

**IMPACT OF PUBLIC FINANCE MANAGEMENT REFORMS ON FINANCIAL
PERFORMANCE OF COMMERCIAL STATE OWNED ENTERPRISES IN
KENYA**

BY

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DECLARATION

I, the undersigned, hereby declare that this is my original work and has not been presented to any institution or university other than University of Nairobi for academic credit. I further declare that I followed all the applicable ethical guidelines in conducting the research.

Signed: _____

Date: _____

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The research project has been submitted for examination with my approval as University supervisor.

Signed: _____

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DEDICATION

This project is dedicated to a number of people who are close to my heart:

To my parents, Joseph and Monica for their enduring love.

To my brother and sisters, Lazaro, Lydia, Mary and Robai for their support and encouragement.

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LIST OF ABBREVIATIONS

AO	Accounting Officers
AIA	Appropriations in Aid
BPS	Basis Points
BROP	Budget Review and Outlook Paper
CABRI	Collaborative Africa Budget Reform Initiative
CSO	Commercial State Owned Enterprises
COFOG	Classification of the Functions of Government
CRA	Commission on Revenue Allocation
DGIPE	Department of Government Investments and Public Enterprises
DFID	Department for International Development
EAD	Economic Affairs Department
E-Pro-MIS	Electronic Project Management Information System
FY	Financial Year
GHRIS	Government Human Resources Information System
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IFMIS	Integrated Financial Management Information Systems
IMF	International Monetary Fund
IPPD	Integrated Payroll and Personnel Database
IRCBP	Institutional Reforms and Capacity Building Project
JICA	Japan International Corporation Agency
KPIs	Key Performance Indicators
KRA	Kenya Revenue Authority
LAIFOMS	Local Authorities Integrated Financial Operations Management System
LDCs	Lesser Developed Countries
MDA	Ministries, Departments and Agencies
MOF	Ministry of Finance
MPT	Modern Portfolio Theory
NSE	Nairobi Stock Exchange
PAYG	Pay As You Go
PE	Public Enterprises
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PFMR	Public Finance Management Reform (s)
PMIS	Pensions Management Information System
RA	Revenue Administration
SAGAs	Semi-Autonomous Government Agencies
SPSS	Statistical Package for Social Studies

ABSTRACT

The purpose of this study was to determine the impact of public finance management reforms on the financial performance of Commercial State Owned Enterprises in Kenya. The objectives of the study were to determine the impact of the Public Finance Management Reforms on the financial performance of Commercial State Owned Enterprises in Kenya and to undertake a comprehensive stock-taking, review and synthesis of lesson about designing, implementing and assessing public financial management (PFM) reform initiatives amongst Commercial State Owned Enterprises in Kenya. The study adopted a descriptive survey research design in which a sample of 30 out of the 168 commercial state enterprises were targeted. Secondary data was also used in the study. The study used descriptive statistics such as frequency, percentages, mean and standard deviation to show the distribution of responses inferential statistics, regression in particular was used to show the relationship between the dependent and the independent variables. The study findings revealed that the respondents indicated that the credibility of the organizations budgets influenced the financial performance of the organization to a great extent. The findings further show that according to respondents, the comprehensiveness and transparency of the budget impacted the financial performance of the organization to a great extent. The results also show that the respondents indicated that the predictability and control in budget execution impacted the financial performance of the organization to a great extent. The results revealed that according to the respondents, the external scrutiny and audit influenced the financial performance of the organization to a great extent. The respondents further stated that the policy based budgeting in the organization influenced the financial performance of the organization to a very great extent. From the study findings, respondents indicate that both the accounting, recording and reporting and donor practices impacted the financial performance of the organization to a great extent. The study recommended that the government should expand the implementation in PFM reforms in other state corporation so as to enhance their financial performance, the effect of some variables such as comprehensiveness and transparency in the budget and external scrutiny and audit did not have a strong influence on the financial performance of the organization despite showing potential and the government should strengthen such factors as credibility of the budget, policy based budget and donor practices for sustainability of the profitability of the organizations.

CHAPTER ONE

INTRODUCTION

1.1 Background to the study

The Government of Kenya has been trying to undertake reforms in the Public Finance Management (PFM) area since 2006. This strategy addresses gaps that have been identified after realities of the new constitutional order, especially with regard to the devolved system of government, mostly relating to inadequate strategy orientation and limited ownership of the lapsed strategy, organizational and management arrangements for the programme in Commercial State Owned Enterprises. The Strategy for the revitalization of Public Finance Management System in Kenya covered the period 2006 to 2011 and was implemented using a sector wide approach. PFMR Strategy, (2013)

The strategy was developed to guide reforms in the PFM sector and to build on the institutional transformation the government was undertaking. In 2006, the Kenya Government launched the Public Finance Management Reform (PFMR) with the intention of coordinating reforms within the Public Finance System. Since then, the country has seen a number of systems changes in budget formulation, public procurement, external audit, revenue collection, budget execution, internal audit, parliamentary oversight, debt and guarantee among others (PFMR Strategy, 2013).

The Government with the assistance of Development Partners mobilized resources to implement the strategy through the institutional reforms and capacity building project

(IRCBP) credit availed by the World Bank and other grants provided by European Commission, Japan International Corporation Agency (JICA), while GIZ, DFID and USAID used bilateral funding mechanisms. In August 2010, the constitution of Kenya was promulgated. This accelerated the impetus for improving governance structures and entrenching reforms in Kenya (PFMR Strategy, 2013).

As such, under the current constitutional dispensation, the Public Finance Management environment will significantly be distinct essentially due to the devolved Government and the central role of fiscal decentralization within it. The constitution also provides for the establishment of a new PFM legal and institutional framework. This includes reforms to and reorganization of the National Treasury and establishment of new Government Agencies with a mandate in PFM such as; the Commission on Revenue Allocation, the Controller of Budget and the Transition Authority. The enactment of the Public Finance Management Act 2012 and other relevant legislation will create an additional opportunity for entrenching key reforms (PFMR Strategy, 2013).

Key improvement especially from one of the key Commercial State Owned Enterprises in Kenya; the Kenya Revenue Authority has been increased collections from 21.3% in 2004/05 to 24.1% in 2010/11, re-engineered IFMIS implementation process in a bid to phase out current systems which have been largely manual especially amongst the Commercial State Owned Enterprises, and disjointed establishment of the Public Procurement Oversight Authority to oversee public procurement and clearance of audit backlog in both central and local authority institutions (PFMR Strategy, 2013).

Several review of the PFM reforms in Kenya have been conducted since 2006. The reviews over the last four years reveal that there have been a number of achievements; however challenges still remain though the government is working on them. Moreover, a well functioning finance system should be the corner stone of achieving national development. Therefore a good public finance management system should aim at facilitating the provision of crucial public service by Commercial State Owned Enterprises to the people of Kenya. For this, PFM needs to channel public resources to the most needed and highly prioritized sectors such as health, education, security and justice, infrastructure for roads and water provision. The system shall also hold on to the principles that have been outlined in the constitution such as equity and transparency while using public funds and at the same time place control measures concerning service delivery (PFMR Strategy, 2013).

1.1.1 Public Finance Management Reforms

The last decade has seen the Kenya Government initiate a number of Public Financial Management Reforms (PFMR) in order to enhance accountability and transparency in its public finance systems. The targeted institutions include budget formulation, public procurement, external audit, revenue collection, budget execution, internal audit, parliamentary oversight, payroll and pensions, debt and guarantee, external resources, accounting and reporting and the macro-fiscal framework. A detailed explanation of these reforms will be explained in chapter two.

1.1.2 Commercial State owned Enterprises

These are legal entities that are created by the government in order to partake in commercial activities on the government's behalf. A state-owned enterprise can be either wholly or partially owned by a government and is typically earmarked to participate in commercial activities.

The defining characteristics are that they have a distinct legal form and they are established to operate in commercial affairs. While they may also have public policy objectives, Commercial State Owned Enterprises should be differentiated from other forms of government agencies or state entities established to pursue purely non-financial objectives.

Government-owned corporations on the other hand are common with natural monopolies and infrastructure such as railways and telecommunications, strategic goods and services (mail, weapons), natural resources and energy, politically sensitive business, broadcasting, demerit goods (alcohol) and merit goods (healthcare) WiseGeek (2013).

1.2 Research Problem

In the past, the government of Kenya had undertaken several initiatives to improve Public Finance Management in Commercial State Owned Enterprises. First and foremost, the role of Parliament and the Audit General had previously been ignored hence necessitating for several reviews of the PFM reforms in Kenya to be conducted since 2006, and these

reviews over the last four years have revealed that there have still been a number of challenges.

According to the Kenya Revenue Authority Fourth Quarter Revenue Performance Report 2011/12 as at the end of June 2012, cumulative revenue receipts in the country amounted to Kshs 707.4 billion, against a targeted Kshs 717 billion. This reflected a performance of 98.7%. The underperformance was mainly due to Government incentives like exemptions, remissions and tax reductions coupled with weak enforcement mechanisms (PFMR Strategy, 2013)

A number of studies have also been undertaken locally and internationally on the subject area of Public Finance. For instance, the World Bank Report on Public Financial Management Reforms (2012) stated that there was still a lot to be done to improve budgeting and public financial management (PFM) in Africa including Kenya; mainly emphasizing that critical challenges to good PFMR in Africa since most reforms implemented are clustered around the budget formulation stage, while reforms at the other stages of the budget process particularly budget execution and auditing lag behind. This is a common incidence for many Commercial State Owned Enterprises in Kenya during their budgeting process.

The PFMR Strategy Assessment Memorandum in May 2006 set out an assessment of the Government of Kenya Strategy for Reform of Public Financial Management (the PFMR strategy) prepared by the PFM Reform Coordinating Unit and the Ministry of Finance. The Assessment Memorandum concluded that Kenya lacks a tactical and operational

strategy relating to Public Finance subbed by the fact that the Ministry of Finance is facing several constraints and challenges. In addition, the existence of interest groups with conflicting interests and bargaining powers have also played a role (Marsgroupkenya, 2006)

In addition, a study by the Business Daily Africa, (2013) also reported that government accountants have been put on notice for failing to keep proper financial records, a clear indication in the slack by the Public Finance Management Act 2012. The Auditor General said that this had led to a situation where the government has no credible records of its assets or debts. This worrying state of affairs is captured in the Auditor General's report presented before the Public Accounts Committee (PAC). Various ledgers and trial balances for 2010/2011 against which the financial statements are drawn were incomplete, missing or full of errors. As a result, out of the 173 financial statements audited, only 29 per cent were certified, meaning the auditors were able to form an opinion, while the remaining 71 per cent were rejected.

As per the aforementioned studies from various sources, there is a clear indication that there exists a gap in the management of public funds in the country, with special focus being on Commercial State Owned Enterprises in Kenya. This therefore leads to my research question: What is the impact of Public Finance Management Reforms on financial performance of Commercial State Owned Enterprises in Kenya?

1.3 Objectives of Study

The objectives of study were;

- i). To undertake a comprehensive stock-taking, review and synthesis of lesson about designing, implementing and assessing public financial management (PFM) reform initiatives amongst Commercial State Owned Enterprises in Kenya.
- ii). To determine the effect of the Public Finance Management Reforms on the financial performance of Commercial State Owned Enterprises in Kenya.

1.4 Value of the Study

The study will be of importance to various parties;

The government will be interested in the study since it will form a basis for the formulation of Financial Policies in the country as well as improve its ability to deliver on its key priorities by making the most efficient and effective use of public funds by Commercial State Owned Enterprises in Kenya.

International partners and donors are also another segment who will benefit from the study by being able to access and collect data relating to the financial performance of the Commercial State Owned Enterprises, hence being able to review their terms and conditions in terms of future expectations. In addition, international partners and donors will be able to re-engage International Financial Institutions and Commercial State Owned Enterprises in Kenya on areas of funding and accountability for effective and efficient public service delivery.

Prospective investors will benefit from the study by being able to make the decision on whether to invest in Commercial State Owned Enterprises or not, looking in tandem with the fact that viability of the decision is a critical consideration. Data from financial performance of the over periods of time is used to arrive at this decision.

Academicians and Scholars will find the study useful as it will form a basis upon which further impacts of the PFMR on performance of Commercial State Owned Enterprises can be conducted, as well as add to the body of knowledge of the discipline of Finance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter summarizes the information from other researchers who have carried out research in similar field of study. The specific areas covered are review of literature on theories that guide study, empirical studies that relate to factors determining the impact of Public Finance Management Reforms on financial performance of CSOE's.

2.2 Review of Theories

2.2.1 Modern portfolio theory

Modern portfolio theory (MPT) is a theory of finance that attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets. By combining different assets in a Commercial State Owned Enterprise whose returns are not perfectly positively correlated, MPT seeks to reduce the total variance of the portfolio return. MPT also assumes that investors are rational and markets are efficient (Clark et al., 2013)

Elton (2009) states that MPT assumes that investors are risk adverse, meaning that given two portfolios that offer the same expected return, investors will prefer the less risky one. Thus, an investor in a Commercial State Owned Enterprise will take on increased risk

only if compensated by higher expected returns. Conversely, an investor who wants higher expected returns must accept more risk. The exact trade-off will be the same for all investors, but different investors will evaluate the trade-off differently based on individual risk aversion characteristics.

The implication is that a rational investor will not invest in a portfolio if a second portfolio exists with a more favourable risk-expected return profile – i.e., if for that level of risk an alternative portfolio exists that has better expected returns. Note that the theory uses standard deviation of return as a proxy for risk, which is valid if asset returns are jointly normally distributed or otherwise elliptically distributed (Clark et al., 2013).

Commercial State Owned Enterprises can reduce portfolio risk simply by holding combinations of instruments that are not perfectly positively correlated (correlation coefficient). In other words, they can reduce their exposure to individual asset risk by holding a diversified portfolio of assets.

2.2.2 Two Mutual Fund Theorem

One key result of the analysis of risk and return is the two mutual fund theorem. This theorem states that any portfolio on the efficient frontier can be generated by holding a combination of any two given portfolios on the frontier; the latter two given portfolios are the "mutual funds" in the theorem's name (Bailey, 2008).

So, in the absence of a risk-free asset, a Commercial State Owned Enterprise can achieve any desired efficient portfolio even if all that is accessible is a pair of efficient mutual funds. If the location of the desired portfolio on the frontier is between the locations of the two mutual funds, both mutual funds will be held in positive quantities. If the desired portfolio is outside the range spanned by the two mutual funds, then one of the mutual funds must be sold short (held in negative quantity) while the size of the investment in the other mutual fund must be greater than the amount available for Commercial State Owned Enterprise investment (the excess being funded by the borrowing from the other fund) (Bailey, 2008).

2.2.3 Random Walk Theory

The random walk theory states that market and securities prices are random and not influenced by past events. The idea is also referred to as the “weak form efficient-market hypothesis” Burton G. Malkiel coined the term in his 1973 book “A Random Walk Down Wall Street”. The central idea behind the random walk theory is that the randomness of stock prices renders attempts to find price patterns or take advantage of new information futile. In particular, the theory claims that day-to-day stock prices are independent of each other, meaning that momentum does not generally exist and calculations of past earnings growth does not predict future growth. Malkiel states that people often believe events are correlated if the events come in "clusters and streaks, though streaks occur in random data such as coin tosses.

The theory also states that all methods of predicting stock prices are futile in the long run. He calls the notion of intrinsic value undependable because it relies on subjective estimates of future earnings using factors like expected growth rates, expected dividend payouts, estimated risk and interest rates. In addition, it also considers technical analysis undependable because, according to him, chartists buy only after price trends are established and sell only after price trends are broken; essentially, the chartists buy or sell too late and miss the boat.

According to the theory, this happens because stock prices already reflect the information by the time the analyst moves on the stock and that the widespread use of technical analysis reduces the advantages of that kind of approach. Further, Malkiel finds fundamental analysis flawed because analysts often collect bad or useless information and then poorly or incorrectly interpret that information when predicting stock values. It is therefore important to note that for a Commercial State Owned Enterprise operating in Kenya, factors outside of it or its industry may affect a stock price.

In addition, it also provides considerable support to an intimidated investor, especially for a Commercial State Owned Enterprise, particularly by encouraging the firm to understand the theories and investment methods that the random walk theory challenges; hence advocating for a buy-and-hold investment strategy as the best way to maximize returns amongst Commercial State Owned Enterprises in Kenya.

2.3 Review of Empirical Studies

2.3.1 Local Governments

For the public sector to deliver public services and achieve its policy objectives, it is critical that public finances are managed well. Critics of decentralization point out that local government are often administratively weak, and that poor local financial management can negate the potential benefits from decentralization. While the available research suggests that local financial management outcomes are influenced by more than a local government's financial management practices, little is known in the literature about the determinants of effective local financial management in developing and transition economies (Hitt, et al., 2011).

The empirical analysis uses data from local government authorities in Kenya in order to explore the relationship between local financial management performance on one hand, and local management practices, local governance, and other local characteristics on the other hand. While the exact local management practices that matter for the quality of local financial management in Kenya vary depending on how financial management performance is measured, it appears that councils with better financial management practices (e.g., stronger internal audits), better planning and budget processes, and better project implementation practices achieve better local financial management outcomes. In addition, the empirical analysis reveals that local political conditions and other local circumstances such as the poverty level and the urbanization rate also play an important role in determining local financial management performance in Kenya (UNHabitat, 1998)

In order for the public sector to efficiently deliver public services and achieve its policy objectives, it is critical that public finances are managed well. While the efficient and effective use of public resources is a universal concern at all levels of government, the appropriate use of decentralized public resources at the local government level is a special point of contention. World Bank, (2008) This is particularly true in lesser developed countries (LDCs), where local financial management seems to be at a relative disadvantage compared to central public financial management systems (UNHabitat, 1998).

Whereas proponents of public finance reform in LDCs argue that decentralization makes the public sector more accountable by bringing the public sector “closer to the people,” critics of decentralization point out that local governments are often administratively weak, that they typically lack sufficient financial management capacity, and that local political accountability mechanisms are generally inadequate to assure that local political leaders respond to the needs and wishes of their communities. Poorly designed intergovernmental fiscal systems and weak local financial management practices would make local government finances prone either to being illicitly diverted by (central or local) government officials before reaching the local community or to being “captured” and redirected away from their intended use by local political elites (Shah, 2007).

Indeed, the available evidence indicates that the inadequate management of intergovernmental transfers and local government finances results in substantial leakages of local public resources that are intended to fund pro-poor public services such as primary education or basic health services which in turn, poor local government

performance could reduce popular confidence in the public sector and undermine the support for decentralization reforms (Waema and Adera, 2011)

Before proceeding with the empirical analysis of local government financial management performance in Kenya, it is important to investigate the measurement of (local) financial management performance in the literature and to assess the available empirical research on the relationship between local government performance and local government characteristics.

2.3.2 Local Government Budget Performance

In the area of public finance management, budget performance has traditionally been interpreted in a relatively narrow manner as the ability of the public sector to carry out its budget in accordance with the original, approved budget plan. More recently, however, a standardized set of performance indicators was developed to more comprehensively measure the quality of public expenditure management over time and across countries.

This menu of public expenditure and financial accountability (PEFA) performance indicators seeks to assess not only the aggregate credibility of the budget process (in terms of the actual expenditure outturns compared to the budget plan), but also considers the comprehensiveness and transparency of the budget; the effectiveness of each stage of the budget cycle (including predictability and control during budget execution); as well as the sound management of donor finances. While these PEFA indicators are starting to be

used widely at the central government level in many LDCs, their application is yet to be extended to sub-national public finance management (Walker et al., 2010)

Although different approaches are used to measure local government budgetary performance in different countries, the management or use of financial resources is commonly incorporated as one of the important dimensions within a local government's overall performance assessment. Indeed, given that the quality of local financial management impacts the local government's ability to execute its responsibilities in all other areas, the current paper focuses exclusively on analyzing the ability of local governments to ensure sound financial management. As such, the empirical analysis in this paper considers the quality or performance of local financial management in Kenya (the dependent variable in the empirical analysis) by exploring the impact of local administration, local governance, and other local characteristics on local financial management quality (Walker et al., 2010)

While we would expect both sound local government administration practices as well as participatory and accountable local governance mechanisms to have a positive impact on local financial management performance, relatively little empirical research has been done to investigate the determinants of local government financial management performance. Based on our review of the existing literature, there are a few empirical studies that specifically look at the relationship between a government's financial condition or "performance" (as the dependent variable) and the sub national government's financial management practices (as one of the independent variables). Even within this small set of studies, it is important to note that no single indicator has emerged

as the preferred measure of sub-national fiscal performance or financial management performance. Moreover, nearly all of the available evidence concerning the relationship between local government performance and local government practices is based on developed economy experiences (Walker et al., 2010)

2.3.3 PFMR Challenges

There are a number of challenges that face the PFM system in most of developing countries in Africa; Problems that prevent budgets from working effectively and delivering the desired outcomes. These problems are above all weak institutions, capacity constraints (financial, technical, human resources) and inadequate budgeting techniques, together with unfavorable external factors such as macroeconomic instability and dependency on donor funding. Especially when countries face several of these problems simultaneously, the result is often poor budgetary performance.

However, it needs to be emphasized that this observed poor performance does not necessarily stem primarily from poor formal PFM systems. On the contrary, many developing countries (usually under pressure from international donors, in particular the World Bank and the IMF) have introduced modern PFM legislation and institutional set-ups over the years. Consequently, the formal framework for PFM is often well designed in principle. However, in many cases, these formal frameworks are not adhered to in practice because informal rules and procedures tend to dominate the management of public finances (Dollery et al., 2003)

In these cases, the effectiveness of multi-year plans and annual budgeting as key instruments for implementing national strategic policies, such as poverty reduction strategies, are severely compromised as well as the prospects for effective public policy for development and poverty reduction. The effective implementation of poverty reduction through annual budgets highly depends on a good match between formal rules and procedures and actual practices of PFM. It is thus closely linked to at least three key factors: the political will of the stakeholders in the budget process, an elaborated institutional framework that supplies them with the right incentives and efficient control mechanisms, sufficient technical, human and financial capacity that allows for executing tasks throughout the budget cycle efficiently and effectively (Dollery et al., 2003).

2.3.4 Significance of PFMR Reforms

According to the World Bank, (2012), effective public financial governance is key to development and reduction of poverty in Africa. Transparent and efficient management of public financial resources means improved service delivery by governments and citizens getting critical services such as education, healthcare and clean water. There is still a lot to be done to improve budgeting and public financial management in Africa. However, in the last decade, there have been achievements on various aspects of PFM reforms in the region.

A major contribution to these achievements has been the sustained work of the Collaborative Africa Budget Reform Initiative (CABRI). This critical group is a driver of public financial management reform in the continent, the idea behind being bringing together counterparts in the finance ministries and to tackle some of the public financial

issues in the region through a collaborative effort and dialogue between the Ministry of Finance officials and officials in the sector ministries across Africa.

2.3.5 Integrating the Civil Society and PFMR

Public Financial Management (PFM) reforms around the world are often designed and monitored by a handful of ‘technical experts. The Sierra Leone Integrated Public Financial Management Project (IPFMRP) is one of the few Bank-funded projects in which a Government has decided to channel \$ 1.0 million of its grant funds to civil society to monitor the use of public funds. Here are some emerging lessons that Kenya can borrow from this ongoing experience. The Bank can be an effective convener between government and civil society: During IPFMRP preparation, the Bank team played a key role in establishing a dialogue between the government and civil society (CSO) groups and in facilitating several important negotiations between the government and CSO’s (World Bank, 2011).

Finding reform champions who have a common vision is key for effective partnership: A number of emerging champions are playing a key role in moving the partnership forward. Augustus Cole, the Director of PFM Reform in the Ministry of Finance, and one of the champions, says that he believes that open and frank discussion with civil society actors can help [them] make better policies (World Bank, 2011). Global initiatives have also helped in motivating the two-sides to work together. They now have a common goal: scoring high in the Open Budget Initiative (OBI) (World Bank, 2011)

Government-civil society interaction needs to be a continuous process: With project funds, the government and CSOs started to exchange feedback on a systematic basis. Civil society representatives now routinely participate in kick-off and wrap up meetings for Bank project missions. The government even included civil society representatives in a recruitment panel for a position under the project. Therefore, useful role for the Bank in the near future is to continue to advocate for adequate space for an increasingly honest dialogue between the government, the parliament and civil society (World Bank, 2011).

2.4 Public Finance Management Reforms

2.4.1 Resource Mobilization

This theme was developed to enhance collection, accounting and timely reporting of public revenues at National and County Governments in line with macroeconomic-fiscal policies. The Key activities that will engineer this theme include undertaking a comprehensive tax policy and administrative reforms to enhance service delivery, improve compliance and broaden the tax base. There will also be enhancement of capacity building in tax administration and revenue administration at County and National Levels.

The above reforms are aiming at ensuring that there will be a credible budget policy statement and budget review paper produced annually in line with the new budget calendar and enhanced tax revenue collection in accordance with projections among others.

2.4.2 Resource Allocation

This theme is aimed at ensuring that participatory, effective and equitable allocation of public funds in line with National and County Government priorities. Revenue allocation decisions should be driven by considerations of equity and fairness as well as prudence in the use of public resources.

Prioritization of resource allocation towards those sectors and programmes that have the greatest impact on equity, economic growth and poverty reduction will be steered to ensure that National and County priorities reflected in the budget documents are aligned to the development priorities and that public participation is part of the process.

2.4.3 Budget Execution, Accounting and Reporting

The overall objective of this reform is to ensure that efficient and effective budget utilization, accurate and timely accounting, reporting, effective scrutiny and review of expenditure of public resources. The key activities to steer achievement of this reform include review and development of appropriate public sector accounting standards, building capacity at National and County levels in the application of the new standards of accounting and financial reporting and digitalization of manual records.

The output expected from the aforementioned includes enhanced efficiency, value for money, transparent competition and controls in public procurement at National and County levels.

2.4.4 Independent Audit and Oversight

The themes overall objective is to ensure accountability of public resources, oversight, effectiveness and lawfulness in the collection and application of public funds. Government will build capacity of the relevant Parliamentary Budget Office, Senate and County assembly oversight committees to effectively undertake PFM oversight functions as well as initiate strategies for regular publishing and publicizing of independent audit. The reform will give rise to improved independent audit and oversight capacity at National and County governments in all Commercial State Owned Enterprises and public debt to deliver timely audit reports as well as quantify public resource savings.

2.4.5 Fiscal Decentralization

The main objective of this reform is to establish and implement a framework for fiscal decentralization and to facilitate timely disbursements and efficient delivery of services in a transparent and accountable manner. The key activities that will lead to achievement of this reform include; establishing and building capacity of relevant institutions; Transitional Authority, The National Treasury and CRA to facilitate effective fiscal decentralization. The results intended to be achieved from the above mentioned are operationalization of the equalized fund, effective administration of the equalized fund and decentralized functions at the county level among others.

2.4.6 Legal and Institutional Framework

The legal framework reform's overall objective is to develop and consistent and harmonized PFM legal and Institutional Framework. A transparent and comprehensive

set of policies, rules and regulations will be developed to identify and fast track the PFM legislations to align them to the constitution. The benefits to be reaped from this reform will be enhanced legal competency in new and existing PFM institutions at the National and County level as well as increased awareness of and compliance with relevant PFM laws.

2.4.7 IFMIS Re-engineering

IFMIS Re-engineering's overall objective will be to automate and integrate PFM systems which facilitate efficient and effective execution of all financial management processes, eliminate risks, enhance security and financial controls in all service areas including interconnectivity of county units. The aspirations and goals that will be achieved include Acquisition and installation of new technological infrastructure and equipment across the National and County governments, roll out implementation and maintenance of IFMIS as well as interface key PFM stand alone systems with IFMIS. The sequels for introduction of this system will be system generated requisitions, purchase, service orders, tenders and quotations analysis through the system at both National and County levels.

2.4.8 Implementing Agencies

The implementing agencies for the above reforms include the Kenya Revenue Authority, Commission on Revenue Allocations, County Governments, Parliament, the Transitional Authority, National Treasury, Controller of Budget, Public Procurement Oversight

Authority and the Economic council amongst others; in conjunction with Commercial State Owned Enterprises in Kenya.

2.5 Indicators of Public Finance Management Reforms

Public Finance Management Reforms of CSOE's can be measured using several macroeconomic targets and indicators. The Performance Measurement Framework of the World Bank in 2005 identified the critical dimensions of an open and orderly PFM system as follows;

2.5.1 Credibility of the budget

The credibility of the country's budget depends on the government's ability to realize its revenue and expenditures plans. The above indicator is set to ensure that the budget is realistic and is implemented as intended in the country, with particular focus on CSOE's. (PEFA Secretariat; World Bank, 2005)

2.5.2 Comprehensiveness and transparency

This indicator seeks to ensure that the budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public (PEFA Secretariat; World Bank, 2005)

2.5.3 Predictability and control in budget execution

The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds. (PEFA Secretariat; World Bank, 2005).

2.5.4 External scrutiny and audit

These set of high-level indicators measures the operational performance of the key elements of the PFM systems, processes and institutions of a country central government, legislature and external audit amongst CSOE's. In addition, the PFM-PR uses the indicator-based analysis to develop an integrated assessment of the PFM system against the six critical dimensions of PFM performance and evaluate the likely impact of PFM weaknesses on the three levels of budgetary outcomes. (PEFA Secretariat; World Bank, 2005).

The set of high-level indicators captures the key PFM elements that are recognized as being critical for all countries to achieve sound public financial management. In some countries, the PFM-PR may also include an assessment of additional, country specific issues in order to provide a comprehensive picture of PFM performance.

2.5.5 Policy Based Budgeting

2.5.6 Accounting, Recording and Reporting

2.5.7 Donor Practices

This indicator seeks to ensure that the six internally consistent indicator clusters follow the budget cycle. These are: strategic budgeting, budget preparation, resource management, internal control, audit and monitoring, accounting and reporting and external accountability.

2.6 Conclusion

In conclusion, for the public sector to deliver public services and achieve its policy objectives, it is critical that public finances are managed well. Critics of decentralization point out that local government are often administratively weak, and that poor local financial management can negate the potential benefits from decentralization.

While the exact local management practices that matter for the quality of local financial management in Kenya vary depending on how financial management performance is measured, it appears that councils with better financial management practices (e.g., stronger internal audits), better planning and budget processes, and better project implementation practices achieve better local financial management outcomes.

In addition, the empirical analysis reveals that local political conditions and other local circumstances such as the poverty level and the urbanization rate also play an important role in determining local financial management performance in Kenya.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter mainly outlined the research design, target population and sample, data collection method and data analysis. Data analysis mainly rooted down to the statistical tool, the model and the package that was used thereof. The data was also tested for validity and reliability with the intention of bringing out the credibility of the data.

3.2 Research Design

The research used secondary data. Zikmund *et al*, (2007) defines secondary data as the data that had previously been collected for some purpose other than the one at hand.

On the other hand, a descriptive research describes the characteristics of objects, people, groups, organizations etc. It addresses the what, why, who, when, where and how questions.

Therefore, the descriptive survey is a method that will collect data from the population and help the research to get the process of collecting data in order to answer question regarding the current status of the subjects in the study. Thus descriptive survey was an appropriate as it sought to ascertain the financial performance of Commercial State Owned Enterprises with relation to the PFMR.

3.3 Population and Sampling

The target population of the study comprised of all Commercial State Owned Enterprises in Kenya. As at November 2013 there were 168 Commercial State Owned Enterprises in Kenya.

3.4 Sample

The researcher conducted a sample study of 30 out of the 168 CSOE's in Kenya. The period of study was ten years; between January 2002 and December 2011.

3.5 Data Collection

The study used quantitative and qualitative methods of data collection. Zikmund et al, (2007) describe quantitative data collection as representing phenomena by assigning numbers in an ordered and meaningful way, while qualitative data collection is primarily exploratory research. The study used both primary and secondary data. Primary data was collected by way of self administered drop and pick questionnaires which was distributed to finance managers of CSOE' for response. The questionnaire had both open and close ended questions. The close ended questions provided most structured responses to facilitate tangible recommendations. The open ended questions provide additional information that may not have been captured in the close ended questions. Secondary data sources was employed through the use of previous documents such as the Financial Statements, annual reports and information available in the World Bank Website as well as the PFMR website (Kenya) to supplement the data received from questionnaires.

3.6 Data Analysis

Completed questionnaire was edited for completeness and consistency. The data was then coded and checked for any errors and omissions Kothari (1990) Descriptive statistics in particular means and standard deviation will be used to interpret responses to the questionnaire.

The data collected was analyzed using statistical package for social Studies (SPSS). Inferential statistics was used to summarize data such as percentages, frequencies and tables to present the data collected for ease of understanding and analysis.

The Ordinary Least Square (OLS) method of regression was used in estimating the impact of PFMR on financial performance of CSOE's.

3.7 Model Specification

The relationship between Public Finance Management Reforms and Financial Performance;

Financial Performance = f (Credibility of the Budget + Comprehensiveness and Transparency + Predictability and Control + External Scrutiny and Audit + Policy Based Budgeting + Accounting, Recording and Reporting + Donor Practices)

$$(Y_{it}) = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + E$$

Where:

Y = Financial Performance of

I = number of CSOE's

t = time period years

(X1) = Credibility of the Budget

(X2) = Comprehensiveness and Transparency of the Budget

(X3) = Predictability and Control in Budget Execution

(X4) = External Scrutiny and Audit

(X5) = Policy Based Budgeting

(X6) = Accounting, Recording and Reporting

(X7) = Donor Practices

β_0 represent the constant, X represents the factors that determine the financial performance of CSOE's and β represent the coefficients which is the strength of the effect each factor has on financial performance which is the basis of this study.

E= Error term that is assumed to have zero mean and constant variance.

3.8 Data Validity and Reliability

Data Validity is the accuracy of a measure or the extent to which a score truthfully represents a concept while Data Reliability is an indicator of a measures internal consistency Zikmund et al, (2007). Reliability is synonymous with repeatability or stability, where a measurement that yields consistent results over time is said to be

reliable. Reliability therefore is the degree to which measures are free from error yielding consistent results (Cooper & Schindler, 2003).

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter dealt with data analysis, presentations, interpretation and discussions of study findings. The presentations were done based on the research questions which formed the sub-headings in the chapter.

A total of 30 financial managers from 30 CSOEs were targeted. Every respondent was given a questionnaire out of which 26 respondents responded by completing and returning the questionnaire. This gave a response rate of 87%. The collected data were edited and coded. Data analysis of the responses was done using frequency, percentages, mean score and standard deviation. Inferential statistics such as regression analysis was used to test the relationship between the financial performance and the independent variables.

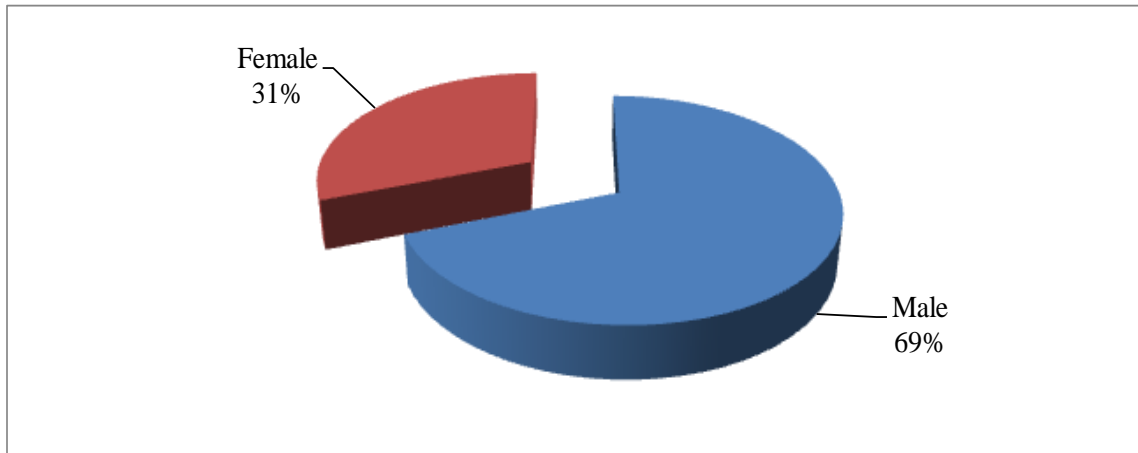
4.2 Respondents General Information

The study sought to determine the gender, age, years of working in the organization and the number of years the organizations have been in operation. The results of the study are presented in the sections below:

4.2.1 Gender

The study sought to establish the gender of the respondents. The findings of the study as presented in Figure 4.1 show that majority of the finance managers (69%) in the state owned corporations were male as compares to 31% female. The findings mean that the job description finance manager in the commercial state owned enterprises in Kenya is dominated corporations are male.

Figure 4.1: Distribution of Respondents by Gender

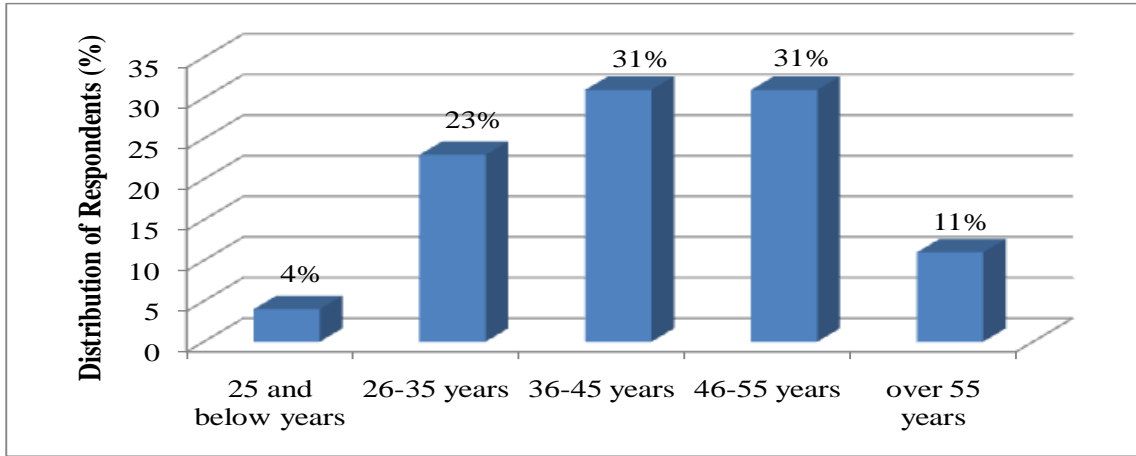


Age of Respondents

Respondents were asked to state their ages. The results presented in Figure 4.2 show that 31% of the respondents were in the age bracket of between 36 and 45 years and the same proportion were aged 46 and 55 years. The findings also show that 23% of the respondents were aged between 26 and 35 years. The study findings mean that the distribution of respondents according to age can be described as normal as the age below

25years was the least but as the age went up, the distribution increased upto 45 years when it remained stagnant and started to decline at age 55 years going up.

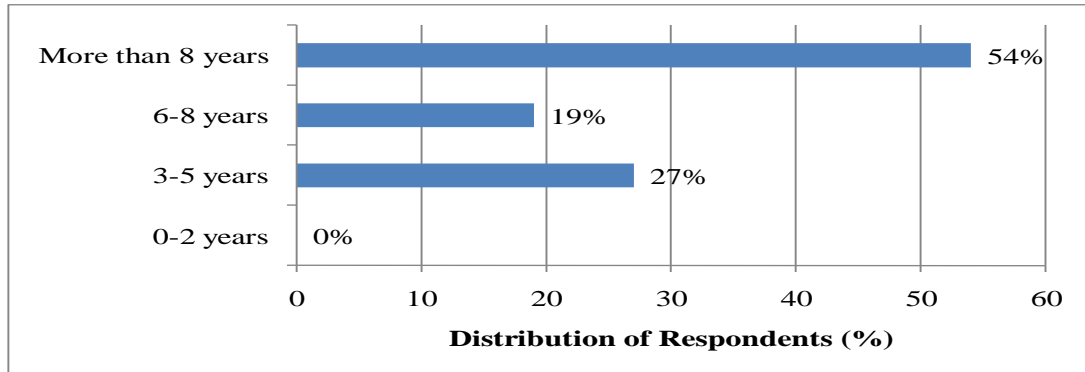
Figure 4.2: Distribution of Respondents by Age



4.2.3 Working Experience

The study sought to determine the duration the respondents have been working in the institutions. The findings show that most of the respondents (54%) have worked in their respective organizations for more than 8 years. The results also show that 27% of the respondents stated that they have worked for the between three and five years. The findings mean that the respondents have worked in their organizations for long enough and therefore gave accurate answers regarding the impact of public finance management reforms on financial performance of commercial state owned enterprises.

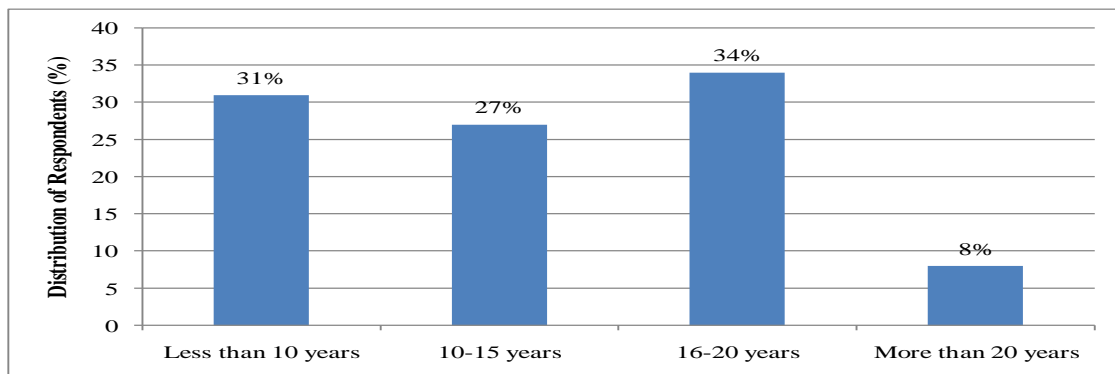
Figure 4.3: Respondents' Working Experience



4.2.4 Duration in Operation

Respondents were asked to state how long they have been in operation. The results in Figure 4.4 show that 34% of the respondents stated that their organizations have been in operation for between 16 and 20 years while 27% have been in operation for between 10 and 15 years. The study however show that 31% of the organizations have been in operations for less than 10 years. The study findings mean that most organizations have been in operation long enough.

Figure 4.4: Duration in Operation



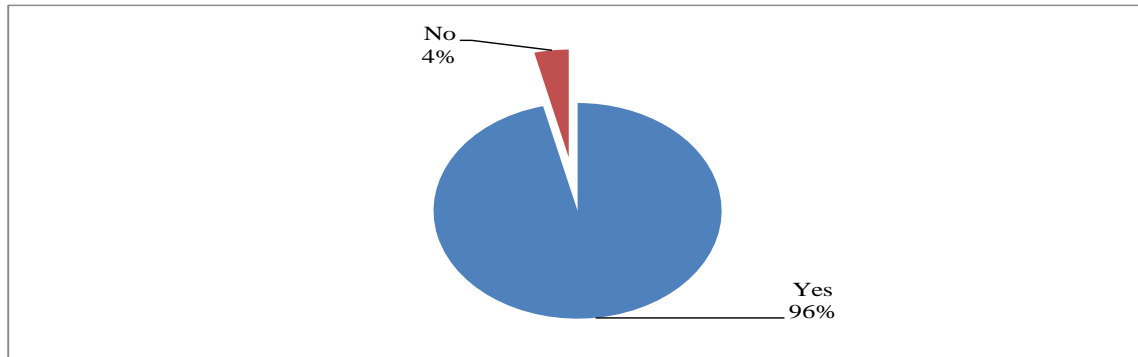
4.3 Impact of Public Finance Reforms on Financial Performance

The study sought to determine the impact of public finance reforms on the financial performance of the enterprises. The study findings are presented in the subsequent sections.

4.3.1 Whether the Organization has Implemented PFMR

The study sought to establish whether the organizations implemented the public finance management reforms. The findings in Figure 4.5 show that majority of the respondents (96%) indicated that indeed their organizations had implemented the public finance management reforms. The findings mean that majority of the commercial state owned enterprises have implemented the public finance management reforms.

Figure 4.5: Whether the Organization has Implemented PFMR

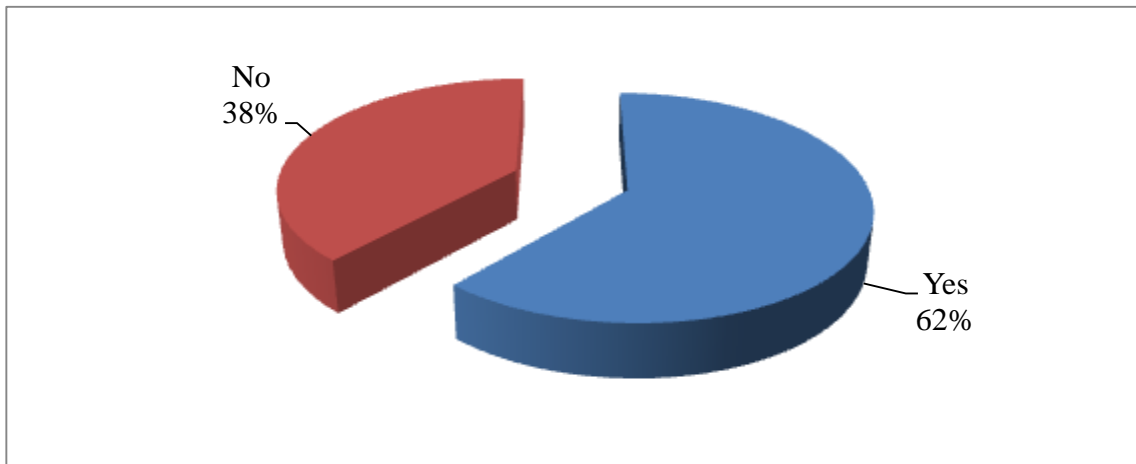


4.3.2 Whether Conversant with Introduced PFMR.

The respondents were asked to state whether they were conversant with the PFMR that was introduced in their organizations. The results show that majority of the respondents

(62%) were conversant while 38% were not. The findings mean that most finance managers of the commercial owned state enterprises were aware of the PFMR.

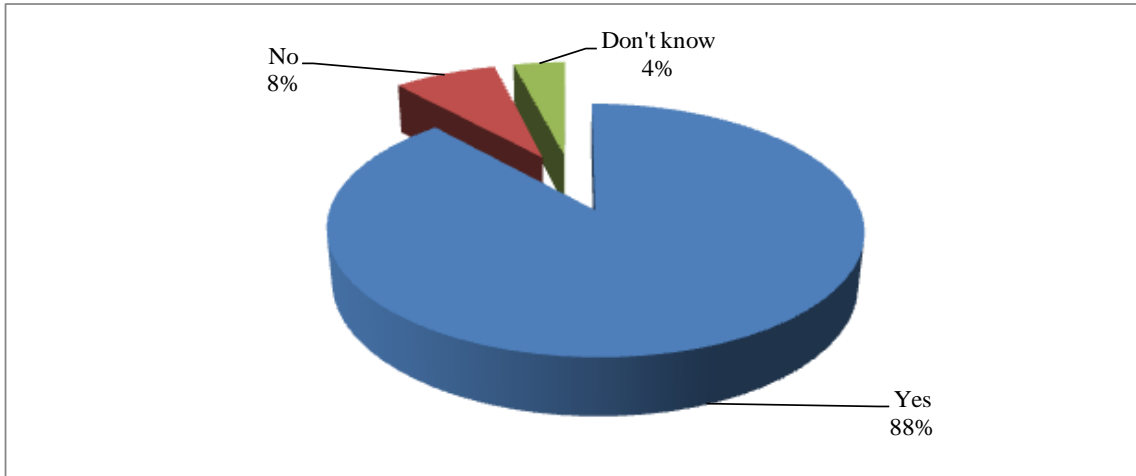
Figure 4.6: Whether Conversant with Introduced PFMR



4.3.3 Whether Financial Management Process Changed the Enforcement

The respondents were asked to state whether any financial management process implemented changed in any way following the enforcement of the Public Finance Management Act 2012. The study findings presented in Figure 4.7 show that majority of the respondents (88%) indicated that indeed the financial management process improved with the implementation of the PFMR in the organization. The findings mean that the financial management process changed the enforcement of the Public Finance Management Act 2012.

Figure 4.7: Whether Financial Management Process Changed the Enforcement



4.3.4 Impact of PFM Reforms on the Financial Performance

The respondents were asked to state the extent to which the implementation of PFM reforms had enhanced the financial performance of the organizations. This was on a scale of not at all, little extent, moderate extent, great extent and very great extent. The score 0.0 to 1.0 represent not at all, the score 1.1 to 2.0 represent little extent, the score 2.1 to 3.0 represent moderate extent, the score 3.1 to 4.0 represents great extent and the score 4.1 to 5.0 represent to very great extent. The study findings presented in Table 4.1 show that the respondents indicated that the credibility of the organizations budgets influenced the financial performance of the organization to a great extent (mean score 3.54). The findings further show that according to respondents, the comprehensiveness and transparency of the budget impacted the financial performance of the organization to a great extent (mean score 3.31). The results also show that the respondents indicated that the predictability and control in budget execution impacted the financial performance of the organization to a great extent (mean score 3.77). The results revealed that according to the respondents, the external scrutiny and audit influenced the financial performance of

the organization to a great extent (mean score 3.58). The respondents further stated that the policy based budgeting in the organization influenced the financial performance of the organization to a very great extent (mean score 4.12). From the study findings, respondents indicate that both the accounting, recording and reporting and donor practices impacted the financial performance of the organization to a great extent (mean scores 3.88 and 3.46 respectively). The findings show that there were no variances in the responses (standard deviation ≤ 1) except to external security and audit and donor practices (standard deviation ≥ 1). These findings mean that the implementation of PFM reforms have a direct effect of the financial performance of the organization.

Table 4.1: Impact of PFM Reforms on the Financial Performance

	N	Mean	Std. Deviation
Credibility of your organizations budget	26	3.58	.902
Comprehensiveness and transparency of the budget	26	3.31	.884
Predictability and control in budget execution	26	3.77	.992
External scrutiny and audit	26	3.58	1.206
Policy based budgeting	26	4.12	.653
Accounting, recording and reporting	26	3.88	.766
Donor practices	26	3.46	1.140

4.4 Regression Analysis

A linear regression was done to determine the relationship between financial performance and all the independent variables i.e. Credible budget, comprehensiveness and

transparency of budget, predictability and control in budget execution, external security and audit, policy based budgeting, accounting, recording and reporting and donor practices.

Table 4.2: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.950 ^a	.903	.866	.119

a. Predictors: (Constant), Donor practices, Policy based budgeting, Credibility of budget, Comprehensiveness and transparency of the budget, Accounting, recording and reporting, External scrutiny and audit, Predictability and control in budget execution

The R Squared show that the independence variables include Credible budget, comprehensiveness and transparency of budget, predictability and control in budget execution, external security and audit, policy based budgeting, accounting, recording and reporting and donor practices explain approximately 90.3 percent of the variance in financial performance in the organizations. The results suggest that almost all the independent variables in this model are significant predictors of the financial performance of the organization (at the 95 percent confidence level).

Table 4.3: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.397	7	.342	24.048	.000 ^a
	Residual	.256	18	.014		
	Total	2.654	25			

a. Predictors: (Constant), Donor practices, Policy based budgeting, Credibility of budget, Comprehensiveness and transparency of the budget, Accounting, recording and reporting, External scrutiny and audit, Predictability and control in budget execution

b. Dependent Variable: Financial performance

The regression results show that the significance value (*p-value*) of F statistics is less than 0.05. This implies that the test is statistically significant.

Table 4.4: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.246	.111		20.168	.000
Credibility of your organizations budget	.106	.037	.399	2.875	.010
Comprehensiveness and transparency of the budget	.056	.038	.168	1.477	.047
Predictability and control in budget execution	.090	.046	.281	1.933	.049
External scrutiny and audit	.054	.036	.186	1.486	.035
Policy based budgeting	.126	.028	.478	4.408	.000
Accounting, recording and reporting	.072	.034	.266	2.088	.031
Donor practices	.116	.034	.330	3.388	.003

Using the values of the coefficients (β) from the regression coefficient table 4.4, the established regression equation takes the form of:

$$\text{Financial performance} = 2.246 + 0.106X_1 + 0.056X_2 + 0.090X_3 + 0.054X_4 + 0.126X_5 + 0.072X_6 + 0.116 X_7$$

The study shows that all the independent variables have positive relationship with the dependent variable (financial performance). The findings show that even without any change in the PFR reforms there would be a 2.246 unit change in financial performance. The results further show that a unit increases in credibility of organizations budget will result into a 0.106 change in financial performance. According to the results a unit change in comprehensiveness and transparency of the budget will result in 0.56 unit change in the financial performance. The findings show that a unit change in predictability and control in budget execution will result into a 0.90 change in financial performance. The findings show that a unit change in external scrutiny and audit will result into 0.054 changes in financial performance. The result show that a unit change in policy based budgeting will result into a 0.126 change in financial performance. The results show that a unit change in accounting, recording and reporting will result into a 0.072 change in financial performance. The results revealed that a unit change in donor practices will result into a 0.116 change in financial performance. The results show that all the variables are statistically significant as the p-values are less than 0.05 ($p > 0.05$).

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The public finance management reforms were meant to facilitate the provision of crucial public service such as enhanced accountability and transparency by Commercial State Owned Enterprises in Kenya. In addition they were meant to manage the limited financial resources to ensure economy and efficiency in the delivery of outputs required to achieve desired outcomes that will serve the needs of the community. The purpose of study was to determine the effect public finance management reforms on the financial performance of the state corporations in Kenya. The objectives of the study were to undertake a comprehensive stock-taking, review and synthesis of lesson about designing, implementing and assessing public financial management (PFM) reform initiatives and to determine the effect of the Public Finance Management Reforms on the financial performance of Commercial State Owned Enterprises in Kenya.

The study used descriptive survey design in which both primary and secondary data was used to collect data. The study targeted all the 168 commercial state owned enterprises in Kenya. The researcher sampled 30 state corporations from where it targeted the Finance Managers. The primary data was collected by use of questionnaires. Secondary data comprised of the financial statement and the annual reports. Data was analysed both qualitatively and quantitatively.

The study established that nearly all the organizations (96%) had implemented the PFM reforms. The findings further revealed that most respondents (62%) were conversant with the PFM reforms. The study revealed that majority of the respondents (88%) indicated that the financial management process enforced the public finance management Act 2012. The study established that credibility of the organizations budgets influenced the financial performance of the organization to a great extent (mean score 3.54). The findings further show that according to respondents, the comprehensiveness and transparency of the budget impacted the financial performance of the organization to a great extent (mean score 3.31). The results also show that the respondents indicated that the predictability and control in budget execution impacted the financial performance of the organization to a great extent (mean score 3.77). The results revealed that according to the respondents, the external scrutiny and audit influenced the financial performance of the organization to a great extent (mean score 3.58). The respondents further stated that the policy based budgeting in the organization influenced the financial performance of the organization to a very great extent (mean score 4.12). From the study findings, respondents indicate that both the accounting, recording and reporting and donor practices impacted the financial performance of the organization to a great extent (mean scores 3.88 and 3.46 respectively). These findings were confirmed by the inferential statistics where the regression revealed that there was a positive relationship between the dependent and the independent variables.

The findings that the financial management process enforced the public finance management Act 2012 support the views of Hitt, et al (2011) where he noted that for the

public sector to deliver public service and achieve its policy objectives, it was critical that the public finance was managed well which required a policy or legal framework as it was found that in many other local authorities were characterized by weak administration and poor local financial management. The findings also support the views of Shah (2007) who noted that lack of enforcement due to poorly designed fiscal policies and weak financial management practices would subject the organizations to mismanagement of the public funds.

The findings of the study that the predictability and control of budgets and the predictability and controls in the budget execution enhanced the financial performance of the state corporations are in agreement with Walker et al (2010) that the budgetary processes used by various countries in the management or use of financial resources was intended for financial performance of the organization. The study findings also agree with CABRI (2005) that budget reporting and budget management were ingredients for organizations financial performance.

The findings of the study on the credibility in the organizations budgets and the effects they have had on the organizations financial performance supported the views of Waema and Adera (2011) that good management of resources which included credibility in the use of the public finance and accountability will enhance the financial performance of public enterprises as they will prevent leakages of public resources and this will lead to enhanced service delivery as wastages will be minimized in the public finance management in state corporations.

The findings of the study where the researcher confirmed that all the state corporations had implemented the public finance management reforms and how it affected the financial performance of these state corporations agree with the position taken by the World Bank (2008) that the reforms in the public finance management will enhance the efficiency and effectiveness in the public resources management which will in turn enhance their financial performance.

5.2 Conclusions

As clearly shown in the study findings, all the state corporations in the study had adopted the public finance management reforms in accordance with the Public Finance Management Act 2012 which required all the government agencies including the commercial state corporations adopt the reforms in their management of public finance, the study concludes that all the state corporations have been compliant with the reforms process that have been initiated by the government aimed at improving the management of the public finance which have for a long time been wasteful. The study also concludes that there was a positive change in financial performance of commercial state owned enterprises in Kenya which was attributed to the public finance management reforms.

The study further concludes that for a number of these public enterprises, the effectiveness and sustainability once initial performance indicators have been achieved will be dependent on a continuing commitment to recurrent costs. These were achieved through transparency and comprehensiveness of the budgeting process which according

to the findings of the study positively influenced the financial performance of the enterprises. The transparency in the budgeting process eliminated the wastages in the expenditure of the public finance through proper management and accountability and ensured proper and prudent allocation of the public resources.

The study also concludes that through the public management reforms, the government has been able to improve the accountability of the donor funds through the PFM cluster scores. Through the accountability the government is able to attract more funds from the local and international donors as more investors are willing to bring in their resources for investment knowing that the likelihood to gain from their investment is high. Hence more public funds for investment in key areas of the country such as education, infrastructure, health and security and improved service delivery to the publics. All these are attributable to the adoption of the public finance reforms in the state corporations.

5.3 Recommendations

The study established that the PFM reforms have enhanced the financial performance of the commercial state enterprises as such vices as corruption, outright mismanagement of public funds among others have been minimized if not eliminated. The study recommends that the government should expand the implementation in PFM reforms in other state corporation and all the government agencies so as to enhance their financial performance especially in the public offices where outright mismanagement of public funds .

The study established that the effect of some variables such as comprehensiveness and transparency in the budget and external scrutiny and audit did not have a strong influence on the financial performance of the organization despite showing potential and despite earlier studies showing a positive influence. The study recommends that the government should strengthen these factors with the view of enhancing their effectiveness in the public finance management process so as to achieve improved financial performance of these commercial state corporations and other government agencies.

The study also established that such factors as credibility of the budgets, policy based budgets and donor practices had insignificant influence on the financial performance of the corporations despite being touted as having ability to turn around the financial performance of the public corporations. The study recommends that the government through its various departments should strengthen such factors as credibility of the budget, policy based budget and donor practices for sustainability of the profitability of the organizations which have otherwise experienced poor financial performance but have the potential of registering higher profits if prudently managed.

5.4 Limitations of the Study

First was the time and financial constraints. For this reason the study was restricted to the commercial state owned enterprises which are based in Nairobi.

The fact that the study relied on secondary data may have limited that study in that some of the documents may have used different methods as the study objectives may have been different. This may have resulted into different results.

The study was on the CSO in Kenya. This may however, have been different from those done by the previous studies and therefore their findings may not fit this study as the most of the reports used focused on the effect of PFM on the performance of the government in general.

The fact that no organization was visited to find out the actual situation may be misleading due to the fact that different organizations perform differently. It may therefore be misleading to generalize the performance of the organizations as either performing or not performing.

5.5 Suggestions for Further Studies

This study was carried out on the impact of PFM reforms in the financial performance of commercial state owned enterprises alone. Similar studies can be replicated in other government ministries.

The PFM reforms were equally initiated in other East African countries like Uganda, and Tanzania. The study suggests that a comparison study should be undertaken in East African Countries with the aim of determining the impact of PFM reforms on the financial performance of government agencies.

The implementation of the reforms may have encountered challenges, the study suggests that future studies should investigate the challenges facing the implementation of PFM reforms in state corporations.

The study suggests that future research should be done on the effect of the PFM reforms on the general performance of government institutions with the aim of establishing how PFM reforms have enhanced service delivery.

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APPENDICES

APPENDIX I: LIST OF COMMERCIAL STATE OWNED ENTERPRISES

1. Office of the Vice President
2. National Museums of Kenya
3. Betting Control and Licensing Board
4. N.G.O. Co-ordination Bureau
5. Ministry of Finance
6. Kenya Revenue authority
7. Retirement Benefits Authority
8. Kenya Re-Insurance Corp.
9. Capital Markets Authority
10. Consolidated bank of Kenya
11. Deposit Protection Fund Board
12. Kenya Post Office savings Bank
13. Kenya Accountants & Secretaries Examination Board (KASNEB)
14. Kenya National Assurance (2001) Limited
15. Central Bank of Kenya
16. Capital Markets Tribunal
17. State Corporations Appeals tribunal
18. Kenya Institute for Public Policy Research and
57. Ministry of Education & Ministry of Higher Education, Science & Technology
58. National council for Science & Technology (NCST)
59. Public Universities Inspection Board
60. University of Nairobi
61. Moi University
62. Egerton University
63. Jomo Kenyatta University of Agriculture & Technology
64. Kenyatta University
65. Maseno University
66. Kenya National examination Council
67. Kenya Literature Bureau
68. Jomo Kenyatta Foundation
69. Kenya Institute of Education
70. Kenya Education staff Institute
71. Commission for Higher Education
72. Higher Education Loans Board
73. Teacher's Service Commission
74. Western University College of science and Technology
75. Ministry of Energy
76. Kenya Power and Lighting Company
118. Ministry of Livestock & Fisheries Development
119. Kenya Marine & Fisheries Research Institute
120. Kenya dairy Board
121. Kenya Meat commission
122. Kenya Veterinary Board
123. Co-operative College of Kenya
124. New Kenya Co-operative Creameries Ltd
125. Ministry of Regional Development Authorities
126. Ewaso Ngiro North Development Authority
127. Ewaso Ngiro South Development Authority
128. Lake Basin Development Authority
129. Coastal Development Authority
130. Kerio Valley

- Analysis
19. Ministry of water and Irrigation
 20. National Water Conservation & Pipeline Corporation
 21. National Irrigation Board
 22. Kenya Water Institute
 23. Water Services Regulator Board
 24. Lake Victoria South Water Services Board
 25. Coast Water Services Board
 26. Northern Water Services Board
 27. Water Services Trust Fund
 28. Rift Valley Water Services Board
 29. Lake Victoria North Water Services Board
 30. Athi Water Services Board
 31. The Tana Water Services Board
 32. Water Resources Management Authority
 33. Ministry of Agriculture
 34. Tea Board of Kenya
 35. Pyrethrum Board of Kenya
 36. Horticultural Crops development authority
 37. Coffee Board of Kenya
 38. Agricultural
 77. Kenya electricity Generating Company (KenGen)
 78. Kenya Pipeline Company
 79. National Oil Corporation of Kenya
 80. Kenya Petroleum Refinery
 81. Electricity Regulatory Board
 82. The Energy Tribunal
 83. Rural Electrification Authority
 84. Energy Regulatory Commission
 85. Ministry of Transport
 86. Kenya Airports Authority
 87. Kenya Railways Corporation
 88. Kenya Ports Authority
 89. Kenya Ferry Services Limited
 90. Transport Licensing Board
 91. Kenya civil Aviation Authority
 92. Transport licensing Appeal Tribunal
 93. Kenya National Shipping Line
 94. Ministry of Information & Communications
 95. Communication Commission of Kenya
 96. Postal Corporation of Kenya
 97. Telkom Kenya Ltd.
 98. Kenya Broadcasting Corporation
 - Development Authority
 131. Tana & Athi River Development Authority
 132. Ministry of Housing
 133. National Housing Corporation
 134. Ministry of Roads & Public Works
 135. Kenya Roads Board
 136. Ministry of Gender, sports, Culture & Social Services
 137. National Sports Stadia Management Authority
 138. Kenya Cultural Centre
 139. Kenya National Library services
 140. National Disability Council
 141. Gender commission
 142. Ministry of Health
 143. Kenyatta National Hospital
 144. Kenya Medical Training College
 145. National Hospital Insurance fund
 146. Moi Teaching & Referral Hospital, Eldoret
 147. Kenya Medical Research institute

- Finance Corporation.
39. National Cereals & Produce Board
40. Kenya Plant Health Inspectorate Board
41. Kenya Sugar board
42. Nzoia Sugar Company
43. Chemilil Sugar Company
44. Kenya Sugar research foundation
45. Pests control Products Board
46. Central Agricultural Board
47. Nyayo Tea Zones Development Corporation
48. Agricultural development Corporation
49. Kenya Seed Company
50. Kenya Agricultural research Institute
51. Coffee Research Foundation
52. Tea research foundation
53. Sugar Arbitration board
54. Agricultural Information resource Centre
55. Kenya Sisal Board
56. Bukura Agricultural College
99. Kenya Film Commission
100. The Kenya Information & Communication Technology
101. Ministry of Industrialization
102. Numerical Machining Complex
103. Kenya National accreditation service
104. Anti-Counterfeiting Agency
105. Kenya Industrial Property Institute
106. Kenya Agricultural & Development Institute
107. East Africa Portland cement
108. Kenya Industrial estates
109. Kenya Bureau of Standards
110. Industrial development bank Capital Limited
111. Ministry of Trade
112. Kenya Investment Authority
113. Export Processing Zones Authority
114. Kenya National Trading Corporation
115. Kenya Wine Agencies Limited
116. Industrial & Commercial Dev. Corporation (ICDC)
117. Industry Property Tribunal
148. Kenya Medical Supplies Agency
149. Radiation protection board
150. Ministry of Tourism & Wildlife
151. Kenya Tourist Development Corp.
152. Kenya Tourist Board
153. Catering Training & Tourism Development levy Trustees
154. Kenya Utalii College
155. Kenya Wildlife Services
156. Kenyatta International Conference Centre Corporation
157. Hotels & Restaurants Authority
158. Ministry of Environment & Natural resources
159. Kenya Forest Service
160. Kenya Forestry Research Institute
161. National environmental Management authority
162. Ministry of Justice & Constitutional Affairs
163. Public Complaints

Standing
committee

164. Ministry of
Planning and
National
Development

165. Poverty
Eradication
Commission

166. Kenya National
Bureau of
Statistics

167. Ministry
of National
Heritage

168. Public
Archives
Advisory Council

APPENDIX II: QUESTIONNAIRE

SECTION A GENERAL INFORMATION

Tick where appropriate

1. Name of Commercial State Owned Enterprise (optional)
.....
2. Gender of respondent Male Female

3. Age of respondent
25 and below 26-35 36-45 46-55 Over 55

4. How many years have you been working in the institution?
0-2 3-5 6-8 More than 8

5. How many years has the institution been in operation?
Less than 10 years 10-15 16-20 More than 20

SECTION B IMPACT OF PUBLIC FINANCE MANAGEMENT REFORMS

1. Has your organization implemented the Public Finance Management Reforms?

Yes No

2. Are you totally conversant with the Public Finance Management Reforms introduced in your organization?

Yes [] No []

3. Has any financial management process(s) and/or system(s) changed in any way following the enforcement of the Public Finance Management Act 2012?

Yes [] No []

4. How many years have the PFM reforms been operational in your organization?

0 - 5 [] 5-10 [] Over 10 []

Kindly state to what extent the following indicators of PFMR impact on the financial performance of your organization on a 5 point scale where:

1 = Not at all 2 = Little extent 3 = Moderate extent 4 = Great extent 5 = Very great extent

		1	2	3	4	5
1	Credibility of your organizations Budget					
2	Comprehensiveness and Transparency of the budget					
3	Predictability and Control in Budget Execution					
4	External Scrutiny and Audit					
5	Policy Based Budgeting					
6	Accounting, Recording and Reporting					
7	Donor Practices					