acknowledge my sponsor who has financed my course.

Finally I would like to sincerely thank Nairobi University for making my dream come true by equipping me with all the required materials and dedicated lectures.
ABSTRACT

The annual amount of funds not utilized by Kenyan government ministries and returned to treasury has been a cause of concern to all stakeholders in the public management field. With the return of such funds, project implementation will be affected and government policies affected as well which will impact in the development in various sectors in the country. It is on the basis of this that the study sought to investigate factors that affect budget utilization government ministries in Kenya.

The study adopted a cross sectional research design in which questioners were issued to finance officers in various ministries and their data analyzed using descriptive statistics and factor analysis. The results were analyzed using tables and factor index matrix. The findings of the study were that the ministries had documented budget and budgeting process that acts as a reference material on how the funds will be utilized and budgeting control procedures be maintained. The most focal factor that affects budget utilization are structural and cultural factors that exist in the ministry with the training and educational programmes coming out as the least factor that affect the utilization of budget funds in the ministries. Within the ministry, a lack of alignment between the organizational structure and structure of performance reporting requirements, value and usefulness of performance information were found to undermine the budget utilization.

The recommendation from the study was that fixed number of ministries should be maintained throughout the financial year and better still if the constitution stipulates a fixed number of ministries which is the case in the new constitution. Another point that needs to be looked at is the need to reduce the level of bureaucracy present in approvals sought in government offices.
before the funds can be accessed from the treasury. The study also recommends that similar study be undertaken on an organization that is profit oriented and a comparison made with the present study.
<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BPR</td>
<td>Business Process Re-Engineering</td>
</tr>
<tr>
<td>BSC</td>
<td>Balanced Scorecard</td>
</tr>
<tr>
<td>CABRI</td>
<td>Collaborative Africa Budget Reform Initiative</td>
</tr>
<tr>
<td>CPPMU</td>
<td>Central Project Planning &amp; Monitoring Unit</td>
</tr>
<tr>
<td>ERS</td>
<td>Economic Recovery Strategy</td>
</tr>
<tr>
<td>GOK</td>
<td>Government of Kenya</td>
</tr>
<tr>
<td>ICT</td>
<td>Information Computer Technology</td>
</tr>
<tr>
<td>MOF</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>MTEF</td>
<td>Medium Term Expenditure Framework</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization of Economic Commission Development</td>
</tr>
<tr>
<td>PBSC</td>
<td>Planning, Programming, Budgeting Systems</td>
</tr>
<tr>
<td>PEM</td>
<td>Public Expenditure Management</td>
</tr>
<tr>
<td>PR&amp;FB</td>
<td>Program Review and the Forward Budget</td>
</tr>
<tr>
<td>USA</td>
<td>United State of America</td>
</tr>
</tbody>
</table>
# TABLE OF CONTENTS

DECLARATION .............................................................................................................................. ii  
DEDICATION ................................................................................................................................ iii  
ACKNOWLEDGEMENT ........................................................................................................ iv  
ABSTRACT ................................................................................................................................... v  
LIST OF ACRONYMS ............................................................................................................... vii  
TABLE OF CONTENTS ........................................................................................................ viii  

CHAPTER ONE: INTRODUCTION ............................................................................................... 1  
1.1 Background .......................................................................................................................... 1  
1.1.1 Budgeting Process in Kenyan Government Ministries ................................................ 2  
1.2 Problem Statement ............................................................................................................. 4  
1.3 Research Objective ........................................................................................................... 5  
1.3.1 Specific Objectives ....................................................................................................... 5  
1.4 Significance of the Study .................................................................................................. 6  

CHAPTER TWO: LITERATURE REVIEW .................................................................................. 7  
2.1 Introduction ......................................................................................................................... 7  
2.2 Theoretical Review ............................................................................................................. 7  
2.2.1 Institutional theory ....................................................................................................... 7  
2.2.2 Agency theory ............................................................................................................. 8  
2.2.3 Stewardship theory .................................................................................................... 9  
2.2.4 Balanced score card .................................................................................................. 10  
2.2.5 Business Process Re-Engineering (BPR) ................................................................ 11  
2.3 Origin and Knowledge Development ............................................................................. 12  
2.3.1 Budgets ..................................................................................................................... 12  
2.3.2 Program Based Budgets ............................................................................................ 13  
2.3.3 Current Literature on Program Budgeting ............................................................... 13  
2.3.4 The Kenyan perspective ............................................................................................ 15  
2.4 Empirical Review .............................................................................................................. 18  
2.5 Research Gaps .................................................................................................................... 24  

CHAPTER THREE: RESEARCH METHODOLOGY ................................................................ 25  
3.1 Introduction ........................................................................................................................ 25
CHAPTER ONE

INTRODUCTION

1.1 Background

A budget is defined as an itemized summary of estimated expenditures for a given period along with proposals for financing them (Mitchell, 2005). In the public service in Kenya, the main sources of finances include taxes levied directly or indirectly, fines and penalties, revenues from profit making state corporations, charges and fees on services rendered, foreign aid and donations from development partners and internal and external borrowing. The monies raised are then applied in main government expenditure sectors such as: agriculture and rural development, trade, tourism and industry, physical infrastructure, environment, water and sanitation, human resources development, research, innovation and technology, governance, justice, law and order, public administration and special programmes.

The main expenditure areas mentioned arise from the general classifications of expenditure areas in the Medium Term Expenditure Framework (MTEF) according to what the ministries do. MTEFs are tools for translating policies and plans into public expenditure programs within a coherent medium term macroeconomic and fiscal framework. A credible budget system requires an effective mechanism to decide on and fund priorities. i.e. having to use the budget as a tool to deliver the national agenda. This is what MTEF budgeting seeks to address and is mainly achieved through a consultative process that involves all stakeholders in decision making at all stages of budgeting. This ensures that there is ownership of the proposed funds utilization and greater participation by the sector players in the budget implementation. Stakeholder consultation further involves putting in place a clear mechanism for political engagement in the budget
process especially parliament (World Bank Report, 2008). MTEF budgeting is based on expenditure estimates over three consecutive years which ensures that there is predictable and consistent national policy and budget framework, within which line ministries are assured of the budgetary resources which will be made available to them over a three-year period and fully informed of the policy goals to be achieved with those resources. This in turn informs the planning process of the line ministries, departments and agencies that strengthens continuity between overlapping years (the budget year and the two forward years) by ensuring that ongoing projects/activities are considered while projecting expenditures for the overlapping years (Sach, 2008). The sectoral approach to budgeting ensures that focus shifts from line item or a single ministry level to comprehensive analysis of policy priorities. This helps in effectively prioritizing expenditure on the basis of the government’s socio-economic program by enhancing inter- and intra-sectoral allocation of resources. MTEF budgeting therefore seeks to strengthen the link between Governments policy priorities and public expenditure resulting in efficient use of public funds and accountability.

1.1.1 Budgeting Process in Kenyan Government Ministries

In the Kenyan public sector, the budget implementation period or the financial years run from 1st July to 31st June. During this period, a laid down medium term expenditure framework budget cycle is followed in the preparation and implementation of national budget. The ministries undertake the Ministerial Expenditure Review to analyze the ministerial past expenditure against the ministry’s priorities as outlined in the Kenya’s Vision 2030 or the corresponding Medium Term Plan. The analysis of the review sets the benchmarks for the subsequent budget year and the other two forward years’ activities and the resources required to successfully undertaking the planned activities. The end result of this process highlights the lessons learnt, good practice,
challenges and how to mitigate them in the implementation of the annual budget. The review keeps all the line ministries expenditures and activities in check as they must be aligned to a guiding policy document and the budget thereby ascertaining the integrity of performance. The Sector Working Groups prepare and submit initial sector reports to the treasury for consideration. These sector reports are prepared from inputs that arise from line ministries MPERs and input submissions from districts to the relevant ministry headquarters. Treasury then convenes sector hearings for the harmonization of sector expenditure projections and advice on the way forward for the preparation of final reports on the MTEF estimates. The line ministries then finalize on the ministerial itemized and program based budgets in line with the guidelines arising from the Sector Working Groups and directives of the macro working group. This programme based budget is prepared based on the guidelines as set by the respective circular form the treasury and other guiding policy documents i.e. the Kenya Vision 2030 or the medium term plan. Programmes highlighted in these documents are prioritized in the funding and clear timelines given to accomplish the programmes. The budget is then reviewed by the treasury and the respective line ministry. The treasury then submits the estimates to the cabinet for approval publish the approved estimates and submit the budget to the parliament for presentation. Upon presentation, the line ministries can then start appropriating the funds as per the budget. Budget implementation is the actual execution of the budget and application of funds to the planned activities. During the financial year, however, not all funds are expended as per the proposed plan. There could be cases where the approved funds might not be enough to fully accomplish the intended goal. In other instances, the amount allocated to a project may be more than what the project can consume. The disparities between the budgeted funds and actual expenditure arise
due to a multiplicity of factors. The budget cycle above shall be tracked and at every stage the factors that could be affecting the utilization of the budget analyzed.

1.2 Problem Statement

The budgetary process in Kenya has evolved over the last 45 years on an incremental basis with no radical transformations. However, the country has consistently attempted to reform its systems in line with changes and requirements for good public finance management. All the previous budget reforms maintained the line item format and the link between the budgets, policy priorities and planning continued to be weak and largely incremental and in the process leading to adoption of MTEF budgeting. The Kenyan government has also been facing the challenges of providing increased services to the citizens while embracing stakeholder participation, organizational accountability and effectiveness. Budgeting has succeeded in many countries including New Zealand, Australia, Singapore, Netherlands, Norway, Sweden, USA, Canada, Mauritius, Rwanda and South Africa but also failed in others like Sri Lanka and Thailand (Sach, 2008). In Canada for example, even where there is strong leadership and clear accountability, full implementation resulting in a real change in management culture requires seven to ten years (GOK, 2006). Kenya’s budgeting was first introduced in 2006 with the first indicative budgeting being published in December 2008 for the 2008/2009 budget. The 2009/10 budget was presented in line item as is tradition and to date no budgeting has been published. However, the budgeting process in the government ministries has not been without challenges. In the year 2010/2011 budget, over Kshs.100 Billion was returned back to the Treasury having not been utilized. Such amount of funds returned affects project implementation process as well as realization of goals. Further, the government has the intention of implementing budgeting fully in the 2010/2011 budget, (GOK, 2010). It is with this in mind that the researcher seeks to analyze
the factors that are likely to affect the utilization of budgeting in Kenya due to the fact that the budgeting is still at its infancy stage.

1.3 Research Objective

The main purpose of this research was to study the factors affecting the utilization of budgeting in the public sector in Kenya.

1.3.1 Specific Objectives

1. Whether External factors such as Government interferences, stringent transparency and accountability, alternative policies and budget cuts and Government response to international pressure affects budgets utilization in ministries

2. If organizational structure such as annual plans, degree of devolved authority and accountability to senior managers, lack of clear hierarchy in administration of budgets, needs to involve auditor general office in major projects, lack of top management support, and lack of effective communication to all staff affects budgets utilization in the Government ministries.

3. If cultural factor such as employees being accountable for action, responsiveness to government directive, delivery of services fairly and impartially and lack of focus on achieving results and managing performance affects budgets utilization in government ministries

4. Whether employees behavioral factors such as lack of accountability, lack of clear performance indicators to base the actual results affects budgets implementation in government ministries.
5. If training and education such as lack of proper training, lack of staff adjustment to change resulting from the budget implementation affects the success of utilization of the same in government ministries.

1.4 Significance of the Study

This study will inform those charged with budgeting in the government Ministry of finance and the line ministries on the factors that are affecting the utilization of budgeting so as to indicate the bottlenecks as well as the enabling factors for its successful utilization in the country.

The study will serve as motivation to those who utilizes the budget to continue pressing on for full utilization due to aforementioned possible gains. The government Ministries and private sector may adopt some of the recommendations put forward in this study in their budgeting and project prioritization goals. This study will also be used by scholars and researchers as reference material.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter the concept of budgets and the Program Based Budgeting are discussed. This is achieved by gathering the available literature by scholars and academicians on the subject. This research takes budgeting to be similar to Performance budgets because there is no single method of drawing program budgets.

2.2 Theoretical Review

The Theoretical review seeks to establish some of the contributions that are attributed to other researchers, authors and scholars and are relevant to budgeting.

2.2.1 Institutional theory

Institutional theory has its origin from the work of theorists thousands of years ago. Economist and Social theorist Max Weber focused on the ways bureaucracy and institutions were coming to dominate our society with his notion of the iron cage that rampant institutionalization created. However, the integrated perspective came from the work of Scott (1995), where he stated that “the institution provides stability and meaning to a firm’s social behavior.”

Institutional theory focuses on the deeper and more resilient determinants of economic actors' behavior. It considers the processes by which structures, including schemes; rules, norms, and routines, become established as authoritative guidelines for social behavior and extends to explain economic interactions between several economic units of analysis. Different components of institutional theory explain how these elements are created, diffused, adopted, and adapted
over space and time; and how they fall into decline and disuse. (http://en.wikipedia.org, 2010). In budgeting it provides a symbolic value of accounting, resource negotiating and bargaining, concealing and mobilizing power, environmental change, organizational change. (Covaleski et al, 2003).

2.2.2 Agency theory

The Principal-Agent (Agency) theory also supports development of budgeting. The classic agency theory concept was developed by Berle and Means in 1932. The theory explains why conflicts exist between principals (shareholders/owners) and their agents (managers) leading to agency costs. It aims at reducing information asymmetry so that both the principal and the agent read from the same script through the threat of sanctions and the possibility of incentives.

Agency theory is developed around the concept of contractual relationships between two groups with conflicting objectives, i.e., principles and agents. The objective in agency theory is to structure the contractual relationship between these groups so that agents take actions to maximize the welfare of principals.

This is based on standard principal-agent models involving supervision (Kofman and Lawarrée, 1993 and 1996; Khalil and Lawarrée, 2006). The ministry of finance (MOF) has control of line ministries and is supposed to represent the public interest. Line ministries can be seen as agents of the MOF (the principal) because they are required to produce a certain level of public output - including the quality of this output - in exchange for their budget appropriation. An emerging (the past 3-5 years) representative of the public interests in the budget making process has been embodied through civic groups’ and the legislature’s involvement in the budget making process in most developing countries (Krafchik, 2003). This trend has been associated with three
important international developments, i.e. democratization, decentralization and public expenditure management reforms. The pair "expenditure program – budget appropriation" can be interpreted as the two components of the contract between the MOF and the line ministries. The objective of the MOF is to induce the line ministries into implementing their expenditure programs, while the line ministries pursue their own objectives.

That relationship entails both hidden actions (e.g. the productive "effort" of the civil servants, possible perquisite consumption, or corruption) and hidden information (e.g. the exogenous productivity of that particular sector of the economy), with the agents having the informational advantage over the principal. It is important at this point to point out that currently, the information asymmetry between the principals and agents in Kenya are being addressed by increased recognition of the role of the legislature and civic budget groups in the budget formulation process e.g. the formally recognized annual civic society meeting convened by the Institute for Economic Affairs to influence the set of the underlying budget policy choices-and thus priority programs, (Krafchik, 2003). An important element of any principal-agent model is to specify an observable that will be the main element of the contract (Dirk-Jan Kraan, 2007).

### 2.2.3 Stewardship theory

Stewardship theory has its roots in psychology and sociology and was designed for researchers to examine situations in which executives as stewards are motivated to act in the best interests of their principals (Donaldson & Davis, 1989 and 1991). It is a very new concept that only dates from the late 80s. Stewardship and public service begins with a critique of market based reforms that have profoundly reshaped the public service world-wide during the past two decades. While it is maintained that these reforms were necessary and have resulted in many positive outcomes,
the central argument is that the market theory upon which they are built is not robust enough to embrace the full range of public sector activities such as governance and guarding public interest. Stewardship is presented as an alternative model that bridges market approaches, primarily applicable to transactional services, and broader public sector responsibilities. Stewardship is a very old idea that is being rediscovered in many quarters. Stewardship is not a technique or strategy that can be immediately applied, nor is it suggested that it is a remedy for all ailments. Rather, it is a way of doing things that provides a compass rather than prescribes a route.

Like the market approach, stewardship can address efficiency issues. However, it goes beyond self-interest, and more importantly, provides the conditions for governance stability over a long period, something that the market model does not do. In other words, stewardship provides a synthesis for the conflict between market efficiency and the cumbersome and costly task of maintaining the stability essential to public interest systems of governance (Armstrong & Associates (1997).

2.2.4 Balanced score card

The Balanced Scorecard (BSC) is a performance management tool for measuring whether the smaller-scale operational activities of an organization are aligned with its larger-scale objectives in terms of vision and strategy. It was publicized by Robert S. Kaplan and David P. Norton in 1992 through a series of journal articles and finally published in a book in 1996. It integrates financial and non-financial measures of performance and identifies key performance measures that link measurement to strategy, (Drury, 2008). It is a recent contribution to strategic management that seeks to encourage behavior that is consistent with the organizations strategy. It
comprises of an integrated framework of performance measurements that aim to clarify, communicate and manage strategy implementation.

By focusing not only on financial outcomes but also on the operational, marketing and developmental inputs to these, the Balanced Scorecard helps provide a more comprehensive view of a business, which in turn helps organizations act in their best long-term interests. This tool is also being used to address business response to climate change and greenhouse gas emissions. The underlying rationale is that organizations cannot directly influence financial outcomes, as these are "lag" measures, and that the use of financial measures alone to inform the strategic control of the firm is unwise. Organizations should instead also measure those areas where direct management intervention is possible.

2.2.5 Business Process Re-Engineering (BPR)

The pioneer for BPR, as it is commonly known, Michael Hammer (1990), defined it as the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performance, such as cost, quality service and speed." Business Process Re-engineering (BPR) is a budgeting approach aiming at improvements by means of elevating efficiency and effectiveness of the processes that exist within and across the organization. The key to BPR is for organization to look at their business processes perspective and determine how they can be constructing these processes to improve how they conduct business. Business Process Re-engineering is a model focused more on outcomes and the work process than on employee specific issues. Seven principles are used to streamline processes and improve time management, costs and quality. For organizations
operating under bloated parameters, BPR is the efficient, if not exactly friendly, solution to
downsize costs.

2.3 Origin and Knowledge Development

This section looks at the origin of budgets, program based budgets and its adoption across the
world.

2.3.1 Budgets

The origin of the word budget is the Latin bulga, a little pouch or knapsack, which may have
come from a Gaulish source that’s related to the Irish bolg, “bag”. The word turned up in English
in the fifteenth century, having travelled via the French bougette, a diminutive form of bouge,
“leather bag”. Its first meaning in English indeed was “pouch, wallet, bag”, and followed its
French original in usually implying something made of leather. By the end of the sixteenth
century, the word could refer to the contents of one’s budget as well as to the container itself.

The Budget Opened, an attack directed at Sir Robert Walpole: The allusion was that the
government minister responsible for financial affairs opened his budget, or wallet, to reveal his
proposals. It probably also echoed the idiom to open one’s budget, “to speak one’s mind”, which
was current then and continued to be so down into Victorian times. By the 1760s, it was clearly
well established, and has been the standard term ever since. But it was only in the 1880s that it
began to be used as a verb in the sense of planning one’s expenditure, and the attributive
meaning of “inexpensive; suitable for someone of limited means” is first recorded only in 1958,
(Quinion, 1998).
2.3.2 Program Based Budgets

In a sense, certain elements of program based budgeting are as old as civilization. To a greater or lesser degree, every rational person makes plans for allocation of his limited resources, has certain goals or objectives, and considers alternative means of achieving these. The concepts and methods of program based budgeting as is currently understood and practiced today are, however, of relatively recent origin (Novick, 1968).

There are two roots of these concepts and methods: the first in the federal government where program budgeting was introduced as part of the wartime control system by the War Production Board in 1942. They used program budgeting to assist "allies-to-be" in their war efforts. To do this, a variety of new or expanded production efforts and a number of new construction projects were undertaken. The second root, a longer and older one, is in industry where it was believed that the private sector industries had budgeting in place way before the government (Novick, 1968.)

2.3.3 Current Literature on Program Budgeting

Modern program budgeting has its origins in the 1960s with Planning, Programming, Budgeting Systems (PPBS). This form of budgeting was intended to re-orient decision making toward a planning focus, allowing top managers to evaluate the efficiency of existing strategies in achieving broad-based objectives and to assess public expenditures across previous budgetary and organizational silos. This reform faltered in part from the magnitude of its ambition. It required complex analysis and vast amounts of data to support it, significant staff retraining, and structural changes both internal to the bureaucracy and in the executive and legislative institutional apparatus. Not only did the agencies have to generate and analyze significant
amounts of information, but the executive and legislative branches had to have the capacity to use the information generated.

Besides all the good that can be said of budgeting in theory, other countries’ experiences tend to show that it has not been fully successful in either developed or developing countries. Failures have been attributed to: lack of trained personnel needed to carry out the requisite analysis; lack of stability necessary to enable longer term budgetary planning; lack of consistent political commitment necessary to allow the reform to be fully implemented and; lack of adequate information due to the accounting information not being well integrated with planning, budgeting, cash and debt management.

Budgeting failed in Sri-Lanka despite the fact that the budget reform, which started in 1969, seemed by the mid 1970s to succeed. Singapore is an example of gradual move from line budgeting prior to 1978, through Program budgeting in 1978-1989, Block-vote budgeting between 1989-1996 and finally to budgeting for results 1996 onwards. Its success is due to its more gradual reform process. Results-based management including budgeting in Canada followed an incremental approach. It was only after the pilot phase proved to be successful that the government-wide implementation was approved (GOK, 2006).

In Mauritius, the budgeting was introduced in 2007-08 as an indicative budget where it was submitted together with the line item budget as a starting point to give an opportunity to the Ministry of finance to update the systems required for full implementation. Subsequently, a fully fledged budgeting was embedded in a three year MTEF (2008-09 to 2010-11) and was implemented in the financial year 2008-09. Collaborative Africa Budget Reform Initiative (CABRI) experts in a meeting held in February 2010 concluded that Mauritius had accomplished
a significant array of reforms and has achieved a lot on budgeting in three years but warned that it should not overstretch itself (CABRI, 2010).

2.3.4 The Kenyan perspective

The budgetary process in Kenya has evolved over the past 45 years on an incremental basis with no radical transformations. However, the country has consistently attempted to reform its systems in line with changes and requirements for good public finance management. The legislation guiding public finance management is therefore a legacy of the independence constitution (Khasiani, 2006).

The Constitution and other Acts of Parliament govern Public finance management. The constitutional provisions are found in Article 48 and Chapter 7 of the Constitution. This divides responsibilities for finance between the Legislative and Executive branches of government. The Executive should seek the prior permission of the Legislature to both raise and spend money (PFM website, 2010). The budget systems adopted at independence were such that the Government prepared two budget estimates, one for recurrent operations and a capital budget or what is popularly known as the Development budget. The annual process of coming up with these estimates is coordinated by the Ministry of Finance, which issues budget ceilings for the recurrent and development budget every year. Each ministry would prepare its itemized budget and submit it to the treasury for review and approval. Once the budget was approved by Parliament, the Ministry of Finance would then issue resources to Ministries depending on exchequer availability. The budget framework was structured to deliver an itemized annual budget. Appropriation was also limited to an annual exercise and usually lapsed (and still does)
at the end of the financial year. Budget included only the central government expenditures and was input based with no requirement/considerations for outputs.

Financial management in Kenya's public sector has undergone through many reforms since 1970s with the aim of ensuring allocation of resources is linked to achievement of its national development agenda more effectively and efficiently (Mugenya, 2009). To improve the budgeting process, the budgeting system in Kenya has undergone a number of reforms. These include: the Program Review and the Forward Budget (PR&FB) in 1970s, Budget Rationalization Programme (BRP) in 1980s, Public Investment Program (PIP) in the 1990s and the Medium Term Expenditure Framework (MTEF) since 1999/2000. The MTEF, which is still currently in use, was introduced to strengthen the linkage between planning and budgeting and also to facilitate efficient and effective utilization of public resources. While the objective of having a multi-year rolling budget framework has to a large extent been achieved, the link between budget, policy priorities and planning has continued to be weak and largely incremental. Further, the budget presented to Parliament for approval has remained at line item level, which emphasizes inputs as opposed to the tangible results that the budget is expected to achieve. This has the tendency of constraining informed decision-making regarding the effectiveness of the programs implemented by the Government (Khasiani, 2006).

The need for reforms of the public finance system was emphasized in the Economic Recovery Strategy for Wealth and Employment Creation, (the ERS for 2003-2007), as a key element to achieve; Fiscal sustainability and balance in the public economy, restructuring and reallocations for growth and poverty alleviation, and improved performance, efficiency and effectiveness in the public sector, leading to improved service delivery and results for Kenyans. A number of relevant and important reforms have since been initiated, e.g. those related to improving the
budget process and documents, automation of payroll and financial management systems, legal reforms of financial management, ethics and procurement, introduction of improved audit techniques and the clearing of audit backlogs (GOK, 2007).

The budgeting in Kenya is embedded in the 3-year Medium Term Expenditure Framework and seeks to re-orient the focus of the budget from an input-based financial programming to a results based budget in cognizance of the priorities articulated by the Government and the People of Kenya in the various development goals and objectives, (GOK, 2008). This approach provides a platform for transparency in the prioritization and optimization of expenditure by enabling trade-offs between and across programs based on a country's development priorities. Budgeting also offers a platform for instituting a performance measurement framework by enabling the setting of qualitative and quantitative indicators. Its presentation demonstrates the direct relationship between agency budget, programs and activities, and the goods and services that the agency is mandated to deliver to achieve organizational targets as well as sectoral and national goals (GOK, 2008). Budgeting therefore links resource allocation to the expected results and outcomes. Ultimately, the focus of the budget shifts from inputs to outputs and outcomes, thus enhancing transparency, accountability and objectivity in resource utilization. Kenya’s budgeting was first introduced in 2006 but was only operationalized in the 2008/2009 budget and is presented as one budget, with no distinction between the Recurrent and development budget. 2009/2010 will be the second year that the government will give an indicative budgeting with the intention of implementing it fully in the 2010/2011 budget (GOK, 2010).
2.3.5 Implementation of Program Based Budgets

Budgeting can be implemented in a phased form or in a big bang. Gary VanLandingham G et al (2005), while studying implementation of budgeting in Florida indicated that though it has not proved a panacea for all the budgeting woes governments like Florida’s may face it has been useful and the story of its implementation should be of interest. The reform was phased over a seven years beginning in fiscal year 1995/96. According to a Canadian case study, even where there is strong leadership and clear accountability, full implementation resulting in a real change in management culture requires seven to ten years (GOK, 2006).

2.4 Empirical Review

Kraan (2007), in his article; Program Budgeting in OECD countries, sought to explore ways in which countries can reform their budget classification to focus more on results. He observed that in the last two decades, a number of OECD countries have reclassified their central government budget for the purpose of authorization. These exercises were generally inspired by the desire to move toward a more results-oriented decision-making process. Trade-offs between government activities can be better assessed and the budget can be better steered towards political objectives if the line-item classification is based on outputs: services produced, cash transfers delivered and regulations executed. This implies that the budget has to be classified according to output areas or programs. He concluded that programmatic line items are characterized by related objectives ("outcome" targets) or even a single ultimate objective of all outputs financed by the line item. A programmatic classification is considered to be more supportive of the allocative (priority-setting) function of the budget than a classification which is largely based on inputs. Australia, France, the Netherlands, Sweden and the United Kingdom offer good examples of re-classified budgets based on mainly programmatic criteria.
Bourdeaux (2008), in her paper, *The Problem with Programs: Multiple Perspectives on Program Structures in Program-Based Performance-Oriented Budgets* observed that currently, budgeting is being influenced by ideas surrounding performance-based budgeting, a reform that focuses both on performance measures or outcomes and on managerial entrepreneurialism. She concluded that the theory behind performance-based budgeting is that managers should be held accountable for results, but should also be allowed to shift inputs as needed in order to achieve these results. Performance-based budgeting has become interlinked with program budgeting because of the intuitive idea that programs are the level at which managers should be given flexibility to achieve results. Florida actually refers to its reform as “Performance-Based Program Budgeting.”

According to Blöndal and Kim (2006), trade-offs between government activities can be better assessed and the budget can be better steered towards political objectives if the line-item classification is based on outputs; services produced, cash transfers delivered and regulations executed. This implies that the budget has to be classified according to output areas or programs. They conclude that a program based classification will improve the macroeconomic function of the budget, in particular the steering of total expenditures and the maintenance of budget discipline. Macro-budgetary steering requires that future problems are diagnosed and addressed in a timely manner. Bellamy s. and Kluvers R. (1995), in their study on Australian local government stated that many governments are still experimenting on Programme budgets. Their findings indicated that 84.4% of the councils used either the traditional form only or a combination of the traditional and the budgeting methods.

In Africa, most countries are adopting budgeting as their form of performance based budget. Countries that have embraced the reform include South Africa, Tanzania, Ethiopia and Mali.
According to Robinson M., Last D. (2009), Mali implemented budgeting in 1997 in a phased approach starting with a few ministries and completing all the ministries a few years later. The budgets are however sent as an annex to the main budget and have yet to become a basis for the approved budget. In Ethiopia budgeting was introduced in 2005 on a pilot basis in three ministries and the number of ministries has been progressively expanded since then. Development of budgeting in Ethiopia is still in its early days. In South Africa, budgeting was introduced in late 1990s with its introduction fully combined with that of MTEF and has been accompanied by moves on the audit side to performance audit. Budgeting has been implemented at the central and regional government levels and is considered one of the better implementations of budgeting. Slovenia adopted a big bang approach where after just one year of pilot work, the minister decided to establish a program structure for the whole government and reflect them in the budget documents.

According to Andrews and Hill (2003), while most states in the United States are implementing budgeting reforms, few show any evidence of direct change resulting from such reforms- either in terms of the development of, or response to, new performance based incentives, or allocations that are linked to performance. Their explanation is that budgeting is implemented in addition to traditional approaches and argues that it should instead be implemented as a replacement of, not addition to, pre-existing budgetary regimes. They further observe that most states including California, Georgia, Illinois, Louisiana, Mississippi and Texas moved gradually using pilot programs and are still implementing their budgeting since they state that it is not yet well developed.

In Mauritius, the pace of the reforms has been swift. An indicative programme-based budget was submitted alongside the traditional line-item budget in 2007-08 as a starting point, giving the
MOF the opportunity to update the systems required for full implementation. Subsequently, a fully-fledged programme-based budget embedded in a three-year MTEF (2008-09 to 2010-11) was implemented in the budget year 2008-09. This formed the basis for appropriation by the National Assembly and replaced the traditional line-item budget (CABRI, 2010).

Like every other new concept or change initiative budgeting encounters the following challenges as observed by scholars. Centralization of the budget process: According to Blöndal and Kim (2006), the Thailand experience shows that the traditional budget process was highly centralized and contributed to strong aggregate fiscal discipline. However, it was observed that in order to improve allocative and operational efficiency of public expenditure, the degree of centralization should be reduced. Second challenge is the willingness of the executives: According to Blöndal and Kim (2006), the executives have to be willing and able to re-allocate resources among their various departments (agencies). They concluded that specific initiatives are called for to strengthen this function in line ministries and that consideration should be given to the re-allocation of resources among departments being one of the performance criteria for ministries and their senior executives. The third is the budgetary ceilings: According to Blöndal and Kim (2006), in Thailand, at present, the initial budget submissions are wildly in excess of final allocations and thus appear to be irrelevant to the top-down expenditure ceilings in any case. In Kenya, the Budget Outlook Paper gives each sectors ceiling, which are always lower than the submissions from specific agencies. This makes implementing agencies lose control of their programs especially on the time frame, hence de-motivating them. The forth challenge highlighted is the link with the country’s strategic policies: According to Blöndal and Kim (2006), in Thailand, the relationship between the budget and the four-year Government Administrative Plans is a work in progress as the latter were only introduced in 2005. This could
be an opportunity to reinforce the top-down nature of the Thai budget process by no longer requesting initial budget submissions from line ministries and departments, but rather having the Plan inform the top-down allocations in the first instance.

The fifth challenge is the dominance of the old systems: According to Blondal and Kim (2006), Thailand has a highly developed performance and results orientation to its budgeting system. The definition and measurement of outcomes and outputs is impressive by any standards. At the same time, the budget is also presented on the traditional input basis. It would appear to be the case that the budgets of ministries and departments are often formulated on the basis of inputs which are then “translated” into outcomes and outputs. He concluded that in order to reinforce the performance and results focus, consideration could be given to modernizing the format of the budget and not presenting input information where possible. Overlapping responsibilities is also another challenge which according to Kraan (2007), even more problematic is overlapping responsibilities between different line ministries. In practice the reclassification has sometimes led to a reflection on the organizational structure of ministries and the division of tasks between ministries. There is also lack of coordination of departments: According to J. Roberts, M Roberts, (2005), the budgeters, planners, implementers and the monitoring and control functions of the government should work hand in hand and complement each other instead of working as separate arms.

Pallot, (2001) indicates that the following were the challenges faced by New Zealand as it was implementing its resource accounting and budgeting frameworks. These factors may as thus be deemed to also affect the success of utilizing the budgeting in Kenya and may require consideration. These are: the newness of the practices incorporated in a framework and how this is communicated to the personnel; Possession of the requisite skills by the personnel; the
supporting legal and policy frameworks (institutions) and; Clarity of the process among all the stakeholders.

Other factors that might influence utilization as outlined by (Dixon 2005) are: technical assistance to the agencies as they move towards budgeting; synergy between the MOF and the agencies in terms of both reporting and accountability; political commitment to the implementation process e.g. time limits for the process; implementation on a pilot basis to learn from and deal with probable problems in the system and the sequencing of implementation of the budgeting approach.

Grizzle and Pettijohn, (2002) use a system-dynamics model to identify the factors that facilitate and hinder the implementation of Florida's budget reform. They propose the use of their model for a budget reform under consideration but not yet set out as policy to assess whether the reform is worth pursuing. For an ongoing budget reform, their model can provide insight on the implementation of during mid-term redesign to refocus effort on the causal influences that are most likely to enhance the chances of such a reforms success. They use the following categories of implementation factors as identified by Edwards (1980); i). Communication- should provide clear, accurate and consistent implementation orders without being too precise; ii). Resources- include staff and facilities as well as information about how to implement the reform the authority to insure implementation as intended; iii). Dispositions and attitudes of implementers- may be grounded in the organizational culture; iv). Bureaucratic structure- the features of importance are organizational fragmentation and standard operating procedures, or budgeting and planning routines.
They suggest the aforementioned as having a direct effect on the success of utilization and are thought to interact in ways that indirectly affect utilization success. The areas in which countries are still struggling to find the right answers include the use of performance information in the budget process and the presentation of performance information in budget documentation (Dirk-Jan Kraan, 2007). VanLandingham et al (2005) in a study of Florida indicated that a number of factors can be seen to have influenced reform implementation and ultimately to have limited progress. Some factors arose as part of the normal evolutionary process of an adjustment to a new budgeting system. Others were more structural as changes in state leadership changed the focus of performance-based program budgeting, moving from an emphasis on outcomes and the benefits of public programs and placing a greater emphasis on efficiency and the conservation of scarce public resources. The factors are broadly categorized as organizational factors and technical/process factors.

2.5 Research Gaps

The research concentrated on the factors affecting the utilization of budgeting in the country. While this is not a new concept in the global platform, little has been done to evaluate/determine the factors that probably affect the effective utilization of budgeting in Kenya. This research thus bridges an evident research gap as there is no document to the best of my knowledge that reports any study on the probable factors that may hinder the utilization of budgeting in Kenya.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology that was used in gathering the data, analyzing the data and reporting the results. The section aims at explaining the methods and tools used to collect and analyze data to get proper and maximum information related to the subject under study.

3.2 Research Design

A cross sectional descriptive research design was be used to gather information from accounting officers in the ministries. This research design enabled the researcher to document the behaviour of the respondents in the market since there could be a problem in specifying and measuring some variables which could still be proxy to for many competing hypotheses (Graham et al., 2005). A cross sectional study was used to determine the interrelationship between the variables under consideration among the different ministries in the study. This permitted the researcher to make statistical inference on the broader population and generalize the findings to real life situations and thereby increase the external validity of the study.

3.3 Population

The study is limited to the public sector with the main emphasis being government ministries in Kenya. The target population was 42 ministries that existed during the time of the research. The ministries were also selected because they have their headquarters in Nairobi and therefore the respondents were easily accessible. Since the number of the respondents is limited, the study was a census survey.
3.4 Data Collection

To achieve the objectives of the study, primary data was collected through semi-structured questionnaires (Appendix I) targeting finance officer/accountants, procurement officers and economist in the ministry. This is because they are the ones well versed with budgeting procedures in the government ministries industry in Kenya. The survey instrument involved both closed and open-ended questions. The open-ended questionnaire sought to encourage respondents to share as much information as possible in an unconstrained manner while the closed-ended questionnaire involved "questions" that could be answered by simply checking a box from a pre-determined set of responses presented in a five-point Likert scale. The questionnaires were either dropped and picked later or personally administered by the researcher.

3.5 Data Analysis and Presentation

The data collected was analyzed using descriptive statistics (measures of central tendency and measures of variations) and inferential statistic tools. Further, to examine whether there is a difference in the factors that influence budget utilization in the ministries, factor analysis was conducted on the key factors in the ministries. Data obtained from respondents were entered into an SPSS database application for analysis. Descriptive statistics were used in the presentation and analysis of empirical results.
CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

The research objective was to establish factors that affect budget utilization in the government ministries in Kenya. This chapter presents the analysis and findings with regard to the objective and discussion of the same. The findings are presented in mean and standard deviations tables and finally a factor analysis will be performed on the results.

4.2 Ministries Information

This section of the questioner sought to establish the duration that the ministries had been in operation. The answers to these questions will help in establishing whether the ministry will have put in place adequate mechanism for utilizing the budget allocation. It is expected that newly established ministries will take some time to put in place adequate internal mechanism for utilizing the funds allocated by the ministry. Every year it has always been observed that various ministries have been returning unutilized funds to treasury and this research will seek to establish the factors leading to this problem.

Table 4.1: Age of the Ministries

<table>
<thead>
<tr>
<th>Years</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>less than 5</td>
<td>2</td>
<td>2.8</td>
<td>2.8</td>
</tr>
<tr>
<td>5-10</td>
<td>17</td>
<td>23.6</td>
<td>26.4</td>
</tr>
<tr>
<td>10-15</td>
<td>12</td>
<td>16.7</td>
<td>43.1</td>
</tr>
<tr>
<td>over 15</td>
<td>41</td>
<td>56.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>72</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

27
The results in Table 4.1 on the age of ministries researched on were that 3 of the ministries which represent 2.8% of the total population had operated for less than 5 years. These ministries are likely to be the ones which were created after 2007 election and were previously sections within the earlier ministries. On the other hand 73% of all ministries indicated that they had been in operation for more than ten years while the remaining ministries had been in existence for between 5 -10 years. This findings therefore show that most of the ministries will at any given time been in operation what can be considered to be long enough to have established adequate procedures and mechanism for utilizing the budgeted and approved funds. In addition with these ministries having been in operation for more than 10 years a better trained and developed workforce will have been generated who will in turn spearhead an effective utilization of funds allocated to the ministry.

4.3 Descriptive Statistics

The descriptive analysis below shows the average, and standard deviation of the different variables of interest in the study. It also presents the percentile values of the variables which help in getting a picture about the maximum and minimum values a variable achieved.

On the question of whether the companies surveyed had any form of documented budget and budgeting process, 100% of the firms answered in affirmative and this means that the ministries will be having a reference material that they refer to as a guide on how the funds will be utilized and budgeting control procedures be maintained. With the presence of such a document, it becomes therefore clear that failure to utilize the allocated funds by the ministries will be due to other factors outside the document guide.
4.3.1 The adherence of Expenditure plans by the Ministry

The respondents were to give their independent opinion on the extent to which the ministry adheres to the expenditure plans. The range was ‘Strongly agree - (5)’ to ‘strongly disagree - (1)’. The scores of strongly agree/agree have been taken to present a variable which had a mean score of 3.5 to 5 on the continuous Likert scale; (3.5 ≤ S.E < 5). The scores of ‘neutral’ have been taken to represent a variable with a mean score of 2.5 to 3.4 on the continuous Likert scale: 2.5 ≤ M.E. < 3.4) and the score of disagree/strongly disagree have been taken to represent a variable which had a mean score of 0 to 2.5 on a continuous Likert scale; 0 ≤ L.E. < 2.5 ). A standard deviation of >0.8 implies a significant difference on the impact of the variable among respondents.

Table 4.2: Adherence of Expenditure plans by the Ministry

<table>
<thead>
<tr>
<th>Description</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Ministry prepares annual department work plans</td>
<td>4.2056</td>
<td>.43245</td>
</tr>
<tr>
<td>The ministry work plan is derived from the departmental work plans</td>
<td>3.9417</td>
<td>.50176</td>
</tr>
<tr>
<td>Budgetary exogenous factors are considered when preparing budgets</td>
<td>3.8028</td>
<td>.72500</td>
</tr>
<tr>
<td>Costing of ministerial and departmental work plans is done with the respective budgetary allocation.</td>
<td>4.1722</td>
<td>.64942</td>
</tr>
<tr>
<td>All activities in the ministry are guided by the ministerial annual work plans</td>
<td>4.1008</td>
<td>.76287</td>
</tr>
<tr>
<td>Programme implementers adhere to costing and provisions work plan</td>
<td>4.0875</td>
<td>.68046</td>
</tr>
<tr>
<td>Expenditure proposal are aligned to the ministerial annual work and expenditure plans</td>
<td>4.2167</td>
<td>.57531</td>
</tr>
<tr>
<td>Deviations in any expenditure is duly justified and authorized</td>
<td>4.0472</td>
<td>.73465</td>
</tr>
<tr>
<td>The ministry involves all the stakeholders in the budgetary process</td>
<td>3.5583</td>
<td>1.02005</td>
</tr>
</tbody>
</table>
The above results shows, that all the factors above had a mean greater than 3.5 - strongly agree /agree The respondents indicated the practice of aligning the ministry expenditure proposal with the ministerial annual work and expenditure plans came out to be the most popular practice among the ministries (mean 4.2167), preparation of annual departmental work plans (mean 4.2056) and the practice of costing of ministerial and departmental work plans being done with the respective budgetary allocation (4.1722). What this findings show is that there has been a marked increase in the level transparency and observing of the budgetary guidelines among the ministries and this can be attributed to the enforcement of necessary prudential guidelines among the ministries and oversight by such bodies as the World bank, multinational bodies and development partners that require more transparency in the utilization of the funds. The lowest variation was registered in the practice of the ministry The Ministry prepares annual department work plans

4.3.2 Factors affecting budgeting Utilization in the Ministry

This section of the questioner sought to establish from the respondents the extent to which several factor inhibit the extent of budget utilization in the ministry. The answers were to be presented in a four point Likert scale. The range was ‘Strong effect (4)’ to ‘Don’t affect’ (1). The scores of Strong effect/important have been taken to present a variable which had mean score of 3.1 to 4 on the continuous Likert scale; (3.1≤ S.E <4). The scores of ‘moderately used have been taken to represent a variable with a mean score of 2.1 to 3 pm on the continuous Likert scale: (2.1≤M.E. <3) and the score of not sure and don’t affect have been taken to represent a variable which had a mean score of 1 to 2 on a continuous Likert scale; 1≤ L.E. <2). A standard deviation of >1 implies a significant difference on the impact of the variable among respondents.
Table 4.3: Factors affecting budgeting utilization in the ministry

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>External factors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government interferences affects the utilization of budgets in the ministry</td>
<td>3.6667</td>
<td>.58140</td>
</tr>
<tr>
<td>The need of upholding stringent transparency and accountability has affected utilization of budgets</td>
<td>3.5972</td>
<td>.57310</td>
</tr>
<tr>
<td>Reviews, expenditure cuts and alternative policies by the government affects budget utilization</td>
<td>3.4028</td>
<td>.59717</td>
</tr>
<tr>
<td>Government response to international pressures changes the policy attention from technical and allocative efficiency to macroeconomic activities</td>
<td>3.3889</td>
<td>.54529</td>
</tr>
<tr>
<td><strong>Structural Factors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ministerial interference on the annual plans affects its implementation</td>
<td>3.3333</td>
<td>.65003</td>
</tr>
<tr>
<td>The high degree of devolved authority and accountability to senior managers, subject to limited legal controls influences budget utilization</td>
<td>3.4789</td>
<td>.53074</td>
</tr>
<tr>
<td>A lack of clear hierarchy in the administration of budgets affects the budget utilization</td>
<td>3.4167</td>
<td>.64459</td>
</tr>
<tr>
<td>The need to involve the auditor general office in major projects affects the budget utilization</td>
<td>4.2361</td>
<td>.53056</td>
</tr>
<tr>
<td>A lack of alignment between the organisational structure and structure of performance reporting requirements, the value and usefulness of performance information undermines the budget utilization.</td>
<td>4.1250</td>
<td>.56761</td>
</tr>
<tr>
<td>A lack of the top management support</td>
<td>4.1089</td>
<td>.48369</td>
</tr>
<tr>
<td>A lack of effective communication to all staff on the progress of the budgeting implementation</td>
<td>4.1667</td>
<td>.50351</td>
</tr>
<tr>
<td><strong>Cultural Factors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employees being accountable for action</td>
<td>4.0722</td>
<td>.62736</td>
</tr>
<tr>
<td>Responsiveness to government directive</td>
<td>4.0417</td>
<td>.55507</td>
</tr>
<tr>
<td>Delivery of services fairly and impartially</td>
<td>4.1333</td>
<td>.60514</td>
</tr>
<tr>
<td>Lack of focus on achieving results and managing performance</td>
<td>3.9500</td>
<td>.80053</td>
</tr>
<tr>
<td><strong>Employee Behavioural Factors</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of accountability on the part of employees</td>
<td>4.0278</td>
<td>6.01869</td>
</tr>
</tbody>
</table>

31
Failure to present information on budget progress to facilitate scrutiny by other relevant government agencies 3.8444 .72944
A lack of clear performance indicators to base the actual results 3.5818 .80946

<table>
<thead>
<tr>
<th>Training and education</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>There exist a lack of proper training to employees on the functioning and implementation of the budgets</td>
<td>3.9636</td>
<td>.76893</td>
</tr>
<tr>
<td>As a result of a lack of adequate training, there is no positive feeling on the budget among the staff</td>
<td>3.9727</td>
<td>.71633</td>
</tr>
<tr>
<td>A lack of staff adjustment to change resulting from the budget implementation affects the success of the same budget</td>
<td>4.0273</td>
<td>.86184</td>
</tr>
</tbody>
</table>

The findings of Table 4.3 above is that the most important reason that affects budget utilization are structural and cultural factors that exist in the ministry with the training and educational programmes coming out as the least factors that affect the utilization of budget funds in the ministries. In the external factors that affect budget utilization, the study found out that interference by the treasury on the ministries activities affected the budget utilization with a mean of 3.6667, followed by the need of upholding stringent transparency and accountability (mean 3.5972) and the list practice was found to be the government yielding to development partners and financial institutions pressures (mean 3.3889). These results show that the government has reduced the level of dependence on the international donor funds such that their influence on the expenditure on the funds has reduced and what remains to affect the budget utilization in the ministries is the reallocation of budget funds by the Treasury to what is called priority projects. This action will then affect the implementation of various projects by the line ministries.

Structural factors within the ministry were also identified as a major factor that influences level of utilizing the budgets in the ministries. Within the ministry, a lack of alignment between the
organisational structure and structure of performance reporting requirements, value and usefulness of performance information undermines the budget utilization came out strongly as inhibiting the level of budget utilization in the ministries (mean 4.1250). It also emerged that the need of the accounting officers to involve the office of Auditor General and the office of Attorney General (mean 4.2361) came out as another reason that impact on the budgets. A lack of effective communication mechanism to all the stakeholders involved in the implementation of projects as well as interference by the top management at the policy level was also identified as major reason that affects projects and the usage of funds allocation.

The culture that has been developed among the employees and other stakeholders in a ministry also came out as influencing the utilization of budget allocation. The lack of employee accountability for their action (mean 4.0722), delay in implementing government directive (mean, 4.0417), a lack of focus on achieving results and managing performance (mean 3.9500) and also the need to deliver services to all regions fairly and impartially (4.1333) came out as cultural factors that will affect the success of utilizing budget funds in the ministry.

The staff capacity in various ministries was also identified as hindrance to the level of utilizing funds in the ministries. Failure to present information on budget progress to facilitate scrutiny by other relevant government agencies (mean, 3.8444), inadequate training to employees on the functioning and implementation of the budgets (mean, 3.9636), a lack of staff adjustment to change resulting from the budget implementation affects the success of the same budget (mean 4.0273) were identified as factors resulting from employee capacity to handle budgets.
4.4 Factor Analysis

A factor analysis was undertaken on the 21 success factors to the success of utilizing budget funds by the ministries. The general purpose of factor analysis was to summarize the determinants of the success of the utilization of budget funds by the Kenyan government ministries. Factor analysis was done using SPSS computer package and principal component extraction method (Antony et al., 2002). As per this analysis, only factors having Eigen values greater than 1 are considered significant. High factor loadings suggest that the factors are critical.

From the set of 21 potential success factors 5 critical factors were identified and highlighted as factors determining the utilization of budgeting funds in the ministries. In this analysis, we find that structural factors as well as the culture developed in the ministry have extraction values over 0.5 meaning, the others variance is not well explained by the factors.

Table 4.4: Principal factors

<table>
<thead>
<tr>
<th>Communalities</th>
<th>Initial</th>
<th>Extraction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structural Factors</td>
<td>.358</td>
<td>.496</td>
</tr>
<tr>
<td>External Factors</td>
<td>.245</td>
<td>.669</td>
</tr>
<tr>
<td>Cultural Factors</td>
<td>.265</td>
<td>.717</td>
</tr>
<tr>
<td>Employee behavioral Factors</td>
<td>.183</td>
<td>.289</td>
</tr>
<tr>
<td>Training and development</td>
<td>.291</td>
<td>.453</td>
</tr>
</tbody>
</table>
The success items with the largest values provide the favor of the factor. These factor items indicate the factor structure and are used for labeling or naming the factors in this study. The full name list of critical practices obtained from factor analysis is shown in Appendix II.

The factor loading of each of the above variables will determine the strength in which the respondents placed on each of them as a factor that influence the level of budget utilization.

**Table 4.5 : Results of the Factor Matrix**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Initial Eigen values</th>
<th>Extraction Sums of Squared Loadings</th>
<th>Rotation Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
<td>Cumulative %</td>
</tr>
<tr>
<td>1</td>
<td>3.841</td>
<td>42.582</td>
<td>42.582</td>
</tr>
<tr>
<td>2</td>
<td>2.287</td>
<td>24.432</td>
<td>67.014</td>
</tr>
<tr>
<td>3</td>
<td>.957</td>
<td>18.621</td>
<td>85.635</td>
</tr>
<tr>
<td>4</td>
<td>.668</td>
<td>10.126</td>
<td>90.751</td>
</tr>
<tr>
<td>5</td>
<td>.635</td>
<td>9.249</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Factor 1 collects four of the factors that inhibit the utilization of the budgeted funds by the government ministries. The external factors however is loaded to be a stronger factor influencing the ministries budgeting process which is different from the results gotten from the descriptive statistics in Table 4.3 results above. The influence of the government and other development
partners came out therefore has a critical factor that will influence the level of the firms budgeting process. Factor 1 was loaded with four factors that capture the relevance and soundness of the external stakeholders to the ministry that will affect the entity's budgeting process.

Factor 2 includes seven items that focus on the ministries' structural factors that hinder utilization of the entity budget funds. This factor captures the "core purpose" of any ministry because it highlights the internal factors within the ministry that will affect the budgeting process. Factor 3 on the other hand captures three factors concerning employee behavioral factors. It came out also with a strong loading which implies that the utilization of organization resources will be influence by the competency and training of the staff. The employees being the implementers of all the projects budgeted, their individual attitude and personality will affect the success of the projects.

Factor 4 on the other hand comprised four factors that concerned the culture of the ministry and the management style that exist in the ministry. Though the loading of this factor is lower than all the others, it strongly came out that for a successfully utilization of the ministry budget funds, the existing way of doing things in the ministry should be in sync with the desired objectives.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter presents a summary of the key findings of the study as well as the conclusions, limitations of the study, and recommendations for further research.

5.2 Summary
The study showed that new ministries will take some time to put in place adequate internal mechanism for utilizing the funds allocated by the treasury because the new ministries will take time develop necessary controls and competent staff to manage the budgets. It was also found out that all the ministries have established adequate procedures and mechanism for utilizing the budgeted and approved funds but the extent of adherence to these procedures varies from ministry to ministry. The documented budget and budgeting process acts as a reference material on how the funds will be utilized and budgeting control procedures be maintained.

The most focal factor that affects budget utilization are structural and cultural factors that exist in the ministry with the training and educational programmes coming out as the least factor that affect the utilization of budget funds in the ministries. In the external factors that affect budget utilization, the study found out that interference by the treasury on the ministries activities affected the budget utilization with a

The findings on the study in addition was that there has been a marked increase in the level transparency and observing of the budgetary guidelines among the ministries and this can be attributed to the enforcement of necessary prudential guidelines among the ministries and oversight by such bodies as the World bank, multinational bodies and development partners that
require more transparency in the utilization of the funds. Structural factors within the ministry were also identified as a major factor that influences level of utilizing the budgets in the ministries. Within the ministry, a lack of alignment between the organisational structure and structure of performance reporting requirements, value and usefulness of performance information undermines the budget utilization came out strongly as inhibiting the level of budget utilization in the ministries.

5.3 Conclusion
From the research findings and the answers to the research questions, some conclusions can be made about the study.

This research has examined the factors that affect budget utilization in the government ministries in Kenya. The research has pointed out that various factors hinder successful utilization of budgeted funds to the ministries and these factors range from external effects from the government and donors, structural factors in the ministry that become a hindrance to the successful budgeting process, cultural factors in the ministry as well as training and educational competence of the staff entrusted with implementing the budgets. It has also pointed to the importance of technical and structural factors in refining and maintaining the budgeting system. Technical factors have been important in shaping the design and also setting the foundations for good quality information and systems.

The success of the government ministries will be realized if all the stakeholders are involved in the budgeting process especially in the implementation phase and there is need to train the staff that are concerned with the actual implementation of the budgets and also there is need to reduce the red tape currently present before the funds can be disbursed to the ministries. It is also noted
that, despite the strength in addressing some of the key factors for successful utilization of the budgeting funds, there are some areas which have received relatively less attention and may provide the means to progress more effectively in the government ministries.

The other conclusion that can be made from the findings is that with a proper facilitation from the accounting officers, it is evident that most of the projects can be accomplished successfully by the ministries. The minister and senior officers in the ministry need to be well versed with the working of budgets and what is necessary to successfully implement all the projects. The creation of new ministries distracts the budget planning and implementation especially if it is made in the course of budgeting period.

5.4 Limitation of the Study

The study examined factors that affect budget utilization in the government ministries in Kenya. The study used qualitative data and with this approach, the study lacked quantitative data to show the level of utilized and unutilized funds in the ministries and the same affected the success of the projects. There will have been a need therefore for financial measures to be incorporated in the study to get complete picture of all the factors that influence budget utilization in the government ministries.

The study concerned itself with a point study and not covered a specified period of time. There is need carry a research covering a specific period of time especially on the changing governments and the effect of various government policies on the success of the budget utilization. Successive government policies adopt different policies and these policies will influence the success level of the utilization of budget funds.
The other limitation of the study is the nature of government projects which have public good objective and not profit oriented. As a result, the utilization of the budgeted funds will in some cases be affected by motive of the organization. It is therefore important that the public good effect will need to be factored in the study to get a wider effect on the factors that influence utilization of funds in the ministries.

5.5 Recommendations

The study suggests some policy implications for the senior managers and decision makers in the Kenya ministries. There is need to these decision makers to operate without any political persuasions and work as per the government guidelines and aim to utilize all the funds allocated in any given period. It is also recommended that a fixed number of ministries should be maintained throughout the financial year and better still if the constitution stipulates a fixed number of ministries which is the case in the new constitution.

Another point that needs to be looked at is the need to reduce the level of bureaucracy present in approvals sought in other offices such as office of Attorney General, Auditor General and Treasury. Implementation of projects was found to be limited by this red tape and if the same is reduced, then the success of budget utilization will be increased.

The study was carried on the government ministries whose objective might be different from profit oriented entity. It is therefore recommended that a study be recommended on the factors that affect budget utilization on a profit oriented organization for a comparison to be made between the two studies.

40
REFERENCES


Bertram Cross and Michael Spring, (1967), Annals of the American Academy of Political and Social Science


Colin Drury, (2008), Management and Cost Accounting, Book power, Italy,


David Novick, (1968).The Origin and History of Program Budgeting, California Management Review, 7-12

Dirk-Jan Kraan, 2007, A Principal-Agent Theory approach to public expenditure management systems. OECD Journal on Budgeting, 7, 3

Geoff Dixon, (2005), Thailand’s Quest for Results-Focused Budgeting; Intl Journal of Public Administration, 28: 355-370,


Marc Robinson and Duncan Last, (2009), A basic model of Performance-Based Budgeting, IMF.


Warren Krafchik, (2003), Can civil society add value to budget decision-making? A description of civil society budget work, The International Budget Project by the Centre on Budget and Policy Priorities, Washington, D.C
APPENDIX I: QUESTIONNAIRE

The questionnaire seeks to collect information on the factors that affect budget utilization by government Ministries in Kenya.

PART A: GENERAL INFORMATION

1) Name of the Ministry (optional).................................................................

2) For how long has your ministry been operating?
   - [ ] Less than two years
   - [ ] 2-5 years
   - [ ] 6-10 years
   - [ ] Over 10 years

3) Does the ministry have documented budgets and budgeting process?
   - [ ] Yes
   - [ ] No

PART B: Importance of Budgets

4) Please indicate the extent to which you agree with the following statements relating to the benefits your ministry derives from developing and utilizing an effective budget

   Key

   5) Strongly Agree 4) Agree 3) Moderate extent 2) Disagree 1) Strongly Disagree

<table>
<thead>
<tr>
<th>Statement</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>A budget symbolizes good governance in an era of transparency in the public sector</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>It shows a management commitment towards continued improvement</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>It strengthens a company’s execution capability on its strategies, policies and objectives</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>It serves as a reminder of future responsibility for management decision made today</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>It answers the call for more effective mechanism on monitoring and evaluation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>It enhances the ministry’s flexibility and responsiveness as information becomes available faster</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>It helps shift the viewpoint from compliance to soundness</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>It strengthens the working environment such that it</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
focuses on improvement such as the use of benchmarking practices

It symbolizes competency of top management and capability of an organization

### PART C: Factors affecting budgeting Utilization in the Ministry

5. The table below presents statements regarding factors that affect budget utilization in your ministry. Please indicate the extent to which you agree or disagree with each statement by ticking on the appropriate column, using the scale below.

**Key**

5- Very great extent. 4- Great extent, 3-Moderate extent, 2-Low extent, 1- Very low extent,

<table>
<thead>
<tr>
<th><strong>External Factors</strong></th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government interferences affects the utilization of budgets in the ministry</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The need of upholding stringent transparency and accountability has affected utilization of budgets</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reviews, expenditure cuts and alternative policies by the government affects budget utilization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government response to international pressures changes the policy attention from technical and allocative efficiency to macroeconomic activities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Structural Factors</strong></th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministerial interference on the annual plans affects its implementation</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The high degree of devolved authority and accountability to senior managers, subject to limited legal controls influences budget utilization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A lack of clear hierarchy in the administration of budgets affects the budget utilization</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>The need to involve the auditor general office in major projects affects</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

45
the budget utilization

A lack of alignment between the organisational structure and structure of performance reporting requirements, the value and usefulness of performance information undermines the budget utilization.

A lack of the top management support

A lack of effective communication to all staff on the progress of the budgeting implementation

**Cultural Factors**

- Employees being accountable for action
- Responsiveness to government directive
- Delivery of services fairly and impartially
- Lack of focus on achieving results and managing performance

**Employee Behavioural Factors**

- Lack of accountability on the part of employees
- Failure to present information on budget progress to facilitate scrutiny by other relevant government agencies
- A lack of clear performance indicators to base the actual results

**Training and education**

- There exist a lack of proper training to employees on the functioning and implementation of the budgets
- As a result of a lack of adequate training, there is no positive feeling on the budget among the staff
- A lack of staff adjustment to change resulting from the budget implementation affects the success of the same budget
6.) Please indicate any other factor affecting budget utilization in your ministry (if any)

THANK YOU FOR YOUR TIME