THE RELATIONSHIP BETWEEN DONOR FUNDING AND PERFORMANCE CONTRACTING SCORE OF STATE OWNED ENTERPRISES IN KENYA

DANIEL KINUTHIA MWANGI

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

OCTOBER 2013

DECLARATION

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

Signed……………………………………. Date…………………………………..

Daniel Kinuthia Mwangi

D63/79799/2012

This research project has been submitted for examination with my approval as the University of Nairobi supervisor.

Signed………………………………… Date…………………………………...

Mr. Cyrus Iraya

Lecturer Department of Finance and Accounting,

School of Business, University of Nairobi

ACKNOWLEDGEMENT

I would like thank God for granting me the wisdom and courage to successfully complete this work

I wish to acknowledge too the effort and support of my supervisor, Mr. Cyrus Iraya. I have come from a simple research topic to expansive work of use to the society through his guidance. I am grateful and may God bless you.

I also thank my family for supporting my idea to pursue the Msc Finance course. I wish to finally express my gratitude to all those who, in one way or another, contributed directly or indirectly towards the completion of this project.

DEDICATION

This work is dedicated to my wife Jane, my children Joy, Glory and Prosper who most of the time missed out on the fatherly love while I was away studying in the evening and staying late night. Finally, to my larger family and my pastor for their unwavering support and prayers.

ABSTRACT

One of the significant management reforms in the public service in recent times aimed at addressing the agency problem has been the introduction of performance contracts. Performance Contracting is part of broader public sector reforms aimed at improving efficiency and effectiveness in the management of the Public service. Part of the strategies of improving this is providing enough finances to run the agencies programs and donor funding has been very instrumental. However, little is known on how the donor funds affect the performance of government agencies. Thus, the objective of the study was to establish the relationship between donor funding and performance contracting score of state owned enterprises in Kenya. The descriptive study targeted a population of 170 state-owned corporations in Kenya from which 40 were chosen. The study used secondary data sources from the Treasury and Ministry of Devolution for 2009/10 to 2012/13. Simple linear regression analysis was conducted. The findings show that, at 95% confidence level, there were significant and good but negative linear association between donor funding and performance contracting ($p < .05$). The study concludes that on average, there is a negative linear relationship between donor funding and performance contracting score. Depicting that donor funding enhances the performance contracting score of state-owned corporations.

TABLE OF CONTENT

LIST OF TABLES

LIST OF ACRONYMS

EU-MPP	European Micro Projects Programme
NGO	Non-Governmental Organization
NSDS	National Service Delivery Survey
ODA	Official Development Assistance
SCAC	State Corporations Advisory Committee
SOEs	State Owned Enterprises
MTEF	Medium Term Expenditure Framework

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

This study focused on the relationship between donor funding and the performance contracting score of state owned enterprises in Kenya. State owned organizations mainly draw their funding from the consolidated fund. However due to limitations of budgetary allocation, some SOE have received donor funding to enable them achieve their objective. As hybrid creations of economics and politics, state-owned enterprises (SOEs) have always played important roles in the political economies of nation states. SOEs have often become inefficient burdens on national budgets, however, and policymakers have tried to improve their productivity and to privatize them to become parts of growing free market economies (Efird, 2010).

The concept of performance contract however varies from country to country (Robert and Peter, 1988). The extent to which performance contracting has been adopted has significantly varied between not only public sectors of various countries, but institutions within those countries**.** Challenge in stability operations is how to harness SOEs in the short term in the immediate wake of conflict. These enterprises usually appear unviable and infected with the political forces that created the conflict in the first place. However, revitalizing SOEs reassures a conflict-prone country's populace that its legitimate government is committed to immediate improvement of their well-being. The government's task of revitalizing SOEs is not inconsistent with attempts to create a sound market-based economy. Instead, it is a way to secure the population's support for rational privatization in the longer term and to attract domestic and foreign investment for sustained economic progress. Thus, revitalization of SOEs is a useful objective on the road to stability.

Improved accountability in the conduct of public affairs is another reform objective. It may be observed that even in more economically stable states in Africa there are major deficits in accountability (Olowu, 1999; Therkilsden, 2001). The problems have arisen because governments ignore or transgress social ethics and constitutional and legal provisions in conducting public affairs; tasks to be performed are so complex or unspecified that implementation is very difficult if not impossible. In addition, corrupt practices are widespread, activities are hidden, political and personal loyalties are rewarded more than merit. Public participation in running public affairs is low (Olowu, 1999; Therkilsden, 2001).

The impact of performance contracting therefore cannot be evaluated in isolation of performance measurement, (PM). Basically, performance measurement is the process of quantifying past actions (Nell, 1998).

1.1.1 Donor Funding

Donor aid Effectiveness remains top priority for international development community. The development partners are able to provide the funds in the areas of interest and also offer some expertise advice and support economic development. According to McCormick et el, 2007 development aid is a mixed blessing for the countries that receive it. It provides much needed resources to build infrastructure, bolster production, provide health care and education, and facilitate a whole range of economic, political, and social processes. At their best, the interactions between donors and recipients foster mutual learning and are themselves a benefit. But development aid has its downside. Some aid comes with strings and "conditionalities" that reduce its effectiveness and leave governments feeling that they have lost their autonomy. The complex funding and administrative arrangements that surround aid projects require governments to devote time to everything from proposal writing to entertaining dignitaries from the home country of the donor. The more projects and donors there are, the more time and effort governments must spend to satisfy these requirements. Observers over the years have pointed out that such effort may affect the state's capacity to carry out its own development responsibilities. The capacity of the SOE management, funds disbursement (donor conditions) and procurement related activities have been sighted as some of the factors that affect donor funding. Absorption capacity can be defined as the extent to which a state is able to fully spend the allocated financial resources from the donor funds in an efficient and effective way.

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

1.1.2 Performance Contracting Score

The setting of specific performance targets in a format that can be monitored is intended to provide a basis for evaluating performance and improving accountability in the public sector. Thus, the concept is inseparable with accountability and financial performance. Organizational performance comprises the actual output or results of an organization as measured against its intended outputs (or goals and objectives). According to Richard et al (2009) organizational performance encompasses three specific areas of firm outcomes: Financial performance (sales, market share) and shareholder return (total shareholder return, economic value added). Organizational performance is probably the most widely used dependent variable in organizational research today yet at the same time it remains one of the most vague and loosely defined constructs. The biggest challenge to organizational performance is the external environment. The challenges that may arise from external environment include political, economic, socio- cultural, environmental and technical (Sninder and Randon, 2001)

The concept of organizational performance refers to the change in which the managers and governing body of an organization put into place and manage a programme which measures the current level of the performance of the organization and then generate ideas for modifying organizational behavior and infrastructure which are put in place to achieve higher output. The primary goals of the organizational effectiveness and efficiency is to improve the ability of the organization to deliver goods and or services. Researchers have argued that internal integration of various activities in an organization will be able to enhance economic performance. Flynn et al, (2010) define internal integration as the degree to which two departments collaborate in the management of both inter and intra departmental process to provide maximum value for the firm.

According to Guralnik and David (2004) performance is the achievement which is often used to show the ability or “the show” which is commonly used to show up the performance, or it also means “doing the task that shows someone’s action in working.” On the other hand, Bernardin & Russel (2009) define that performance is the record of the result which is gained from the function of certain work or certain activities in certain period of time.

1.1.3 Effect of Donor Funding on Performance Contracting Score

In line with the new institutionalist perspective in public service management, as reflected in public choice theories and in the policy prescriptions based on them, the idea of performance contracting score between the Kenyan government , public enterprises and donor organizations is increasingly being applied as an instrument for restructuring. However, performance evaluation results of these public enterprises have not been made public in order to evaluate the impact of such contracts, performance and accountability of such donor funding. Donor funding is expected to be an increased direct source of funding which is factored either in investing or financing activities of the organization. This provision of funds which are long term and cheaper may lead into improved performance of the SOE. Therefore it is assumed that there is a direct relationship between donor and SOE performance. Why aid now appears to work in promoting growth, after decades of little or no clarity in research circles over its effectiveness is a matter of speculation. A widespread view as to why this is so is that donors, following the demise of the Cold War, are paying more attention to developmental criteria in the design and application of aid activities (McGillivray, 2003a, 2002).

Another plausible reason why aid is now thought to have a positive impact is that recent studies employ better empirical methods and have access to better data, making it possible to observe such an impact. This of course implies that aid might always have been effective, and that earlier studies were simply not able to observe such an impact (McGillivray, 2003a).

1.1.4 State Owned Enterprises

State owned enterprise commonly referred to in Kenya as sate corporations or parastatals are established within the provision of the state corporations Act Chapter 446 of the laws of Kenya and given the autonomy to run and concentrate on specific mandates in order to improve service delivery to the public. Although they have board of directors or equivalent governing bodies to oversee the day to day operations, they operate within the general supervision of respective ministries under which they are created. There are approximately 170 state corporations in Kenya today which are divided into eight broad functional categories based on the mandate and core functions; the eight categories are Financial corporations, commercial/manufacturing corporations, Regulatory corporations, public universities, Training and research corporations, service corporations, Regional development authorities, Tertiary education and Training corporations. The total number of state corporations may change owing to time lapse, creating new ones and merging existing ones. The Kenyan Government forms state corporations to meet both commercial and social goals. They exist for various reasons including: to correct market failure, to exploit social and political objective, provide education, health, redistribute income or develop marginal areas. At independence in 1963, parastatals were retooled by sessional paper no 10 of 1965 into vehicles for the indigenization of the economy.

1.2 Research Problem

One of the significant management reforms in the public service in recent times aimed at addressing the agency problem has been the introduction of performance contracts. Performance Contracting is part of broader public sector reforms aimed at improving efficiency and effectiveness in the management of the Public service. Governments all over the world are increasingly faced with the challenge to improve delivery of service to the public. Performance Contracts (PCs) have their origins in the general perception that the performance of the public sector in general and government agencies in particular has consistently fallen below the expectations of the public.

The problems that have inhibited the performance of government agencies are largely common and have been identified as excessive controls, multiplicity of principals, frequent political interference, poor management and outright mismanagement. Different approaches to public sector management have been employed to address these challenges. Among these measure performance contracting. It includes using relevant expertise such as financial, legal and pro making provisions for appropriate access to records and premises ‘by agency (the parties organization) and the Auditor-General to allow them have sufficient access to fulfill respective accountability requirements. It is also intended to establish clear mechanisms for assessing monitoring performance under the contract, including consideration of the use of sanctions and incentives to achieve the contracted results. Parastatals therefore are deeply implicated in most fiscal problems of

African governments because of their inefficiency, losses, budgetary burdens, and provision of poor products and services. Occassionary they achieve some non-commercial objectives, which are used to justify their poor economic performance (Louw, 1999). In Kenya, parastatals consume large portions of scarce national resources and do not always use them effectively or efficiently. With 170 state corporations, more than 50% receive their direct exchequer funding for either all their expenditure or are subsidized to a very large extent with funding that averages 30% of Development and recurrent national budget (SCAC, 2009).

Several studies have been conducted in the field of state corporate sector performance but focused different aspects other than relationship between donor funding and performance contracting score of state owned enterprises; Ajwang (2009) studied the relationship between corporate culture and organizational performance, a survey of Kenya state corporations, while Ouma (2012) studied factors affecting the effective implementation of donor funded projects in Kenya. These studies did not cover the relationship between donor funding and performance contracting score of state owned organizations in Kenya. This research sought if there is any relationship between donor funding and performance of the state owned enterprises. To look unto this, it is important to consider the donor funding component to the total budget allocation in a given financial period. The purpose of the study therefore was to fill this gap in literature by addressing the following questions: what is the extent of donor funding in state owned corporations? What effect does donor funding have on performance contracting score of SOE's in Kenya?

1.3 Objective of the Study

To establish the relationship between donor funding and performance contracting score of state owned enterprises in Kenya.

1.4 Value of the Study

The study is useful to the state corporations who receive donor funding to finance their activities. How they can attribute their performance to the funding. The findings may also provide a useful reference document to the stakeholders especially the donor on the effectiveness of the aid they give to a nation. Many donors also makes follow-up on how the funds are being utilized. It may help them know which sector of the economy is aid more effective. It is help the policy makers within public sector on the likely areas to channel more funds. It can also be used by the Government to justify existence of a state corporation. Scholars, students and other researchers may also find the study helpful to identify further areas of research built on the findings of this research. The study may be a source of reference material for future researchers on other related topics. It may also help other academicians who may undertake the same topic in their studies. The study may also highlight other important relationships that require further research: this may be in areas of donor funding and organizational performance.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter discuses essential issues that form the background of the study. It is organized systematically starting from the theoretical literature to the conceptual framework of the study. This chapter reviews literature in the following pertinent issues; the relationship between donor funding and performance of state owned enterprises in Kenya. It highlights the factors affecting utilization of donor funds and the effects on the performance of the SOE's.

2.2 Theoretical Framework

This section reviews the theoretical aspect of both the donor funding aspects and their effects on the performance of the state owned enterprises. SOEs concept began as the notation of how government could raise revenue for three purposes: to supply the basic services needed to maintain market economy, to supply particular services and to enrich the sovereign. The idea of raising revenue to supply particular services expanded in the late 19^{th} and early 20^{th} century to include actions intended to correct various market failures.

2.2.1 Theory of Public Choice

The theory of public choice is the last part of modern theory of public finance concerned with democratic government. In the 18^{th} and 19^{th} centuries, when the European governments were largely autocracies, the king was often charged with the task of supplying "public goods" (Foldvary, 1994). Economist who advised the government could be certain that the king had the power to implement advice at a minimum cost.

Moreover, the king had power and often the incentive to make sure that his orders were followed. With gradual expansion of democracy, however, economist could not rely on the person whom they gave advice to have such power or incentive. A democratic government is likely to receive advice from many people. The implicit belief that sound economic advice would be transformed into law was recognized to be unrealistic. It is evident that a collective decision requires a compromise among individuals with diverse individual interests. As a result, it is costly to make. Given the cost of reaching unanimous decisions, compromises also necessarily entail local inefficiencies. Economist interested in studying economic policy in a democracy of which public finance economists comprise probably the largest subgroup, naturally began to analyze the specific problems and costs of causing public goods to be supplied through democratic decision making. Swedish economist Knut Wicksell seems to have been the first to write about this issue in 1896 (Wicksell, 1896).

However, his work was largely ignored. Its discovery by James M. Buchanan in the late 1940s led the latter to ultimately make the problem of democratic collective decision – making a focal point of his public finance. In the 1950s and 1960s an increasing number of economists began to consider problem associated with achieving efficient "public goods" supply by means of collective decision making. The result was the theory of collective decision making on public choice. One can understand the major portion of public choice theory by comparing an individual's decision to buy a private good with a collective's decision to buy a public good (Buchanan, 1975). A collective that is considering whether to buy a public good must have some rule or rules for deciding how the individuals' demands or votes, for public good will be registered, counted and weighed. Once a collective decision is made, a means must exist to collect the money that decision requires member to pay. A coercive taxing agency is a typical means. Then arrangements must be made to purchase the good or service (Rosenthal & Wong, 2010

2.2.2 Dependency Theory

Dependency theory is a theory of how developing and developed nations interact. It can be seen as an opposition theory to the popular free market theory of interaction. Dependency theory was first formulated in the 1950s, drawing on a Marxian analysis of the global economy, and as a direct challenge to the free market economic policies of the post-War era. The free market ideology holds, at its most basic, that open markets and free trade benefit developing nations, helping them eventually to join the global economy as equal players. The belief is that although some of the methods of market liberalization and opening may be painful for a time, in the long run they help to firmly establish the economy and make the nation competitive at the global level (Vernengo, 2004).

Dependency theory, in contrast, holds that there are a small number of established nations that are continually fed by developing nations, at the expense of the developing nations' own health (Sunkel, 1966). These developing nations are essentially acting as colonial dependencies, sending their wealth to the developed nations with minimal compensation. In dependency theory, the developed nations actively keep developing nations in a subservient position, often through economic force by instituting sanctions, or by proscribing free trade policies attached to loans granted by the World Bank or International Monetary Fund. Dependency theory was incredibly popular during the 1960s and 1970s, when the free market policies of development theory seemed to have led much of the developing world to the brink of economic collapse. In the 1990s, with the rising success of countries such as India and Thailand, dependency theory lost some support, as it appeared development theory may indeed have been working. These days, although not as popular as in its heyday, dependency theory is nonetheless widespread in progressive circles, particular among groups working on alternative modes of capitalism in the developing world (Vernengo, 2004).

The critiques of dependency theory can be leveled within a nation as well as internationally. In fact, dependency theory tends to trace its roots to back before the emergence of modern post-colonialism. On an internal level, dependency theory can be seen applying to regions within a country. In the United States, for example, historically the industrial Northeast can be seen drawing wealth from the agricultural south in a pattern reflected in the modern world by the industrial northern hemisphere and the productive southern hemisphere (Sunkel, 1966).

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

2.2.3 Pecking Order Theory

Also known as the Pecking Order Model, the Pecking Order theory is an approach to defining the capital structure of a company, as well as how the business goes about the process of making financial decisions. First developed by Nicola Majluf and Stewart C. Myers in 1984, the theory seeks to explain how companies prioritize their financing sources. The general idea is that companies will tend to take the course of least resistance, obtaining financing from sources that are readily available, and then steadily moving on to sources that may be more difficult to utilize (Myers & Majluf, 1984).

While the specifics of the Pecking Order Theory are somewhat involved, the general idea can be explained by using the example of a local business entity. When it comes to financing the operation, the business is likely to make use of its internal resources first, such as using funds in a savings or other interest bearing account to manage operational costs or to order more stock or raw materials for use in the operation. When this first line of financing is exhausted or not available for some reason, the business will then turn to lenders or investors as a means of generating the funds needed to keep the company going. When no other options are available, the business may choose to make use of the equity found in any assets held by the business (Brealey, Myers & Allen, 2008).

With this approach, the theory shows that the business chose to take the past of least resistance when it came to financing. Resources that were readily available were used first, since they did not involve encumbering any of the company holdings with debt. Next, the business moved on to issuing stock or a bond issue as means to raise money while still not encumbering company assets. If necessary, the business would then go for unsecured loans that left the business free to use its assets in any way deemed proper.

Finally, the business resorts to financing methods that do impact company assets directly, such as trading off equity for cash or taking on a collateralized loan (Myers & Majluf, 1984). While the Pecking Order Theory holds that companies do tend to manage financing using the easiest approaches first, it does not really imply that one mode of financing is inherently superior to the other. Depending on the circumstances of a business, it may be prudent to use an asset to acquire a secured loan rather than deplete interest-bearing accounts in the possession of the business. Business owners may tend to weigh all available options and then choose the one that is most likely to produce the result that will be in the best interests of the company over the long-term, rather than simply going with what appears to be the easiest solution at present (Brealey, Myers & Allen, 2008).

2.2.4 Agency Theory

An agency problem occurs when the interests of stockholders, the board of directors, and/or the management of the company are not perfectly aligned or when these entities conflict. In publicly held companies, there are a variety of individuals with an interest in the performance of the company. The managers and executives who run the company on a day-to-day basis, the shareholders who own stock and the board of directors who oversee the company's business development all may have different aims or ideas of how the business can be run (Eisenhardt, 1989).

Executives of a corporation may, for example, be interested in achieving good long-term growth of the company. Since their performance is measured by how the company does in the short term and the long run, the decisions they make are based on the goals of generating profit both now and in the future. This may mean they wish to engage in capital expenditures now to secure a possible benefit or gain in the future (Li, 2011).

Many stockholders, on the other hand, may be focused on the immediate earnings and returns of a company, as these are important metrics in the valuation of the price of a share of stock on the open market. A stockholder who doesn't intend to hold the company long term may prefer a dividend be paid instead of that the money be reinvested to achieve a long-term gain for the company. This is just one example in which the interests of the shareholders may not be perfectly aligned with those of the corporate Governance. A more dramatic example of an agency problem may occur when the corporate executives are out to maximize their own compensation, sometimes at the expense of the company or shareholders (Eisenhardt, 1989.

The board of directors may also have a difference of opinion from the shareholders or the executives, aiming to take the company in a different direction still. The board may have the power to remove a chief executive or manager from power, but the shareholders may disapprove of this decision. Conflicts can occur among all three entities, creating issues that are difficult to resolve. When an agency problem exists, it can be difficult for a company to resolve. Shareholders generally get a vote and can vote with the board of directors against the executives, for example. When the problem is resolved in this manner, the executives could end up forced to follow a course of action they do not entirely agree with, as the majority rules (Bruce, Buck & Main, 2005).

According to Mwaura (2007), the poor performance of the board of directors of parastatals has been attributed to the existence of multiple agents. Unlike a private company, which has a single principal (shareholders) and agent managers), a parastatal is governed by multiple agents, namely managers and the state or public officials. Voters who elect public officials are considered to be the principals of both the board of directors and the State. Inefficiency of the boards of parastatals arises because the agents (public officials) who have the powers to appoint board members and issue managerial directives do not always act in the best interest of parastatals, but in the interest of voters who can vote them out.

2.3 Empirical Review

Musgrave (1989),in his framework for evaluating funds expenditures and Pradhan (1996) by taking an empirical study of sample of 27 state corporations in Singapore, they follows the principle that ‘the composition of public expenditures should finance the mix of goods and services that maximize social welfare’. However, the authors acknowledge that it is infeasible to apply this test of allocative efficiency fully in practice. They also acknowledge the relevance of institutional arrangements for public expenditure management in the economic analysis of public expenditure allocations, notably the role of formal and informal rules.

Schick (1998) further develops this relationship by addressing allocative efficiency in terms of ‘the capacity of government to distribute resources on the basis of the effectiveness of public programs in meeting its strategic objectives’ in 62 state owned enterprises in Morocco. His framing is consistent with the focus of the World Bank Public Expenditure Management Handbook (1998) on strategic resource allocation, and is summarized by Brumby (2007) as ‘interventions which are consistent with the priorities of society, as represented by decision-makers’.

Weinsenfeld and Tyson (1990) did a study of 68 US managers in two companies. He found out that if accounting information and communication process functioned appropriately, then budgeting and variance analysis can be a positive tool. A total of 90 percent of the respondents agreed that variances were a good way to measure their performance. They all agreed that variance reports influenced them positively to improve their performance and increase their bonuses.

Peter (2001) carried out a research on budgetary controls in non-governmental organizations in Kenya. The objective of the research was to study how accurately budget anticipates the level and direction of actual results and what factors influence budget accuracy. The population of the study was all relief and development projects spread all over Kenya and data was collected using primary and secondary data. The conclusion of the study was that budget control practices in NGOs vary significantly between relief projects and development projects.

Blansfield (2002) carried out a study on whether US companies have a fully integrated planning process that combine long term and operational planning, performance measures and reporting. Out of the 250 respondents, the study found out that only 14% of the companies had a fully integrated planning processes that combine long term and operational planning, performance measures and reporting.

Dang, Knack and Rodgers (2009) examine banking crises as another aspect of donors’ economic ability to provide foreign aid. They theorize that because these crises places high demands on the public sector, they are more likely to reduce the aid budget than other types of recessions or economic slowdowns. They argue that banking crises leads to the accumulation of public debt, which Faini and others have found to reduce aid budgets. Dang, Knack and Rodgers find that aid declines by 20% for over a decade after a country undergoes a banking crisis. Decreases in income per capita also have a negative effect on aid; they estimate that the current financial crises will depress aid budgets by 20 to 30 % over the next decade. They also find evidence that other measures of economic health, including employment, have an effect on aid budgets, but they do not pursue these findings in depth.

World Bank (2010a), study on seven sub-Saharan fund managers practitioners, established that some variant of ‘programme-based budgeting’ or ‘performance budgeting’, where budget processes aim to explicitly link budget allocations to outputs and outcomes delivered, offers the best chance for increasing efficiency of allocation. Through such an explicit link, it is easier for budget decision makers to judge relative efficiency of spending (i.e. the relationship between budgetary inputs and service outputs) both between spending areas and over time in the same area (World Bank, 2010a). However, the study found that the ability of capacity-constrained governments to manage such complex processes is not clear. In the case studies recently reviewed by the World Bank, it was found that programme-based budgeting, along with other more complex reforms such as medium-term expenditure frameworks (MTEFs), did not achieve great impact (World Bank, 2012a). As a result, given the focus of this discussion on capacity-constrained contexts, reforms aimed at delivering sophisticated tools such as programme-based budgeting or its variants do not seem an appropriate ambition.

Murrison (2001) carried out a study of budgeting practices among the British non-governmental organizations in Kenya. His focus was on budgeting practices in British non-governmental organizations in Kenya and the extent to which budgets are used for management control. Data was collected from thirty relief projects in Kenya. The study showed that 100% of the relief projects over estimated their income budgets.

Nderitu (2007) did a case study at Telkom Kenya, a public institution on the effectiveness of cash budgeting. His focus was on cash management budgeting process as an important tool of planning and controlling. A sample of twenty staff directly involved with cash budget preparation and implementation was interviewed. He sought information on cash budgetary process of the organization, and how the cash budget had been utilized as an effective management tool in the company. The study showed that there were various loopholes which if not acted upon may lead to high cash lose for the firm.

Muthinji (2009) conducted a study on the challenges of budget implementation at the commission for higher education. The objective of the study was to identify the challenges of budget implementation and its effect at the commission. Data was collected from all departments and descriptive statistics was used to summarize the data. The conclusion was that a budget was important for communication and there was an increasing trend towards decentralization.

Mwega (2009) did a study on how foreign aid has been erratic in terms of commitments and unpredictable in terms of both the timing and the volume of funding. Among reasons for the volatility, Ali et al. (1999), observed that donors may use aid to advance a political agenda driven by the political concerns of their domestic electorates which vary over time. Also, donor procedures for disbursement may be so cumbersome that even when funds are committed, there may be long and unpredictable lags before governments are able to utilize these resources. Volatile or unpredictable aid flows do little to bolster good governance, coherent government expenditure, or the development of sound institutions accountability in recipient countries hence the need for specific donor coordination with a view to committing long-term, predictable flow of resources (Woods, 2005).

2.4 Summary of Literature Review

In Kenya, despite the fact that the country has been financing some of its activities through donor funding, much has not been thought of these funds being channeled through state corporations. As such, few studies have been carried out in that area especially in the in relation to state corporations and donor funds. The study used a number of theories: theory of public choice, dependency theory, pecking order theory and agency theory. Theory of public choice looks at taxation and public spending, and posits that government action is necessary in reining in "market failures" such as monopolies. However, voters lack incentives to monitor government effectively leading to government failures. Dependency theory holds that there are a small number of established nations that are continually fed by developing nations, at the expense of the developing nations' own health; sending their wealth to the developed nations with minimal compensation (Vernengo, 2004). Pecking order theory looks at how business entities go about the process of making financial decisions with regards to prioritization of their financing sources (Myers & Majluf, 1984). Agency theory looks at the misalignment of the interests of stockholders (public), the board of directors, and/or the management of an organization (state agencies), when these parties are in conflict an how to resolve such conflicts (Eisenhardt, 1989).

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

CHAPTER THREE: RESEARCH METHODOLOGY

3.3 Introduction

This Chapter describes how the research was carried out. It also outlines the general methodology to be used in the study. It also served as the operational plan of the study. It specifies the research design, the target population, sampling design, data collection procedures and instruments used data analysis procedure and data presentation techniques.

3.2 Research Design

The study was conducted through the use of a descriptive design. Descriptive research portrays an accurate profile of persons, events, or situations (Kothari, 2000). Therefore, the descriptive survey was deemed the best strategy to fulfil the objectives of this study. Qualitative research include designs, techniques and measures that do produce discrete numerical data, and some designs used could include, experimental designs, causal-comparative and correlational research (Mugenda and Mugenda, 2003).

3.3 Population of the Study

For the purpose of this study, the target population was 170 state owned enterprises which are funded using donor funds. According to Ngechu (2004), target population in statistics is the specific population from which information is desired. Mugenda and Mugenda (2003) notes that if the target population is less than 100 units, then a census should be carried out. If the target population is greater than 100 units, the sample size of at least 15 % of the population is considered representative.

3.4 Sample and Sampling Method

Purposive sampling of judgmental nature was used to arrive at the sample size. The sample was selected for state corporations which have published their financial statements and other relevant information is readily available and those who finance their activities using donor assistance. A sample size of 40 state corporations was used as ranked on the performance contract scores published annually.

3.5 Data Collection Techniques

Secondary data collection method was used in this study. The secondary data was collected from printed estimates; corporations published statements Treasury and Division of Performance Contracting, Ministry of Devolution and Planning as well as any other source that can provide the needed information. Data was collected for the period between the year 2009/10 and 2011/12 for comparative purposes.

3.6 Data Analysis

Quantitative data was analyzed using Statistical Package for Social Sciences (SPSS version 17.0) program. The data collected was run through various models so as to clearly bring out the impact of donor funding on performance of state owned enterprises in Kenya. The results obtained from this model were presented in tables, graphs and pie charts to aid in the analysis with which the inferential statistics will be drawn. Simple regression model below was used in determining the relationship with a significance test of 0.05 level of significance. The data was collected for the four-year period: 2009 to 2012.

3.6.1 Analytical Model

Simple linear regression analysis technique was used to establish the relationship between donor funding and performance of state owned enterprises in Kenya. The test was done at 0.5 level of significance. The descriptive statistics included; mean value, standard deviation, simple percentages and frequency counts. The study, therefore, sought to establish the relationship between donor funding and performance where;

$Y=\alpha+\beta X+ \varepsilon$

Y=Performance contracting score

α = Regression coefficient / Intercept

β =Regression coefficient / Slope

X =Donor funding over total budget allocation

ε = Error Term

The study also used secondary data (financial records) to find out the difference between budgeted figure and the actual accomplishment for the last four financial years. The key type of measure is the donor's funding component which was determined as a percentage the total amount of funding allocated to a particular corporation in a single trading period.

3.6.2 Test of Significance

Pearson correlation coefficients were used to test the relationship between donor funding variables (independent variable) and performance contracting score (dependent variable). These inferential tests were conducted at 95% confidence level. The result obtained was tested for correlation co-efficient the higher the correlation co-efficient the test retest reliable. (Z) Pearson's product moment correlation co-efficient and Spearman's formula was used to test the reliability of the questionnaire.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the data findings on effect of donor funding on the performance contracting score of state-owned enterprises in Kenya. Annual data on donor funding to the state corporation and money allocated to the same by the government was obtained from Treasury for 4 financial years (2009/10 to 2012/13). Performance contracting score was obtained from the defunct Directorate of Performance Contracting in the Office of the Prime Minister, and Ministry Of Devolution and Planning.

4.2 Descriptive Statistics

From the descriptive statistics presented in Table 4.1, the state-owned corporations received the highest amount of donor funding in 2011/12 financial year (0.00851). In the same financial year, these corporations performed better than they did in other periods (2.4408). Within the period the best performing state-owned corporation had a performance contracting score of 1.4917.

Table 4.1: Descriptive Statistics

	Mean					**Std Deviation**	**Minimum**	**Maximum**
	2009/10	**2010/11**	**2011/12**	**2012/13**	**Average**			
Donor Funding Ratio	0.00671	0.00418	0.00851	0.00561	0.00623	0.000415	0.0071	0.1485
Performance Contracting Score	2.8467	2.5228	2.4408	2.4834	2.5741	0.0415	1.4917	3.571

Source: Republic of Kenya (2012) and Republic of Kenya (2013)

4.3 Correlation Test

The study used Pearson correlation analysis to establish if linear relationship exists between donor funding and performance contracting score of state corporations. The correlation analysis was conducted at 95% confidence level. According to Table 4.2, in 2009/10 financial year, a good, negative and significant linear relationship (R = -.440, p = .017) was established between donor funding and performance contracting score. In 2009/10 and 2012/13 financial years, good, negative and significant linear relationships were established (R = -.516, p = .037), and (R =-.555, p = .002) respectively.

Table 4.2: Correlation Analysis

Year	**Test**	**Donor Funding**
2009/10	Pearson Correlation	-.440*
	Sig. (2-tailed)	0.017
2010/11	Pearson Correlation	-0.516*
	Sig. (2-tailed)	0.037
2011/12	Pearson Correlation	0.242
	Sig. (2-tailed)	0.094
2012/13	Pearson Correlation	-0.555**
	Sig. (2-tailed)	0.002

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

From Appendix II, there were good, significant but negative linear association between performance contracting score and donor funding in: University of Nairobi (-.591; p = .042); Kenya Literature Bureau (-.417; p = .016); National Commission on Gender and

Development (-.506; p = 0.034); Kenya Sugar Research Foundation (-.603; p = .036); Kenya Medical Training College (-.670; p = .006); Kenyatta National Hospital (-.730; p = .022); Kenya Anti-Corruption Commission (-.577; p = .004); and, National Environmental Management Authority (-.598; p = .038). Good, positive and significant relationship was established in: National Campaign against Drug Abuse Authority (.376; p = .017); Moi Teaching and Referral Hospital (.613; p = .031); Kenya Agricultural Research Institute (.481; p = .003); Higher Education Loans Board (.486; p = .046); and, Kenya Industrial Research and Development Institute (.571; p = .006). This shows that, on average, there is a negative linear relationship between donor funding and performance contracting score.

4.4 Regression Analysis

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

Performance Contracting = $\beta_0 + \beta_1$* Donor Funding + ε

Where β_0 is regression constant for the y-intercept, β_1 is regression coefficient and ε is error term. Donor Funding was measured by the ratio of donor funds received to the total amount of funding allocated to the state-owned corporation by Treasury.

The study sought to determine the goodness of fit of the regression equation using the coefficient of determination between the independent variable and performance contracting. Coefficient of determination established the strength of the relationship.

From the determination coefficients in Table 4.3, it can be noted that there is a strong relationship between dependent and independent variable given an R^2 values of 0.526 and adjusted to 0.501. This shows that the independent variable (Donor funding) accounts for 50.1% of the variations in performance contracting score

The study used Durbin Watson (DW) test to check that the residuals of the models were not auto correlated since independence of the residuals is one of the basic hypotheses of regression analysis. Being that the DW statistic were close to the prescribed value of 2.0 (2.006) for residual independence, it can be concluded that there was no autocorrelation.

Table 4.3: Model Goodness of Fit

R (Correlation)	**R Square** **(Coefficient of Determination)**	**Adjusted R Square**	**Std. Error of the Estimate**	**Durbin-Watson**
.725[a]	.526	.501	2.40187	2.006

a. Dependent Variable: Performance Contracting Score
b. Predictors: (Constant), Donor Funding

Analysis of Variance (ANOVA) was used to determine whether a significant relation exists between variables (dependent and independent variables). The ANOVA results presented in Table 4.4 shows that the regression model had a margin of error of 0.008. This indicates that the model has a probability of 0.8% of giving false prediction. This point to the significance of the model.

Table 4.4: Analysis Of Variance

	Sum of Squares	df	Mean Square	F	Sig.
Regression	17.937	1	5.979	1.036	.008b
Residual	1136.488	158	5.769		
Total	1154.425	159			

a. Dependent Variable: Performance Contracting Score
b. Predictors: (Constant), Donor Funding

The linear regression model below was established:

Performance Contracting = 1.627 + 0.725*Donor Funding p = .008

From the finding in Table 4.5, the study found that when donor funding is zero performance contracting score becomes 1.627. It was established that a unit increase in donor funding will lead to an increase in performance contracting score by 0.725 (p = .008).

Table 4.5: Regression Model

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Multicollinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	1.627	.404		1.024	.123		
Donor Funding	0.725	.414	0.710	.548	.008	.983	1.017

a. Dependent Variable: Performance Contracting

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of the research findings. The implications from the findings and areas for further research are also presented. The findings from the study are presented in comparison to what other scholars have said as noted under literature review.

5.2 Summary of Findings

The study provided two types of data analysis; namely descriptive analysis and inferential analysis. The descriptive analysis helped the study to describe the relevant aspects of the performance of Donor funding variable over total budget allocation. The mean, standard deviation, minimum and maximum values were determined. For the inferential analysis, the study used a simple linear regression analysis technique to establish the relationship between donor funding and performance contracting score of state owned enterprises in Kenya for the four-year period: 2009 to 2012.

The study first found it necessary to determine the trend in the amount of donor funding for the four-year period, 2009 to 2012. This was to determine the donor fund distribution across the years as received by the state-owned corporations against respective performance contracting scores. From the study findings, it is construable that in first two years from 2009 to 2012, donor funding and the respective performance contracting scores showed a downward trend. In 2011/2012 however, the highest amount of donor funding was recorded (0.00851), the trend then goes downward again in 2012/13 (0.00561). A consistent downward trend is however observed with the Performance

Contracting Scores except in 2012/2013 when these corporations performed better than they did in other periods (2.4408).

The study further established the relationship between performance contracting score and donor funding, using a simple linear regression analysis. For this analysis Pearson correlation was used to determine the degree of association within the independent variable and also between independent variables and the dependent variable. The correlation matrix indicates that in 2009/10 financial year, a good, negative and significant linear relationship ($R = -.440$, $p = .017$) was established between donor funding and performance contracting score. In 2009/10 and 2012/13 financial years, good, negative and significant linear relationships were established ($R = -.516$, $p = .037$), and ($R =-.555$, $p = .002$) respectively.

Regression analysis further established that a unit increase in donor funding will lead to an increase in performance contracting score by 0.491 ($p = .008$).

5.3 Conclusion

The study has investigated the relationship between donor funding and performance contracting score of state owned enterprises in Kenya. Data have been analyzed by applying both descriptive and inferential statistics for the time period of 2009 to 2013. A good, negative and significant linear relationship was established between donor funding and performance contracting score. Since best performing state corporations have the least performance contracting score, it can be concluded that donor funding improved performance of the state agencies. Therefore, if there is proper budget formulation and implementation and consequent performance, more donor funding is attracted. However, beneficiary the state through Treasury need to contribute to project costs if they are to attract more donor assistance and improvement in efficiency of service delivery. As donor funding, as used by the study was a component of government funding. If the Government contributes to project costs, services will be delivered more efficiently. The research findings also revealed that there was a positive relationship between budgeting and performance contracting. Therefore, if the services delivered are well planned and costed, they are delivered efficiently.

The study concludes that donor funding, in some instances, has negative effects on performance contracting due to the disruption of existing budgetary outlay should such disbursement delay or totally fail. However, the effect of donor funding on performance contracting depends on the nature of the environment of the government agency to a great extent as this was not the case in all agencies. This owes to the fact that performance measurements are used to evaluate, control and improve operations process in order to ensure that the organization achieves its goals and objectives and that in their department, people are encouraged to uphold high performance with the limited resource outlay. Thus, despite of the funding delay, performance target setting was very critical components of the performance contracting and they have a bearing on what was achieved at the end of the contract periods (financial year).

5.4 Recommendations

The study recommends that performance contracting act in Kenya should be reviewed so as to assimilate other ordinary legal contracts. This is due to the loophole the act has which has made it difficult to measure the performance and service delivery of public corporations. Effectiveness of performance Contracts in Kenya is low due to inefficiency in crafting the performance contracting acts in Kenya. The study established that the performance contract seems to be uncertain or incomplete of major performance measures as it appeared to more qualitative and subjective. There is, therefore, need for a good definition of outputs and solid performance measures which will be able to promote organization internal performance through a well customer-oriented ability of employees to further promote the organization external performance and service delivery. These strategic performance measures should monitor the implementation and effectiveness of an organization's strategies and determine the gap between actual and targeted performance.

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

5.5 Limitations of the Study

The researcher encountered various limitations that may have affected the findings of this study. For instance, the study relied on secondary data sources. Secondary data can, however, be unreliable as they are intended for other purposes. This could include convincing external stakeholders that the corporation performs well while there is an increase in donor funds component.

The sample for this study might have been small and could have the drop-back of not being representative of the population reality. To mitigate this, the researcher carried the study on state corporations that receive donor funding and from those that performed exemplary to those that performed poorly.

Further, other factors might have effect on the performance contracting score like change in government policy which might moderate the relationship between donor funding and performance contracting scores. In cognizance of this, the study tested the significance of the established relationship to mitigate this.

The criteria used to measure the performance score has been changing as the department is trying to improve, the performance contracting evaluation methods. Thus the scores used for different financial years could not have been similar. There is need to go deeper to compare and synchronize the evaluation approaches used.

The researcher had to go from one office to another, looking for the secondary data. This was time consuming and it also showed how scattered government information is and it is hard to get data that is in the public offices. Though the officers were willing to assist, many of them did not have any clue of the exact office that the information could be obtained. The researcher had to use the goodwill of friends to obtain some data.

5.6 Areas for Further Research

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

Future studies can be done on the parent ministries and private sector to establish the same. There is also need to do further research on other variables like GOK component to see how it affects performance contracting score. Further studies can also be done on the factors influencing implementation of performance contracting in state corporations in Kenya.

REFERENCES

Ajwang, M.A. (2009). Relationship Between Corporate Culture And Organisational Performance – A Survey Of Kenyan State Corporations. *MBA Project*, University of Nairobi.

Ali, A.A.G., Mwalwanda, C., & Suliman, Y. (1999). Official Development Assistance to Africa: an Overview. *Journal of African Economies,* 5(4), 41-79.

Amin, S. (1976). *Unequal Development: An Essay on the Social Formations of Peripheral Capitalism.* New York: Monthly Review Press.

Bernardin, J., & Russell, J. (2013). *Human Resources Management: An Experiential Approach, 6th ed.* New York, NY: McGraw-Hill Publishing.

Blansfield, D. (2002). Comshare Survey of Top Financial Executives. *Business Finance/ Comshare Executive Research Group,* Retrieved October 05, 2013, www.bfmag.com

Brealey, R.A., Myers, S.C., & Allen, F. (2008). *Principles of Corporate Finance, 9th Ed*. New York, N.Y: McGraw-Hill/Irwin.

Bruce, A., Buck, T., Main, B. G. M. (2005). Top Executive Remuneration: A View from Europe. *Journal of Management Studies*, 42(7), 1493-1506.

Brumby, H. (2007). The role of accounting data in performance evaluation, budgetary participation, and organisational effectiveness. *Journal of Accounting Research,* 20 12- 17

Buchanan, J.M. (1975). Public Finance and Public Choice. *National Tax Journal*, 28(4), 19-69.

Burnside C., & Dollar, D. (2000). Aid, Policies, and Growth. *American Economic Review,* 90(4):847–88.

Chenery, H., & Strout, A.M. (1966). Foreign Assistance and Economic Growth. *American economic Review*, 56 (September), 679-33.

Chimulwa Wycliffe, (2009) Budgeting, Donor Assistance,Co-funding and service delivery in local Governments. A case study EU-mpp projects in Busia District.

Collier, P., & Dollar, D. (2002). Aid Allocation and Poverty Reduction. *European Economic Review*, 46(8), 1475–1500.

Dang, H.A., Knack, S., & Rogers, H. (2009) International Aid and Financial Crises in Donor Countries. *World Bank Policy Research Working Paper* 5162.

Efird, N. (2010). The State-Owned Enterprise As A Vehicle For Stability. *All Strategic Studies Institute (SSI) Publication*, April 2010

Eisenhardt, K. (1989). Agency theory: An assessment and review. Academy of Management Review 14 (1): 57–74

Flynn, B., Huo, B., & Xhao, X. (2010). The impact of supply Chain Integration on performance: A contingency and Configuration Approach. *Journal of operations Management*, 28(1) 58-71.

Foldvary, F. (1994). *Public Goods and Private Communities: the Market Provision of Social Services*, Brookfield, Vermont: Edward Elgar.

Government of Kenya Ministry of planning (1965). Sessional paper No 10 of 1995, Economic and financial planning in Kenya. Nairobi, Government printers.

Guralnik, J.M., & David, B. (2004). *Webster's New World College Dictionary*. New York: A Simon & Schusteer Macmillan Company

Hayes, T. (1996). *Management, Control and Accountability in non-profit voluntary Organizations.* Aldershot: Avebury.

Kothari C.R. (2004). *Research Methodology, Methods and Techniques, 2nd ed*. New Delhi: New Age International Ltd.

Lawson, A. and Bird, N.M. (2008). Environmental funding. How to increase the effectiveness of public expenditure in developing countries. ODI, London.

Li, H. (2011). Capital Structure on Agency Costs in Chinese Listed Firms. *International Journal of Governance* 1 (2), 26–39.

Louw, L. (1999). Making privatization work in South Africa. Economic Reform today,24-25

McCormick, D., Mitullah, W., & Manga, E. (2007). Extent and Forms of Donor Proliferation and Coordination in Kenya. *Working Paper,* Institute for Development Studies, University of Nairobi

McGillivray, M. (2003). Aid Effectiveness and Selectivity: Integrating Multiple Objectives into Aid Allocations. *Summary Paper presented at the Joint OECD DAC/Development Centre Aid Experts' Seminar,* OECD Headquarters, Paris, March 10, 2003

McGillivray, M., White, H., & Leavy, J. (2002). Aid Principles and Policy: An Operational Basis for the Assessment of Donor Performance. in B. Mak Arvin (ed.), *New Perspectives on Foreign Aid and Economic Development*, Praeger, Westport

Mugenda, O.M., & Mugenda, A.G. (2003). *Research Methods; Quantitative and Qualitative Approaches.* Nairobi: African Centre for Technology Studies (ACTS) Press

Muleri, M.A. (2001). A Survey of Budgeting Practices among the Major British Non-Governmental Development Organizations In Kenya. *MBA Project*, University of Nairobi.

Musgrave, R.A., & Musgrave, P.B. (1989). *Public finance in theory and practice*. New York, NY: McGraw-Hill.

Muthinji, E.M. (2009). Challenges Of Budget Implementation By The Kenya Commission For Higher Education. *MBA Project*, University of Nairobi.

Mwaura, K. (2007). The Failure of Corporate Governance in State Owned Enterprises and the Need for Restructured Governance in Fully and Partially Privatized Enterprises: The Case of Kenya. *Fordham International Law Journal,* 31(1) 215 – 87.

Mwega, F.M. (2009). A case study of aid effectiveness in Kenya: Volatility and fragmentation of foreign aid, with a focus on health. Wolfensohn Center for Development Working Paper 8. Brookings Institution, Washington DC, USA.

Myers, S.C., & Majluf, N.S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics,* 13 (2), 187–221.

Ndiritu, G.M. (2007). Effectiveness Of Cash Budgeting In Public Institutions: A Case Study Of Telkom Kenya Ltd. *MBA Project*, University of Nairobi.

Neil, B. and Kirira, N. (2009) Government institutions, public expenditure and the role of development partners: meeting Kenya's environmental challenges ODI, London.

Nell, J.M. (1998) .Public Sector Decentralization: Economic Policy and Sector Investment Programs. *Technical Paper No. 188,* World Bank, Washington, DC.

Ngechu. M. (2004). *Understanding the research process and methods: An introduction.* Nairobi: Starbright Services.

Olowu, B. (1999). Redesigning African Civil Service Reforms. *Journal of Modern on Government Capacity to Assume New Roles in the Health Sector*, 5(11), 45-61.

Ouma, C. (2012). Factors Affecting The Effective Implementation Of Donor Funded Projects In Kenya: A Case Of World Bank Funded Projects In Kenya. *MBA Project*, University of Nairobi.

Peter, J.B. (2001). A Survey of Budget-related planning and Control Policies and Procedures. *Journal of Accounting Education*, 3, 61-78

Republic of Kenya (2012). *Report On Evaluation Of The Performance Of Public Agencies For The Financial Years 2008 - 2012*. Nairobi: Government Printer.

Republic of Kenya (2013). *Budget, Projects and Programmes Funded through External Resources 2008 – 2012*. Nairobi: Government Printer.

Richard, P.J., Devinney, T.M., Yip, G.S., & Johnson, G. (2009). Measuring Organizational Performance: Towards Methodological Best practice. *Journal of Management*, 35(3),718-804

Robert, F., & Peter, R. (1988). The New Public Management in Europe: Comparative Perspectives. *Rights Programme Paper, Number 3*.

Rosenthal, J.L., & Wong, R.B. (2010). Before and Beyond Divergence: The Politics of Economic Change in China and Europe. *Caltech Publication*, April 2010

Schick, A. (1996). Why Most Developing Countries Should Not Try New Zealand Reforms. *The World Bank Research Observer*, 13(1) (February 1998), 123–31

Snider, K. and Rendon, R. (2001) Public procurement: Public Administration and public service perspectives. Journal of Public Affairs Education.

State Corporations Advisory Committee (SCAC) (2009). Report for proceedings and recommendations of the induction programme for Directors of state corporations,16 January to 26 June,2009

Sunkel, O. (1966). The Structural Background of Development Problems in Latin America. *Weltwirtschaftliches Archiv*e, 97.

Therkildsen, O. (2001). *Efficiency, Accountability and Implementation, Public Transforming the Public Sector*. New York, NY: Addison-Wesley Publishing

Vernengo, M. (2004). Technology, Finance and Dependency: Latin American Radical Political Economy in Retrospect. *Working Paper No. 2004-06*, University of Utah Dept. of Economics.

Vitek, W. (1999) Capability Traps? The Mechanisms of Persistent Implementation Failure. *Working Paper 234*, Washington D.C.: CGD

Weisenfeld, L., & Tyson, T. (1990). How to make accounting a positive tool in management's hands. *Management Accounting (UK), No.* November- December, 19-20.

Wicksell, K. (1896). A New Principle of Just Taxation. in Musgrave, Richard A., and Alan Peacock, *Classics in the Theory of Public Finance*, London: Macmillan, 1958.

Woods, N. (2005). *The Shifting Politics of Foreign Aid*. International Affairs.

World Bank (2010). *Results, Performance Budgeting and Trust in Government*. Washington D.C.: World Bank.

World Bank (2012). *Public Financial Management Reforms in Post-Conflict Countries: Synthesis Report.* Washington D.C.: World Bank.

APPENDICES

Appendix 1: Donor Funded State Owned Enterprises

1	Agricultural Development Corporation	27	Kenya Post Office Savings Bank
2	Agricultural Finance Corporation	28	Kenya Railways Corporation
3	Agro-Chemical & Food Company Ltd	29	Kenya Re-insurance Corporation
4	Athi Water Services Board	30	Kenya Revenue Authority
5	Bomas of Kenya Ltd	31	Kenya Roads Board
6	Capital Markets Authority	32	Kenya Safari Lodges & Hotels
7	Catchment Area Advisory Committee	33	Kenya Seed Company Ltd
8	Catering Tourism and Training Development Levy Trustees	34	Kenya Sisal Board
9	Central Water Services Board	35	Kenya Sugar Board
10	Chemilil Sugar Company Limited	36	Kenya Sugar Research Foundation
11	Coast Development Authority	37	Kenya Tourist Board
12	Coast Water Services Board	38	Kenya Tourist Development Corporation
13	Coffee Board Of Kenya	39	Kenya Utalii College
14	Coffee Research Foundation	40	Kenya Water Institute
15	Commission for Higher Education	41	Kenya Wildlife Service
16	Communication Commission of Kenya	42	Kenya Wine Agencies Limited
17	Consolidated Bank of Kenya	43	Kenyatta International Conference Centre
18	Cooperative College of Kenya	44	Kenyatta University
19	Council for Legal Education	45	Kerio Valley Development Authority
20	Deposit Protection Fund Board	46	Lake Basin Development Authority
21	East African Portland Cement Co.	47	Lake Victoria South Water Service Board
22	Egerton University	48	Local Authority Provident Fund
23	Ewaso Ng'iro South Development Authority	49	Maseno university
24	Export Processing Zone Authority	50	Moi University
25	Export Promotion Council	51	National Aids Control Council
26	Gilgil Telecommunications industries	52	National Bank of Kenya

53	Higher Education Loans Board	79	National Cereals and Produce Board
54	Horticultural Crops Development Authority	80	National Council for Law Reporting
55	Kenya College of Communications Technology	81	National Environmental Management Authority
56	Kenya Dairy Board	82	National Hospital Insurance Fund
57	Kenya Electricity Generating Company	83	National Housing Corporation
58	Kenya Ferry Services Limited	84	
59	Kenya Forestry Research Institute	85	National Irrigation Board
60	Kenya Industrial Estates	86	National Museums of Kenya
61	Kenya Industrial Property Institute	87	National Oil Corporation of Kenya Ltd
62	Kenya Industrial Research & Development Institute	88	National Social Security Fund(NSSF)
63	Kenya Institute Of Administration	89	National Water Conservation and Pipeline Corporation
64	Industrial and Commercial Development Corporation	90	National Co-ordinating Agency for Population and Development
65	Industrial Development Bank	91	New K.C.C
66	Investment Promotion Centre	92	NGO's Co-ordination Bureau
67	Jomo Kenyatta University of Agriculture and Technology	93	Numerical Machining Complex
68	KASNEB	94	Numerical Machining Complex
69	Kenya Agricultural Research Institute	95	Nyayo Tea Zones Development Corporation
70	Kenya Airports Authority	96	Nzoia Sugar Company
71	Kenya Anti-Corruption Commission	97	Pest Control Products Board
72	Kenya Broadcasting Corporation	98	Postal Corporation of Kenya
73	Kenya Bureau of Standards	99	Pyrethrum Board of Kenya
74	Kenya Bureau of Standards (KEBS)	100	Retirement Benefits Authority
75	Kenya Civil Aviation Authority	101	Rift Valley Water Services Board
76	Kenya College of Communication & Technology	102	School Equipment Production Unit
77	Kenya Institute of Public Policy Research and Analysis	103	South Nyanza Sugar Company
78	Kenya Literature Bureau	104	Sports Stadia Management

			Board
105	Kenya Marine & Fisheries Research Institute	117	Tana and Athi Rivers Development Authority
106	Kenya Maritime Authority	118	Tea Board Of Kenya
107	Kenya Meat Commission	119	Tea Research Fountation Of Kenya
108	Kenya National Assurance Company	120	Teachers Service Commission
109	Kenya National Examination Council	121	Telkom (k) Ltd
110	Kenya National Library Service	122	University of Nairobi
111	Kenya National Shipping Line	123	University of Nairobi Enterprises & Services Ltd
112	Kenya National Trading Corporation Limited	124	Water Resources Management Authority
113	Kenya Ordinance Factories Corporation	125	Water Services Regulatory Board
114	Kenya Pipeline Company Ltd	126	Western University College of Science and Technology
115	Kenya Plant Health Inspectorate Services		
116	Kenya Ports Authority		

Source: **http://www.afribiz.info/content/government-state-corporations-in-kenya**

Appendix II: Correlation Results – Performance Contracting and Donor Funding

State Agency	Test	Donor Funding
Nyayo Tea Zones Development Corporation	Pearson Correlation	-0.06
	Sig. (2-tailed)	0.924
Kenya Seed Company Ltd	Pearson Correlation	0.4
	Sig. (2-tailed)	0.505
University of Nairobi	Pearson Correlation	-.591*
	Sig. (2-tailed)	0.042
Kenyatta International Conference Centre	Pearson Correlation	0.169
	Sig. (2-tailed)	0.786
Kenya Literature Bureau	Pearson Correlation	-.417*
	Sig. (2-tailed)	0.016
National Irrigation Board	Pearson Correlation	0. 432
	Sig. (2-tailed)	0.078
Jomo Kenyatta Foundation	Pearson Correlation	0.649
	Sig. (2-tailed)	0.236
Kenya Power and Lighting Company Limited	Pearson Correlation	-0.131
	Sig. (2-tailed)	0.834
Water Services Trust Fund	Pearson Correlation	-0.176
	Sig. (2-tailed)	0.777
National Campaign Against Drug Abuse Authority	Pearson Correlation	0.376*
	Sig. (2-tailed)	0.017
Agricultural Finance Corporation	Pearson Correlation	-0.707
	Sig. (2-tailed)	0.182
National Commission on Gender and Development	Pearson Correlation	-.506*
	Sig. (2-tailed)	0.034
Kenya Electricity Generating Company	Pearson Correlation	-0.207
	Sig. (2-tailed)	0.738
Kenya Sugar Research Foundation	Pearson Correlation	-.603*
	Sig. (2-tailed)	0.036
Moi Teaching and Referral Hospital	Pearson Correlation	.613*
	Sig. (2-tailed)	0.031
Kenya Marine and Fisheries Research Institute	Pearson Correlation	-0.091
	Sig. (2-tailed)	0.885
Kenya Medical Training College	Pearson Correlation	-.670**
	Sig. (2-tailed)	0.006
National Council for Science and Technology	Pearson Correlation	-0.569
	Sig. (2-tailed)	0.317

Kenyatta National Hospital	Pearson Correlation	-.730*
	Sig. (2-tailed)	0.022
Kenya Forestry Research Institute	Pearson Correlation	-0.173
	Sig. (2-tailed)	0.781
Kenya Industrial Research & Development Institute	Pearson Correlation	0.691
	Sig. (2-tailed)	0.196
Kenya Anti-Corruption Commission	Pearson Correlation	-.577**
	Sig. (2-tailed)	0.004
Coffee Board Of Kenya	Pearson Correlation	0.404
	Sig. (2-tailed)	0.076
Kenya Agricultural Research Institute	Pearson Correlation	.481**
	Sig. (2-tailed)	0.003
National Coordinating Agency for Population and Development	Pearson Correlation	0.303
	Sig. (2-tailed)	0.132
National Council for Children Services	Pearson Correlation	0.713
	Sig. (2-tailed)	0.177
Ewaso Ng'iro South Development Authority	Pearson Correlation	-0.071
	Sig. (2-tailed)	0.909
National Environmental Management Authority	Pearson Correlation	-.598*
	Sig. (2-tailed)	0.038
Kenya Wildlife Service	Pearson Correlation	0.463
	Sig. (2-tailed)	0.433
Kenya Industrial Estates	Pearson Correlation	0.655
	Sig. (2-tailed)	0.231
Cooperative College of Kenya	Pearson Correlation	0.762
	Sig. (2-tailed)	0.134
Kenya Airports Authority	Pearson Correlation	-0.408
	Sig. (2-tailed)	0.495
Kenya Institute Of Administration	Pearson Correlation	0.117
	Sig. (2-tailed)	0.851
Kenya College of Communications Technology	Pearson Correlation	0.637
	Sig. (2-tailed)	0.248
Horticultural Crops Development Authority	Pearson Correlation	-0.394
	Sig. (2-tailed)	0.511
Higher Education Loans Board	Pearson Correlation	.486*
	Sig. (2-tailed)	0.046
Kenya National Highways Authority	Pearson Correlation	0.026
	Sig. (2-tailed)	0.966
Agricultural Development Corporation	Pearson Correlation	0.249
	Sig. (2-tailed)	0.687
Kenya Industrial Research and	Pearson Correlation	.571**

Development Institute	Sig. (2-tailed)	0.006
Kenya Institute of Special Education	Pearson Correlation	-0.63
	Sig. (2-tailed)	0.255

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

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