

**ADDRESSING THE AGENCY PROBLEM
AMONG NGOS DEALING WITH
REFUGEES IN KENYA**



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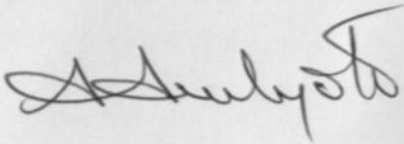
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FULFILMENT OF THE REQUIREMENTS FOR THE
DEGREE OF MASTER OF BUSINESS
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UNIVERSITY OF NAIROBI**

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DECLARATION

This project is my original work and has not been submitted for a degree in any other University



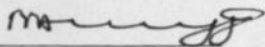
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This Project has been submitted for examination with my approval as University Supervisor



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DEDICATION

To my parents for the love and support that they have given to me. I am also grateful to several people. To those people I feel immense gratitude for their help. I am most grateful to my supervisor M. N. Atayoga who was always available when I needed him. He gave me constant encouragement, revision and guidance that enabled me to complete the project.

I am also grateful to my spouse, Nancy, our children, Arlene, Mimi, Aaron and Aiden for the understanding they showed during the period of the study.

I am also indebted to all the staff employed by the donors and NGOs who assisted me in various ways to ensure the success of the questionnaire.

Above all, I thank God for enabling me to achieve this.

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CHAPTER ONE – INTRODUCTION

1

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The study was carried out not only on NGOs that received donor funds for refugee projects in 2003, but also on organizations that made their donations in the same period. Two structured questionnaires were administered to the Finance Managers of the NGOs and the Programme Officers of the donor agencies since their understanding of the issues involved would provide adequate answers to the questionnaires. The data was analyzed using percentages, bar charts, pie charts and line charts.

The results revealed that some NGOs have no financial contribution to the projects they implement on behalf of donors. It was noted that some losses by donors were through physical monitoring and management systems while financial audits and verifications were given comparatively less attention. The study also showed that NGOs do participate in the preparation of the projects for

ABSTRACT

Non-Governmental Organizations (NGOs) play an important role in the implementation of refugee programs not only in Kenya, but also in various parts of the world and are involved in the disbursement of funds of a large magnitude. For the effective delivery of services, NGOs, like other organizations, have to minimize or eliminate the agency problem. This study, therefore, attempts to indicate the importance of donors taking more precautions in the selection of NGOs and to ensure that selected NGOs have adequate checks or controls to guarantee the achievement of objectives.

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the funds given by the donors, and that most of the employed managerial staff are indigenous.

INTRODUCTION

1.1 Background

1.1.1 Financial Decision Making in Non-Governmental Organizations

Non-Governmental Organizations (NGOs) are private organizations that provide services to various including, promote the interests of the poor, protect the environment, provide humanitarian services or undertake community development projects (Khan, 2001). The Non-Governmental Organizations (Law) (Kenya) Act, 1990

defines the term as "a private voluntary grouping of individuals or institutions incorporated for profit or for other commercial purposes but which are established, managed, controlled, financially or administratively for the promotion of social welfare, development, culture or research through mobilization of resources". In a similar fashion, the act defines NGOs as organizations that are independent of government, and which are given various

- the allocation of these resources and
- a better future for all.

in Kenya, the NGOs sector is growing in the world. NGOs are active in a diverse activities such as health, education, water, education, environment, women rights, gender and development, children's rights, poverty alleviation, peace, protection, health care, housing, small-scale enterprises, disaster relief, etc. There are also NGOs that participate in refugee relief and human rights.

CHAPTER ONE

INTRODUCTION

1.1 Background

1.1.1 Financial Decision Making in Non-Governmental Organizations

Non-Governmental Organizations (NGOs) are private organizations that pursue activities to relieve suffering, promote the interests of the poor, protect the environment, provide basic social services, or undertake community development (World Bank, 2001). The Non-Governmental Organizations Co-ordination Act, 1990, of Kenya has defined an NGO as "a private voluntary grouping of individuals or associations, not operated for profit or for other commercial purposes but which have organized themselves nationally or internationally for the promotion of social welfare, development, charity or research through mobilization of resources". In a nutshell, NGOs are non-profit making organizations that are independent of government, and which are geared towards:

- the alleviation of human suffering, and
- a better future for all.

In Kenya, like in many other countries in the world, NGOs are active in a cross section of sectors including agriculture, water, education, environment, health, human rights, gender and development, children's rights, poverty alleviation, peace, population, training, counselling, small-scale enterprises, disability and many others. There are also NGOs that participate in refugee related programmes. These

programmes include: Care and Maintenance, Voluntary Repatriation and Resettlement. Examples of NGOs operating in Kenya are CARE Kenya, World Vision, the Forum for African Women Educationalists (FAWE), Young Men's Christian Association (YMCA) and National Council of Churches of Kenya (NCCCK). Generally, NGOs can be classified into international, regional, and national NGOs. They usually work with a host of Community Based Organizations (CBOs) and groups. Based on the volume of funds that NGOs handle and the nature of services that they offer, NGOs play a big role in implementing programmes sponsored by various donors.

As from the last decade of the 20th century until today, governments, international organizations and the public have become increasingly aware of the problems facing refugees and internally displaced people. This has been due to largely the live television coverage of images of desperate people fleeing from places such as Bosnia and Herzegovina, Chechnya, Iraq, Kosovo, Democratic Republic of Congo (DRC), Rwanda, Somalia, and Sudan. There were 242,468 refugees in Kenya as at end of 2003 (UNHCR, 2004). Because the refugee budget caters for various needs ranging from shelter, to all other human needs (including food, medical care, water, transportation, sanitation and education), the refugee programme involves hefty sums of funds, thus making it the main area of NGO activity in Kenya. It is on this basis that the NGO sector dealing with refugees has attracted this study.

The financial decision-making with regard to NGOs starts from the selection of the NGO to be funded, to the utilization of the funds by the chosen NGO. The selection of NGOs to be funded is based on factors such as:

- a) Scale of operations and thus the funds available and the number of projects in a programme
- b) Whether the project or sub-project requires specialised services such as medical or technical
- c) Cost sharing requirements – the higher the contribution by the implementing NGO, the better
- d) Political environment of the project as some NGOs would be more suitable than others due to security or operational reasons
- e) Ability and willingness to include gender activities in projects, where applicable.

Most donors require that the selection of a suitable NGO should be based on the evaluation by specialists from various fields related to the project, including finance. While the internal regulations of many donors require that the choice of NGOs be based on the scrutiny of past performance, in practice international NGOs are preferred and not necessarily subjected to thorough scrutiny. Even where some donors have a policy of supporting the local NGOs more by strengthening their sustainability, the same donors tend to have a higher percentage of local NGOs but with a more than proportionate funding done through international NGOs. Sometimes the choice of an NGO is based on the simple reason that no other NGOs are willing to come forward

for the provision of given services. Thus, the choices made are not always as per the policy guidelines, numerical ratings or generally narrated strengths and weaknesses when compared to established criteria, but rather the general liking or preference for a given NGO or its leader, or because the choices are limited. Even if the financial analysis of NGOs is made, this would often be based on the audited reports, yet such reports are sometimes not conclusive with regard to all aspects of intended projects.

The international NGOs are also preferred presumably because they contribute in one way or another to the project as they usually have access to various overseas sources of funding. Some donors may also fund a given project because the implementing NGO is funded by a reputable donor. Thus, the donor prefers to only co-fund the project. Such donors tend to “stand by the fence” until the main donor has made a positive decision of funding the project.

Within the NGOs, the financial decision-making is usually as per the contract or agreement that has been signed, while at the same time adhering to their financial regulations where such regulations exist. Such regulations are often not in total harmony with those of all the donor agencies as various NGOs and donor agencies have financial regulations of their own which are at various stages of review. However, the basic or core financial requirements are usually agreed to in the signed contracts or agreements. For international NGOs, there tends to be clear financial regulations that are in-line with those of their parent offices, with laid down internal controls. For some local NGOs, there is lack of clear internal financial regulations or guidelines. Generally, even where such guidelines exist for both local and

international NGOs, the implementation at, particularly, the field level is hampered by:

- a) High staff turnover as many people apply to work in hardship areas due to desperation for employment. Once employed, the most talented staff often seek better opportunities in places with less hardships or where they are not cut-off from their social inclinations such as families and friends.
- b) Most of the field staff who undertake most of the transactions are not conversant with the contract or agreement and the financial requirements or expectations of the various donors. Even where copies of the respective manuals exist, some are seen by the implementing staff as too complex and detailed, allowing them to evade the spirit of adhering to each and every requirement as they adopt easier methods of working based on their own knowledge and skill that is sometimes limited to their level of education and experience.

Miscellaneous income is often not adequately accounted for. The miscellaneous income arises either directly or indirectly from the project funds. Such miscellaneous income is at times utilized on activities that are not related to projects as some NGOs prefer to account to the donor for the actual funds received directly from the donor.

There are instances where at the end of the year some NGOs realise that they have a lot of cash on hand that they would not prefer to return to the donor. Such balances of funds are utilized on expenses that may not necessarily have been part of the approved budget. At the year end there also tends to be accrual of some expenses past the

liquidation period recommended by the donor. The accrual of the expenses is generally not the right thing to be done where the donor prefers cash accounting for its funds. The accrual of expenses at the year-end based on inadequate information and facts cannot be a guarantee that the amounts involved will be paid. Thus, such “set aside” funds against accruals can be susceptible to abuse if circumstances changed as they will have already been reported under expenses in an earlier period.

There is also the problem of hiding over-expenditures on some budget lines by debiting those lines with low implementation to avoid detection. Through this, irregularities are committed as the entries made are intentional. Thus, the accounts are distorted such that they cannot be used for fair interpretation of performance, particularly where the amounts involved are material.

There are cases of lack of adequate care or concern for donor funds by NGO management. An example is where expenses are paid by assistants in the field, pending approval by the managers when the documents finally reach the head office. Some of these payments do not have adequate supporting documents.

1.1.2 History, Growth and Funding of NGOs

Worldwide, the history of NGOs dates back to the nineteenth century. One of the oldest NGOs is YMCA (Bill Seary, 1996). The first YMCA was launched in 1844 in London by Sir George Williams, and the movement spread to North America in 1851. Through a world conference that was held in Paris in 1855, attended by delegates from eight nations, the World Alliance of Young Men's Christian Associations was formed. Originally, YMCAs focused on Bible Study and religious activities.

However, they have broadened their activities to cover the provision of inexpensive housing, meeting space for community groups, gymnasiums and pools, and child-care programs (The Columbia Encyclopedia, 6th Edition 2001). It is believed that a few NGOs may have been existing before the formation of YMCA.

According to the Kenya YMCA Annual Report 2002, the YMCA is probably the oldest, non-partisan NGO in Kenya as it was started in 1910. It was started as a branch of the British YMCA until 1961 when the leadership was taken over by Kenyans. Other than for the case of YMCA, it is not very clear as to when the earliest NGOs started in Kenya, but it could be around the same time as may be evidenced from the aid that was given through the churches and missionaries.

Worldwide, the number of NGOs seems to have increased, particularly, towards the end of the twentieth century. This may be attributed to increase in donor funding that seems to have increased in the last quarter of the twentieth century.

For example:

- a) By 1999, there were over 200 different NGOs working in Afghanistan alone (UNHCR, 2000).
- b) By the year 2000, about 60,000 NGOs had been registered in Hungary in a period of ten years. However, it was estimated that about 30,000 NGOs existed only on paper. In Slovakia, the number of NGOs exceeded 14,000 by the year 2000 (Nina Vucenik, 2000).
- c) The number of registered NGOs in Kenya was 2,196 at the end of 2002 and 3,056 as at end of 2003 (Non-Governmental Organizations Bureau of Kenya).

Thus, during 2003, the number of registered NGOs in Kenya increased by 39% presumably due to the formation / registration of AIDS related NGOs in 2003 after the NARC Government of Kenya came to power and tended to attract more donor funding towards various projects, including AIDS.

To illustrate the funding of NGOs, we can take the example of Forum for African Educationalists (FAWE). FAWE was founded in 1992, and from just meagre resources by 2002 had reached total operations funding of US\$ 6.5 million. See table below.

Table 1: Financial Structure for FAWE

| Governments and Government Agencies | US\$ | % |
|-------------------------------------|-----------|-------|
| Agencies | 3,223,562 | 49.3 |
| Foundations and Corporations | 90,000 | 1.4 |
| Other Sources | 40,052 | 0.6 |
| Sub-Total | 3,353,614 | 51.3 |
| Opening Balance | 3,180,632 | 48.7 |
| Total Operating Funds | 6,534,246 | 100.0 |

Source: FAWE Annual Report for 2002

As it is indicated in the UNHCR's publication entitled: *The State of the World's Refugees Fifty Years of Humanitarian Action (2000)*, "it is governments, rather than individual donors that are most responsible for the recent increase in NGO funding". According to that report, in 1970, public sector funding accounted for a mere 1.5 per

cent of NGO budgets. By the mid-1990s, it had risen to 40 per cent and was still increasing. In many of their projects, NGOs essentially act as subcontractors for governments or the United Nations. Increasingly, governments are funding national NGOs, undercutting the traditional intermediary role of international NGOs. Many of these national NGOs are small. Some are community-based organizations with only a few staff and operating only in one small town or village. There has been a proliferation of such NGOs.

What the above statistics indicate is that the number of NGOs in the world is indeed large. Since there is an increasing need for active and effective role by NGOs in various countries in Africa, Asia, Latin America and East Europe, one would wonder as to the present total global contribution of all national and international NGOs and whether all of them fulfil their prescribed objectives.

Generally, NGOs receive their funds from trusts or charitable organizations, communities, individuals, governments and agencies of the UN (see Appendix 2 – Schedule of Sources of NGO Funding in Kenya). The growth of NGOs can generally be attributed to the role they play. NGOs act as a “global conscience” representing broad public interests beyond the purview of individual states. They do not have coercive “hard” power, but they often enjoy considerable “soft “ power – the ability to get the outcomes they want through attraction rather than compulsion (Joseph Nye – Daily Nation, June 28, 2004). Non-profit organizations hold more promise than businesses do because they are not driven by the need to increase profits, and, unlike

government, are directly accountable to their boards of directors and to the contributors on whose support they depend (Gakuo, 2003).

According to Mabururu (2003), NGOs have become essential players in the socio-economic and political development of many countries throughout the world because of the weakening role played by the state in development due to the massive deficits, privatisation policies and restructuring programmes being implemented across African and other continents.

1.2 Statement of the Problem

The agency problem does exist among NGOs in the world as indicated in the financial decision-making cases cited above. The agency problem can also be noted from the following three examples:

In the Sunday Standard of 30 May 2004, it was reported that: “The Government has de-registered over 300 fake non-governmental and community-based organisations purporting to be fighting Aids...the organisations had presented excellent proposals and were allocated money, ostensibly to fight the scourge, but on closer scrutiny, the documents were found to be fake....”.

The Sunday Nation of 6 June 2004, reported that: “...siphoned millions of dollars from Islamic charities that help poor Muslims in Africa and Asia, and US and Saudi government efforts to cut the flow have largely failed....” and that the organization “raised \$ 40 million to \$ 50 million a year in contributions worldwide, the vast

majority going to feed hungry Somali orphans, educate poor Indonesian students and help sick Kenyan children”.

Overall, the public is unsure of the role of NGOs. On one hand, it does not understand their work, and on the other, their manner of operation has incurred criticism (Vucenik, 2000). This was based on a study undertaken in Slovakia and Hungary.

NGOs in Kenya, like in other countries in the world, are thus at times considered by the Government and some donors to lack arrangements that ensure accountability of their activities, including funding. At times, funds given to NGOs are not utilised for the purposes for which they were initially intended, thus causing an agency conflict. This may be because NGOs, being non-profit making organizations, solicit less attention given to the utilization of donated funds. This tends to happen in some cases even where agreements have been entered into between the donors and the NGOs on the funds' utilization and consequent reporting. In some countries, councils or boards have been formed to oversee, or control, the activities of NGOs but from the results seen, it appears that, still, more needs to be done. Therefore, this creates the need for a study to inquire into how NGOs in Kenya deal with the agency problem.

1.3 Objective of the Study

The objective of this study is to identify the measures of addressing the agency problem in NGOs dealing with refugees in Kenya.

1.4 Importance of the study

The following are the key beneficiaries of this study:

1.4.1 The donor community – This study will shade light into the need for donors to take more precautions in the selection of NGOs and the need to have effective checks on the NGOs while providing adequate incentives so as to ensure achievement of objectives. Just as investors interested in buying shares in a company are usually interested in knowing the safety of their intended investments, so should the donors who wish to fund activities through NGOs.

1.4.2 The Government – This study will indicate how NGOs can effectively supplement Government in serving the needy people in the country, through the implementation of controls that enable the achievement of objectives. It also discourages the registration of ‘unfit’ NGOs while closely monitoring the performance of registered ones on a continuous basis.

1.4.3 Academicians – This study will stimulate further research.

1.4.4 Owners / Management of NGOS – This study will benefit the owners / management as the improvement of performance of NGOs through the consistent achievement of objectives enables them to be highly appreciated by its beneficiaries, the community in which they are operating and the donors, particularly where the results are distinctly visible or noticed. This can attract more future funding or support.

1.4.5 NGO employees – This study will encourage the training of NGO employees to enable better utilization of resources. The study will also encourage the giving of competitive incentives so as to retain competitive working teams that can ensure the achievement of desired results.

1.4.6 Needy people – This study will show that through better controls, performance can be enhanced, thus the NGOs assistance to the needy can be felt more by those being assisted.

CHAPTER TWO

LITERATURE REVIEW

2.1 Agency Problems in Modern Organizations

An agent is a person who performs a service on behalf of another based on a delegated authority or an agreement. Inefficiencies that arise because of agency relationships have been called agency problems. These problems occur because each party to a transaction is assumed to act in manner consistent with maximizing his or her own utility or welfare (McGuigan et al, 2002).

According to Jensen and Meckling (1976), an agency problem arises whenever a manager does not own the whole of a firm's common stock. When managers do not have a significant ownership stake in the firm they manage, the potential exists for shareholders' resources to be diverted from their most productive uses to provide perquisites for managers that are inconsistent with the most efficient allocation of resources (McGuigan et al, 2002). Thus, the agency problem or conflict arises when there is separation of ownership from management.

In theory, most financial managers would agree with the goal of owner wealth maximization (for the purposes of this research, objective achievement through best utilization of resources). In practice, however, managers are also concerned with their personal wealth, job security, lifestyle, and fringe benefits, such as posh offices, country club memberships, and limousines, all provided at company expense (Gitman, 2000). Such concerns force managers not to always make decisions that are

in the best interest of the owners (or donor agencies, for the purposes of this study). As Pandey (2001) has indicated, the “satisfying” behaviour of management frustrates the objective of shareholder wealth maximization as a normative guide to management.

2.2 Agency problems in NGOs

2.2.1 NGO Registration – Where an NGO is not registered in the country of its operation, this can affect the rights and obligations of the parties involved as enforceable contracts should be made by parties that have legal existence. Dealing with an unregistered NGO can tend to increase the agency problem as the situation can be taken advantage of since there is no adequate legal basis for re-dress in case of default. The selection of NGOs that have not been well vetted for registration can lead to difficulties in the implementation of programmes. In February 2003, the Government of Kenya issued a legal notification to the general public regarding 340 NGOs that had been struck off the register of non-governmental organizations pursuant to Gazette Notice Number 1582 of 2002 (The Kenya Gazette, 28 February 2003). This implied that out of the 2,536 NGOs that would have been registered as at the end of 2002, 13% were de-registered during the year due to failure to submit annual reports as per their financial year-ends.

2.2.2 Double-Funding – This is a kind of agency problem that can be detected through a careful study of the records / reports of an NGO, though it may sometimes be difficult to detect. Although investors make important economic decisions on the basis of the so called bottom line, sometimes earnings numbers do not tell the full

story of what is really happening inside a company (Horngren et al, 2002). Generally, agency problems in NGOs may be detected from the consolidated Cash Flow Statements. Cash Flow Statements show changes in cash by providing information on how cash was obtained and utilised. While Cash Flow Statements are more utilised by business organizations, they are also useful for non-profit making institutions, including NGOs because double-funding can be avoided for fear of being detected through Cash Flow statements that disclose material information and that are scrutinized. NGOs should not only be concerned by the reporting that directly relates to their funding, but also take a careful interest in the overall reporting of the NGO funded with regard to total receipts and expenses based on all sources of funding.

2.2.3 Track record or commitment of management - If management of an NGO has a poor track record with regard to project or fund management and accountability, the possibility of a future agency problem arising can be high. Where there is limited or flawed financial and management expertise or commitment, there could be indeed higher chances of not having effective internal financial and operational controls being in place, and adhered to. The internal controls should include internal checks whereby not only professionally competent people are employed on posts, but also in the day-to-day transactions of a project the work of one person is routinely checked by another for the detection (or prevention) of errors and fraud. These internal controls, in essence, imply the separation of powers or functions and the performance of work by those who are indeed able to assist in providing the needed results just as is the case in most profit-making organizations. The assessment of internal controls needs to include:

- Checking whether the NGO has segregated duties in the handling of purchases, stores, payments, receipts, agreements (contracts), etc.
- Checking whether appropriate banking facilities are used, and if respective reconciliation is done at end of every period
- Checking whether vendors statements are reconciled to accounts
- Checking whether acceptable procurement procedures are in use
- Checking on the usage of assets, such as motor vehicles, so as to minimise misuse
- Verifying whether the assets are in the name of the project, and are used for the benefit of the project.

2.2.4 External controls – These can contribute to the agency problem. The external controls need to be through monitoring or checks carried out by:

- Donor agency
- The Non-Governmental Organization Board or Bureau for the case of Kenya, so as to adhere to Kenya's Non-Governmental Organizations Co-ordination Act of 1990.
- External Auditor

The external checks and monitoring tend to determine, or influence, the nature and effectiveness of the internal controls in an organization. Their effectiveness acts as a barrier to 'un-usual circumstances' that may tempt the management to misstate the financial statements of the NGO.

The extent to which the donor agency monitors the usage of its funds, and verifies the related financial reports submitted at the end of the related period, can influence the extent to which the implementation regulations are adhered to. There are instances where some organisations donate funds towards certain purposes, but they do not make any follow-up as to how the funds are utilised. This discourages accountability.

The donor agency and external auditors may conduct vouching and verification exercises to enable them to monitor the usage of funds, and check on the internal controls within an NGO. For the reduction or management of the agency problem, there is need for not only external audits, but also planned periodical detailed vouching / verification of performance through both physical and financial test-checks conducted by the donor to confirm given reported performance.

According to Emile Woolf (1994), "the process of vouching invariably involves the examination of the documentary evidence necessary to authenticate and support the recorded transactions which are purported to have taken place during the period under review. In practical terms, such examination will primarily establish:

- The correctness of the monetary amount at which the transaction is recorded: cost in case of purchases, and proceeds in the case of sales.
- That the transaction was properly authorized in the first place".

Woolf (1994) says that, "verification in contrast to vouching, relates to assets, liabilities and other items in the balance sheet at the year end". With regard to the

donations or contributions to NGOs, it may not only mean the verification of assets at end of a given period, but also the confirmation that the reported expenses reflect a true position and are related to the project. The monitoring of the project performance may be through periodic site visits by specialised staff to check on actual activities, and also the comparison of reported expenses with actual achievements. It needs to also include periodic examination of the budget versus actual expenditure variance reports so as to check on areas of material variance. These exercises of monitoring, vouching and verification can:

- add credibility to the financial statements presented at the end of a given period;
- improve (or confirm) the trust or reliability of the NGO's management; and
- enable the management to make the necessary budgetary (or implementation method) adjustments where changed circumstances are detected.

According to Kenya's Non-Government Organization Co-ordination Act of 1990, the NGO Co-ordination Board is meant to, inter alia, receive and discuss the annual reports of NGOs, and advise the Government on the activities of NGOs and their role in development within Kenya. The Board conducts a regular review of the NGO register to determine the consistency with the reports submitted by the NGOs and the council. The Act empowers the board to cancel or suspend a certificate of registration where it is satisfied that:

- a) an NGO has violated its terms or conditions attached to the certificate of registration;
- b) an NGO has breached the Act; and
- c) the National Council of Voluntary Agencies, that was established under the Act, has submitted a satisfactory recommendation for the cancellation of the certificate.

The Non-Governmental Organizations Co-ordination Regulations, 1992, explains, among other things, the conduct and administration of non-governmental organizations. It also requires that NGOs furnish to the board their annual reports on or before 31 May in every year.

2.3. Dealing with the Agency Problem

2.3.1 The Views of Jensen and Meckling

Jensen and Meckling (1976) showed that the principals can assure themselves that the agent will make optimal decisions only if appropriate incentives are given and only if the agent is monitored. In the case of this research, we can take the principal to be the donor, while the agent is the management of the NGO. While Jensen and Meckling say that incentives include stock options, bonuses and perquisites, in our case we could say that the incentives are:

- a) Establishing with the NGO a practical budget based on a given objective.
- b) Having a consensus between the NGO and donor on reasonable emoluments that compare well with the market so as to encourage innovation in, and

commitment to, work, and attract the best possible staff in the market. While it is true that NGOs being non-profit making institutions may not afford very high salaries, the need for competitive / excellent services demands that the NGOs attract them through equally competitive incentives. The competitive remuneration for high quality services can result in better performance that tends to justify their utilization.

Jensen and Meckling suggest that monitoring can be done by bonding the agent, systematically reviewing management perquisites, auditing financial statements, and explicitly limiting management decisions. In the case of NGO funding, we could say that:

- a) Bonding between the NGO and the donor can be through agreements that have legal obligations.
- b) Explicit limiting of management decision can be through allowing activities that conform to the agreed upon budget and agreement.
- c) Monitoring can be through the conduct of regular follow-up meetings between the various teams from the donor and the NGO, periodic checking on actual physical implementation and the corresponding financial recording of the transactions involved, and the release of additional donor funding only on the basis of progress made at every successive stage completed.

2.3.2 Financial Requirements

To deal with, among other things, the agency problem, all entities in Kenya must comply with the International Financial Reporting Standards (IFRSs) or the

International Accounting Standards (IASs), as they were previously called. For financial reports of entities to be of more value to the public, they are meant to be audited and confirmed to have been prepared in accordance with International Financial Reporting Standards. In addition to the International Financial Reporting Standards (IFRSs), the Capital Markets Authority (CMA) and the Nairobi Stock Exchange (NSE) lay down accounting requirements for listed companies, but they may conflict with International Financial Reporting Standards (IFRSs). Though these standards/regulations play a significant role in ensuring accuracy in reporting, these standards/regulations can only be effective if supported by other controls.

2.3.3 Corporate Governance

Corporate governance is a framework that describes whom the organisation is there to serve and how the purposes and priorities of the organisation should be decided. The issue of corporate governance has arisen because of the need to separate ownership and management control of organisations and the increasing tendency to make organisations more visibly accountable not only to owners (e.g. shareholders) but also to other stakeholder groups – including the community at large (Johnson, G. and Scholes, K., 2002). Thus, corporate governance deals with the functioning of the organization and the distribution of power among the different stakeholders so as to ensure that the organization achieves its objectives.

While the Kenya Government endeavours to minimize agency problems by ensuring registration of NGOs and their submission of annual accounts on schedule (The Non-Governmental Organisations Regulations, 1992), it has a more elaborate arrangement

on internal controls for public companies. The government has issued guidelines on corporate governance practices by public listed companies and issuers of debt instruments in Kenya's capital market (The Capital Markets Act – Chapter 485A, 2002). These guidelines must be adhered to by all companies listed on the stock exchange for the purposes of good governance in performance, capital formation and maximization of shareholders value as well as protection of the rights of investors. These are basically principles on internal controls that are aimed at ensuring the survival of firms, if adhered to. These principles cover:

- a) The appointment / retirement / resignation, performance and remuneration of directors
- b) The role of the chairman and the Chief Executive
- c) The role of the shareholders by encouraging them to participate in major decisions of the company
- d) Accountability and audit by advocating sound systems of internal control and the appointment of independent auditors according to laid down procedures.

2.3.4 Performance based Compensation Schemes

In addition to enforcement of internal controls, companies use performance based compensation plans to deal with the agency problem. These plans sometimes vary from one firm to another. The use of these plans has become popular in recent years as they act as an incentive to managers to perform well by compensating them on the

basis of their proven performance measured by earnings per share (EPS), growth in EPS, and other ratios of return (Gitman, 2000).

Managers obviously must be compensated. The structure of the compensation package can, and should, be designed to meet two primary objectives: (1) to attract and then retain able managers and (2) to align the managers' actions as closely as possible with the interests of the firm's stockholders, which is primarily stock price maximization (Brigham E.F and Gapenski L.C, 1996). The compensation plans are usually composed of:

- a salary that is revised periodically based on the general performance of the firm and the contribution of each manager;
- promotions to higher managerial grades and/or award of higher managerial titles such as Chief Accountant, Finance Manager, General Manager (Finance), Finance Director, etc;
- a bonus payment at year-end based on profitability of the company; and
- renewal of contract at end of the period.

NGOs usually do not make bonus payment to their staff as they are non-profit making, and to avoid criticism from donors and the people served (the needy). They also, by their nature, cannot give to their staff stock options. However, they usually make annual salary reviews and promote the deserving staff/managers as an incentive for increased performance. Some titles are at times reviewed to suit the functions

undertaken by a manager. The contracts of well-performing managers are also renewed.

Gitman (2000) has indicated that although sizable compensation packages may be justified by significant increases in shareholder wealth, recent studies have failed to find a strong relationship between the chief executive officer's compensation and share price. What Gitman tends to imply is that other factors do affect change in compensation or share price. For the purpose of this study, we could say that while compensation of NGO management and staff may be tied to the achievement of objectives, thus a kind of direct relationship, in practice it may not take place because:

- a) performance may be affected by factors outside the NGO control such as the extent of reception of services by the beneficiaries and host community which may either materially enhance or frustrate the attainment of objectives; and
- b) massive compensations to NGO managers and staff may not take place because the NGOs serve the needy. Thus, more of the funding is meant to be seen by the society/public to be utilized on the solving of the beneficiary needs than going towards meeting the personal needs of the NGO managers and other employees. This becomes a dilemma than when compared to profit-making organizations that are based on business performance. Perhaps it is the un-proportionate concern of meeting the beneficiary needs more than those of management and staff that could encourage the management and staff to engage in secret acts from which they can benefit more.

2.3.5 Legislation

Through the enactment of the Companies Act (Chapter 486, 1962), the Kenyan Government has instituted various controls that, among other things, try to minimize agency problems. This Act was revised in 1978 and it provides, among other things, the requirements/ guidelines with respect to:

- the memorandum of association - i.e., matters regarding the company's name, registered office, objects, liability and capital;
- the Articles of Association or internal management of a company;
- the various types of company meetings and how their proceedings should be conducted;
- the production of annual financial reports;
- the winding up or dissolution of companies; and
- the powers, duties, rotation and disqualification of directors.

On the other hand, the Kenya's Non-Governmental Organizations Co-ordination Act, 1990, established a board that, among other things, should:

- deal with matters regarding registration and de-registration of NGOs
- receive and discuss the annual reports of the NGOs; and
- receive, discuss and approve the regular reports of National Council of Voluntary Agencies for self-regulation of the Non-Governmental Organizations and their activities in Kenya.

According to this Act, the National Council of Voluntary Agencies shall develop and adopt a code of conduct and such other regulations as may facilitate self-regulation by the Non-Governmental Organizations on matters of activities, funding programmes, foreign affiliations, national security, training, the development of national manpower, institution building, scientific and technological development and such other matters as may be of national interest. The Act requires that the council prescribe rules and procedures for audit of accounts of NGOs after ratification by the NGO Co-ordination Board.

The Non-Governmental Organizations Council Code of Conduct (1995) indicates, among other things, that: "In the performance of its functions, every registered organization shall observe the cardinal values of probity, self-regulation, justice, service, co-operation, prudence and respect". It also states that in order for NGOs to be self-regulating, they shall:

- (a) strive for self-determination;
- (b) appraise and evaluate its conduct periodically;
- (c) be open to learning and change; and
- (d) be self-reliant and vigilant.

The Code of Conduct also requires NGOs to observe prudence by, among other things:

- (a) taking well-informed and judicious decisions;
- (b) giving priority to careful and good management practices; and
- (c) exercising and encouraging stewardship in the management and usage of resources.

This code of conduct tends to provide NGOs with a wide field of play with regard to internal controls through “self-regulation” and seemingly tends to leave almost everything to the donors and parent organizations to ensure funds are well utilized.

Further, the Kenya’s NGO Act requires, inter alia, that every NGO discloses:

- the sectors and locations of its proposed activities;
- the proposed average annual budgets;
- the duration of the activities; and
- all the sources of funding.

One would interpret the above requirements to be not only for purposes of knowing the physical areas of operation of NGOs for security reasons, but also to determine the contribution of registered NGOs in the country. In actual practice, the annual budgets of NGOs are affected largely by the contribution of donors. Thus, these budgets and their sources of funds may vary drastically based on the response from the donor community from time to time as donors shift from one area of attention to another. Some NGOs try to diversify their activities, with time, so as to attract more funding,

reach more needy people and prolong their period of operation in a country or region. For example, some NGOs in Kenya tend to be shifting towards AIDS programmes due to the greater international attention given to the victims of AIDS.

The Situation

Many donors, particularly the multilateral institutions, are reluctant to support NGOs in Kenya that are not registered with the Registrar of Companies. In December 2003, the Registrar of Companies announced that NGOs that were not registered by the end of the year would be considered as defunct for the purposes of the Companies Act, 1992. This meant that NGOs that were not registered by the end of the year would be considered as defunct for the purposes of the Companies Act, 1992. This meant that NGOs that were not registered by the end of the year would be considered as defunct for the purposes of the Companies Act, 1992. This meant that NGOs that were not registered by the end of the year would be considered as defunct for the purposes of the Companies Act, 1992.

Case Studies

The first case study is that of the Kenya Red Cross Society, which was incorporated and self-financed in 1952. It was the first NGO to be registered with the Registrar of Companies. The second case study is that of the Kenya National Council for Women, which was established in 1982 and registered with the Registrar of Companies in 1984.

Conclusions

The findings of this study indicate that NGOs in Kenya are facing a number of challenges, particularly in terms of registration and financial sustainability. The Registrar of Companies' decision to consider unregistered NGOs as defunct has had a significant impact on the sector. NGOs that are not registered are unable to access international funding and are at risk of being liquidated. This has led to a number of NGOs closing their doors or being forced to register. The study also found that NGOs are often financially unstable, with many relying on a single donor or a few sources of income. This makes them vulnerable to changes in donor priorities and funding levels. The study concludes that the government and donors should work together to support the development of a more robust and sustainable NGO sector in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 The Population

This study covered NGOs that were funded to deal with assistance to refugees in Kenya. There were 22 NGOs in Kenya dealing with refugees as at 31 December 2003. The study also covered donors of refugee programmes in Kenya in the same period. Among the donors in Kenya, some funded refugee programmes in 2003 while others did not. The actual number of the donors that funded refugee programmes was ascertained during the interview process. The year 2003 was preferred for this purpose because it offered latest results for a whole year as compared to year 2004 that was not yet over. These NGOs and donors are listed in Appendix 3 and 4. A census was done.

3.2 Data Collection

The study relied on primary data collected through two structured and self-administered questionnaires (see Appendix 1 & 2). The respondents were the Finance Managers of the funded NGOs and Programme Officers for the donor agencies.

3.3 Data Analysis

Before processing the data, the completed questionnaires were edited for completeness and consistency.

Descriptive statistics have been used to summarise the data collected. This was based on opinions collected during the interviews, ratios, tables and diagrams.

CHAPTER FOUR

DATA ANALYSIS AND FINDINGS

Figure 4.1: General Information on NGOs

4.1 Perspectives of NGOs Management on Addressing the Agency Problem

4.1.1 Data Analysis

The data in the study was summarised and presented in the form of tables, percentages, frequency distributions and pie charts.

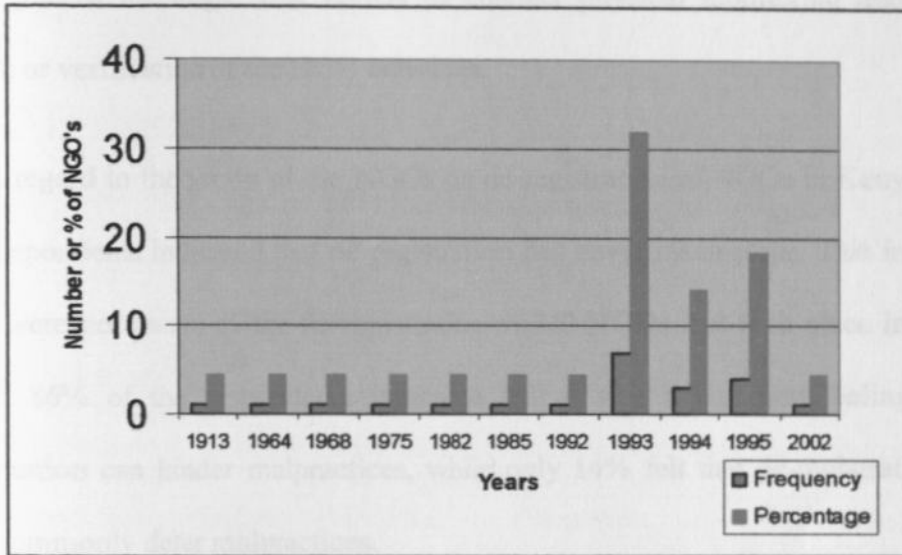
4.1.2. General Information on NGOs

The questions for NGOs were aimed at determining when they were registered in Kenya. The results were:

Table 4.1.2. General Information on NGOs

| Year | Frequency | Percentage |
|--------------|-----------|--------------|
| 1913 | 1 | 4.5 |
| 1964 | 1 | 4.5 |
| 1968 | 1 | 4.5 |
| 1975 | 1 | 4.5 |
| 1982 | 1 | 4.5 |
| 1985 | 1 | 4.5 |
| 1992 | 1 | 4.5 |
| 1993 | 7 | 31.8 |
| 1994 | 3 | 14.0 |
| 1995 | 4 | 18.2 |
| 2002 | 1 | 4.5 |
| Total | 22 | 100.0 |

Figure 1: General Information on NGOs



The above table shows that one of the NGOs that implemented refugee programmes in 2003, the National Council of Churches of Kenya (NCCCK), was registered in Kenya as early as 1913 while the majority, 31.8% were registered in 1993. Additional information collected from the National Council of Churches of Kenya (NCCCK) indicated that it was registered, at that time, as a national council of churches to facilitate common church activities and assistance to the local community. It started serving refugees in Kenya in mid 1950's, and was the first NGO to address refugee problems in Kenya.

4.1.3 NGO Co-ordination Board Effect

All respondents indicated that the NGO Co-ordination Board does not hold management meetings, visit NGOs or conduct physical monitoring and financial audits or verification of the NGO activities.

With regard to the views of the NGOs on de-registration of NGOs in Kenya, 90% of the respondents indicated that de-registration had never taken place. This implies that they were not aware of the de-registration of 340 NGOs that took place in February 2003. 86% of the respondents indicated that it was a common feeling that de-registration can hinder malpractices, while only 14% felt that de-registration would less commonly deter malpractices.

4.1.4 Donor Effect

The question sought to establish how often checks on projects were made by donors.

The common results were:

Table 4.1.4 Project Checks by Donors

| Type of Control | No. of Times a Year | Percentage of Respondents |
|---------------------------------|---------------------|---------------------------|
| Physical Monitoring | 3 or more | 50% |
| Financial Audits/ Verifications | 2 | 86% |
| Management Meetings | 3 or more | 56% |

These results tend to indicate that most of the checks were basically through physical monitoring and management meetings while financial audits and verifications were given comparatively less attention.

As regards participation in budget preparation, 29% of the respondents indicated that they often participated while 71% indicated that they always did. This generally showed that NGOs participated in the preparation of the budgets for the projects that donors funded.

4.1.5 NGO Effect

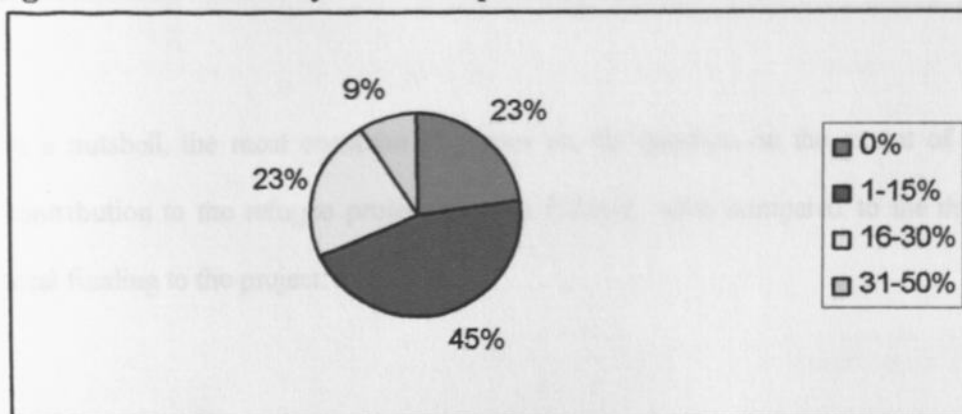
The results on the contribution of NGOs towards operation sectors (direct expenses) and operations support (indirect expenses) were as follows:

a) Operation Sectors

Table 4.1.5 (a): Average Contribution by NGOs to Refugee Operation Sectors

| Average contribution by NGOs to Refugee Projects | Frequency | Percentage of Respondents |
|--|-----------|---------------------------|
| 0% | 5 | 22.7% |
| 1-15% | 10 | 45.5% |
| 16-30% | 5 | 22.7% |
| 31-50% | 2 | 9.1% |
| Total | 22 | 100.0% |

Figure 2: Contribution by NGOs to Operation Sectors

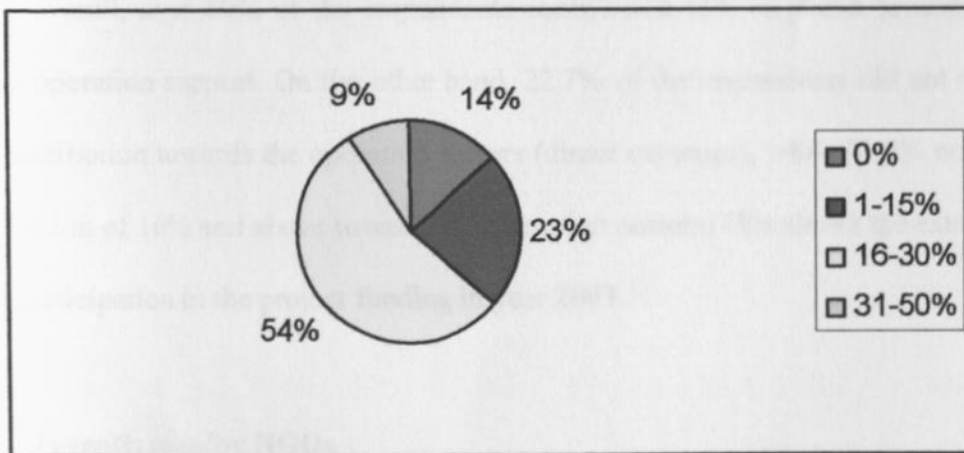


b) Operation Support

Table 4.1.5 (b): Average Contribution by NGOs to Refugee Operations Support

| Average contribution by NGO to Refugee Projects | Frequency | Percentage of Respondents |
|---|-----------|---------------------------|
| 0% | 3 | 13.6% |
| 1-15% | 5 | 22.7% |
| 16-30% | 12 | 54.6% |
| 31-50% | 2 | 9.1% |
| Total | 22 | 100.0% |

Figure 3: Contribution by NGOs to Operations Support



In a nutshell, the most common responses on the question on the extent of NGO contribution to the refugee project were as follows, when compared to the donors' total funding to the project:

Table 4.1.5 (c): NGO Contribution to Operation Sectors and Support

| Sectors Contributed to | Percentage of NGO Contribution to Refugee Project | Percentage of Respondents |
|------------------------|---|---------------------------|
| Operation Sectors | 1-15% | 45.5% |
| Operations Support | 16-30% | 54.6% |

The results also showed that 9.1% of the respondents made a contribution of 31%-50% to the operations support (indirect expenses) for the projects as compared to the donors' funding while another 13.6% made a contribution of 0%. This implies that on the overall, over 60% of the respondents contributed 16% or above towards the project operation support. On the other hand, 22.7% of the respondents did not make any contribution towards the operation sectors (direct expenses), while 31.8% made a contribution of 16% and above towards the operation sectors. This shows the extent of NGO participation in the project funding in year 2003.

4.1.6 Incentives to/by NGOs

The most common views on the comparison of NGO incentives with other employers in Kenya gave the following results:

Table 4.1.6 NGO Incentives Compared with other Employers in Kenya

| Incentive | Rating | Percentage of Respondents |
|----------------|---------|---------------------------|
| Salary | Average | 67% |
| Other Benefits | Average | 56% |

None of the respondents was of the view that their incentives were good or very good. This generally implies that when compared to other employers in Kenya, the incentives given to staff by NGOs in 2003 were not good. Additional information obtained from 22.7 % of the respondents indicated that they had high turnover of camp-based management and support staff who tended to leave for better opportunities away from the camps which are in hardship areas.

An average of 56% of the respondents were of the opinion that the ideal ratio of agency operation support costs to total project value that should be met by the donor to enable an NGO deliver expected results on the refugee programme as per set objectives is 21-30%. Based on the information provided by donor respondents, on the average, the agency operation support costs met by the donors when compared to total project value was 21% as at 31 December 2003. This tends to compare well with the average expectations of NGOs from donors.

The average ratio of management staff that are indigenous and those that are expatriates was 14:1, in favour of indigenous staff. This implies that there was, generally, preference of local management staff for most of the management posts, presumably with the exception of the few highly rated posts. This might have been a fair option given that it is usually more expensive to engage expatriates than local staff.

The question on which office each functional department in the field reported to was aimed at determining whether the field offices have adequate authority delegated to

enable them to function without undue delays as head offices are in Nairobi, which is far from the refugee camps. The results showed that the functional departments of 78% of the respondents reported to the Nairobi offices. This could generally hinder timely decision-making or not guarantee effective supervision or overseeing of events at the camp level.

All the respondents indicated that funds received from various donors for an activity were accounted for separately as per the requirements of each donor.

All the respondents indicated that their management staff were compensated through salary and other benefits such as house allowance, transport allowance and medical benefits, hardship allowance, paid leave and travel expenses. Travel expenses for rest and recuperation (R&R) purposes were also catered for. While the staff expenses appear diverse, it is not clear if they were adequate.

4.2 Donors' Approach to Addressing the Agency Problem in NGOs

4.2.1 Background Information on Donors

The questions for the donors were aimed at determining which organizations funded refugees in Kenya in 2003. Of the 36 respondents contacted, it was confirmed that only 30% funded refugee programmes in 2003. 20% had not funded refugee programmes in 2003 but had done so previously although not on a continuous basis. The rest had not funded refugee programmes but do fund other programmes in Kenya.

The responses of the NGOs which funded refugee programmes in 2003 were considered for the rest of the questions asked.

4.2.2 NGO Performance / Contribution

Questions on NGO performance or contribution were intended to cross-check with the donors on their extent of monitoring, verification, participation of NGOs in budget preparation, contribution of NGOs to refugee projects and incentives given to NGO management and staff. The common results on monitoring were as follows:

Table 4.2.2 (a): NGO Performance or Contribution

| Type of Control | Number of Times per Year | Frequency |
|---------------------------------|--------------------------|-----------|
| Physical Monitoring | Thrice or more | 56% |
| Financial audits / verification | Twice | 60% |
| Management meetings | Thrice or more | 45% |

The results indicate that more physical monitoring and management meetings as compared to financial audits and verifications.

All respondents indicated that they always liaised with implementing NGOs as regards budget preparations. This practice can encourage efficiency in implementation as funds can be allocated based on needs and resources available while considering the capacity and views of the implementing NGOs.

The results on the average contribution by NGOs to the refugee projects tended to agree with the information received from the NGOs. The information from the donors was as follows:

Table 4.2.2 (b): Average Contribution of NGOs to Refugee Projects

| Sector(s) Contributed to | Percentage of Contribution to Refugee Project | Percentage of Respondents |
|--------------------------|---|---------------------------|
| Operation Sectors | 1-15% | 70% |
| Operations Support | 16-30% | 60% |

These results confirm that on the average, NGOs do contribute to both operation sectors and operations support. The participation in meeting of these expenses can cause an attachment to a project and thus motivate, to an extent, the management of an NGO to treat the funded projects as one of the NGO's own projects. In response to another question, the donor respondents were of the view that NGOs should make a contribution of 21-30% of the total project value.

The most common response from donors on how they rated the incentives given to the employees of NGOs was that they were good. This rating was given by 60% of the respondents while 40% submitted information that agreed with that received from NGOs that these incentives were average.

All responses to another question raised on incentives recommended by donors for payment to NGO management and staff tended to support what the NGOs are paying.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of Findings

The findings were:

- The NGO Co-ordination Board has not instituted any mechanisms for the monitoring of the performance of NGOs so as to hinder malpractices, reduce the collapse of NGOs and ensure the maximization of the benefits derived from the services of NGOs.
- Most donors hold management meetings with NGOs and conduct physical monitoring of projects, while financial monitoring is comparatively given less weight.
- NGOs participate in budget preparations. This implied that they make a contribution to the determination of the amount of resources required to achieve the objectives. This, in effect, can minimize levels of non / under implementation if there is effective physical and financial monitoring.
- Some NGOs did not make a contribution of their own resources towards both the direct refugee expenses and the related overheads that included salaries for their own staff. This implied that they were not implementing partners, but implementing agencies.

- Local management staff members were generally preferred to international ones, and all staff members were compensated through incentives such as salaries and other benefits.
- The results on NGO incentives, compared with other employers in Kenya in 2003, showed that all the respondents felt the incentives were not good.
- Additional information obtained indicated that there was a problem of high labour turnover of both management and support staff in the camps. This may indicate the existence of weak / inadequate performance based compensation schemes that are meant to take into consideration factors such as the nature of work done, knowledge / skills required, conditions of work and evaluated periodic performance.

5.2 Conclusions

In order to alleviate the agency problem, the following are suggested:

- a) The provision of services by donors should be by direct implementation, though on a lower scale, until the choice of suitable implementing partner is done through procedures that guarantee selection by merit and ensure the utilization of NGOs that, at least, make contribution of resources towards the services to be provided to the beneficiaries of the donations. NGOs that do not contribute to the project funding should be avoided by:
 - Preference of implementation partnership to implementation agency
 - Considering the extent of participation of the NGO in the operation / project by contributing its own funds / resources in addition to the

funds received from donors so as to create a sense of attachment to the project and, thus, assist in reducing the agency problem.

- Selecting an NGO with the most acceptable or competitively donated funds operational support costs ratio up to a certain established ceiling so as to maximize the benefit received from the donations, the formula for the ratio being:

$$\frac{\text{Operational Support Costs}}{\text{Donated Funds}} \times 100$$

- b) The selection of NGOs should consider a wide of factors such as capacity to perform, capacity to keep reliable records, experience, etc.
- c) The selection should be based on area of NGO specialization so as to utilize accumulated skills and also enjoy possible economies of scale as services of regional NGO experts can be used or accessed.
- d) That both the donor and NGO should have active monitoring capacities that are compatible so as to “pull” in the same direction. The donors could assist to build the capacities of NGOs and train them in basic areas such as financial management, the need to have independent audits or evaluations of their activities, and the need to have equipped monitoring capabilities in the area of their specialization.
- e) That equal emphasis be on both monitoring through physical and financial controls and that they be well co-ordinated, carried out by competent staff and spread over the implementation period so as to detect and correct faults or weaknesses early. It is certainly one thing to verify or monitor,

but it is quite another thing when the quality of what is carried out is considered. The usage of competent staff in monitoring and verifications can tend to reduce future complaints and disagreements as areas of weakness can be detected in a timely fashion and corrected.

- f) The human resources should be recruited transparently based on merit and given competitive incentives that relate to performance and conditions of service so that the services of good staff can be retained to enable effective delivery of services and discourage misuse of resources. While the training of NGO staff by donors should be encouraged, it may be a futile exercise if the staff / labour turnover in NGOs is high.
- g) The selected NGOs need to be registered members with the NGOs Co-ordination Board and that the board's role should be exercised better through regular periodic reviews of the performance of registered NGOs. Non-performing NGOs should be de-registered, while 'mobile' or 'brief-case' NGOs should be discouraged as some NGOs may cease to have a physical address soon after their registration.

For the reduction or management of the agency problem, there is need for not only external audits, but also planned periodical detailed vouching / verification of performance through both physical and financial test-checks conducted by the donor to confirm given reported performance.

For the NGO Co-ordination Board to be effective, it needs to have the capacity to check on the institutional functioning of its members. It should also be able to take

punitive or corrective measures whenever deemed necessary. The board needs to ensure that funds received by NGOs from all sources are disclosed and their usage not only accounted for, but also verifiable. The NGO Co-ordination Board should have its own independent auditors who should confirm the final statements before such statements are discussed by the board. Its findings need to be compared with those of external auditors in order to crosscheck the reliability of the information obtained through the external auditors. The presence/existence of the NGO Co-ordination Board should be strongly felt.

5.3 Limitations of the Study

The study did not examine the quality/adequacy of the controls used to minimize the agency problem. Though the existence/quantity of management meetings, physical monitoring and financial vouching and verifications were examined, the quality aspect was not considered. For example: management meetings may be judged by their agendas, quality/capacity of the participants themselves, and ability to follow-up on actions taken. Thus, an organization may have many management meetings, which neither add value to a project nor detect and correct problem areas. The same may be said about physical monitoring and financial vouching and verifications.

5.4 Recommendations for further Research

There is need to carry out a study on the quality of physical and financial monitoring of the performance of NGOs that implement refugee programmes, in order to investigate further if there are more ways of handling the agency problem.

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APPENDIX 1: QUESTIONNAIRE TO THE MANAGEMENT OF NGOS

The scale below, please tick the number applicable to each check

Section A - Background information

- 1. *Less common*
- 2.
- 3.
- 4. *Very common*

1. Name of the Organization

Section B - NGO Co-ordination Board Effect

Year of de-registration can

2. In which year was your organization registered in Kenya ?

3. How often does the NGO Co-ordination Board perform each of the checks below on your organization? (Using the scale below, please tick the number applicable for each check)

On the average, how often do your donors or manager funds undertake checks requests implemented by you in every year between 2001 and 2007? Using the scale below, please tick the number applicable for each

- 1. None
- 2. Once a year
- 3. Twice a year
- 4. Thrice a year or more

| | | | | |
|---------------------------------|---|---|---|---|
| Physical monitoring | 4 | 3 | 2 | 1 |
| Financial audits / verification | 4 | 3 | 2 | 1 |
| Management meetings/ visits | 4 | 3 | 2 | 1 |

2007 Audits/Verification

Management Meetings

4. What is your view with regard to de-registration of NGOs in Kenya? (Using the scale below, please tick the number applicable for each check)

1. Never
2. Less common
3. Common
4. Very common

| | | | | |
|---|---|---|---|---|
| Extent of de-registration of NGOs | 4 | 3 | 2 | 1 |
| The threat of de-registration can hinder malpractices | 4 | 3 | 2 | 1 |

Section C - Donor Effect

5. On the average, how often did your donors of refugee funds undertake checks on the refugee projects implemented by you in every year between 2001 and 2003? (Using the scale below, please tick the number applicable for each check)

1. None
2. Once a year
3. Twice a year
4. Thrice or more a year

| | | | | |
|--------------------------------|---|---|---|---|
| Physical Monitoring | 4 | 3 | 2 | 1 |
| Financial Audits/ Verification | 4 | 3 | 2 | 1 |
| Management Meetings | 4 | 3 | 2 | 1 |

6. How often does your organization participate in the budget preparation for the refugee funds? (Using the scale below, please tick the number applicable for check)

1. Not at all
2. Less often
3. Often
4. Always

| | | | | |
|---|---|---|---|---|
| Operation Sectors | 4 | 3 | 2 | 1 |
| Operation Support (including own staff salaries) | 4 | 3 | 2 | 1 |

Section D - NGO Effect

7. How would you classify your organization's average contribution to the refugee project under your implementation every year when you compare to the donor's funding for the same project? (Using the scale below, please tick the number applicable for each check)

1. 0%
2. 1 – 15%
3. 16 – 30%
4. 31 – 50%

| | | | | |
|--|---|---|---|---|
| Operation Sectors | 4 | 3 | 2 | 1 |
| Operations Support (Including own staff salaries) | 4 | 3 | 2 | 1 |

8. When compared to other employers in Kenya, how would you rate the incentives given to your employees? (Using the scale below, please tick the number applicable for each check)

- 1. Poor
- 2. Average
- 3. Good
- 4. Very Good

How many of your management staff that are charged to the project are

| | | | | |
|-----------------------------|---|---|---|---|
| Salary | 4 | 3 | 2 | 1 |
| Other Benefits / Allowances | 4 | 3 | 2 | 1 |

9. In your opinion, based on your experience, what can be an ideal ratio of Agency Operation Support Costs to Total Project Value should be met by the donor to enable you deliver results on the refugee programme as per objectives? (Please use the scale below)

- 1. 1 - 10%
- 2. 11 - 20%
- 3. 21 - 30%
- 4. 31 - 40%
- Other%

10. What was the percentage of Agency Operation Support Costs to Total Project Value was each of your donors providing to you as at 31 December 2003?

- Donor A
- Donor B
- Donor C
- Donor D

11. How many of your management staff that are charged to the project are:

- Indigenous
- Expatriates

12. List the functional departments that your organization has in the field and the respective office to which each of them reports.

| Department | Field Office Reported to |
|-------------------|---------------------------------|
| 1. | |
| 2. | |
| 3. | |
| 4. | |
| 5. | |
| 6. | |

13. How does your organization treat funds received from various donors for the same activity?

(a)

(b)

14. How does your NGO compensate its management and other staff? (Please list them)

a)

b)

c)

d)

e)

f)

THANK YOU FOR YOUR COOPERATION

| | | | | |
|-----------------------------|---|---|---|---|
| Field Monitoring | 4 | 3 | 2 | 1 |
| Social Audits/ Verification | 4 | 3 | 2 | 1 |
| Management Meetings | 4 | 3 | 2 | 1 |

APPENDIX 2: QUESTIONNAIRE TO THE MANAGEMENT OF DONOR AGENCIES (Using the scale below, please tick the number applicable for check)

Section A - Background information

1. Name of the Organization
2. Did your organization fund the refugees in Kenya during 2003?
Yes/ No

Section B – NGO Performance/ Contribution

3. On the average, how often did your organization undertake checks on the refugee projects implemented by NGOs in every year between 2001 and 2003? (Using the scale below, please tick the number applicable for each check)
 1. None
 2. Once a year
 3. Twice a year
 4. Thrice or more a year

| | | | | |
|--------------------------------|---|---|---|---|
| Physical Monitoring | 4 | 3 | 2 | 1 |
| Financial Audits/ Verification | 4 | 3 | 2 | 1 |
| Management Meetings | 4 | 3 | 2 | 1 |

4. How often did your organization liase with NGOs in the budget preparation for the refugee funds? (Using the scale below, please tick the number applicable for check)

1. Not at all
2. Less often
3. Often
4. Always

| | | | | |
|---|---|---|---|---|
| Operation Sectors | 4 | 3 | 2 | 1 |
| Operation Support (including own staff salaries) | 4 | 3 | 2 | 1 |

5. How would you classify the average contribution by NGOs to the refugee projects under your funding each year when you compare to the donor's funding for the same project? (Using the scale below, please tick the number applicable for each check)

1. 0%
2. 1 – 15%
3. 16 – 30%
4. 31 – 50%

| | | | | |
|--|---|---|---|---|
| Operation Sectors | 4 | 3 | 2 | 1 |
| Operations Support (Including own staff salaries) | 4 | 3 | 2 | 1 |

6. When compared to other employers in Kenya, how would you rate the incentives given to the employees of NGOs? (Using the scale below, please tick the number applicable for each check)

- 1. Poor
- 2. Average
- 3. Good
- 4. Very Good

| | | | | |
|-----------------------------|---|---|---|---|
| Salary | 4 | 3 | 2 | 1 |
| Other Benefits / Allowances | 4 | 3 | 2 | 1 |

7. In your opinion, based on your experience, what is the ideal ratio of NGO Contribution to Total Project Value that should be made to your projects?

(Please use the scale below)

- 1. 1 - 10%
- 2. 11 - 20%
- 3. 21 - 30%
- 4. 31 - 40%
- Other%

8. What incentives have your organization recommended for payment to NGO management and staff (Please list them).

- a)
- b)
- c)
- d)
- e)
- f)

THANK YOU FOR YOUR COOPERATION

Appendix 3: List of NGOs Dealing with Refugees in Kenya

As per the last UNHCR mailing list for 2003 and the information obtained from among the NGOs dealing with refugees that was cross-checked, the following is the list of NGOs that dealt with refugees in 2003:

- African Refugee Programme (ARP)
- African Refugee Training and Employment Services (ARTES)
- African Rehabilitation & Education Programme (AREP)
- CARE International in Kenya
- German Technical Co-operation (GTZ)
- GOAL Kenya
- Hebrew Immigration Aid Society (HIAS) Refugee Trust of Kenya
- Handicap International (HI)
- International Organization for Migration
- International Rescue Committee (IRC)
- Jesuit Refugee Services (JRS)
- Lutheran World Federation (LWF)
- Medecins sans Frontieres – Belgium (MSF-B)
- Medecins sans Frontieres – Spain (MSF-S)
- National Arch-Diocese Refugee Assistance Programme (NARAP)
- National Council of Churches of Kenya (NCCK)
- Oxfam GB
- Refugee Consortium of Kenya
- Salesians of Don Bosco
- Save The Children - Sweden
- Windle Trust
- World Vision Kenya (WVK)

APPENDIX 4: Schedule of Sources of NGO Funding in Kenya

As per the Rockefeller Foundation and Lutheran World Federation schedules, the following organizations provide donor funding in Kenya:

Action Aid
African Centre for Technology Studies (ACTS)
Aga Khan Foundation
Bellerive Foundation
Bernard van Leer Foundation
CARE International
Church of Sweden Aid
Danish International Development Agency (DANIDA)
Department for International Development (DFID)
Evangelical Church in Italy
Finish International Development Agency (FINNIDA)
Food for the Hungry International
Fredrich Ebert Foundation
German Technical Co-operation (GTZ)
International Development Research Centre
International Organization for Migration (IOM)
Irish Aid
Japan International Co-operation Agency (JICA)
Jesuit Refugee Services
Kianda Foundation
Lutheran World Relief / Bureau for Population and Refugee Migration (BPRM)
Norwegian Church Aid (NCA)
Olympic Aid - Canada
Pathfinder International
Program for Appropriate Technology in Health (PATH)
Swedish International Development Agency (SIDA)
The French Government
The Netherlands Olympic Committee
The Norwegian Government
The Rockefeller Foundation
The World Bank
Trocaire
United Nations Agencies (UNICEF, WFP, UNESCO, UNDP, WHO, UNHCR)
United States Agency for International Development (USAID)
World Council of Churches
World Vision