

**THE INFLUENCE OF AID AGENCIES IN FINANCIAL CONTROLS IN  
NAIROBI COUNTY**

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**2012**

**DECLARATION**

**DECLARATION BY THE CANDIDATE:**

I declare that this research proposal is my own original work and has not been submitted for award of any degree in any other University or Institution. No part of this research project may be reproduced without prior permission of the author and /or University of Nairobi

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Finally and most importantly, I wish to thank my God and the Lord of the Universe for bringing me this far. I pride in his name because he means well for me all the times. God is good all the times and all the times God is good.

## **DEDICATION**

This thesis is dedicated to the following: First, to my parents the late Harrison Githinji, Mary Wambura who toiled very hard to see me through my education. Secondly, to my son Ryan Githinji. Last but not least, to my wife Carolyn Mukabi. Their love, support, patience, encouragement and understanding gave me the will and determination to complete my postgraduate studies.

## ABSTRACT

Financial control can directly contribute to poverty reduction in developing countries in a number of ways. First, by addressing the causes of financial market failures such as information asymmetry and the high fixed cost of lending to small borrowers, financial control can improve the opportunities for the poor to access formal finance (Jalilian and Kirkpatrick, 2001). Second, a sound financial system enables the poor to access financial services, particularly credit and insurance-risk services, thereby strengthening the productive assets of the poor, enhancing their productivity and increasing the potential for achieving sustainable livelihoods (World Bank, 2001; Jalilian and Kirkpatrick, 2001).

This study was motivated by the need to establish the impact of the Aid agencies on the financial control in Nairobi County. The study adopted a descriptive research design. The pilot study was first done to ensure validity and reliability of the results and findings. The data was collected using questionnaires from the Aid agencies respondents in Nairobi County. The collected data was first checked for completeness and edited to increase the accuracy and produce reliable findings. It was then coded and analyzed using descriptive statistics such as mean and standard deviation.

The study findings indicate that, Aid agencies influence the financial control in Nairobi County substantially. The Aid agencies improve the financial systems of the Nairobi County by providing social development funds, lending funds for development and offering loans for development to the investors. The Aid agencies should be involved in financial system so as to improve the economy, minimize the prevalence of fraud cases and ensure monetary policies are well implemented in the country. The findings of this study will form a basis for policy formulation on monitoring and evaluation of management of financial aids from aid agencies in Kenya.

From the study findings, most of the Aid agencies are not involved in maintenance of the finance records. This study recommends that training and campaigns should be done by the Aid agencies to ensure that the staff are well trained on how to maintain and keep finance records updated.

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## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

For several decades now, developing countries have been engaged in a variety of macroeconomic and regulatory reforms designed (usually with support from the international financial institutions) to make their economies more market-driven and outwardly-oriented. Evidently, such reforms often encounter staunch political opposition, at times leading to the failure of reform. This is because most fiscal reform measures will entail losses for some (Abed, 1998). The World Bank study on aid effectiveness (World Bank, 1998) provoked a general debate, both among aid agencies and in academia, on the effectiveness and the efficiency of development assistance. Evidence available at micro-level typically provides strong support for the effectiveness of aid. Donor agencies tend to carry out regular project evaluations and publish overall statistics in which the share of "successful" projects generally varies between 70 and 90% (Michaelowa and Borrmann, 2006).

At macro-level, however, the available evidence leads to results which are less robust by far. Empirical investigations have often failed to find a significantly positive link between aid and economic development. Boone (1996) even provides convincing evidence for a negative rather than a positive relationship. The World Bank study as well as Burnside and Dollar's (2000) paper resuming the study's main arguments conclude that the missing link between aid and growth may be due to donors' insufficient attention to governance issues within recipient countries. In recipient countries with "bad governance" governments might substitute the aid funds for national public expenditure in the sectors towards which the aid flows are directed, and use the released national funds for unproductive expenditure such as the purchase of arms or increased consumption. Hansen and Tarp (2001) contradict these results on econometric grounds and provide evidence for an overall positive effect of aid. At the same time, Easterly (2001, 2002, 2003, 2006) questions the effectiveness of aid altogether, independently of governance in the recipient countries, arguing, *inter alia*, on the basis of inefficiencies on the donor side.

Government departments or statutory organisations in developing countries procure billions of dollars of goods and services against aid-funded projects. For example, one of the major aid providers, the World Bank, provides US\$20-30 billion each year to support thousands of projects in the developing countries worldwide (World Bank, 2001, p.131). Selected government departments, or statutory organisations of developing countries known as executing agencies, procure goods and services by using most of these funds in order to implement developmental projects.

### **1.1.1 Aid Agencies**

An aid agency is an organization dedicated to distributing aid. Categories of aid agencies include; Official Development Assistance (ODA) Agencies, United Nations Agencies, Multilateral Development Banks, International Foundations, Global Corporations, International Nongovernmental Organizations and International Church-Based or Religious Organizations.

One of the most difficult policy issues is how to prevent corruption from distorting government expenditure. This important issue goes to the heart of donors' concerns about the possible misuse of aid funds. Donors find it difficult to ensure that aid funds are spent wisely, because resources are fungible. At the international level, there is increasing resolution on the part of inter-governmental bodies such as the OECD and the World Bank to tackle the problem of corruption in response to rising concerns about aid's effectiveness at a time of financial stringency, and to public criticisms (Robinson, 2004).

The fight against corruption has only been placed on the international policy agenda since the mid-1990s, despite its long-known effects on democratic institutions and economic and social development. Corruption directly impedes progress towards the common poverty reduction objectives of both donor agencies and aid recipient countries, including the Millennium Development Goals (OECD, 2006). Today, many international organizations are addressing the global and multi-faceted challenge of fighting corruption.

### **1.1.2 Types of Aid**

**Humanitarian Aid:** Humanitarian aid or emergency aid is rapid assistance given to people in immediate distress by individuals, organizations, or governments to relieve suffering, during and

after man-made emergencies (like wars) and natural disasters. Humanitarian aid consists of the provision of vital services (such as food aid to prevent starvation) and provision of funding or in-kind services (like logistics or transport).

**Technological Aid:** Most developing countries have turned to aid agencies for the purchase and installation of computers. International aid agencies help developing countries build and strengthen their information technology (IT) infrastructure.

## **1.2 Research Problem**

Financial control can directly contribute to poverty reduction in developing countries in a number of ways. First, by addressing the causes of financial market failures such as information asymmetry and the high fixed cost of lending to small borrowers, financial control can improve the opportunities for the poor to access formal finance (Jalilian and Kirkpatrick, 2001). Second, a sound financial system enables the poor to access financial services, particularly credit and insurance-risk services, thereby strengthening the productive assets of the poor, enhancing their productivity and increasing the potential for achieving sustainable livelihoods (World Bank, 2001; Jalilian and Kirkpatrick, 2001).

According to DFID (2004), the financial sector enables the poor to draw down accumulated savings or to borrow money to start micro-enterprises, which eventually leads to wider access apart from the IMF which acts as the international financial controller and aid agent. Many financial and non-financial organizations in Kenya where have been locally and internationally been involved in transactions with the aid agencies for financial aid.

Previous studies in Kenya have not focused on how aid agencies influence financial controls, for example, Ratemo (2004) studied USAID strategy for development of MFIs in Kenya and the expectations of funded institutions, Wambugu (2008) conducted a survey of credit risk management practices by micro-finance institutions in kenya, Otto-Olum (1975) investigated capital investment appraisal, technique and publicity finances investment project in the private sector, Kitaka (2001) carried out a survey of the use of financial performance indicators by micro finance institutions in Kenya and Njogo (2008) did a survey of working capital financing policies among micro-finance institutions in Nairobi. This study therefore sougt to fill the research gap by determining the impact of aid agencies in financial controls Nairobi County.

### **1.3 Objective of the study**

To determine the impact of aid agencies in financial controls in Nairobi county

### **1.4 Value of the Study**

**Stakeholders:** This study will provide valuable information to aid agencies in relation to their role in financial control in Kenya. The findings will therefore form a basis for policy formulation on monitoring and evaluation of management of financial aids.

**Government:** The study will also be of great importance to the Government as it will provide information that can be used to form policies that can govern and regulate the impact of aid agencies in financial control.

**Researchers and Academicians:** The future researchers and academics will find this study useful as a source of reference either for future research or for academic discussions concerning the impact of aid agencies in financial controls in Nairobi County.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter will explore the literature about the financial controls and development and the main authors who have contributed in the research within the financial sector.

#### **2.2 Theoretical Review**

##### **2.2.1 Theory of Financial Management**

Compared with the traditional system, financial management has been separated from and independent existence, as in the separate government administration from enterprise legal person status after the independence from the Government, like, in other words, financial management, the basic properties of its microscopic nature. Discussion of financial control to be under the guidance of principal-agent theory, based on "property rights clearly established, separated from enterprise management, management science." modern enterprise system and corporate governance requirements. It specifically includes the following aspects: corporate financial control is the main body of the first board of directors (World Bank, 2001).

According to the traditional and the current interpretation of financial control refers to the finance officers (department) through the financial regulations, financial systems, financial scale, financial planning goals of capital movement (or the daily financial activities, and cash flow) for guidance, supervision and organizational constraints, ensure that the financial plan (goals) to achieve the management activities. This is an important part of financial management or basic functions, and financial projections, financial decision-making, financial analysis and evaluation together with a financial management system or all the functions. In financial management as the primary means of value-added, financial situation concerning the survival of growth of each enterprise's lifeline, the financial technology, the community and the concern of every business today, we need these professionals under the concept of continuous innovation and re - look at all aspects of financial management, especially financial control function and in the entire financial management system in place (World Bank, 2001).

Financial control systems concern the ways in which functions and visions are related to resources within that structure. Structure and financial control systems are analytical concepts – no more, no less. They should be viewed together when financial control is discussed. They include forms of transactions and relations that various parties have with each other. At the society or national level, there is hardly any one individual controlling subject that is responsible for structure and control system, and this is even more obvious at the global level. To an essential extent, self-organization takes place. At the organizational level, on the other hand, there is a controlling subject. However, the interplay between an organization and its surrounding parties is important for internal systems. External impulses and internal control procedures, interdependently, shape systems and patterns those are vital for the ways in which functions and visions are related to resources at the organizational level as well as at higher levels. They are instruments for dimensioning, for activity orientation and for efficiency (Beck, *et al.*, 2004).

They emerge over time – evolutionarily step by step and through particular systems design decisions. At early stages during the 19th century, accounting and costing systems almost only covered actual events in specific cases, and very little besides that. Extensive, integrated organizations that were financially coherent and basically centralistic were typical of the state and ambitions of business life at the beginning of the 20th century. Only a few fictional and future-oriented complements were introduced. Stimulating the survival of existing organizations was an important purpose of accounting and costing. Connections between organizations and individuals were durable and strong. Risk at company level was the focus of systems. Financial power and mobility at this level were major aspects. Gradually, intentions shifted towards other perspectives, such as the possibility for financial principals to evaluate and government taxation. Thus, similarity and comparability became central aspects. Internally, the idea of opportunity costs was also applied to business problems but it never became essential for product-costing on a regular basis. In addition, discounting techniques for special judgments were introduced (Beck, *et al.*, 2004).

Main constructions in the public sector concerned function-driven and tax-financed organizations, which by definition were different from private organizations. Nevertheless, models and actual design of the early period in both sectors had some basic similarities.



Organizations in the public sector were centralized and expanding. Responsibilities were structured with regard to functions. The major part of financing was coordinated into one principal's system of prioritizations. Resources were allocated at the discretion of the principal. In the course of time, budget processes contained more of a dialogue between lower units with their demands and top levels with their requirements. Operations began to become integrated, to a certain extent, with the overall activities of the principals. For a long time, the principal was financially strong enough to constitute a last resort that was not too troubled by its own absolute limitations (Beck, *et al.*, 2004).

### 2.2.2 Big Push Theory

Traditional development economics has long viewed foreign aid as a tool for overcoming the savings gap in developing countries. Based on the assumption that the Third World is poor because it lacks the capital necessary for making income-generating investments, mainstream economics literature suggests that aid can help developing countries by closing this financing gap that otherwise leaves them stuck in a "poverty trap." The "big push" argument portrays aid as the necessary catalyst for investment that would, in turn, lead to growth and presumably initialize an upward path to economic development. This view of aid is perhaps most famously encapsulated by celebrity economist Jeffrey Sachs' *The End of Poverty*, in which he prescribes a comprehensive package of massive aid transfers and widespread reforms that aim to tackle multiple socioeconomic pathologies quickly and simultaneously. Shock therapy of this sort, Sachs argues, can end extreme poverty for the world's "bottom billion" by 2025.

However, half a century of historical evidence of aid flows to Sub-Saharan Africa suggests that this "big push" paradigm does not actually work in practice. As home to a large proportion of the world's "bottom billion," Sub-Saharan Africa has attracted substantial amounts of foreign aid over the years. Foreign aid flows to the continent currently stand at around \$80 billion per annum and the figure is projected to reach \$125 billion by 2010. In aggregate terms over the course of the last 50 years, foreign aid transfers to governments in Sub-Saharan Africa totaled a staggering \$1 trillion.<sup>4</sup> Nonetheless over the same period of time; growth of GDP per capita in Africa actually registered a marked decline and was for many years even negative. With only a few exceptions, actual GDP per capita figures also declined across most of Sub-Saharan Africa.

### 2.2.3 Agency Theory

According to agency theory, "agency relationship exists in all organizations, all cooperative activities, exist in the enterprise management level of each one." Empirical analysis shows that the economic agency relationship is based on shareholders of the Company to grant management to the operators the right to reduce the company's operating costs because a large number of shareholders by a company directly involved in the decision-making, management, production control the cost is staggering. But the agency also inevitably leads to the establishment of the relationship between agency costs. This cost is not only ultimately borne by the shareholders, and its presence will affect the company's operational efficiency, and may even threaten the company's survival. In the modern enterprise system, corporate governance structure is an important feature of the board of the operator (CEO) of financial constraints and controls strengthened (World Bank, 2001).

Agency theory includes the agency problem that occurs when cooperating parties have different goals and division of labor. The cooperating parties are engaged in an agency relationship defined as a contract under which one or more persons (the principal(s)) engage another person (agent) to perform some service on their behalf, which involves delegating some decision making authority to the agent (Jensen and Meckling, 1976). According to Eisenhardt (1985), agency theory is concerned with resolving two problems that can occur in agency relationships. The first is the agency problem that arises when the desires or goals of the principal and agent conflict and it is difficult or expensive for the principal to verify what the agent is actually doing. The second is the problem of risk sharing that arises when the principal and agent have different risk preferences. The first agency problem arises when the two parties do not share productivity gains. The risk-sharing problem might be the result of different attitudes towards the use of new technologies. Because the unit of analysis is the contract governing the relationship between the two parties, the focus of the theory is on determining the most efficient contract governing the principal-agent relationship given assumptions about people (e.g. self-interest, bounded rationality, and risk aversion), organizations (e.g. goal conflict of members), and information (e.g. information is a commodity which can be purchased).

Garoupa (2007) applied agency theory to financial crimes in organizations. He models the financial crime in firm as a family business with one principal and several agents. He has in mind an illegal monopoly where it is difficult to detect and punish the principal unless an agent is

detected. Furthermore, it is assumed that agents work rather independently so that the likelihood of detection of one agent is fairly independent from another. Agency theory, can be applied in financial controls particularly in regards to financial crimes among beneficiaries on financial aids

## **2.3 Empirical Review**

### **2.3.1 Financial Controls**

Billions of dollars of foreign aid flows to the developing countries each year for instance, in 2000 the estimated total aid flow from donor countries to the developing countries was more than US\$58 billion (World Bank, 2001, p. 87). Aid is a significant component in the aggregate flow of financial resources to developing countries (Ariff, 1998). The primary purpose of foreign aid is to support the developmental programs of developing nations, either by providing funds or by providing goods and services to the recipient governments. Therefore, it opens the opportunity to supply a wide range of goods and services to suppliers around the world.

Foreign aid is provided in two different ways, bilateral and multilateral. Bilateral aid is given to the recipient government by the donor country's own organizations responsible for international assistance such as the United States Agency for International Development (USAID), the Australian Agency for International Development (AusAid) or the Overseas Economic Cooperation Fund of Japan (OECF). Multilateral aid, on the other hand, is given to the recipient government by international development agencies such as United Nations organizations, the World Bank or regional development agencies such as the Asian Development Bank and other similar organizations. The main sources of funds for these agencies are the contributions from the developed nations. Thus, each donor country's total aid is composed of a combination of both bilateral and multilateral aid. In addition, around 5,000 non-government organizations (Ariff, 1998, p. 3), mainly from developed nations, popularly known as NGOs, provide aid.

Foreign aid-assisted projects can broadly be categorized as developmental aid and emergency aid. Developmental aid includes project aid, program aid and technical assistance. The broad sectors of developmental aid projects include, but are not limited to, agriculture, economic policy, education, energy, environment, finance, mining, oil and gas, population, health and nutrition, private sector development, public sector management, social protection,

telecommunications, transportation, urban development, water supply and sanitation (World Bank, 2001). Emergency aid, on the other hand, is intended to provide temporary relief from the effects of natural disaster and other destructive events including war.

International procurement and procurement from developed countries dominate purchases of goods and services against aid-funded projects. For example, around 56 percent of total aid money disbursed by the World Bank until 2000 went to overseas suppliers. Of the total disbursement to these suppliers, more than 75 percent was paid to developed country suppliers (World Bank, 2001)

Although several attempts have been made to empirically investigate the causal relationship between financial control and aid agencies in a number of countries, very little effort has been made to examine the causal relationship between financial development and poverty reduction. In fact, it is still unclear from the empirical front whether financial development, which results from financial sector reforms, really leads to poverty reduction in developing countries. Unfortunately, previous studies that have attempted to examine this linkage have concentrated mainly on Asia and Latin America – affording sub-Saharan Africa very little or no coverage at all. In addition, the majorities of these studies are based mainly on a bivariate causality analysis and may, therefore, suffer from the omission of variables bias (Odhiambo, 2009). For example, the introduction of a third variable affecting both financial development and poverty in the bivariate setting may not only alter the direction of causality between the two variables, but also the magnitude of the estimate. It is against this background that the current study attempts to investigate the dynamic linkage between the aid agencies and the financial controls in Kenya by incorporating savings as an intermittent variable – thereby creating a simple trivariate setting.

Financial control may trickle down to the poor through its influence on economic growth. This is because of the implied positive relationship between financial development and economic growth. The trickle-down theory has been widely supported by studies such as Fan et al. (2000) and the World Bank (1995), among others. However, Fishlow (1995), while conducting a study on the relationship between inequality, poverty and growth using data from Latin America, found no support for this theory. The author found that the economic growth in Latin America was not accompanied by a reduction in poverty. However, the author attributes this negative

finding to the existence of extreme levels of inequality in that region. Likewise, Basu and Mallick (2007), while examining the relevance of the trickle-down effect in rural India, find little evidence to suggest that the trickle-down effect had occurred.

The authors attribute this negative result to the emergence of capital-labour substitution in India, which prevented growth from reducing poverty. In the same vein, Dreze and Sen (1990) argue that economic growth does not generate benefits in terms of numerous non-pecuniary measures of well-being. In fact, some development economists contend that economic progress that results from increased economic growth does not necessarily improve the lives of the poor. Instead, growth processes typically trickle up to the middle-class and the very rich (Todaro, 1997). Overall, the direct link between financial control and the aid agencies emanates from the availability of accessible financial instruments, services and institutions for poor households (see Holden and Prokopenko, 2001).

On the empirical front, very few studies have examined the relationship between financial development and poverty reduction. Even where such studies have been conducted, the findings regarding the finance-poverty linkage have been largely inconclusive. Some of the studies that have attempted to examine the relationship between financial development and poverty reduction include Jalilian and Kirkpatrick (2005), Jeanneney and Kpodar (2005), Quartey (2005), Honohan (2004), Clarke et al. (2002), among others. Jalilian and Kirkpatrick (2005), for example, while examining the causal relationship between financial development and poverty reduction in developing countries, find that financial sector development contributes to poverty reduction through a growth-enhancing effect up to a certain threshold level of economic development.

Jeanneney and Kpodar (2005), while conducting a study on the relationship between financial development, financial instability and poverty, conclude that financial development is pro-poor and financial instability hurts specifically the poor and dampens the positive effect of financial development on poverty reduction. Quartey (2005), while examining the relationship between financial development, savings mobilisation and poverty reduction in Ghana, finds that even though financial sector development does not Granger-cause savings mobilisation in Ghana, it induces poverty reduction. Likewise, Honohan (2004) finds a negative association between financial sector development and headcount poverty. According to the author, a 10 percentage

point increase in the ratio of private credit to GDP should reduce poverty ratios by 2.5 to 3 percentage points. Beck et al. (2004), while using data on 52 developing and developed countries to assess the relationship between financial development and income distribution, find that the income of the poorest 20 per cent of the population grows faster than the average GDP per capita in countries with higher financial development.

### **2.3.2 Foreign Aids**

Foreign aid is a topic that has attracted much attention in academic and policy circles for more than half a century. In the early 1990s, however, following the collapse of the former Soviet Union and the end of the cold war, many observers predicted the 'end of history' for aid on the assumption that the crucial motive for aid-giving that dominated the pre-1990 period, namely political and strategic reasons of the donor community, would lose its importance. Nevertheless, recent years have witnessed a revived interest in aid issues and at the same time numerous studies on aid have emerged, some of them quite influential in policy circles. The dramatic change in the aid arena was mainly the outcome of a number of recent important events that pushed the public discussion on aid in new interesting directions.

Initially, the OECD-DAC report entitled *Shaping the 21st Century: The Contribution of Development Cooperation* in 1996 was quite instrumental in generating the new momentum on aid. By setting new priorities for aid, it marked the increasingly widespread adoption of the International Development Targets. Particularly the commitment to halve absolute poverty by 2015 became an important element in the rethinking of development aid, and thus laid the foundations later on for the creation of the Millennium Development Goals (MDGs). Another landmark in the aid scene in recent years was the World Bank study *Assessing Aid* published in 1998.

One main research contribution to *Assessing Aid*. Burnside and Dollar (1997), mobilized a new and still growing literature on the importance of good policies for aid effectiveness. Indeed, the focus of much of the recent aid effectiveness literature is on the aid-policy-growth nexus while the key conclusion of the World Bank study on this relationship is that 'aid increases economic growth in good policy environments'. The above conclusion has been at the heart of the research and policy debate in recent years. It is to be noted, however, that even though *Assessing Aid*

remains a very important contribution to the aid literature, its policy guidelines should be treated with scepticism, given that the Burnside-Dollar 'approach' (Burnside and Dollar 1997, 2000) to aid effectiveness is statistically delicate, and that it has been contradicted by other recent studies (e.g. Hansen and Tarp 2000, 2001; Guillaumont and Chauvet 2001; Easterly, Levine and Roodman 2004; Antipin and Mavrotas 2006), and cannot be seen as robust (Tarp 2000; Lensink and White 2000; and Beynon 2002, 2003).<sup>2</sup> The UN Conference on Financing for Development held in Monterrey in March 2002 and the widespread consensus among bilateral donors and multilateral agencies regarding the need to meet the Millennium Development Goals (MDGs) by 2015 was also a major step forward in revamping the aid agenda. There is now widespread agreement that more aid is required to meet the MDGs but that at the same time improving aid effectiveness dramatically, mobilizing domestic resources and exploring new sources of development finance beyond aid, are all crucial factors.

More recently, a number of altruistic initiatives from bilateral donors have emerged. They include (i) the widely discussed British proposal on the International Finance Facility (IFF) aiming to 'frontload' aid through a securitization process in international capital markets so that MDGs can be attained; (ii) the United States' Millennium Challenge Account; which will grant aid to those recipients that democratize their society and adhere to sound economic policies; (iii) the recent French initiative to increase French aid to Sub-Saharan Africa by 50 per cent in the next five years in order to accelerate progress with regard to the MDGs; (iv) the recently released UN Millennium Project Report (2005) and the Report of the Commission for Africa (2005) which call for a new aid policy with much larger aid donations in the aftermath of the Monterrey consensus. Finally, the Declaration on Aid Harmonization by aid donors in Rome in February 2003 and the Paris Declaration on Aid Effectiveness in February 2005 emphasized that donors should move rapidly towards aid coordination to accelerate progress for aid effectiveness and MDG attainment. Taken together, these altruistic initiatives seem to indicate that strategic behavior whereby donors use their influence in foreign aid relations to achieve their own goals has declined. However, as we emphasize in this paper, and as argued by Burnell (2004), issues related to strategic donor behavior and realpolitik have not lost importance in recent years. Moreover, strategic non-altruistic donor behavior can be profitable and can thus be expected to continue to dominate the aid allocation agenda in the near future if no safeguard is set in place. One example of strategic donor behavior that has been curbed is tied aid, which was a profitable

way for donors to favor own enterprises in giving aid contracts. Nevertheless, OECD-DAC has done an important job in recent years to prevent such inefficient behavior.

Two additional points underlining the importance of studying strategic donor behavior seem to emerge from the centrality of aid effectiveness. First, the degree of aid effectiveness as perceived by a donor may impact on the amount this donor is willing to give since low effectiveness implies wasted aid. However, as we highlight in this paper, aid allocation by strategic donors may be judged as an ineffective allocation by altruistic donors. Hence, strategic donor behavior may reduce foreign aid disbursement. Second, strategic behavior may reduce aid effectiveness as measured by the contribution of aid targeted for achieving the MDGs. Under the plausible assumption that it will not be an easy task to raise the additional aid flows needed for the MDGs, significant improvement in the effectiveness of current (and future) aid seems vital. However, redirecting aid to areas of strategic importance for some donors may undermine current efforts to achieve the MDGs. Even without strategic donor behavior, a substantial amount of fresh aid needs to be raised and improvements on the aid effectiveness front are necessary in order to achieve the MDGs. This challenge is confirmed by recent provisional figures for official development aid (ODA) from the OECD-DAC (DAC April 2005). The data suggest that aid levels continued to recover in recent years from the sharp decline during the period 1992-97, with aid increasing to US\$78.6 billion in 2004 from US\$72.4 billion in 2003; an increase in real terms of 4.6 per cent.<sup>7</sup> It is important to bear in mind, however, that total ODA is still well below the amount needed to achieve the MDGs by 2015.

Nevertheless, in international relations self-interest and strategic donor objectives continue to play a central role and this may undermine efforts to support moral arguments in favor of the larger aid programmes needed to attain the MDGs. Furthermore, some donors (particularly Nordic countries) with an excellent record of aid-giving in terms of high ODA/GNP ratios may feel that they should not be expected to further increase their aid share in GNP until donors providing small contributions to the overall aid budget bear a fairer share of the burden (Lankester 2004). Looking back, donors of bilateral foreign aid have been motivated by their own strategic foreign policy goals since the beginning of the modern era of international assistance (Kanbur 2003). The Marshall Plan from the United States to Europe, and the cold war



strategy of giving aid to countries that supported the 'right' side in the conflict, are both illustrative examples of the frequent inseparability of foreign aid and foreign policies.

Recent research, confirms that foreign policy goals of the donor continue to be the most important motive for giving aid, and it is frequently noted that donors also try to influence multilateral institutions to support their foreign policies (Alesina and Dollar 2000; Burnside and Dollar 2000; Neumayer, 2003; Gates and Hoeffler 2004). Of particular interest are the findings in the econometric study of Alesina and Dollar (2000) that the pattern of aid-giving is dictated much more by political and strategic considerations than economic needs or policy performance of the recipients. France, Great Britain and Japan are found to favor their former colonies in the dispersion of aid, and that they, together with the US and Germany, allocate more aid to recipients that vote in unison with them in the UN.<sup>8</sup> This pattern of donors promoting their own interests is mirrored in Arab countries' aid disbursement patterns: more Arab aid flows to countries that do not maintain diplomatic relations with Israel as well as to those with similar voting patterns in the UN General Assembly as Saudi Arabia (Neumayer 2003).

The study by Alesina and Dollar (2000) has been widely recognized in recent years as one of the most influential works in this field. The authors use OECD-DAC data on aid covering the period 1970-94 (5-year periods) and spanning a wide range of donors (12 donors in total, with the Nordic countries examined as a group). The study in particular tries to re-examine the role of donor strategic interests in the aid allocation pattern over the above-mentioned period by constructing a variable that reflects UN voting patterns. Results at the aggregate level seem to suggest that political and strategic considerations are particularly important as determinants of the aid allocation process during the period considered, as compared to policies and institutions in aid recipients. The above finding remains robust when other indicators of poverty in addition to initial income are tried by the authors along with further sensitivity checks. Of particular interest, however, to strategic donor behavior are the donor-by-donor empirical results reported by these authors.

### **2.3.3 World Bank in Financial Control**

The World Bank (formally, the International Bank for Reconstruction and Development, or IBRD) was established at the Bretton Woods Conference in 1944 to help stabilize and rebuild

economies ravaged by World War II (Morris, 1997). This is articulated by the Bank's Articles of Agreement as one of its primary purposes to assist in: "the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries" (World Bank, 1945).

The Bank consists of five agencies under the presidency of one individual. The President is a citizen of the Bank's largest shareholder member, which, from the Bank's inception, is and has been the United States. The position is elected by member nations in accordance with their purchased voting rights for a renewable term of five years. Similarly, the Managing Director of the International Monetary Fund (IMF) is always a European appointee. The Bank is owned by its member nations, each purchasing shares of the Bank as a requisite for membership (World Bank, 1999). The developed economies of the West, of course, control the Bank, since they have the largest shares. The United States is the largest Bank shareholder, with 14.96% of the total votes in the Bank. Japan is the second largest shareholder with 10.73%, Germany is the third largest with 7.03% and France is fourth with 4.26%. Seven other nations hold between 2 and 4% of the voting rights for a total of 19.31% between them, and 149 nations hold the remaining 43.71%. A great majority of the latter group of nations hold less than one-third of 1% of the Bank's voting rights (World Bank, 1999).

It should be pointed out that none of the Western countries have fully paid up the value of their shares. Instead, rich countries have happily loaded new responsibilities onto the World Bank, knowing they will not have to foot the bill, which instead is paid by middle-income borrowers through higher interest margins. Meanwhile, the need to generate increasing income to pay for higher administrative costs explains why the Bank must continue lending large sums to middle-income countries to support often questionable development programs (Fidler, 2001).

The imbalance of Bank shares has led to the Bank endorsing the largest shareholders' economic and social policies for borrower nations' reform. Borrower nations are compelled to accept the conditions imposed by the Bank in order that they may receive much needed financial assistance,

when in fact the conditions encouraged by the Bank (channeled from the majority shareholders) are ill-fitted to serve the borrower nations' economic, social and cultural needs.

The various five agencies of the Bank include: The International Bank for Reconstruction and Development (IBRD) established in 1945, which provides loans to middle income nations and poorer nations whose credit is deemed adequate. The loans, which represent approximately 75% of the Bank's annual lending,<sup>5</sup> are primarily funded by the IBRD's sale of AAA-rated bonds to institutional and private investors in international markets. The IBRD has earned a positive net income every year for the last 51 years, though it is not designed as a profit-making organization (World Bank, 1999). The International Development Association (IDA), established in 1960, provides interest-free loans (termed "credits") to nations who qualify based on per capita income. The loans are made only to the governments of the borrower nations. The borrower nations pay a fee of less than 1% to cover administrative costs. These loans, which represent the other 25% of Bank lending, are funded primarily by the contributions donated from both industrial and developing member nations (World Bank, 1999). The International Finance Corporation (IFC), established in 1956, provides technical assistance and advice to governments and businesses, and supports developing nations' business ventures with loans and equity financing. This financial support is provided by the IFC in conjunction with private venture capital investors (World Bank, 1999). The Multilateral Investment Guarantee Agency (MIGA), established in 1988, both assists in developing nations' promotion of business investment opportunities and provides guarantees to foreign nations who invest in a developing nation's business venture against loss, if the loss is caused by "non-commercial risks." The MIGA is funded by member capital (World Bank, 1999). The International Centre for Settlement of Investment Disputes (ICSID), established in 1966, operates to arbitrate investment disputes that arise between investor nations and the "investee" nations (Government of Canada, 1983).

### **2.3.4 The Role of Aid Agencies in Combating Corruption**

For decades the international donor community has turned a blind eye to corruption in developing countries. This attitude appears to have changed. There is now a remarkable consensus among aid organizations on the importance of fighting corruption in developing countries. Missing, however, in their approach is an examination of how aid contributes to

corruption. The donors' recipe is to promote good governance in recipient countries through responsibility, accountability and transparency. Sometimes aid and loans have been withheld due to corruption. Aid to Tanzania was frozen in 1994 by, among others, the Norwegian government, because of widespread irregularities in the tax administration (Niskanen, 1999).

More than three decades ago the Swedish Nobel Laureate in Economics, Gunnar Myrdal, wrote in *Asian Drama* (1968): "One problem of considerable importance requiring specific attention is the role of Western business in feeding corruption in South Asia." He argued that Western businessmen undermined the integrity of politicians and administrators through bribes, and that this effect was strengthened by aid. This issue has not received serious attention in the present debate. Many bribes paid in the course of international business originate in companies headquartered in the same industrial countries whose governments are now calling for anti-corruption campaigns in developing countries. Large-scale, capital-intensive infrastructure projects like big dams have been particularly attractive for both donors and recipients. The donor country receives return on its investments through supplies of equipment and expertise and, in the case of export credits, through the repayment of loans (Niskanen, 1999).

On the recipient side, senior bureaucrats and ministers negotiating such contracts have at their fingertips a capital-intensive project with options for overpricing and kickbacks. Kickbacks in this context are payments by the Western companies to agents of the recipient government. The agents pocket money (or deposit them in foreign bank accounts) in exchange for ensuring that a particular firm obtains the contract or receives a higher price. According to some observers, the standard kickback paid in infrastructure projects in Kenya in the late 1980s, for instance, was never below 10 per cent of the value of the contract. Such contracts may leave the developing country with a mountain of debts and, thereby, undermine prospects for economic recovery (Niskanen, 1999).

There is a double standard in declarations of support by aid officials for anticorruption initiatives in developing countries when the donor countries have no laws barring their enterprises from paying bribes. In some Western countries, bribing foreign public officials in connection with business contracts has been considered a tax deductible business cost. The United States is one of the few countries that have a law that specifically makes it a criminal offence for a company to

pay bribes abroad. In December 1997, representatives of 29 member governments of the OECD signed the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. It calls upon each of these countries to enact legislation to criminalize foreign bribery (Niskanen, 1999).

Big dams are just one symptom of fundamental weaknesses in the aid system. Donors, governed by disbursement goals, have ballooning budgets also for health projects. The push to spend makes it difficult for donors to monitor or evaluate adequately the quality of their assistance. Their tendency to move into new areas and activities at the same time adds to the problem of too much aid chasing too little absorptive capacity. Thus, in situations characterized by poor control and monitoring, the strategy of "recipient responsibility" and "local ownership" may prove completely irresponsible. A secure source of foreign aid can be like a diamond mine from which corrupt officials and politicians can extract rents. Few donors are willing to admit that they have weak control over their spending as they do not want to be seen as supporting non-performing and corrupt activities (Niskanen, 1999).

Adequate discussion of the role of aid in fuelling corruption is missing from the current debate. Transparency and accountability of donor agencies is also limited. This may partly be explained by the theory of political economist Niskanen on the behavior of bureaucracies. He argues that to sustain and expand its budget, a bureaucracy needs a monopoly of knowledge. The better it can control information, the better the bureaucracy will persist. This may be why the process of appraisal, implementation and evaluation of aid is often carried out by a limited number of consultancy companies with close and long-term affiliations with the donors. As such, evaluation is not a tool for acquiring new insights to improve future performance, but a tool for legitimizing ongoing activities and policies. This argument is supported by the fact that donors like the Norwegian Agency for Development Cooperation (NORAD) have shown resistance to introducing systematic approaches and criteria to measuring the effects of aid (Niskanen, 1999).

Niskanen's approach may also explain how agencies have responded to the issue of corruption initially raised by independent journalists and researchers. At the same time, as they have lost their "monopoly of knowledge", donors have placed corruption on the agenda. But they focus on

external corruption. They need to show the public at home that they are dealing with the "cancer of corruption" without mentioning that they are infected themselves.

The prescription of "good governance" through improved accountability and transparency should be introduced in the donor agencies as well. To address the question of corruption, donors ought to focus on their own role in creating the problem, which they now propose to cure. To establish credibility, more openness about weaknesses in the aid system is needed. The non-governmental organization Transparency International regularly publishes a corruption index, ranking countries according to their levels of corruption. There seems to be a need for an index ranking donor agencies according to similar criteria, to make the public more informed and the agencies more accountable about this important issue (Niskanen, 1999).

## **2.4 Conclusion**

The chapter has presented a review of literature on financial controls and foreign aid. From this review, aid is important for economic growth in developing countries (Ariff 1998, World Bank 2001, Burnside and Dollar 1997). The literature also emphasizes the importance of assessing effectiveness of aid (Easterly, Levine and Roodman 2004; Antipin and Mavrotas 2006; Burnell 2004). Donors' influence on foreign policies has been established through studies conducted by Alesina and Dollar 2000, Burnside and Dollar 2000, Neumayer, 2003 and Gates and Hoefler 2004. Studies indicate that financial control may trickle down to the poor through its influence on economic growth (Mallick 2007, Jalilian and Kirkpatrick 2005, Holden and Prokopenko 2001, Fan et al. 2000, World Bank 1995, Fishlow 1995). From the literature review, establishment of the impact of aid agencies on financial control is important.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.1 Introduction

This chapter presents the methods and procedures that were used to carry out this study. They include the research design, population to be studied and sampling strategy, the data collection process, the instruments used for gathering data, and how data will be analyzed and presented.

#### 3.2 Research Design

This study was a descriptive survey. The descriptive research approach describes the phenomena as they are at present. According to Mugenda and Mugenda (2003) a descriptive research is a process of collecting data in order to test hypotheses or answer questions concerning the current status of the subjects in the study. They point out that the purpose of a descriptive research is to determine and report the way things are done. The advantage descriptive research design in this study is that there will be in depth description of the phenomenon under study.

#### 3.3 Population and Sample

Mugenda and Mugenda (2003) described population as, the entire group of individuals or items under consideration in any field of inquiry and have a common attribute. The target population of this study was all the Aid Agencies located in Nairobi County.

#### 3.4 Sample Size

Since this is a census survey all the 20 aid agencies were involved in this study.

#### 3.5 Data Collection

The study used a questionnaire to collect required data from financial controllers in each of the financial aids. The data collected using the questionnaire was to ensure that the first hand information from the respondent is acquired and this makes it the most appropriate tool to use in the data collection. The questionnaire consisted of a list of structured questions, un-structured

questions and likert rating scales relating to the field of inquiry with space provided for selection of choices and explanatory answers. Close ended questions have the advantage of collecting viable quantitative data while open-ended questions allows the respondents freedom of answering questions and the chance to provide in-depth responses. Questionnaire method is efficient, cheap and easy to be administered. The questionnaires were administered through drop and pick later method.

### **3.5.1 Reliability and Validity of Data**

Validity refers to the degree to which a study accurately reflects or assesses the specific concept that the researcher is attempting to measure. Validity determines whether the research truly measures that which it was intended to measure or how truthful the research results are. It determines whether the research instrument allow the researcher to get the correct information. Researchers generally determine validity by asking a series of questions, and will often look for the answers in the research of others. Comprehensive research instruments were developed and tested before the real investigation start. This testing was done by use of a pilot study whereby the questionnaire was administered to the respondents to acquire the information required for the study.

Reliability is the extent to which results are consistent over time and an accurate representation of the total population under study is referred to as reliability and if the results of a study can be reproduced under a similar methodology, then the research instrument is considered to be reliable. Reliability has to show the degree at which the research instruments yielded good results. In order to achieve this, the researcher personally administered the instruments in order to assess their clarity. Some of the respondents were first interviewed to ascertain whether the information given in the questionnaire would match with response of the interview.

### **3.6 Data Analysis**

The data collected was analyzed on variable such as the financial controls measures on lending of funds and maintenance of the records; credit reporting; disbursement keeping of records of funds under management authority, and payroll disbursements. The quantitative data which was acquired through questionnaires was coded and analyzed using statistical measures such as



percentages, mean and standard deviations. The results were then presented using frequency tables, charts and graphs. This involves observation and detailed description of phenomena that comprise the subject of study. The Statistical Package for Social Sciences (SPSS) version 17 aided in the data analysis. The researcher used content analysis in analysing the results of the questionnaire.

## CHAPTER FOUR

### DATA ANALYSIS AND FINDINGS

#### 4.1 Introduction

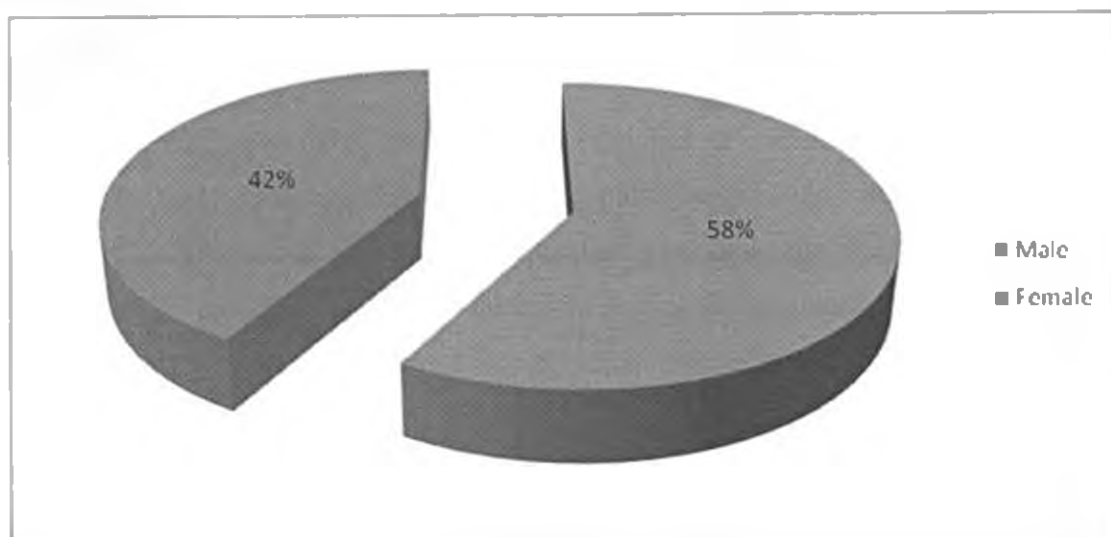
This study was motivated by the need to establish the effect of the Aid agencies in the control of finances in Nairobi County. The study population was the financial controllers of the agencies. This chapter presents the findings of the study in figures and tables accompanied by a brief interpretation of the findings. The study was conducted in Nairobi County and realized a 75% response rate. This was ideal and reliable, since a response rate of 60% is reliable and 70% is excellent for an analysis.

#### 4.2 Background Information

##### 4.2.1 Gender

The respondents were requested to indicate their gender. The findings are shown in figure 4.1

Figure 4. 1 Gender



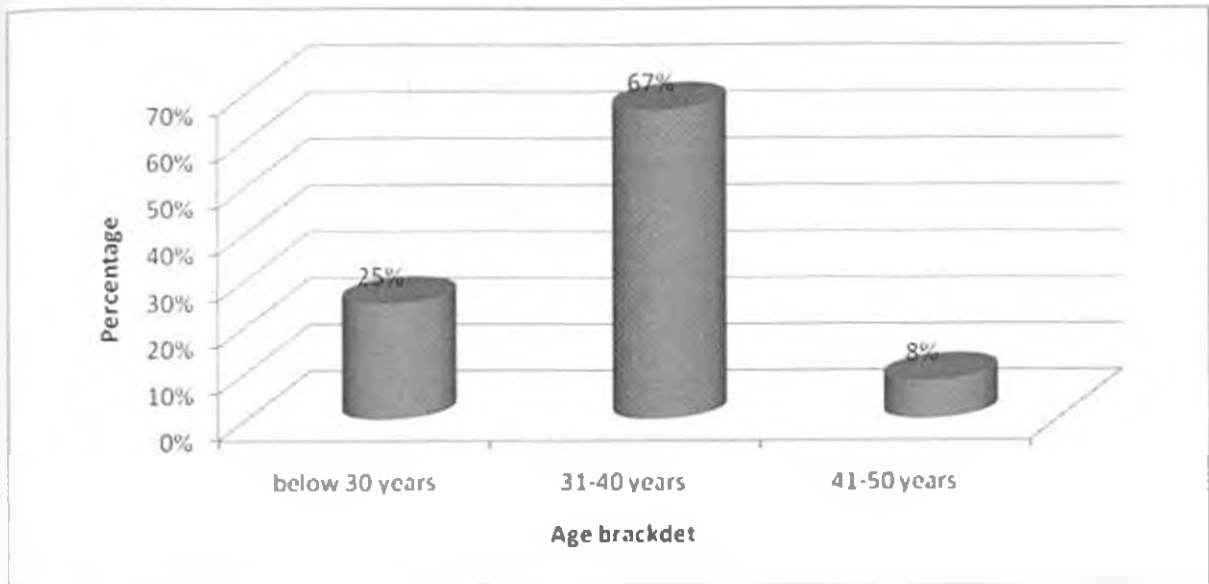
Source: Research Data

Figure 4.1 shows the findings on the gender of the respondents. From the findings, majority of the respondents were males accounting for 58% of the total respondents. The rest were females (42%). This shows that most of the Aid agencies have employed male financial controllers.

### 4.2.2 Age of the Respondents

The respondents were requested to provide information about their age. The findings are shown in figure 4.2.

**Figure 4. 2: Age of the Respondents**



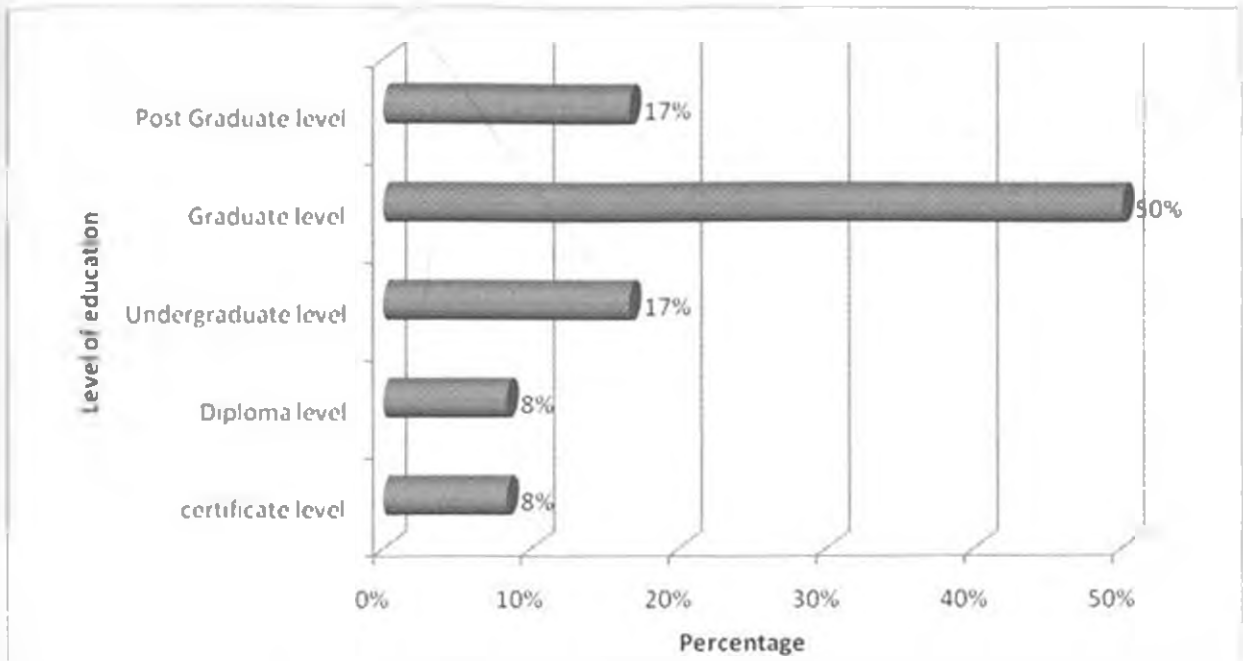
Source: Research Data

Figure 4.2; show the age of the respondents. From the findings shown, majority of the financial controllers (67%) in the Aid agencies in Kenya are of the bracket of 31-40 years. Those who are aged below 30 years accounted for 25% of the total respondents. The findings indicate that most of the Aid agencies have employed financial controllers of the age bracket between 31-40 years.

### 4.2.3 Highest Level of Education

The respondents provided information on their highest level of education. The findings are shown in figure 4.3.

**Figure 4. 3 Highest Level of Education**



Source: Research Data

Figure 4.3 shows the highest level of education attained by the respondents. From the findings, most (50%) of the respondents admitted to be graduates. Post graduates and undergraduates accounted for 17% each. This findings indicate that most of the financial controllers employed in Aid agencies are graduates .

### 4.3 Financial Control Measures in Place

The respondents were requested to rate the extent to which the following factors of financial control lead to the growth and development of finance Services in county?

**Table 4. 1 Financial Control Measures in Place**

	Mean	Std. Deviation
Cost minimizing	4.33	0.65
Staff training and development	4.00	1.00
Strict supervision	3.33	1.15
Involvement of strategies control measures	4.33	0.88
Government policies and supervision	4.33	0.77

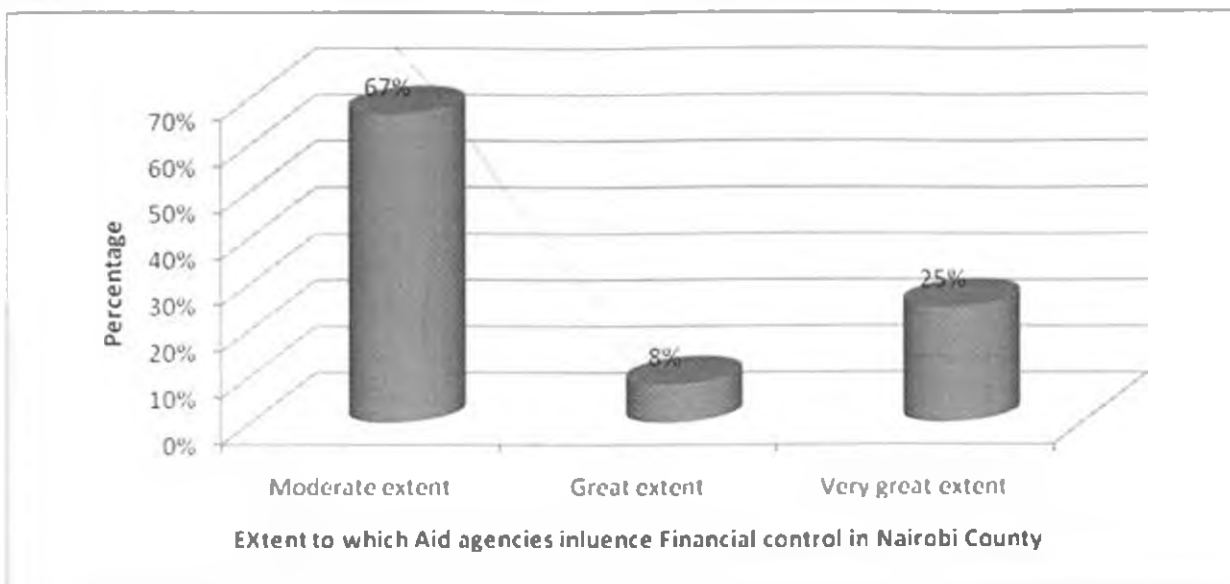
Table 4.1 shows the factors that influence growth and development of finance services. The analysis has been done using likert scale. The scale has been calibrated from 1-5. According to the scale, 1 represents no extent at all and 5 represent very great extent. In the continuum; 2 for low extent, 3 for moderate extent and 4 for great extent. According to the researcher, those variables with a mean close to 4.0 were rated to a 'great extent' and those with a mean close 3, were rated to a moderate extent. At the same time standard deviation was used to determine the magnitude of dispersion from the mean.

From the study findings, the strategy of cost minimization was rated to improve the growth and development of finance services to a great extent with a mean of 4.33. The finance services in the country was also developed to a great extent (M=4.00) by training of the staff. The control and development of control measures also improves the finance services to a great extent (M=4.33). The study findings also, indicated that the growth and development of finance services in Kenya was also greatly improved by the government policies and supervision (M=4.33).

#### **Influence of Aid Agencies on the Financial Control in Nairobi County**

The researcher requested the respondents to rate the influence of aid agencies on the financial control in Nairobi. The findings are shown in figure 4.4.

**Figure 4. 4 Influence of Aid agencies on the financial control in Nairobi County**



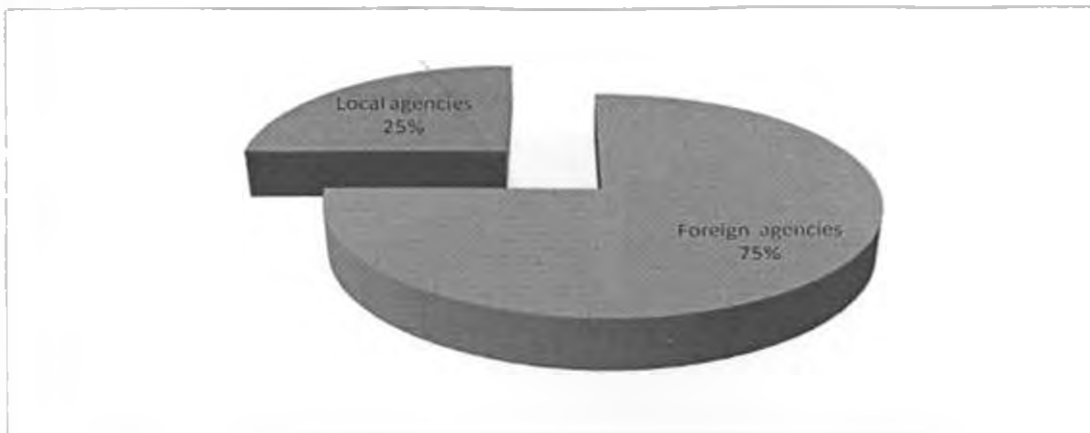
Source: Research Data

Figure 4.4, shows the extent to which Aid agencies influence financial control in Nairobi County. For the findings, 67% of the respondents rated the influence of the Aid agencies on the financial control to a moderate extent. Secondly, 25% of the respondents rated the influence of the Aid agencies on the financial control to a very great extent. From the findings therefore we can deduce that majority of the respondents felt that Aid agencies influences the financial control in Nairobi county to a moderate extent.

#### **Category of Aid Agencies**

The respondents were requested to indicate the nature of the organizations. The results are shown in figure 4.5.

**Figure 4. 5 Category of Aid Agencies**



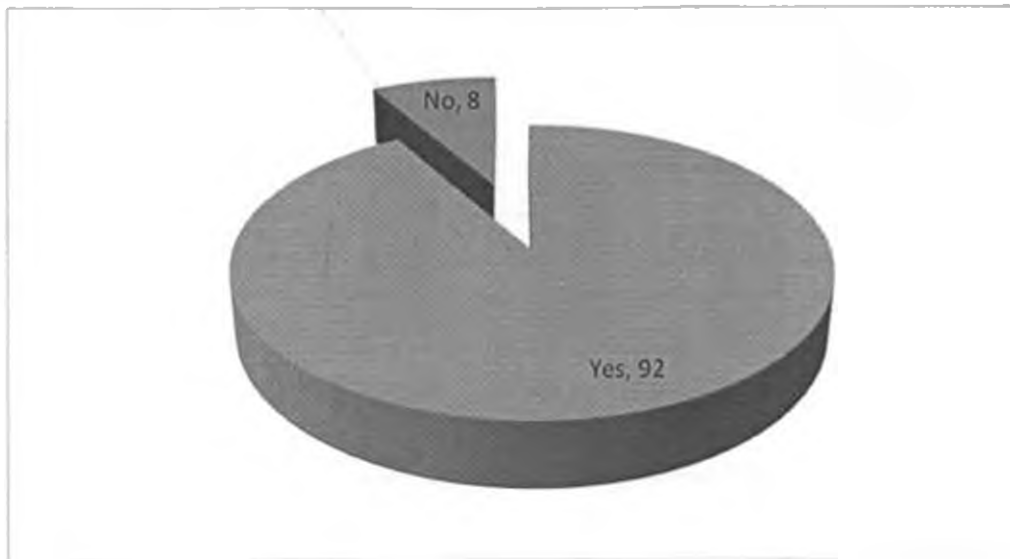
Source: Research Data

Figure 4.5 shows the categories of the organizations into two broad classes. From the findings shown, most of the Aid agencies were foreign (75%). The findings indicate that less Aid agencies are local agencies (25%). From the findings therefore, we can conclude that most of the Aid agencies in Kenya are foreign.

#### **Role of Kenyan Government in Promoting Finance Services and Development**

The researcher requested the respondents to state whether the government had played any role in promoting and developing the financial services in Nairobi County. The findings are shown in figure 4.6.

**Figure 4.6: Whether Kenyan Government has Played any Role in Development of Financial Services**



Source: Research Data

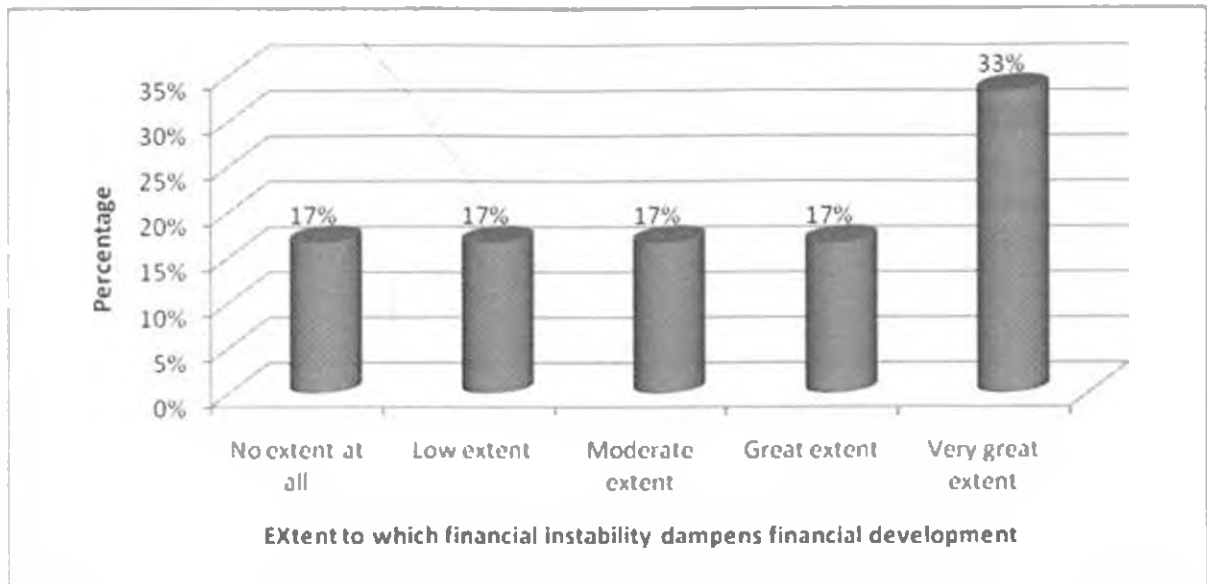
Figure 4.6, shows the responses on whether the Kenyan government had played any role in the development and promotion of financial services in Kenya. From the findings, shown in figure 4.6, 92% of the respondents admitted that Kenyan government was acting to promote and develop financial services in Kenya.

#### **Effects of Financial Development on the Poor**

The researcher requested the respondents to indicate whether financial development was pro-poor and financial instability hurt specifically the poor and dampened the positive effect of financial development on poverty reduction. The findings are shown in figure 4.7



**Figure 4. 7 Effects of Financial Development on the Poor**



Source: Research Data

Figure 4.7 shows that most of the respondents (33%) admit that development of the finance services promoted the poor and its instability of the dampened positive effects of poverty reduction. This implies that respondents perceived that financial development was core to the lives of the poor people in Nairobi County.

#### **4.4 Assessing the Role of Aid Agencies and the Measures Adopted in Financial Control**

The researcher requested the respondents to state the role of their respective organizations. The findings are shown in figure 4.8.

Table 4.2 shows the findings on the roles of the Aid Agencies in Financial control. From the table 4.2 majority of the respondents (92%) admitted that their agencies' major role was to provide social development funds. Other agencies lend funds (33%) and others offer loans for development (33%).

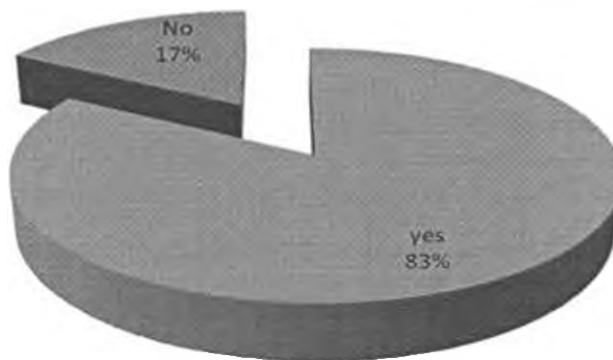
**Table 4. 2: Role of Aid Agencies in Financial Control**

	Yes	No
lending of funds	33%	67%
offering loans for development	33%	67%
World wide fund donor	8%	92%
Offering fund for refugee's management	0%	100%
Trade and development	25%	75%
Education funds	17%	83%
Social development funds	92%	8%
Agricultural development	17%	83%
International fund controller	0%	100%

#### **Importance of Financial Control Measures Financial Sector**

The researcher requested the respondents to state whether the financial control measures were of importance in the financial sector. The findings are shown in figure 4.8.

**Figure 4. 8 Whether Financial Control Measures Are Vital in Financial Sector**



Source: Research Data

Figure 4.8 shows that majority of the respondents (83%) perceived financial control measures as vital in financial sector. 17% perceived that control measures in financial matters was not so necessary for financial growth and development. The findings therefore indicate that majority of the financial controllers believe that financial control measures are integral in the development of the finance services in Nairobi County.

#### 4.5 Role of Aid Agencies in Financial Controls

The respondents were requested to state the role and the reasons why Aid agencies should be involved in financial controls. The findings are shown in table 4.3.

**Table 4.3 Why Financial Aid Agencies Should be Involved in Financial Controls**

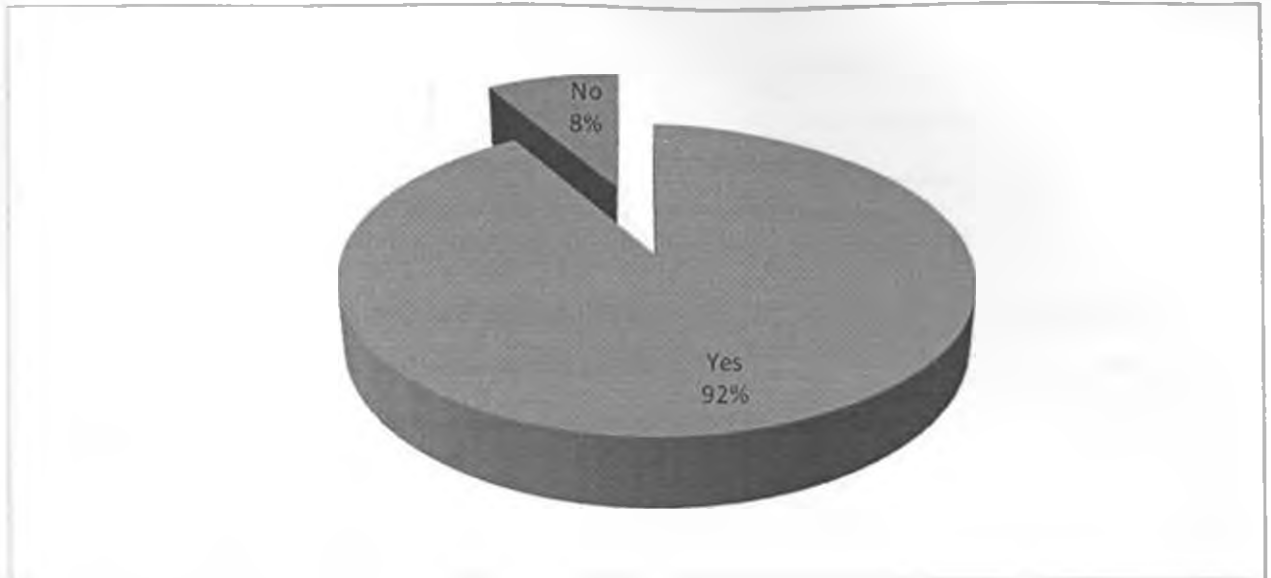
	Yes%	No%
For economic development	75	25
To minimize fraud	42	58
For financial development	50	50
Many institutions are not independent	8	92
Controls funds management and uses	33	67
Ensure implementation of monetary policies	42	58
Ensure financial records are maintained	25	75
Ensure implementation of monetary policies	25	75
For easier and quick loan disbursement	25	75

Table 4.3 shows the reasons and roles of Aid agencies in financial controls. From the findings, 75% of the respondents believed that Aid agencies should be involved in financial control for economic development. 50% of the respondents perceive the role of Aid agencies as that of financial development. Others have the noble objective of minimizing fraud (42%) in the financial sector while others agencies are involved in financial matters for so as to ensure there is implementation of monetary policies (42%) in the economy. From the findings therefore we can deduce that the major role of the Aid agencies is to ensure there is general economic development in the Country.

#### 4.6 Re-Adjusting of the Financial Sector Policies and Regulations

The respondents provided information on re-adjustments of financial policies and regulations. The findings are shown in figure 4.9.

**Figure 4. 9 Whether Financial Sector Policies and Regulations Should be Re-Adjusted**



Source: Research Data

Figure 4.9 shows the responses on whether the financial sector policies and regulations should be re-adjusted. From the findings, majority of the respondents (92%) perceive the need for re-adjusting the policies and regulations as vital and integral in financial control and system.

#### **Why Financial Policies And Regulations.**

The respondents were requested to provide information on how and the circumstances which surround the financial sector in Nairobi County. The findings are shown in figure 4.4.

**Table 4. 4 Re-adjusting of the Financial Sector Policies and Regulations**

	Yes	No
They have been ineffective	67	33
They cannot be applied in the modern financial sector	50	50
They are expensive in implementation	0	100
There is need to move with technology	42	58
They require high labour investment	0	100
There have been a lot of complaints from the citizens	50	50

Table 4.4 shows the need and the reasons stated by the respondents as necessitating the re-adjustments of the policies and regulations on financial sector. From the findings, there is need for re-adjusting the financial sector policies because the system has been ineffective (67%). Most of the respondents (50%) perceive that the current financial system does not work efficiently with the modern financial sector dynamics. Most of the respondents believed that there is need for the financial sector to adjust with advancement in technology (42%). Lastly the study findings indicated that half of the respondents (50%) believe that there is a need to adjust the financial system so as to accommodate the complaints from the citizens.

#### **4.7 Discussion of Findings**

##### **4.7.1 Financial Control Measures**

The study findings imply that the growth and development of finance services could and is improved to a great extent ( $M=4.33$ ) by the minimizing costs of the transactions and operations of the finance services. The financial services are also developed to a great extent ( $M=4.00$ ) by training the staff in the Aid agencies as this increase their efficiency. The respondents rated the influence of financial control measures on the financial services to a great extent ( $M=4.33$ ). Notably, the role of government policies and supervision was rated by the respondents as major as influencing the financial growth to a great extent with a mean of 4.33. The findings of this study indicates that majority of Aid agencies influences the financial control in Nairobi county to a moderate extent (67%). This presents a vital role of the Aid agencies in financial control in Nairobi County. Although most of the Aid agencies were foreign (75%) as from the study

findings, majority of the respondents believe that Kenyan government has acted to promote and develop financial services in Kenya by allowing the Aid agencies to operate freely in the country, open many branches and develop new ideas and strategies. Most of the respondents indicated that major roles of the aid agencies in financial systems was to come up with trainings and mechanisms for capacity building so as to enhance service delivery and increase supervision of financial systems. This is to create transparency and increase accountability in financial system in Nairobi County.

From the findings of this study, most (33%) of the respondents perceive the vital role of improved financial services on the poor people. This is because; financial instability dampens the positive effects of financial development on poverty reduction and hurt the poor to a very great extent.

#### **4.7.2 Assessing the Role of Aid Agencies in Financial Control**

From the findings of this study, majority of the respondents (92%) admitted that their agencies' major role was to provide social development funds. Other agencies lend funds (33%) and others offer loans for development (33%). The role played by the Aid Agencies in financial systems is necessary and vital in financial growth and development according to majority of the respondents (83%). According to the findings of this study, the Aid agencies should be involved in financial system and services for economic development (75%), minimizing frauds (42%) and ensuring monetary policies are implemented well in the economy (42%).

#### **4.7.3 Re-Adjustments in the Financial Sector**

From the study findings, majority of the respondents (92%) perceive the need for re-adjusting the policies and regulations as vital and integral in financial control and system. This is because the financial systems are ineffective and (67%). The financial systems also do not work efficiently (50%) with the modern financial sector dynamics. Most of the respondents believed that there is need for the financial sector to adjust with advancement in technology (42%). Lastly the study findings indicated that half of the respondents (50%) believe that there is a need to adjust the financial system so as to accommodate the complaints from the citizens.

## CHAPTER FIVE

### SUMMARY, CONCLUSION AND RECOMMENDATIONS

#### 5.1 Introduction

This study was motivated by the need to determine the impact of aid agencies in financial controls in Nairobi County. The study collected data from financial controllers of the registered Aid agencies in Nairobi County. This chapter provides discussions, conclusions and recommendations of study findings.

#### 5.2 Summary

The main objective of the study was to determine the impact of aid agencies in financial controls in Nairobi County. From the research findings, it has been observed that Aid Agencies influences the financial control in Nairobi County in a moderate extent. This is as a result of the strategy of cost minimization, training of the staff, adoption of control measures and government policies. Most of the respondents admit that financial controls have an impact in poverty reduction for the lives of the poor people in Nairobi County by provision and lending of social development funds. Therefore aid agencies are vital in the financial control and economic development of the country at large.

#### 5.3 Conclusions

The study deduces that financial sector could be developed and improved by minimizing the cost of the operations and training of the working staff in the organizations and financial institutions so as to increase their efficiency. The role of government is also major and core in influencing financial growth of Nairobi County.

On the issue of the impact of the Aid agencies on the financial control, the study findings indicates that, Aid agencies influences the financial control in Nairobi county substantially. The Aid agencies improve the financial systems of the Nairobi County by providing social development funds, lending funds for development and offering loans for development to the investors. The Aid agencies should be involved in financial system so as to improve the economy, minimize the prevalence of fraud cases and ensure monetary policies are well implemented in the country.

The study noted that financial systems need to be adjusted and the policies restructured so as to match with the current technology, work properly and efficiently and accommodate the and cater for the public complaints .The findings indicate that Aid agencies should come up with traininmgs and mechanisms for capacity building so as to enhance service delivery and increase supervision of financial systems. This is to create transparency and increase accontability in financial system in Nairobi County. This will lead to improved and more efficient financial systems, which in turn improves the lives of the peole and prevents the negative effect of financial instability which according to the findings of this study dampens the positive effects of financial development on poverty reduction and hurts the poor to a very great extent.

#### **5.4 Limitation of the Study**

This study was focused on investigating the impact of the Aid agencies on the financial systems and services in Nairobi County. The scope of the study extended and covered the financial controllers of the Aid agencies in Nairobi County. This study therefore, was quiet on the other stakeholders such as the ministries of planning and treasury, the central bank of Kenya and also other regions apart of the country. This leaves a dearth in knowledge from other region.

#### **5.5 Recommendations of the Study**

This study found that majority of the Aid agencies in Kenya (83%) do not provide funds and support for Agricultural sector which form the backbone of the economy in Kenya and could influence the financial system of the country. This study therefore, recommends that most of the Aid agencies support be directed towards Agricultural development as a way of establishing firm and strong financial system of the country.

From the study findings, most of the Aid agencies are not involved in maintenance of the finance records. This study recommends that training and campaigns be done by the Aid agencies to ensure that the staff are well trained on how to maintain and keep finance records updated.



## **5.6 Suggestion for Further Research**

This study suggests that further studies be done on the subject focusing on other regions of the country as Nairobi County is a metropolitan city and Kenya's capital city. This could be different from other regions in Kenya.

Another area of further studies is in the human resource factors that influence the financial performance of the aid agencies. This can be based on the job satisfaction, remuneration and also competence levels of the employees.

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## APPENDICES

### Appendix I: Questionnaire

#### Background information

1. What is your gender?

Male [ ]

Female [ ]

2. Please tick your age bracket as appropriate

30 yrs and Below [ ]

31- 40 yrs [ ]

41- 50 yrs [ ]

51- 60 yrs [ ]

Above 60 years [ ]

3. Please indicate your level of education

Certificate level [ ]

Diploma level [ ]

Undergraduate level [ ]

Graduate level [ ]

Postgraduate level [ ]

4. What is your designation in the county .....



**SECTION B: Financial Control Measures in Place**

5. To what extent do the following factors of financial control lead to the growth and development of finance Services in county?

Strong credit control	Very great extent	Great extent	Moderate extent	Low extent	No extent at all
Cost minimizing					
Staff training and development					
Strict supervision					
Involvement of strategic control measures					
Strict supervision					
Government policies and supervision					

6. To what extent do aid agencies influence the financial control in Nairobi County?

To a very great extent [ ]

To a great extent [ ]

To a moderate extent [ ]

To a little extent [ ]

To no extent [ ]

Please select the category of aid agencies that your organization fall into

Foreign agencies [ ]

Local agencies [ ]

Other (specify) .....

7. Has the Kenyan government played any role in promoting Finance services and development?

Yes [ ]

No [ ]

Explain you answer

.....  
.....  
.....

8. In your own opinion what are the major functions of aid agencies which require financial control measures to foster financial development in Nairobi County?

i. ....

ii. ....

iii. ....

iv. ....

v. ....

9. To what extent do you agree with the statement that financial development is pro-poor and financial instability hurts specifically the poor and dampens the positive effect of financial development on poverty reduction?

To a very great extent [ ]

To a great extent [ ]

To a moderate extent [ ]

To a little extent [ ]

To no extent

[ ]

### Section C: Assessing the Role of aid agencies and the Measures Adopted In Financial Control

10. What is the major role of the organization?

Lending of funds [ ]

Offering loans for development [ ]

World wide fund donor [ ]

Offering fund for refugees' management [ ]

Trade and development funds [ ]

Educational funds [ ]

Social development funds [ ]

Agricultural development funds [ ]

International fund controller [ ]

11. Do you think that financial control measures are vital in financial sector?

Yes [ ]

No [ ]

12. Why do you think the aid agencies should be involved in financial controls?

For economic development [ ]

To minimize fraud [ ]

For financial development [ ]

Many institutions are not independent [ ]

Control funds management and uses [ ]

Enable implementation of monetary policy [ ]

Enable financial records are maintained [ ]

To allow financial reporting [ ]

For easier and quick loan disbandment [ ]

13. Do you feel that the policies and regulations controlling the financial sector should be re-adjusted in any way?

Yes [ ]

No [ ]

14. What is the reason for your answer in question 13 above?

- They been ineffective
- They cannot be applied in the modern financial sector
- They are expensive in implementation
- There is need to move with technology
- They require high labor investment
- There have been a lot of complaints from the citizens

Thank you for filling these questions!

## Appendix II: Aid Agencies in Nairobi, Kenya

1. African Development Bank (AFDB)
2. World Bank
3. Ministry Of Foreign Affairs (MOFA)
4. International Finance Corporation (IFC)
5. Islamic Development Bank (IDB)
6. Organization For Economic Co-Operation And Development (OECD)
7. United Nations High Commissioner For Refugees (UNHCR)
8. United Nations Industrial Development Organization (UNIDO)
9. United Nations Office For Project Services
10. United Nations Population Fund (UNPFA)
11. United Nations Procurement Service/ Division
12. United States Agency For International Development (USAID)
13. World Intellectual Property Organization (WIPD)
14. United States Trade And Development Agency
15. World Bank
16. United Nations Education, Scientific And Cultural Organization (UNESCO)
17. United Nations Children's Fund (UNCF)
18. United Nations Development Program
19. International Fund For Agricultural Development (IFAD)
20. Department Of International Development (DID)

Source: United Nations Office on Drugs and Crime (UNODC) (2011) *List of NGOs*, available at: <http://www.unodc.org/ngo/list.jsp>, accessed on; 7<sup>th</sup> November, 2011