

**PROCUREMENT PRACTICES AND DONOR FUNDING IN NON-
GOVERNMENTAL ORGANISATIONS IN NAIROBI CITY
COUNTY**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT
OF THE REQUIREMENTS FOR THE AWARD OF THE DEGREE
OF MASTER OF BUSINESS ADMINISTRATION, SCHOOL OF
BUSINESS, UNIVERSITY OF NAIROBI**

OCTOBER 2015

DECLARATION

This is to certify that this research project is my original work and has not been presented for a degree award in any other university or institution of higher learning. Information from other sources has been duly acknowledged.

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ACKNOWLEDGEMENT

This Research Project could not have been completed without the much encouragement and support that I have received from a number of people. I am most grateful to my supervisor, Mr. Akelo, who has been a source of constant guidance through the various discussions which kept me on the right path throughout the project. I'm also grateful to the MBA class who has been a constant source of motivation and encouragement and also the University library for availing materials that were very useful during the study.

Special thanks to my family and friends who have been a source of insightful ideas and whose encouragement enabled me to always reach higher. Above all, I thank the Almighty God who is my all in all and my source of much needed strength to complete this research project.

DEDICATION

To my parents Augustine and Rose Njeru who have been very supportive and encouraging throughout this study. Thank you very much and God bless you.

TABLE OF CONTENTS

DECLARATION.....	ii
ACKNOWLEDGEMENT.....	iii
DEDICATION.....	iv
LIST OF TABLES.....	viii
LIST OF FIGURES.....	viii
ABBREVIATIONS AND ACRONYMS.....	x
ABSTRACT.....	xii
CHAPTER ONE: INTRODUCTION.....	1
1.1 Background of the Study	1
1.1.1 Procurement Practices	1
1.1.2 Donor Funding	3
1.1.3 Non-Governmental Organisations in Kenya	5
1.2 Problem Statement.....	6
1.3 Research Objectives.....	8
1.4 Significance of the Study	8
CHAPTER TWO: LITERATURE REVIEW	10
2.1 Introduction.....	10
2.2 Theoretical Foundation.....	10
2.2.1. Agency Theory.....	10
2.2.2. Dependency Theory	12
2.2.3 Big Push Theory.....	12

2.3 Procurement Practices.....	13
2.3.1 Donors Procurement Guidelines	17
2.4 Donor Funding	20
2.5 Non-Governmental Organisations in Kenya.....	24
2.6 Conceptual Framework.....	26
2.7 Summary	267
CHAPTER THREE: RESEARCH METHODOLOGY	28
3.1 Introduction.....	28
3.2 Research Design.....	28
3.3 Population of the Study.....	28
3.4 Sample Design	29
3.5 Data Collection	29
3.6 Data Analysis	30
CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION	31
4.1 Introduction.....	31
4.2 Response Rate	31
4.3 General Information.....	31
4.3.1 Respondents' Job Titles	31
4.3.2 NGOs Classification.....	32
4.3.3 Sector of NGO	33
4.3.4 Year of NGO Foundation.....	35
4.3.5 Number of Employees in the NGOs	36

4.4 Donor Funding	37
4.4.1 NGOs' Annual Budget	37
4.4.2 NGOs Ability To Finance Their Annual Budget	40
4.4.3 Self-sustainability in NGOs	41
4.4.4 Consistency of Donor Funding in NGOs	43
4.4.5 Types of Donors Funding NGOs	43
4.4.6 Ccumulative Trend In Donor Funding	45
4.4.6 Reasons Attributed To Decrease In Donor Aid	46
4.5 Procurement Practices.....	48
4.5.1 Adoption of Procurement Manual.....	50
4.5.2 Relationship Between Procurement Manual and NGO's Annual Budget	52
4.5.3 Procurement Practices and Donor Funding.....	53
4.5.4 Procurement Practices Considered During Project Evaluation.....	55
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS ...	57
5.1 Introduction.....	57
5.2 Summary	57
5.3 Conclusion	58
5.4 Limitations of the Study.....	59
5.5 Areas for further studies.....	60
REFERENCES.....	61
APPENDIX 1	65
Questionnaire	65

LIST OF TABLES

Table 4.1: Sector in which the NGO is based.....	34
Table 4.2: Correlation between annual budget and sector.....	39
Table 4.3 Correlation between Annual Budget and Year founded.....	40
Table 4.4: Procurement practices adoption.....	49
Table 4.5: Correlation between procurement manual and annual budget	52
Table 4.6: Procurement practices and Donor funding coefficients.....	54

LIST OF FIGURES

Figure 2.1: Role of Procurement.....	14
Figure 2.2: Conceptual Framework	26
Figure 4.1: Respondents in the study	32
Figure 4.2: NGOs Classification.....	33
Figure 4.3: Year that NGO was founded	35
Figure 4.4: Number of Employees in NGOs	36
Figure 4.5: Annual Budget.....	38
Figure 4.6: Ability to finance the budget	41
Figure 4.7: Self Sustainability of NGOs	42
Figure 4.8: Donor Funding Consistency.....	43
Figure 4.9: Donor Type.....	44
Figure 4.10: Donor Funding Trend.....	45
Figure 4.11: Reasons for decrease in donor funding	47
Figure: 4.12 Procurement manual adoption.....	50
Figure 4.13 Type of procurement manual adopted.....	51
Figure 4.14: Procurement practices considered during project evaluation for donor funding	55

ABBREVIATIONS AND ACRONYMS

DCA – Dan Church Aid

DFID – Department for International Development

ECHO - European Commission Directorate-General for Humanitarian Aid and Civil Protection

EU – European Union

GOK – Government of Kenya

JICA – Japan International Cooperation Agency

IOM - International Organization for Migration

IRIN – Integrated Regional Information Networks

NGOs – Non-Governmental Organisations

ODA - Official Development Assistance

OECD - Organisation of Economic Co-operation and Development

PPDA - Public Procurement and Disposal Act

UNESCO – United Nations Educational, Scientific and Cultural Organization

UNICEF - United Nations Children's Fund

UNHCR - United Nations High Commissioner for Refugees

USAID – US Agency for International Development

USG – United States Government

WFP - World Food Programme

ABSTRACT

With the worldwide fluctuation in donor funding and considering that most Non-Governmental Organisations are not self-sustaining; they have to know what factors the donors are putting into consideration during funding and especially the kind of controls that should be in place to facilitate smooth running of the organisations. Non-Governmental Organisations operate under very high budgets whose funding certainty is never known and where most funds are utilized in their operations; especially through the procurement department. Thus strict controls have to be put in place and donor guidelines on procurement practices have to be followed to the core. The study sought to find out the effect of procurement practices on donor funding in Non-Governmental Organisations in Nairobi. It was interested in the analysis of this relationship because donor funding has been fluctuating over the years with some considerable decrease in some years. There are so many factors that affect funding and considering that procurement mainly takes up about 75% of the resources in most NGOs; the donor is keen on how the NGO does it and if the right channels are being used. Procurement is therefore a key factor in donor funding considerations. Withdrawal or reduction of funding by some donors has been attributed to corporate misconduct, lack of controls, government corruption, bureaucracy, project implementation among other factors. However, little is known on the procurement practices used by NGOs and how they directly affect donor funding. Thus, the objective of the study was to establish the procurement practices used by NGOs in Nairobi and to establish how their effect on donor funding. The descriptive study targeted a sample of 95 NGOs to which questionnaires targeted a population of 95 government ministries that existed during the coalition government. The study used primary data sources from the NGOs and secondary data from various donors and NGOs reports. The study concludes that the most common procurement practices used by NGOs are procurement database, use of review committees and scorecard during evaluation. Donors mainly emphasized on transparency, accountability and integrity during project evaluation.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Throughout the world, international aid agencies implement development or relief assistance programmes aimed at fighting disease, reducing poverty, fostering economic and social development, promoting respect for human rights and protecting the environment (Taupiac, 2001). In doing so, they procure an estimated US\$50 billion worth of goods and services from companies worldwide. Today, changing procurement trends by these agencies are opening up more opportunities for developing country enterprises. According to Fengler and Kharas (2011); the global aid environment has changed profoundly over the last decade. New official and non-state players have emerged as prominent actors, new challenges like climate change and stabilizing fragile states have arisen, and new approaches to providing aid are being tried

1.1.1 Procurement Practices

Chartered Institute of Procurement and Supply defines procurement as the buying of goods and services that enables an organisation to operate. This could involve the procurement of marketing, advertising or IT related services among others. A company can spend more than two thirds of its revenue on buying goods and services, so even a modest reduction in purchasing costs can have a significant effect on profit/ savings. According to NGO Connect (2010); NGO procurement is the process of acquiring goods, services and/or consultants in support of program activities. Thus the purchase of goods and services is necessary for the smooth operation of the organization. The aim of the internal control system for the supplying of goods and services is to ensure orders are handled by individuals having skills in evaluating what purchases are required from

suppliers offering the best deals, to ensure purchases made do not exceed the budget provided and to ensure purchased goods and services conform with the quantity and price specified in the order.

Procurement practices refers to the methods used to source for goods and services (CIPS and NIGP, 2012). These involves structures and processes during: development of a procurement manual, prequalification of suppliers, development of evaluation criteria, ethical procurement, outsourcing process, performance management, transparency award of contracts, application for tax exemptions among others.

The donor and Non-governmental Organisations (NGO) community is very active in Kenya, with a wide range of operations including work in infrastructure, health, education, and policy development. Kenya is also a procurement base for regional relief and development activities in Somalia, Sudan and Rwanda. Multilaterals such as the World Bank group, the African Development Bank and the European Union generally operate through and in conjunction with the Government of Kenya (GOK). Bilaterals such as USAID, DFID and JICA operate in conjunction with the GOK and have different procurement methods, usually project-based or delegated through institutions such as Crown Agents. UN Agencies generally have their own procurement network, as do large NGOs while UNICEF, UNHCR and HABITAT all have large procurement offices in Nairobi. Larger local NGOs usually function with funds received from donors and procurement is done according to the donor's stipulations (Oanda and Ajwang, 2008). Taupiac (2001) notes that several important trends are shaping the way international aid agencies operate procurement. Firstly, the World Disasters Report of the International

Federation of Red Cross and Red Crescent Societies cites an overall decline in Official Development Assistance (ODA). This is forcing aid agencies to devise strategies to make shrinking budgets meet growing demands. Secondly, the development community's emphasis is increasingly on supporting local "participatory" initiatives in order to bring about sustainable development. Finally, due to calls from non-governmental organizations (NGOs) and institutions such as the Organisation of Economic Co-operation and Development (OECD) to end the policy of "aid tying" (when the procurement of the goods or services involved in ODA is limited to the donor country or to a group of countries), donor government are reconsidering the practice.

Different donors have different procurement guidelines which should be followed for all procurements in projects which they have funded. NGO Connect (2010) states that the U.S. Government's (USG) procurement regulations exist to ensure that a recipient of USG funding uses it to advance the purpose of the award, spends it wisely and does not procure anything in conflict with the public's interest. To achieve this, recipients are required to carefully document their organization's procurements and make sure that this process is in line with USG requirements. They further noted that it was critical that organizations adopt procurement guidelines to ensure that all goods, services and/or consultants it procures will be allowable under their award. This is one among the many donor procurement guidelines.

1.1.2 Donor Funding

Over time, donor funding and its administration has really changed (Fengler and Kharas, 2011). The funds were mainly channeled through governments and a small part through

NGOs; today the NGOs get more direct funding especially in situations where the government is seen as corrupt and some donors think that NGOs are likely to better understand people's needs. Grepin and Jack (2008) noted that most donor aid comes with strings attached thus compromising the operations especially on the implementers side.

Syongo (2004) noted that there was no donor who would work with Kenya when all they were doing was politics thus they should stop for a while and work. Thus attract donor funding, by not concentrating much on politics, which they did not want to rely on forever but was crucial then as they too concentrate on other development programmes to change that. Donor funding on non-communicable diseases and HIV/AIDS has continued to dwindle over time as noted by Macharia (2014). This has forced the government to allocate more funds towards managing the scourge. He further noted that many Kenyans are now seeking treatment from abroad amounting to more than 10 billion shillings thus they were investing on capacity to prevent that trend. The government had to also increase funding to fight the new cases. The US President's Emergency Plan for Aids Relief (Pepfar) however said that they would remain strong and committed to ensuring that both the national and the county governments get the assistance they need.

Chege (1999) observes that between 1993 and 1997 total aid received in Africa fell by nearly 13%. Some people saw the more vocal donor complaints about government corruption in Africa as at least a partial justification for simply cutting back on aid flows overall. However, Grepin and Jack (2008) noted aid fluctuation in Kenya from 2000 to 2006 with a notable decline until 2002 and a rise after that until 2004 when further decline was experienced.

1.1.3 Non-Governmental Organisations in Kenya

NGOs act 19 of 1990 defines a Non-Governmental Organization as a private voluntary grouping of individuals or associations, not operated for profit or for other commercial purposes but which have organized themselves nationally or internationally for the benefit of the public at large and for the promotion of social welfare, development charity or research in the areas inclusive of, but not restricted to, health, relief, agriculture, education, industry and the supply of amenities and services.

According to Burger and Owens (2011) on their study on Ugandan NGOs; funding was very critical for NGOs survival as some just collapsed a few years after formation due to lack of funding. The organizations given grants tended to be larger, to have full-time, better-educated staff and to be affiliated with either an international NGO or a local umbrella group. They also were generally the same groups that had received grants in previous years as once a donor established a relationship it tended to continue. They noted that another major challenge was accountability and aid now majorly goes through charities. The donors do so because of fears that governments are corrupt but they were barely looking at the accountability of the alternative.

NGOs in Kenya have come a long way from the very small numbers in 1980's to over 3000 in 2014. Trust Organisation (2013) on their article on how the Kenyan government planned to make large cuts in the foreign NGOs designed to silence its critics; the Attorney General's office gazetted a miscellaneous bill which would slash funding for NGOs in Kenya. This is where a public benefit organization was not to receive more than 15% of its total funding from external donors and the donors were not to fund NGOs

directly but were to channel funds through a new Public Benefits Organisations Federation. They further noted that a similar law in Ethiopia forced many human right organizations to close or scale down in 2009. Business Daily (April 7, 2015) indicated that more layoffs were expected especially in NGOs due to reduced funding. This is one of the consequences that are seen with donor funding reduction in any country.

1.2 Problem Statement

NGOs rely on money from a variety of sources which include; individual donors, foundations, corporations, and governments. Often what an NGO can and cannot do is tied to where the money comes from, dramatically affecting the effectiveness and neutrality of NGOs. While some NGOs refuse to accept government or corporate funding to stay independent in their decision making, many NGOs' need depend on these funding sources in order to operate. Funding Issues have become particularly challenging, following the economic crisis and donors will always want to know how their money will be used and what will be achieved from it. Procurement contributes more than two thirds of the used thus very critical.

IRIN (2011) argues that donors can no longer afford to provide funding for disasters as there were already so many other threats posed globally. Macharia (2014) and UNESCO report (2014) noted that donors were shifting funding from the initial programmes to new ones. However, in another article on IRIN (2011), they noted that humanitarian Aid had doubled in the first decade of 21st century with UK, USA and EU being the largest donors. Despite that, UN's appeal for aid was not reached thus getting unmet needs. They also noted that private funding was higher than institutional donors. Spence (2011) argued

that the EU missed its target of aid to developing countries by 15 billion euros in 2010 and would of course fall short of future goals. Jean Kamau of Action Aid - Kenya was quoted saying that money for targeted aid that has the potential to change society is at risk and urged EU to recommit to principles of assistance. Galeitse (2011) noted on a case study of Botswana that government was competing for funds with NGOs as donors had reduced funding due to the country's stability. In this competition, the government has always worn thus forcing the NGOs to form alliances so as to source for funds.

Withdrawal or reduction of funding by some donors has been attributed to many different reasons by researchers. Norris (2012) attributed it to serious corporate misconduct, mismanagement and lack of internal controls as said by USAID administrator; Chege (1999) attributed it to corruption in governments; Macharia (2014) attributed it to changed priorities thus shifting to other programmes; Global Policy Forum (2012) attributed it to the economic crisis especially in Europe and America while Ouma (2012) attributed project's ineffectiveness majorly to procurement practices and government bureaucracy. Most of these factors have forced donors to come up with operational guidelines (majorly procurement) which should be closely followed by NGOs and other institutions that they fund.

These studies bring out contradicting results on the current state of donor funding and none that purely correlates it to procurement practices which are key considerations for many donors during project evaluation. Thus the need for clarification on the current status of aid and its relation to procurement practices on NGOs in Nairobi.

1.3 Research Objectives

1. To establish the procurement practices used by NGOs in Nairobi
2. To determine the relationship between procurement practices and donor funding in Nairobi NGOs

1.4 Significance of the Study

This research will add to the existing knowledge of Non-Governmental Organisations' compliance with regard to the donor funding requirements. There are varying trends in donor funding in the country in the past decade or so. Previously, many reasons have been put across as contributing factors but not much has been specifically linked with the procurement processes in the NGOs. Generally, the below stated institutions will benefit:

To begin with, one of the main beneficiaries includes NGOs. Many shifts have taken place in terms of policies, economical ability of donors as well as evaluation of existing projects thus shift in donor funding. The trends in funding as well as the evaluation of projects for refunding and the contribution of the procurement processes to funding will assist the NGOs to know what is really important during projects implementation in the funding uncertainty. The good positioning from implementation as well as knowledge of the market will attract more funding as well as maintain the old donors especially during tough economic times.

The academia is also another important beneficiary. This research will contribute to the existing knowledge which is usually a guide to future research. It is through already

researched work that gaps to be filled are identified thus promoting the culture of research in our country.

Lastly, the government is also likely to benefit. NGOs contribute greatly to development in the country especially economic, social, health as well as infrastructure. They provide employment to many Kenyans as well as alleviation of poverty especially in the marginalized communities and slums. This generally improves the livelihoods of many Kenyans, contributes to the GDP of the country and helps the government to concentrate on other areas of development which have not been catered for by the NGOs. Thus donor funding is of key interest to the government and especially in achievement of Vision 2030.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

Literature review is a very important and mandatory chapter for any research project. It brings out the importance of carrying out any given research in a given field through analysis of already existing knowledge from previous research in the field. This helps to identify the existing gap in the knowledge. The literature used in this chapter is mainly from the books and the e-journals which are a reliable source of information, thus the reliability and validity of the literature. This chapter has been classified according to the objectives shown in section 1.3 and a summary showing the major findings and the gap is included at the end. A framework of the relationships between the various objectives of the study is also shown later in the chapter.

2.2 Theories

The complex nature the world of donor funding can be noticed in the academic researches and scholars debates. It is common for scholars to focus on certain perspectives of aid and policy frame works instead of developing consistent foreign aid theories (Van der Veen, 2011). This section will examine 3 theories: Agency theory, dependency theory and the big push theory.

2.2.1. Agency Theory

According to Jensen and Meckling (1976); agency theory addresses the relationship where in a contract one or more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. In this case, the donor can be referred to as the Principal whereas

the NGO is the agent. The donor determines the level of funds to be disbursed and channels them to the borrower who acts based on aid conditions agreements thereby deciding on expenditure patterns which eventually lead to outcomes such as economic growth, infrastructure development, access to education and health care. The donor reviews these outcomes based on a structured monitoring and evaluation system and chooses the funding level to influence the choice of action by NGOs and hence outcomes. This funding level chosen maximizes the donor's preferences, subject to reaction by NGOs who also has her own set of preferences and shows actions the latter would choose for each funding level (Odedukun, 2003).

The theory assumes that the donor and NGOs are unitary entities such as governments represented by only a set of preferences and that the donor is concerned with the poor more than NGOs. It is on this basis that the donor is able to institute conditions in loan protocol agreement based on actions by the recipient. The donor can induce NGOs action through offer of unconditional funds disbursement hence the donor is dominant and better off given his preferences and the assumption that the donor cares more for the poor than the NGOs hence the borrower has no choice. The agency theory model anchored on the fact that information asymmetries and pursuant of self-interests, principals lack basis to trust their appointed agents and will seek to mitigate these concerns by putting in place mechanisms to align the interests of agents with principals and to reduce the scope for information asymmetries and opportunistic tendencies (Keng'ara, 2013).

2.2.2. Dependency Theory

Dependency theory goes way back in 1949 where it was observed that the terms of trade for underdeveloped countries relative to the developed countries had deteriorated over time, the underdeveloped countries were able to purchase fewer and fewer manufactured goods from the developed countries in exchange for a given quantity of their raw materials exports (Jeffrey, 2012). In dependency theory, the developed nations actively keep developing nations in a subservient position, often through economic force by instituting sanctions, or by proscribing free trade policies attached to loans granted by the World Bank or International Monetary Fund (Sunkel, 1966).

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

2.2.3 Big Push Theory

As a concept in development economics or welfare economics that emphasizes that a firm's decision whether to industrialize or not depends on its expectation of what other firms will do. It assumes economies of scale and oligopolistic market structure and

explains when industrialization would happen (Rosenstein-Rodan, 1943). The theory emphasizes that underdeveloped countries require large amounts of investments to embark on the path of economic development from their present state of backwardness. This theory proposes that a bit by bit investment programme will not impact the process of growth as much as is required for developing countries. Thus injections of small quantities of investments will merely lead to wastage of resources (Abuzeid, 2009). The big push argument holds that a poor country can be caught in a low-equilibrium i.e. a poverty trap, a large inflow of aggregate aid in social and productive sectors will result in growth across all sectors of society and push the economic into the better equilibrium allowing a take-off into sustained growth (Abuzeid, 2009).

2.3 Procurement Practices

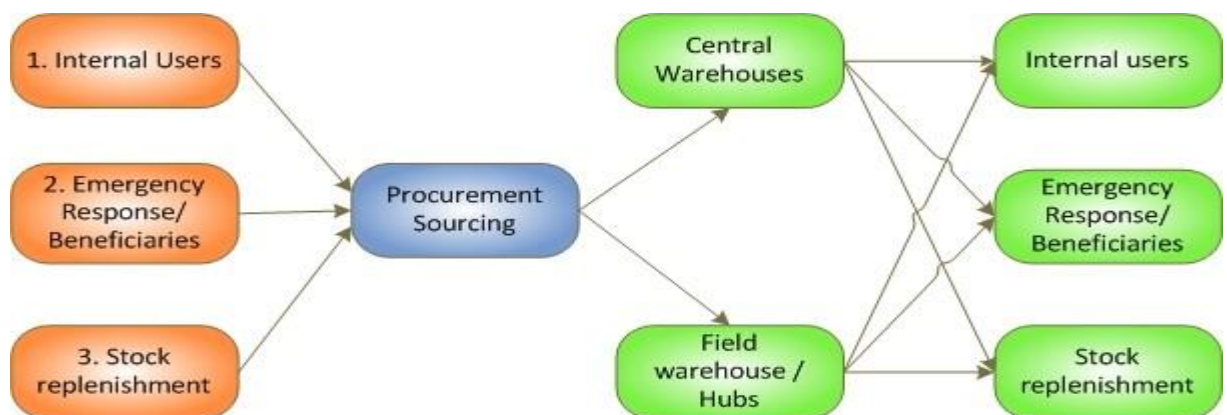
Kidd (2005) defines procurement as the business management function that ensures identification, sourcing, access and management of the external resources that an organisation needs or may need to fulfill its strategic objectives. He further noted that procurement exists to explore supply market opportunities and to implement resourcing strategies that deliver the best possible supply outcome to the organisation, its stakeholders and customers. The benefits associated with procurement includes: security of supply, lower costs, reduced risk, improved quality, greater added value, increased efficiency and innovation.

Logistics Cluster (2001) defines procurement as the process of identifying and obtaining goods and services. It includes sourcing, purchasing and covers all activities from identifying potential suppliers through to delivery from supplier to the users or

beneficiary. According to UNDP (2005), the term “procurement” refers to the process of acquiring goods, works and services. The process spans the whole cycle from identification of needs through to the end of a services contract or the useful life of an asset. They also note that procurement forms nearly 80% of the project amount.

Similarly, Logistics Cluster (2001) stated that procurement is a key activity in the supply chain which can significantly influence the overall success of an emergency response depending on how it is managed. In humanitarian supply chains, procurement represents a very large proportion of the total spend and should be managed effectively to achieve optimum value. Procurement works like a pivot in the internal supply chain process turning around requests into actual products/commodities or services to fulfill the needs. It serves three levels of users: The internal customer, Programs in response to emergencies and ongoing programs, Prepositioning of stocks, for both internal customers and program needs as illustrated in the diagram below:

Figure 2.1: Role of Procurement



Source – Logistics Cluster (2001)

Procurement practice is a complex function guided by numerous policies and statutes. A comprehensive procurement policy manual, one that lays out these policies and applicable laws, is critical to ensuring that procurement, agency staff, and all stakeholders follow the proper procedures and rules so all will have a clear and consistent understanding of the required regulations. In the absence of such guidance, a lack of consistency in how procurement work is carried out becomes likely. This inconsistency results in frustration within and outside the procurement organization and the possibility that procurement actions may appear to be arbitrary and unfair. It is therefore critical for procurement to have a comprehensive procurement policy manual in place (CIPS and NIGP, 2012).

Logistics Cluster (2001) notes that humanitarian procurement has three important principles which includes transparency, accountability and efficiency and cost effectiveness. This helps considering that the resources are donor funded, a good relationship with suppliers is important and efficiency has a direct impact on operation and beneficiaries. They further noted that The aim and objective of procurement is to carry out activities related to procurement in such a way that the goods and services procured are of the right quality, from the right source, are at the right cost and can be delivered in the right quantities, to the right place, at the right time.

Development and relief agencies have highly formalized procurement processes (similar in nature to the Public Procurement and Disposal Act - PPDA). They all require that suppliers register with them before the beginning of the procurement processes. The registration process is stringent and normally includes checking the companies' financial

standing, capacity to supply, and logistical ability and may also involve premise checks as part of a due diligence process. UN agencies have specifications for all the products they procure and suppliers need to know these specifications and comply with them. Oanda and Ojwang (2008) further stated that donor and NGO procurement systems work well, though they tend to be over-bureaucratized.

Abrams (2013) argues that procurement is time-consuming and can require complex procedures. There are risks of errors and of deliberate abuse of the process for personal gain by officials or by contractors and suppliers. Problems in procurement can lead to delays, poor quality or lack of value-for-money and can undermine the trust of the local community. Thus good procurement practice includes many of the themes of good governance, including efficiency, effectiveness, transparency and accountability. Abrams further notes that depending on the organisation and the type of procurement being done, practices like: pre-qualification, advertising, negotiation of price with the winning bid, bid security, tax exemptions, post-qualification, non-price criteria in bidding, international bidding, and procurement review committee among others vary on usage.

According to Hong Kong's Corruption Prevention Department (2001) a sound procurement system is important to NGOs because it helps to ensure that the goods and services are purchased in an open, fair and competitive manner and that they represent value for money. It also helps to minimize opportunities for abuse. They further noted that NGOs should ensure that the procurement system adopted has adequate checks and balance to prevent possible malpractice or corruption as well as to enhance accountability in the use of public funds.

2.3.1 Donors Procurement Guidelines

Many donors have clearly laid out procurement manuals and all the partners and their organizations have to strictly follow them. Procurement policies will vary from organisation to organization and so do the organisational rules and regulations governing the procurement function. The policies determine how different aspects of procurement will be carried out in the organisation and how people working in procurement should behave (Logistics Cluster, 2001). Garandean and Ruche (2000) similarly noted that procurement procedures were very different in terms of the devolution of decision-making power to the local agencies, procurement thresholds and specific award and payment methods.

DanChurchAid (DCA) Procurement Manual (2007) identified key aspects of the procurement process that were common donor requirements. They included: Transparency, fairness and fraud prevention; equal opportunity; economy and efficiency; effectiveness and Certainty of the ability of the supplier/contractor to provide the supplies and services. They further noted that their procurement policy existed to ensure compliance with general principles as well as ensuring a professional and standardized approach. Similarly, International Organization for Migration notes that its 'General Procurement Principles and Processes' document is to guide vendors, especially those who potentially may be awarded with IOM purchase orders/ contracts, of the general procurement principles and processes which shall be observed in carrying out procurement of goods, works and services for IOM. IOM is committed to promoting the highest ethical standards among its vendors.

The Government of India's World Bank sponsored 'Technical Education Quality Improvement Programme' in 2004 also noted that the procurement manual existed so as to provide the essential information and brief step-by-step procedures for procurement of goods, works and services. This document was intended to guide the procurement officials directly involved in the procurement activities. It also intends to help in understanding the procurement processes and to achieve uniformity in procurement processes followed under the project. It ensured that: transparency, fairness and fraud prevention; equal opportunity for suppliers; effectiveness and economy and efficiency were achieved during project implementation as per World Bank's guidelines.

According to World Food Programme (WFP); they have received an increased amount of cash contributions from donors over recent years, making procurement activities increasingly important. Many donors impose conditions on their donations (for example, the money must be spent in a certain country or the aid must go to a certain country). WFP purchases more than 2 million metric tons of food every year and at least three quarters of it comes from developing countries. This is because it is WFP's policy to buy food as close to where it is needed as possible. By buying locally the agency can save time as well as money on transport costs and also help sustain local economies.

According to Norris (2012); Rajiv Shah, the administrator of the US Agency for International Development (USAID), is fighting to introduce the 'procurement reform'. This aims at channeling US foreign aid through local institutions rather than American for-profit contractors, in order to increase accountability and aid effectiveness. The Coalition of International Development Companies, an advocacy coalition of 50

government contractors, have objected to the procurement reform stressing the threat of waste and corruption by foreign governments and other institutions. Shah is quoted saying that USAID is no longer satisfied with writing big checks to big contractors and calling it development as the contractors were more interested in keeping themselves in business than seeing countries graduate from the need for aid. This was seen when they suspend a huge non-profit, the Academy for Educational Development (AED) from receiving new government contracts because of abuses in two of its Pakistan projects and what USAID argued was "serious corporate misconduct, mismanagement and a lack of internal controls". The risk of waste, fraud, or abuse is common in the programmes thus USAID seems to be taking a rigorous approach to ensure that proper systems are in place in countries where it is pushing out more money through local channels. This is by conducting audits of public financial systems in those cases where it wants to work directly through foreign governments as some people argue that the foreigners are more wasteful and corrupt. Shah's aggressive push for paradigm shift is stirring the development world to rethink accountability.

According to the UN Procurement Practitioner's Handbook (2006); the objective of procurement activities within the UN system is the timely acquisition of goods, services and works while addressing: the objectives of the UN organizations concerned; fairness, integrity and transparency, through competition; economy and effectiveness and best value for money. ECHO (2011) notes that Individuals taking part in the procurement procedure should be accountable for their acts or omissions in the fulfillment of their duties and may be held personally responsible and financially liable for the consequences

of professional wrongdoing, gross negligence or unethical behaviour. This is, of course, without prejudice to any applicable penal responsibilities arising in the country having criminal jurisdiction. Should irregular activity on the part of the contractor be confirmed, the Contracting Authority shall terminate the contract and inform the Commission immediately.

2.4 Donor Funding

Donor funding is a loan or a grant administered with the objective of promoting sustainable social and economic development and welfare of the recipient country. It comprises of both bilateral aid that flows directly from donor to recipient governments and multilateral aid that is channeled through an intermediary lending institution like the World Bank (Abuzeid, 2009).

The evolution of foreign aid to Kenya since the 1980s has had relatively unpredictable flows. According to OECD-DAC statistics, while Kenya experienced a dramatic build-up in nominal aid flows in the 1980s, there was a slackening of donor support in the 1990s. Nominal aid flows increased from US\$ 393.4 million in 1980 to an average peak of US\$ 1120.5 million in 1989-90, before declining to a low of US\$ 308.85 million in 1999, with some recovery thereafter in response to a new government in December 2002. Increased aid flows since 2002 were as a result of increased government borrowing to finance development projects on infrastructure as well as increased inflows of grants to support government efforts in social sectors and humanitarian responses to droughts following successful Consultative Group (CG) meetings in 2003 and 2005 (UNDP, 2006). The increase in foreign aid therefore reflected renewed donor confidence in the government's

resolve for proper management of the economy and situating adequate government measures against graft and corruption (Mwega, 2008).

Similarly Fengler and Kharas (2011) noted that aid in Kenya is too unreliable to be treated as a source of financing for expenditures, but should be thought of as a windfall. If it arrives, it is saved (debt is reduced). If it does not arrive, expenditures can be retained at their budgeted level. However, they noted that over the last two decades world aid has been growing strongly: more than doubling from \$92 billion in 1992 to around \$200 billion in 2008, and representing a 50 percent increase in real terms. They further noted that for aid to be more effective; it should be differentiated by country circumstance, the delivery system should build on the diversity of aid providers and the focus should be on the dynamics of development.

According to Fengler and Kharas (2011), there has been a huge shift in aid. This is because of strong growth in many developing countries has redefined the role of aid, the donor landscape has changed fundamentally over the last decade, a trend that will likely accelerate in the coming years and innovation - especially in information technology - has started to reshape development aid. Fengler and Kharas (2010) notes that there is a shift in the traditional way of giving aid from the rich governments and individuals through the multinational agencies then to poor governments then to the poor individual to the current trend where the poor individuals can receive aid directly from rich governments and individual or NGOs or the old way of poor governments.

Steinberg (2001) noted that Europe and USA donors say that bilateral aid should go to NGOs, which are generally more open and efficient than governments. Governments prefer to pass aids through NGOs because it is cheaper, more efficient, and more readily accessible than direct official aid. However, governments sometimes use this as a way of shirking their responsibilities. Mwega (2008) further noted that Kenya's share of Aid to Africa has been seen to be declining from 4.16 percent in the 1980s to 3.24 percent in the 1990s and was only 2.18 percent over the period 2000-06. Kenya is therefore not considered to be a high aid-dependent economy.

The multiplication of donors has also led to greater fragmentation of aid into ever-smaller activities. Globally, as the number of donors has increased, the number of new aid projects has skyrocketed and the average project size has shrunk drastically. They are now able to provide exactly what is needed in isolated communities where small amounts of money can make a significant difference in people's lives. But the fragmentation of aid comes at a heavy price. Each project must be prepared, negotiated, supervised and reported on. Many projects create project implementation units and steering committees entirely outside existing bureaucracies. These structures incur substantial administrative costs and may weaken domestic institutions by poaching scarce staff from key government positions.

Ouma (2012) noted that despite the much funding by donors, there was lack of effectiveness in implementing projects thus lack of objectives achievement. 80% identified procurement practices and government bureaucracy as the major factors that affect effectiveness. Others included: adequacy of funding; timing of funds disbursement;

adequacy of human resource capacity; lack of accountability; procurement procedures and bureaucracy; disagreements among beneficiaries and social-cultural obstacles. Thus streamlining of procurement laws was highly recommended. Similarly, Nasma (2014) noted that the capacity of the Ministries management, funds disbursement (donor conditions) and procurement related activities have been sighted as some of the factors that affect donor funding.

UN Procurement Practitioner's Handbook (2006) notes that procurement is an internationally recognised profession which has evolved from a simple buying function to become recognised as a professional role within the UN as well. Procurement officers and those acting in, or supporting that function, are in a special position of trust and are held to high standards of professionalism. The World Bank (1998) estimated that 64% of public procurement in Mali was financed by foreign resources for a total of approximately 78 million dollars. Half of these contracts are works contracts, one-third are supply contracts and the rest are service contracts.

Garandeau and Ruche (2000) noted that some donors are apprehensive about the capacity of the developing countries to take on the full responsibility of managing public procurement. They believe that effectiveness and transparency concerns justify adopting specific procedures and management structures that can easily be controlled by the donors, at least during a transitional period. Similarity, donor requirements were noted on a study carried out in Mali on ten donors (Germany, the World Bank, Belgium, Canada, the United States, France, the Netherlands, UNDP, Switzerland and the European Union). They required: Free competition to obtain the best technical and financial bid

(performance, lead times and guarantees); Honesty and transparency in the procedure; local and/or international publicity and anticorruption clauses; the aid recipient's accountability in programme execution; Right granted to the donor to ensure compliance in use of funds (prior, concomitant and post audits). Tax exemptions; General conditions covering guarantees, penalties, exclusions, cancellation, insurance and force majeure; Dispute settlement provisions; Internal audit mechanism at local agency level (Garandeanu and Ruche, 2000).

2.5 Non-Governmental Organisations in Kenya

Kenya National Council for Social Services (1988) initially defined NGOs as a non-profit making organization based on voluntary resources and services and later added that they should have legal status and have development and welfare as the principle directive. Similarly, Fox (1997) defined NGOs as voluntary and autonomous organizations whose life exists between the citizens on one hand and the governments and markets on the other hand. Their main purpose is to promote collective welfare or public good. However, Steinberg (2001) argues that there is no commonly agreed upon definition of a NGO but generally their function is to serve underserved or neglected populations, to expand the freedom of or to empower people, to engage in advocacy for social change and to provide services.

NGOs have been growing stronger in the last decade. There are claims that the growth of NGOs not only arise from demands by citizens for accountability but also because they are being funded by the western governments (Steinberg, 2001). Hong Kong's Corruption Prevention Department notes that the majority of NGOs receive recurrent

subventions from the Government and other sponsoring organisations for the provision of a wide range of social, medical and healthcare services in the community. While NGOs, large or small, enjoy a high degree of autonomy in their day-to-day operations, they have to meet donor funding requirements when setting performance targets and service quality standards, and when drawing up internal controls for major functions, such as procurement and auditing. Policies enhance NGOs' management capability in corruption prevention through governance and accountability of their management.

They further noted that past corruption cases showed that procurement processes are prone to manipulation and malpractice, such as favouritism in the sourcing and selection of suppliers or service providers, leakage of information and connivance at sub-standard goods or services. Thus a step-by-step guide to procurement of goods or services, with the aim of helping NGOs to avert corrupt practices and achieve value for money in procurement is necessary. Steinberg (2001) noted that NGOs often faced quite a number of challenges. This included; lack of accountability as they depended on donors for funding thus they were accountable for their policies, less bureaucratic and more corrupt than governments and propagation of the western culture (imposition of ideas without debate). He further stated that limitation of NGOs' activities and funding by governments could become a major challenge in the near future.

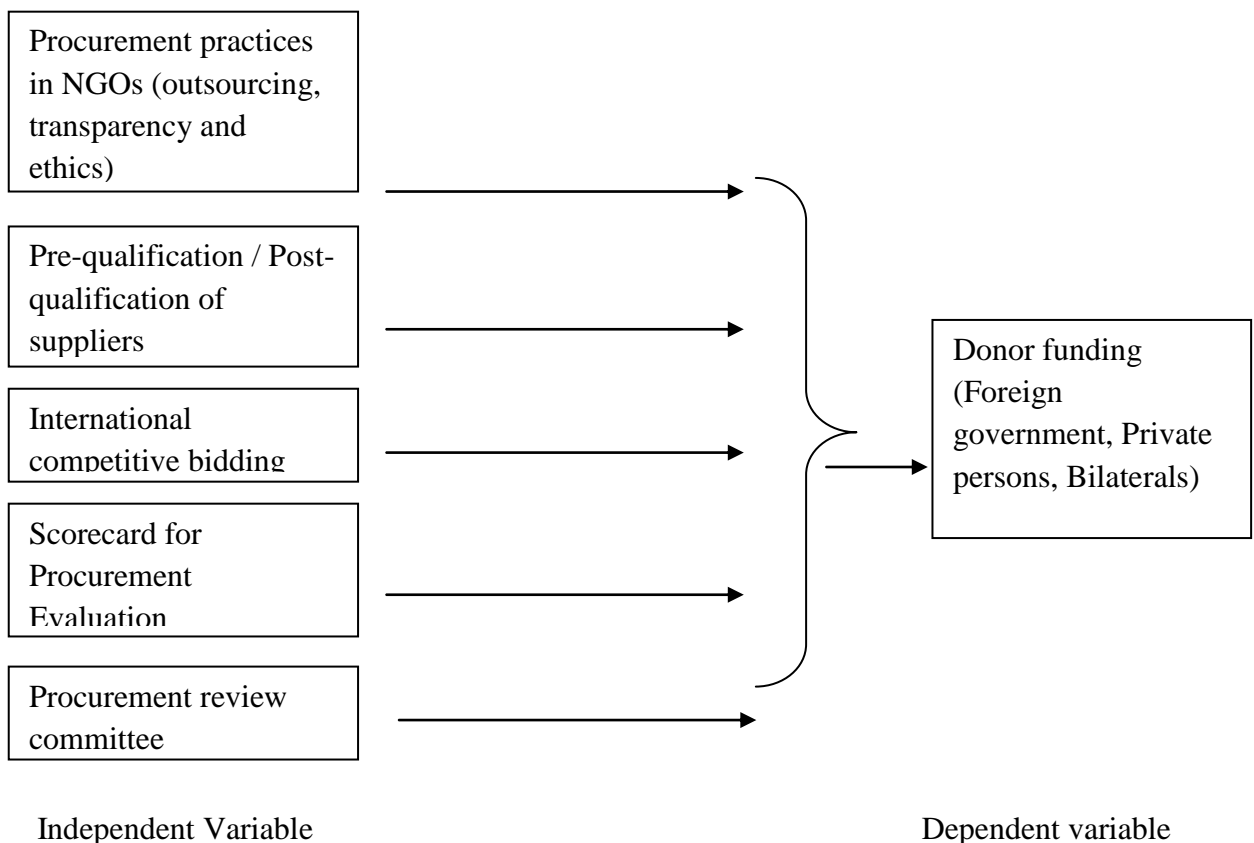
WFP notes that many donors impose conditions on their donations (for example, the money must be spent in a certain country or the aid must go to a certain country) not knowing that the freer from constraints and the more flexible a contribution is, the greater the likelihood that WFP can make a cost effective purchase. That's why it is very helpful

if contributions can be timed in such a way that maximum quantities can be secured at the lowest prices, usually following the harvest period.

2.6 Conceptual Framework

The conceptual framework shows the summary of both the independent and dependent variables in the study. The variables are as in figure 2.2.

Figure 2.2 Conceptual Framework



Source: Author

Figure 2.2 shows both the independent and dependent variable. In this case the independent variables are procurement practices used by NGOs as they affect donor funding. This is where implementation of projects majorly through activities like

procurement affects decisions in funding of future projects by donors. Thus donor funding is dependent on procurement practices in NGOs.

2.7 Summary

Donor aid has fluctuated over the years with different studies attributing the trend to different factors. Norris (2012) attributed it to serious corporate misconduct, mismanagement and lack of internal controls as said by USAID administrator; Global Policy Forum (2012) attributed it to the economic crisis especially in Europe and America; Chege (1999) attributed it to corruption in governments; Macharia (2014) attributed it to changed priorities thus shifting to other programmes; while Ouma (2012) attributed project's ineffectiveness majorly to procurement practices and government bureaucracy.

Procurement being a very complex and highly formalized process (Logistics Cluster, 2001), donor's majorly emphasize on good procurement practices especially in the NGOs that they fund. They have well laid out guidelines through their procurement manual which commonly encourage transparency, fairness, economy and efficiency as well as effectiveness [(DanChurchAid, 2007); (World Bank, 2004); (UN Procurement Handbook, 2006)]. Thus the need to find out if the NGOs are following the guidelines stipulated and its relationship to fluctuations in donor funding. Procurement must be seamlessly integrated with the other aspects of Logistics and functions within the organisation, such as Warehousing, Distribution, Finance, HR, etc. An integrated approach to service delivery will no doubt contribute to the timely, efficient and effective delivery of humanitarian assistance.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter expounds on the various stages and phases that were followed in completing the study. It is a preview of the research method, the target population and the sample that was used, the data collection method that was used and how the data gathered was analyzed. This helped achieve the objectives of the study and also report the findings in an organized manner.

3.2 Research Design

This study adopted a descriptive research design. This is because information concerning the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation and their relationship was obtained (Kothari, 1990). It is a survey which involved collection of data from a sample of NGOs in Nairobi which was considered as a representation of the whole industry. The data collected from the NGOs will answer questions about the current status of the study topic and it is cross sectional as it was collected from different NGOs over the same period of time.

3.3 Population of the Study

The target population for this study consisted of all NGOs located in Nairobi County. According to the NGO Council Report (2014), the population is made up of 1,884 NGOs in the region.

3.4 Sample Design

A simple random sample of 95 NGOs was used in the study. This method was used because of its ease in assembling the sample, its representativeness of the population and it is unbiased selection thus reasonable to make generalisations (Mugenda and Mugenda, 2003). According to Dattalo (2007), the perfect sample size is directly related to the type of research one is conducting. Nevertheless, the contended minimum considerable sample size is 30 cases thus the use of 95 NGOs.

3.5 Data Collection

Primary data was used in this study. It was collected by use of questionnaires. The questionnaire was semi-structured and contained a number of questions which were typed and printed in a definite order on a form. It was hand delivered to a respondent who was expected to read and understand the question and write down the responses in the appropriate spaces provided. Orodho (2004) noted that questionnaires were mainly used because: they were less costly even with large and widely spread sample, the respondents had adequate time to give well thought out answers, respondents who were not easily approachable were reached conveniently and a large sample (95 NGOs) was used thus more dependable and highly reliable results.

The respondents were the Directors or the Programme Managers and Procurement Managers as they had a wider view of the programmes and the NGO at large thus they were in a better position to fill the questionnaires.

3.6 Data Analysis

This is computation of certain measures along with searching for patterns and relationships that exist among data-groups. For this study, the data collected was analysed using descriptive statistics. The data was analysed qualitatively with the aim of ascertaining common themes from the responses provided by the respondents. The analysis grouped common concepts from each and every questions present in the questionnaire with the aim of identifying common trends, perceptions, and practices relating to procurement practices and donor funding in Nairobi County NGOs.

The first objective was analysed through the measure of central tendency and distribution. The distribution and pattern of procurement practices was determined through mean, mode and standard deviation. For the second objective, correlation analysis was used. The procurement practices and donor funding relationship was established compared to other factors that affect donor funding.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the research findings based on the data collected after administering the questionnaires. The purpose of the study was to link procurement practices to donor funding in Nairobi NGOs. Frequency table and figures were used to present the data and facilitated report production with the intention of answering the research objectives.

4.2 Response Rate

As indicated in chapter 3, the research method used was questionnaires which were dropped and later picked from the selected NGOs. The researcher was able to drop 95 questionnaires to various NGOs within Nairobi and managed to pick 68 of them. This is a 71.6% response rate which is a good percentage to conclusively achieve the research objectives.

4.3 General Information

This section is meant to provide a general mapping of the NGOs in terms of the sector that they are in, the number of employees they have, their classification in terms of presence and the duration they have been in operation. This generally helps link these characteristics and to how the NGOs carries out their operations.

4.3.1 Respondents' Job Titles

The respondents who participated in the study by filling the questionnaires were from different departments in the NGOs and held various positions as highlighted in figure 4.1:

Figure 4.1: Respondents in the study

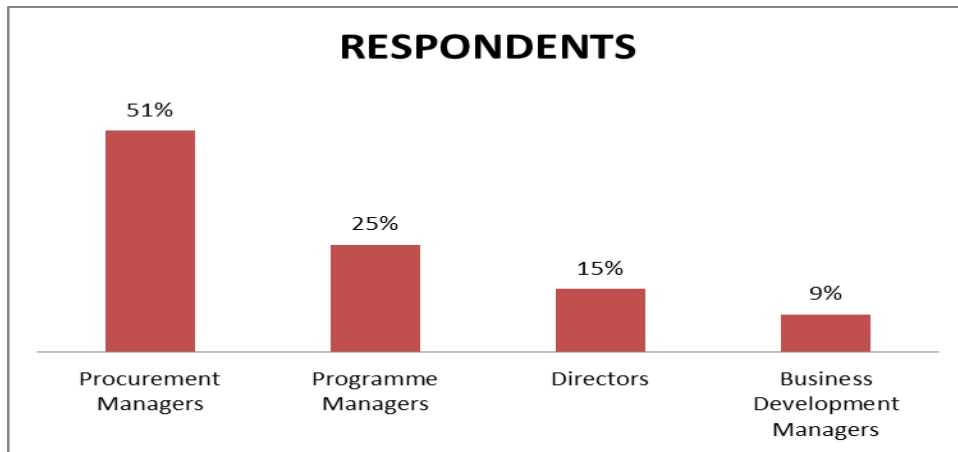
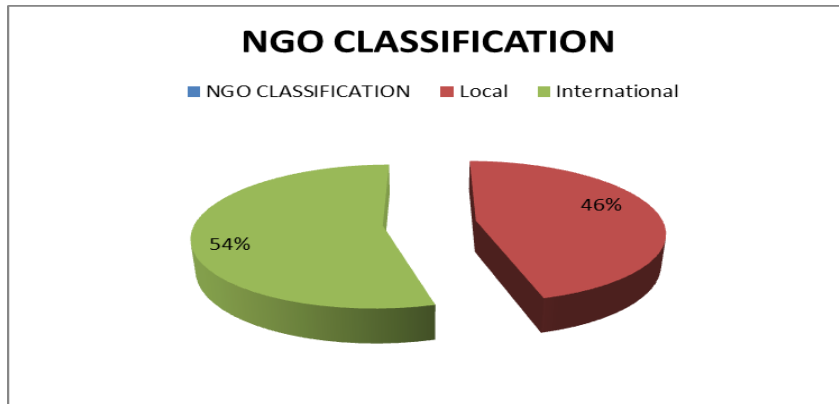


Figure 4.1 shows that out of the 68 NGOs; 51% of the questionnaires were filled by procurement managers which is more than half but is expected since it is more of a procurement study while 25% were programme managers; 15% were directors while 9% were business development managers. This shows staff diversity in various NGOs on procurement responsibility. People in different roles could comfortably deal with procurement and donor funding issues.

4.3.2 NGOs Classification

From the questionnaire, the NGOs used portrayed locational characteristics as illustrated in figure 4.2 which will be used to determine their status.

Figure 4.2: NGOs Classification



Source: Research Data

On the NGO classification summarised in figure 4.2; 54% of the NGOs were International. This means that they have operations in more than one country. This also meant that diversity in the way they did their operations was expected mainly because of interventions from their head quarter where operations are centralised or from the variety of donors. However, 46% were local NGOs thus only have operations in Kenya. This shows that not much outside intervention is expected in their operational guidelines as they come from one office and generally have a fewer range of donors.

4.3.3 Sector of NGO

NGOs operating in Kenya can further be broken down based on the sectors of operation. The employees were asked to indicate the sector in which their NGO is based and the responses are shown in table 4.1:

Table 4.1: Sector in which the NGO is based

Sectors in NGOs		
	Frequency	Percentage
Health	6	9%
Poverty Alleviation	19	28%
Human Rights	8	12%
Education	5	7%
Social Enterprise	9	13%
Agriculture/Livestock	2	3%
Environment	6	9%
Child Rescue	3	4%
Refugees	3	4%
Other	7	10%
	68	100%

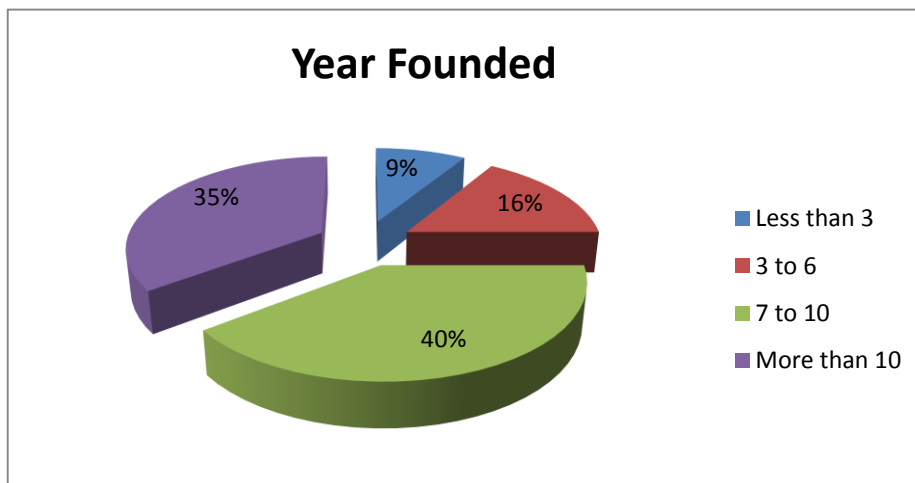
From the findings, 28% of the respondents were from the poverty alleviation sector, followed by 13% from the social enterprise sector, 12% from the human rights sector and 9% from the health and environment sectors too. Among the least represented sector were child rescue and refugees at 4% each and agriculture/livestock at 3%. Education sector had 7% representation. This shows the numerous presence of NGOs in the different sectors.

This confirms findings from Mbote (2002) where he noted that originally the concentration of NGOs was largely in the social and welfare activities. Today, they have diversified their activities to cover environment, energy, health, water and sanitation, population matters, youth, women, shelter, relief services, disabled people communication and even religion.

4.3.4 Year of NGO Foundation

The study further went ahead to find out the year in which the NGO was founded. This was mainly to further determine the characteristics of the NGOs to help relate them with donor funding and the procurement practices that have been adopted. The findings are summarized in the figure 4.3:

Figure 4.3: Year that NGO was founded



From the findings, 35% of the NGOs were founded more than 10 years ago and with 40% being founded between 7 and 10 years ago. These gradually reduced 3 to 6 years ago where only 16% of the NGOs were founded and only 9% foundation with the past 5 years.

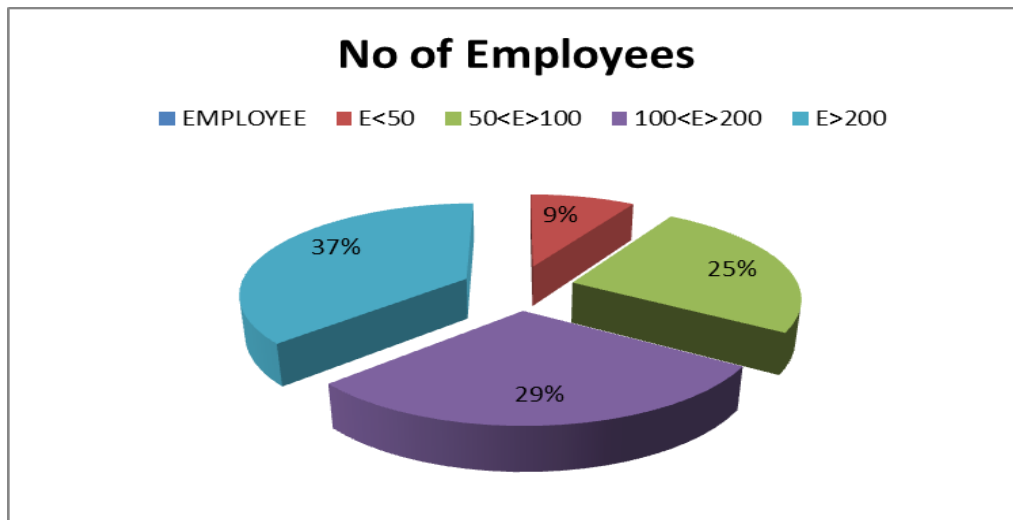
These findings can be discussed from various angles where the increase or decrease in NGO growth can be attributed to demand for accountability by donors thus shift of aid from government to NGOs, increase or decrease in donor aid also highly affects NGO formation and change in the areas that need aid also affect the formation of NGOs (Mudingu, 2006). These further affirms findings by Steinberg (2001) where he noted that

NGOs had been growing stronger in the last decade. He noted that there were claims that the growth of NGOs not only arose from demands by citizens for accountability but also because they were being funded by the western governments.

4.3.5 Number of Employees in the NGOs

In Kenya, NGOs contribute quite some amount to the country's GDP as they provide employment to a number of citizens. This question was meant to find out the number of permanent employees in each NGO and the results are as in figure 4.4:

Figure 4.4: Number of Employees in NGOs



Source: Research Data

From the findings, 37% of the NGOs have employed more than 200 people while 29% have employed between 100 and 200 people. This forms a total of 66% of NGOs who have employed more than one hundred permanent staff thus they are major employers. 25% have employed more than 50 people and with only 9% having less than 50 staff. This shows that NGOs have a great impact in the country's economy and their existence should not be taken for granted.

From the data collected, we can see that some of the NGO sectors like the health, social enterprise and education tend to employ more people and their annual budgets are also higher compared to sectors like human rights and child rescue. This could be attributed to the nature of their work and especially when it comes to the purchase of equipment and wages.

Employment in NGO sector is quite unpredictable as reduction in donor aid will lead to a decrease in the number of workforce needed. This has been noted by Business Daily (April 7, 2015) which indicated that more layoffs were expected especially in NGOs due to reduced funding.

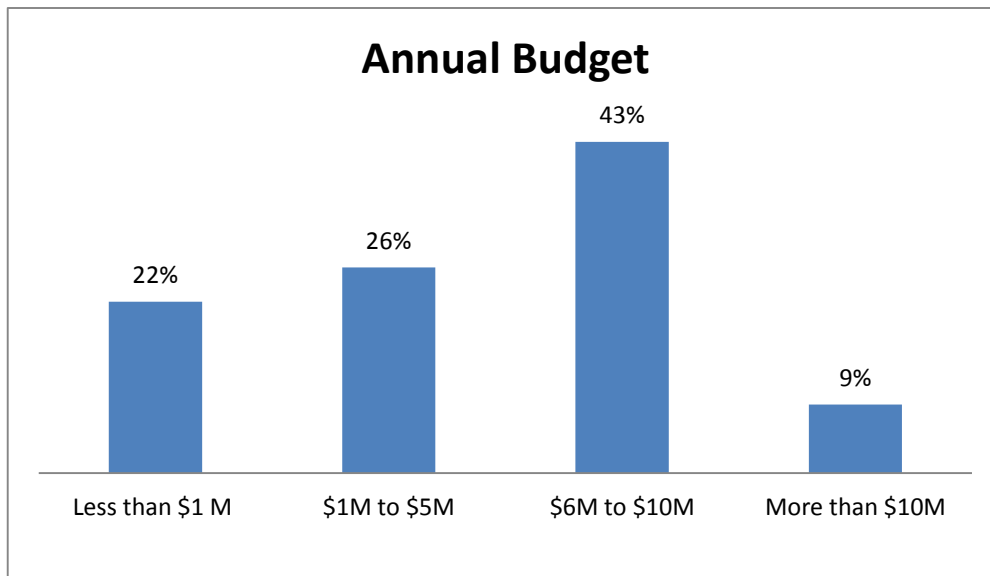
4.4 Donor Funding

Donor funding is a loan or a grant administered with the objective of promoting sustainable social and economic development and welfare of the recipient country (Abuzeid, 2009). NGOs highly depend on it and this section highlights various facets of donor funding.

4.4.1 NGOs' Annual Budget

The NGO's annual budget is key in how it runs its operations. This is because the more they receive, the more accountability and controls that are expected of them. This question was meant to determine the amount of money that the NGOs expect to raise annually to support their operations. The findings are summarised in figure 4.5:

Figure 4.5: Annual Budget



Most NGOs have quite a high budget with 43% of them ranging from \$6m to \$10m while 9% of them have more than \$10m annual budget. This shows a total of more than 50% of NGOs who have a budget that is more than \$6m. 26% of the NGOs' budgets range from \$1m to \$5m and only 22% have a budget that is below \$1m.

These findings can further be linked with the sector which NGOs are based as amount needed for operations is highly dependent with what an organisation does. The correlation is shown in table 4.2:

Table 4.2: Correlation between annual budget and sector

Correlations

		Annual Budget	Sector
Annual Budget	Pearson Correlation	1	.023
	Sig. (2-tailed)		.852
	N	68	68
Sector	Pearson Correlation	.023	1
	Sig. (2-tailed)	.852	
	N	68	68

The results of correlation analysis in table 4.2 show that under the Pearson correlation, Sector (the Independent Variable) was statistically significant to the annual budget. From the results; Sector ($r = .852$, $p = .023$) had its p-values less than .05.

For each Independent Variables, $p < .05$, the relationship is very significant. It was shown that NGO sector had a very high relationship ($r = .852$) and it can be used to explain the NGOs annual budget. That means, the sector in which the NGO is based significantly relates to the annual budget of the NGO.

The study further sought to link the annual budget with the year that the NGO was founded. This was because of the perception that the older NGOs should grow and have bigger budgets with time due to their continued partnerships with the donors. The findings are shown in table 4.3:

Table 4.3 Correlation between Annual Budget and Year founded

		Year founded	Annual Budget
Year founded	Pearson Correlation	1	0.068
	Sig. (2-tailed)		0.583
	N	68	68
Annual Budget	Pearson Correlation	0.068	1
	Sig. (2-tailed)	0.583	
	N	68	68

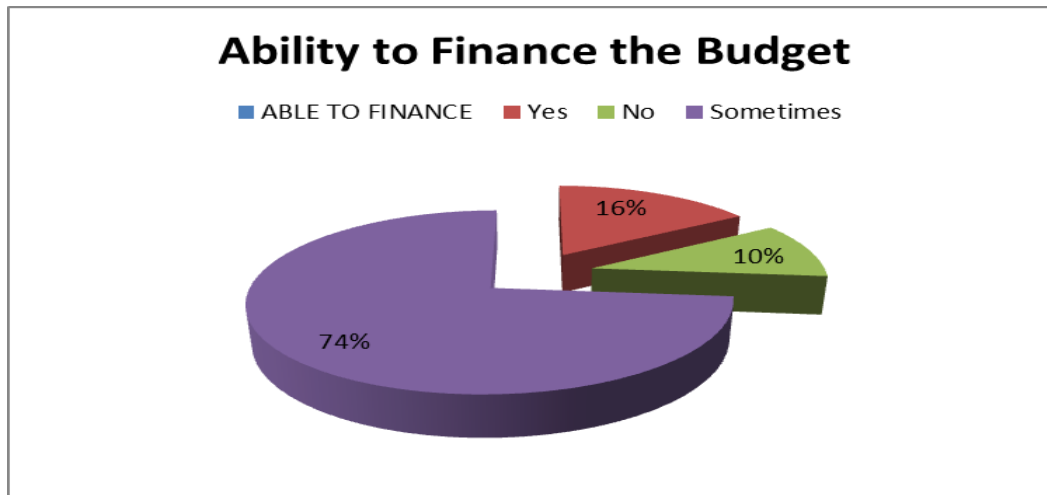
The results of correlation analysis in table 4.3 show that under the Pearson correlation, Year founded (the Independent Variable) was not statistically significant to annual budget. From the results; year founded ($r = .583$, $p = .068$) had its p-values more than .05.

For each Independent Variables, $p > .05$, the relationship is not significant. It was shown that year founded had a weak relationship ($r = .583$) and thus not a determinant for NGOs annual budget. A decrease in year founded does not significantly relate to increase or decrease in annual budget.

4.4.2 NGOs Ability To Finance Their Annual Budget

This section seeks to determine whether the NGOs were able finance their budgets on an annual basis. This was to further check the consistency of donor aid and the findings obtained are as summarised in figure 4.6:

Figure 4.6: Ability to finance the budget



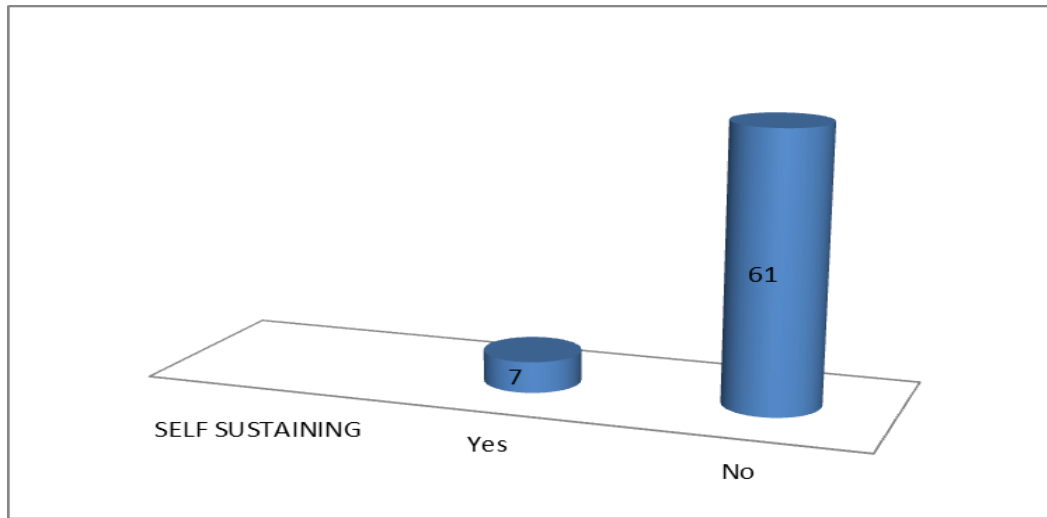
As illustrated, only 16% of the NGOs are always able to finance their budget compared to 10% who are not able to finance their budget at all. Most NGOs (76%) are able to finance their budgets sometimes thus a clear indication of fluctuations in donor funding.

This has been a very common trend in Kenya as discussed by Hailey (2014) who notes that for NGOs to fund their activities they need to adopt a hybrid resourcing strategy whereby they are not dependent on one particular funding stream but further noted that it was easier said than done.

4.4.3 Self-sustainability in NGOs

The study further sought to determine if the NGOs were sustainable. In this case sustainability means that an NGO can continue to fulfill its mission and over time and in doing so meets the needs of its key stakeholders-particularly its beneficiaries and supporters. Thus it should be seen as an ongoing process rather than an end in itself (Hailey, 2014). The findings are illustrated in figure 4.7:

Figure 4.7: Self Sustainability of NGOs



Source: Research Data

Only 7 out of the 68 NGOs are self-sustaining. This is a very small percentage and thus further emphasizes the importance of donor funding in Nairobi NGOs as they are not self-sustaining.

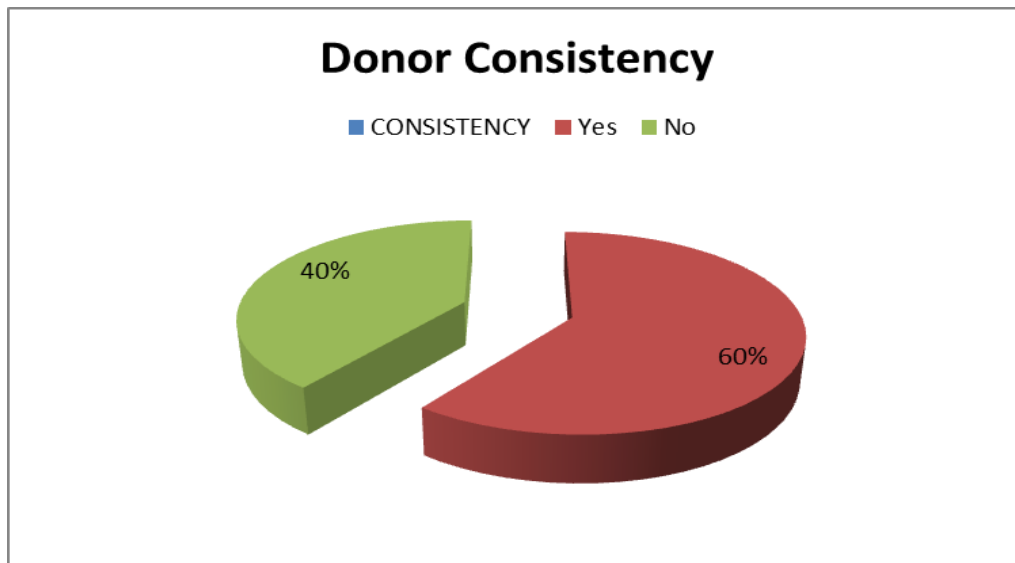
These findings are similar to the Ugandan NGO study by Burger and Owens (2011) where they noted that NGOs in Uganda were spending more time fundraising than implementing. This meant that the aid beneficiaries had to wait until the next donor comes around as getting funding consistently was hard. Building a successful NGO requires consistently good work, strong partnerships and patience which is crucial.

A greater percentage of the NGOs in the social enterprise and education sector fell under the self-sustaining NGOs. This is similarly attributed to their nature of work where they tend to encourage self-reliance and continuity thus sustainability.

4.4.4 Consistency of Donor Funding in NGOs

This section was meant to find out if the NGOs considered their donors to be consistent which meant that they could always count on them for funding despite various circumstances. The findings are shown in figure 4.8:

Figure 4.8: Donor Funding Consistency

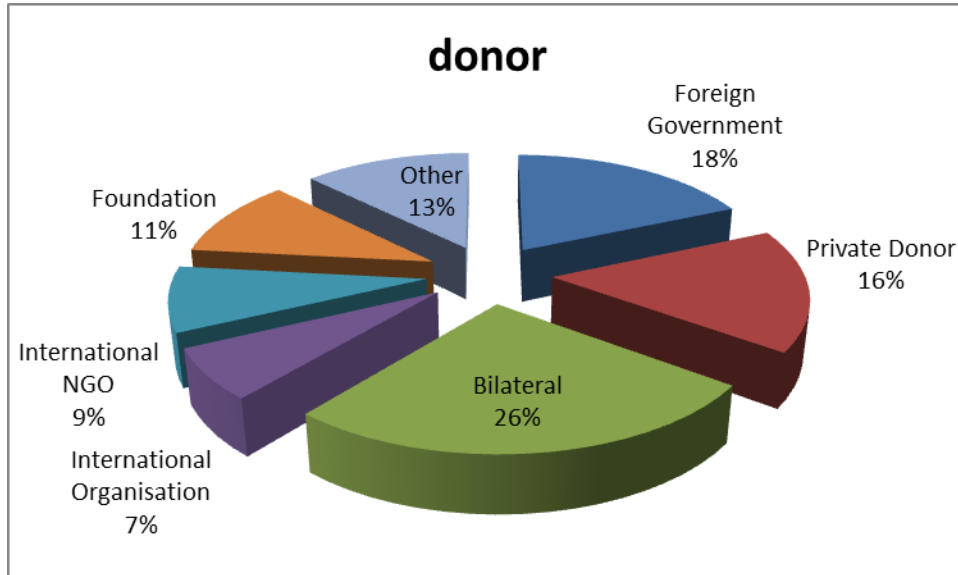


Donor funding consistency is fairly good with 60% of the NGOs terming their donors as consistent and only 40% who are not consistent.

4.4.5 Types of Donors Funding NGOs

The donor community has changed over the years with new players coming in and the funding contribution percentage by the various players has changing. This question therefore sought to find out who the players in the donor field were and the extent of their contribution. The findings are as shown in figure 4.9:

Figure 4.9: Donor Type



Source: Research Data

The donor community has changed over time and it is evident from the data collected. As per figure 4.9; most donors were bilaterals (26%) who were closely followed by foreign governments (18%), private donors at 16% and Foundations at 11%. The least common donors were International Organisations (7%) and International NGOs (9%). Other donors had 13% representation which means that new classification of donors is coming up.

Donor funding is seen to have diversified over the years with many different types coming in. Bilaterals and Foreign Governments are seen to be the key players and they have been there over time. Private donors are seen to be coming up really fast and in large numbers and percentages. This is attributed to the changes in aid where the private individuals are no longer channeling their aid through foreign governments but directly to the NGOs or even individuals. Most NGOs are also diversifying their funding through

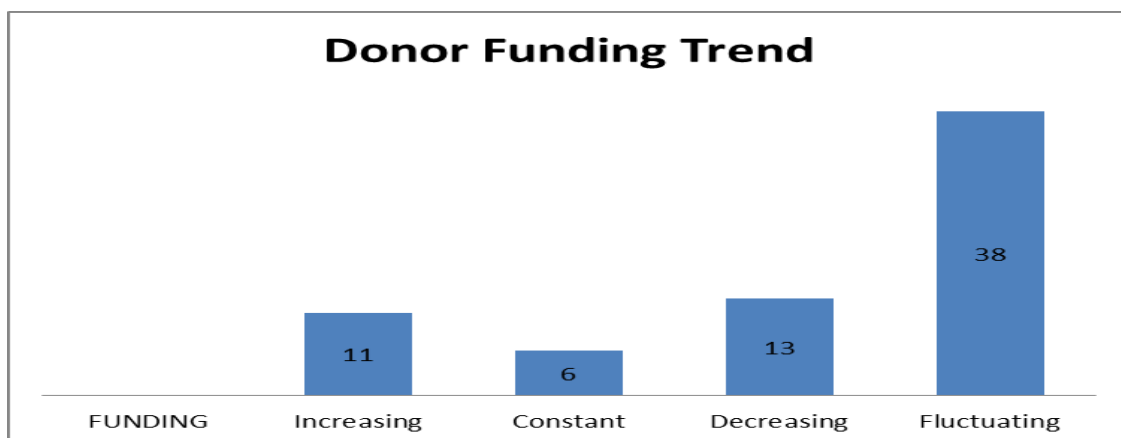
seeking funding from more than one donor. This is attributed to the fact that donor aid is highly fluctuating thus need for diversification to remain in operation.

This is highly attributed to the shift in the traditional way of aid administration as discussed by Fengler and Kharas (2010) where the traditional way of giving aid from the rich governments and individuals through the multinational agencies then to poor governments then to the poor individual has shifted to the current trend where the poor individuals can receive aid directly from rich governments and individual or NGOs or the old way of poor governments.

4.4.6 Trend In Donor Funding

Donor funding is dependent on so many factors both in the donor country and the NGO country. This has affected how aid flow has been administered in the past both positively and negatively. 38 of the NGOs involved termed it as fluctuating over the years, 13 of them noted a decreasing trend in donor funding, 6 noted a constant trend while 11 NGOs noted an increasing trend. These finding are summarised in figure 4.10:

Figure 4.10: Donor Funding Trend



Donor funding decrease or negative fluctuation over the years can be attributed to various factors as indicated by the NGOs. The most common factors identified were project implementation (65%), policies in Kenya (54%) and accountability issues (53%). The least common factors included sustainability of the project (10%), economic situation in donor countries (13%) and bureaucracy in NGOs (21%).

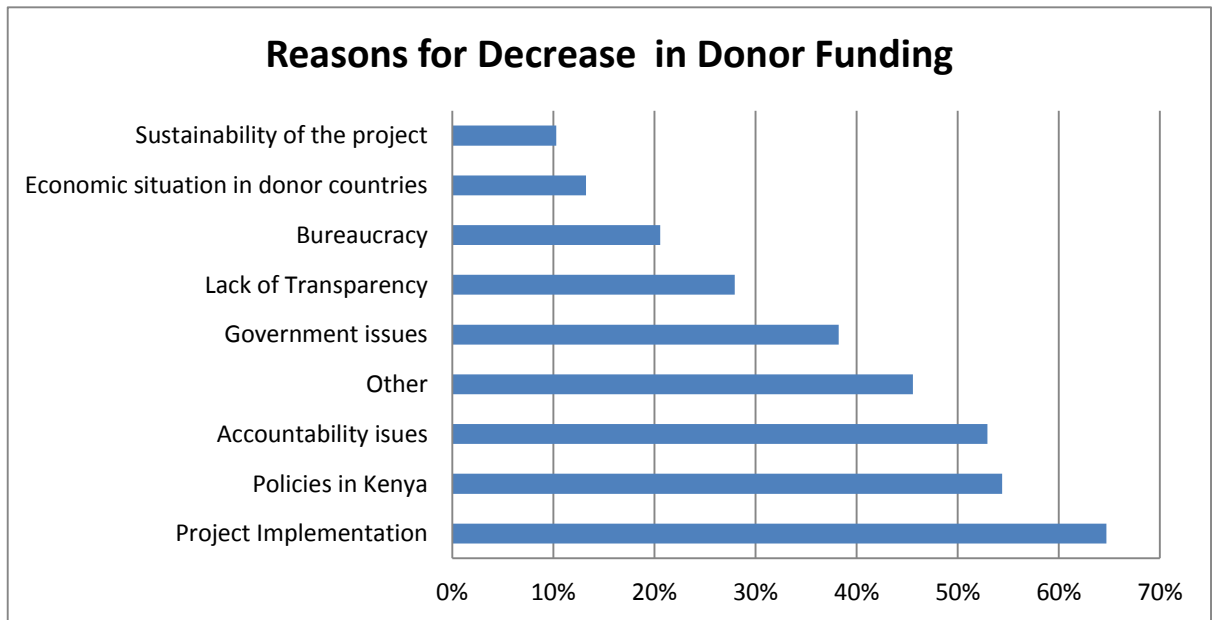
Mwega (2008) noted that Kenya's share of Aid to Africa has been seen to be declining from 4.16 percent in the 1980s to 3.24 percent in the 1990s and was only 2.18 percent over the period 2000-06. The World Disasters Report of the International Federation of Red Cross and Red Crescent Societies similarly cites an overall decline in Official Development Assistance (ODA). This is forcing aid agencies to devise strategies to make shrinking budgets meet growing demands. This confirms the fluctuations in the donor funding trends among Nairobi NGOs.

This is however different from Fengler and Kharas (2011) findings where they noted that over the last two decades world aid has been growing strongly: more than doubling from \$92 billion in 1992 to around \$200 billion in 2008, and representing a 50 percent increase in real terms.

4.4.7 Reasons Attributed To Decrease in Donor Aid

Donor aid comes with many conditions which determine how operations are to be carried out as the donor will always want to know how the funds are being used. Failure to follow the conditions has seen the donors reduce or withdraw funding from the NGOs thus decrease or fluctuations have been seen.

Figure 4.11: Reasons for decrease in donor funding



Source: Research Data

As in figure 4.11, this has highly been attributed to: how NGOs implement the projects which can be seen in the way the operations like procurement, logistics and field activities are carried out. If they are done contrary to what is expected then the donors tend to hesitate funding the project further. Policies in Kenya also highly affect donor aid. This can for example be seen in the government's move to encourage sustainability where they want donors to fund only 15% of the project which should go towards administration expenses. This comes at a very untimely time as it should be a gradual process so as to create sustainability over time and as it cannot be done overnight. Accountability is also key as if the NGOs cannot account for the money given then there is no need for more thus reduction. Other factors that have been attributed to the

reduction are Governance issues (38%), lack of transparency (28%), bureaucracy and economic situation in donor countries.

Trust Organisation (2013) noted similar observation on their article on how the Kenyan government planned to make large cuts in the foreign NGOs designed to silence its critics; the Attorney General's office gazetted a miscellaneous bill which would slash funding for NGOs in Kenya. This is where a public benefit organization was not to receive more than 15% of its total funding from external donors and the donors were not to fund NGOs directly but were to channel funds through a new Public Benefits Organisations Federation. This is an example of how policies have led to decrease in funding. Similarly, Ouma (2012) attributed project's ineffectiveness majorly to procurement practices and government bureaucracy.

4.5 Procurement Practices

Procurement in NGOs is highly determined by both the organization, donor and government regulations. There are different procurement practices in NGOs which should be adopted to encourage smooth and standard flow of operations. These are however adopted at different rates in the different NGOs. The frequency and percentage of adoption for the various practices is as summarized in table 4.4:

Table 4.4: Procurement practices adoption

Procurement Practice	Adopted		Not Adopted	
	Frequency	Percentage	Frequency	Percentage
Pre-qualification / Post-qualification of suppliers	45	66.20%	23	33.80%
Advertising	36	52.90%	32	47.10%
International competitive bidding	21	30.90%	47	69.10%
Procurement review committee	52	76.50%	16	23.50%
Scorecard for Procurement Evaluation	49	72.10%	19	27.90%
Procurement Database	58	85.30%	10	14.70%
Standard documents and templates	36	52.90%	32	47.10%
Exemptions e.g. tax	20	29.40%	48	70.60%
Procurement Plans	43	63.20%	25	36.80%
Annual procurement report	26	38.20%	42	61.80%

Source: Research data

From the study, the most commonly adopted procurement practices were: procurement database, procurement review committee, scorecard for procurement evaluation, prequalification of suppliers and preparation of procurement plan. The least adopted practices by NGOs were exemption application (e.g. tax), international competitive bidding, annual procurement report preparation, advertising and standard documents and templates. This adoption or lack of it could be dependent on when the NGO was formed, the sector which the NGO is in or the budget. Older NGOs with higher annual budgets tended to adopt most of the practices while the upcoming small NGOs barely had

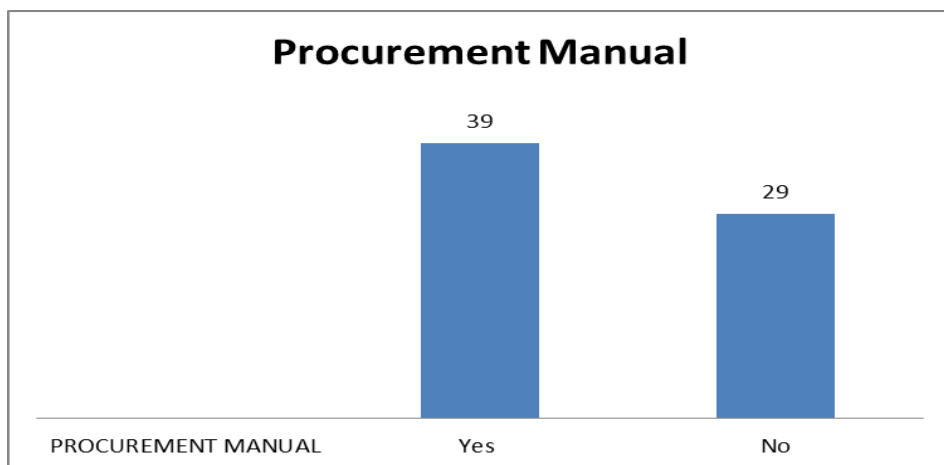
functional procurement departments. Most NGOs maintained a procurement database, had a procurement review committee and had a score card for procurement evaluation as well as procurement plans. These are the basics of procurement and as much as most of them are done, it is subconscious. Application of tax exemptions was least adopted. This is highly due to lack of awareness of the practice. International competitive bidding was also hardly practiced. This is attributed to the diverse economy in Kenya where most products are available locally thus no need to international sourcing. This is also due to donor and government guidelines on promotion of local businesses.

4.5.1 Adoption of Procurement Manual

Procurement manuals are vital tools in the carrying out of procurement activities in any institution. This is because they give a general guide and ensure standardization in carrying out of procurement activities no matter the place, time or person who is doing it.

The findings are shown in figure 4.12:

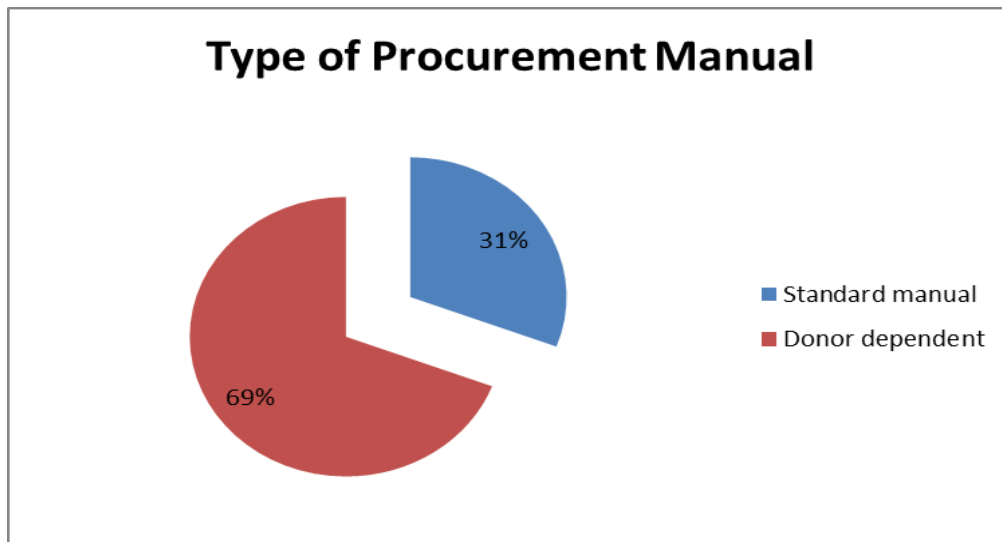
Figure: 4.12 Procurement manual adoption



Source: Research Data

39 of the NGOs in the study had adopted procurement manuals with only 29 having not adopted. Most of the 29 NGOs who had not adopted a standard procurement manual had several written guidelines on how various procurement practices should be done although it had not been compiled into one document – procurement manual. The study further sought to determine the type of procurement manual that was adopted and found out that among the 39 NGOs who had adopted procurement manuals; 69% of them were donor dependent while 31% of them had standard manuals as shown in figure 4.13:

Figure 4:13 Type of procurement manual adopted



Source: Research Data

Procurement manuals were highly adopted with about 60% of the NGOs using them and most of them being donor dependent. This is because despite procurement manuals laying emphasis on standard and smooth operations, different donors lay different emphasis on the different factors and practices of procurement. Integrity, accountability and transparency carried most weight when it came to evaluation by the donors.

These findings are similar to Garandean and Ruche (2000) where they noted that some donors are apprehensive about the capacity of the developing countries to take on the full responsibility of managing public procurement. They believe that effectiveness and transparency concerns justify adopting specific procedures and management structures that can easily be controlled by the donors, at least during a transitional period.

4.5.2 Relationship Between Procurement Manual and NGO’s Annual Budget

The study went further to determine whether a relationship existed between the annual budget the NGOs had and their use of procurement manuals. NGOs with large annual budgets meant that it receives a lot of donor funding and whenever funds are received, accountability from donors is crucial. Procurement manuals are one form of controls and the relationship is as shown in table 4.5:

Table 4.5: Correlation between procurement manual and annual budget

		Correlations	
		Annual Budget	Procurement Manual
Annual Budget	Pearson Correlation	1	.0204
	Sig. (2-tailed)		.95
	N	68	68
Procurement Manual	Pearson Correlation	.0204	1
	Sig. (2-tailed)	.95	
	N	68	68

Source: Research data

The results of correlation analysis in table 4.6 show that under the Pearson correlation, Annual budget (the Independent Variable) was statistically significant to procurement manual. From the results; annual budget ($r = .95$, $p = .021$) had its p-values less than .05.

For each Independent Variables, $p < .05$, the relationship is very significant. It was shown that annual budget had a very high relationship ($r = .95$) and it can be used to explain the adoption of the procurement manual.

This could be highly attributed to the fact that the more a donor gives, the more accountability is expected from the NGOs. World Food Programme (WFP) similarly noted that the increased receipt of cash from donors has led to increased conditions where they give quite specific guidelines on the practices that should be used especially in procurement.

4.5.3 Procurement Practices and Donor Funding

As earlier discussed, donor funding is dependent on so many factors and how an NGO carries out its procurement activities highly determines if a donor will fund the project further, if funds will be increased or decreased or if the donor will withdraw funding. The relationship between the various procurement practices and how they relate to donor funding is summarized in table 4.6:

Table 4.6: Procurement practices and Donor funding coefficients

Coefficients		
Model	Unstandardized Coefficients	Sig.
	B	
(Constant)	4.585	0.001
Pre-qualification/Post-qualification of Suppliers	-0.069	0.003
Advertising	-0.095	0.722
International competitive bidding	0.445	0.446
Procurement review committee	0.106	0.027
Scorecard for procurement evaluation	-0.269	0.032
Procurement database	-0.61	0.012
Standards document and templates	-0.491	0.056
Exemptions e.g. tax	-0.23	0.445
Procurement plans	-0.16	0.063
Annual procurement report	-0.404	0.154

The regression equation is of the form $Y = B_1 X_1 + B_2 X_2 + \dots + B_n X_n + ByXy$

Thus the coefficients for the regression line are in the ‘B’ column above.

From the findings in tables 4.6; pre-qualification of suppliers ($p = 0.003$), procurement review committee ($p = 0.027$), scorecard for project evaluation ($p = 0.032$) and procurement database ($p = 0.012$) were statistically significant to donor funding as $p < 0.05$. The other practices were not so significant to donor funding as the $p > 0.05$ although they are also important in procurement.

Analysis of Variance (ANOVA) was used to determine whether a significant relation exists between variables (dependent and independent variables). The ANOVA results are presented in the table below:

ANOVA^a

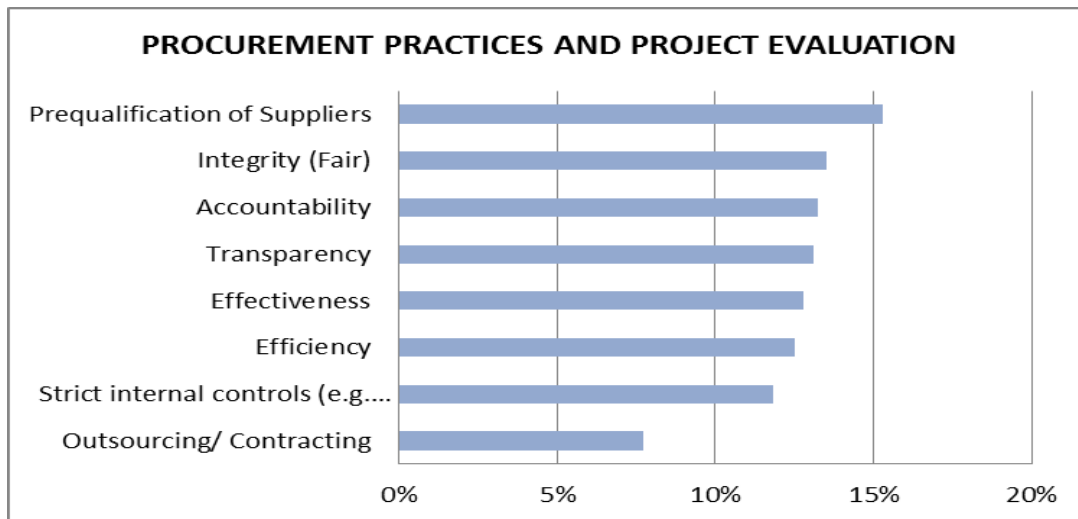
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	12.370	10	1.237	1.242	.012
Residual	56.748	57	.996		
Total	69.118	67			

Source: Research data

4.5.4 Procurement Practices Considered During Project Evaluation

As we have found, procurement is a key consideration during project evaluation but different practices of procurement have different weightings as depending on the donor. NGOs noted selection of suppliers, integrity, accountability and transparency as procurement aspects with major considerations during project evaluation. Strict internal controls and outsourcing did not get a lot of emphasis from the donors during evaluation. However efficiency and effectiveness in the practices was fairly considered as per figure 4.14.

Figure 4.14: Procurement practices considered during project evaluation for donor funding



Source: Research data

Only 19% of the NGOs experience situations where they went contrary to donor guidelines during procurement. This was majorly due to negligence by the employees and a few cases of ignorance. The consequences were majorly issuance of stern warnings and a few cases where the donor terminated the project. These consequences were based on the type of error, the magnitude of harm that it caused and the amount of money involved.

Considering that procurement uses more than 50% of the funding in most NGOs as seen in the study, these findings highly emphasize the importance of the procurement practices used by NGO on donor funding. The donors will want to know how the operations are carried out thus need for high accountability and transparency especially in procurement.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The study sought to find out the effect of procurement practices on donor funding in Non-Governmental Organisations in Nairobi. The sample size targeted was 95 NGOs. This chapter presents summary of the research findings. The implications from the findings and areas for further research are also presented. The findings from the study are presented in comparison to what other scholars have said as noted under literature review.

5.2 Summary

From the study, donor funding in Kenya has really changed over time with the presence of different players such as private donors, more bilateral and less of foreign government being felt. Fengler and Kharas (2011) similarly noted that aid administration has changed with new profound players and new challenges coming up. Fluctuations in donor aid have also been the new order of the day with some donors being quite inconsistent and NGOs not being able to finance their budgets in some years. This is an extension of what Grepin and Jack (2008) noted on Kenyan aid between 2000 and 2006 where a decline was experience until 2002 then a rise until 2004 and then a further decline. These fluctuations have continued to date due to government policies, project implementation, and accountability by NGOs among others.

Procurement is a major operation in NGOs using more than 50% of the resources to support various activities. This is a similar observation as Taupiac (2001) who noted that

procurement uses up to 2/3 of the resources in NGOs thus standard procedures and guidelines were vital. Practices like pre-qualification of suppliers, procurement database and evaluation scorecards are highly adopted within Nairobi NGOs. Accountability, transparency, integrity and effectiveness were majorly emphasized in both the procurement manuals and during project evaluation. This is similar to emphasis noted by ECHO (2011), DanChurch Aid (2007) and UN (2006) procurement manuals. Garandean and Ruche (2000) similarly noted emphasis on free competition, transparency and accountability by Germany, the World Bank, Belgium, Canada, the United States, UNDP and the European Union among other donors. However, exemptions were also highly emphasized in Mali NGOs unlike in Nairobi.

The study highly attributes procurement to donor funding. About 70% of the NGOs term it as a very important factor during project evaluation. It is also highly emphasized in NGO operations as seen in the high adoption of procurement practices and use of donor dependent procurement manuals. This is similar to what Grepin and Jack (2008) noted with donors having stringent conditions that come with funding.

5.3 Conclusion

The study concludes that donor funding has been a fluctuating phenomenon in Nairobi NGOs over the years. This can be seen despite most NGOs receiving funding from more than one donor and quite a good percent of them being consistent. There are also very many variables which affect this fluctuation with project implementation, policies in the country and accountability being key variables. The study further concludes that procurement is an area which despite being new has been taken quite seriously by the

donors thus the NGOs. This could be attributed to the fact that more than 50% of the funds in more than 2/3 of the NGOs go through the procurement department and the donor will always want to know how the money was spent. However, some NGOs are still struggling with procurement especially the young NGOs with small budgets who barely have an operational procurement department. Areas such as pre-qualification of suppliers, procurement database, committees and scorecard are highly adopted by the NGOs.

Procurement practices highly impact donor funding especially during project evaluation where areas like transparency, accountability and integrity are highly considered. Thus NGOs are encouraged to have strict internal controls in their operations and know what the donor expects of them.

5.4 Limitations of the Study

A limitation for the purpose of this research was regarded as a factor that was present and contributed to the researcher getting either inadequate information or otherwise the responses would have been totally different from what the researcher expected. These included:

The respondents were largely drawn from the management. The responses would have varied significantly were the same questions addressed to the staff. This is mainly because the management staff may not directly interface with all the challenges that the operational staff running the NGO operations go through. Procurement is a sensitive department in some NGOs thus they were not very willing to disclose some information

especially practices that contradict with donor guidelines. Some of the small upcoming NGOs lacked procurement knowledge and barely had an operational procurement department thus they could not relate to some of the questions.

5.5 Areas for further studies

This study only concentrated on the NGOs in Nairobi which is not a conclusive study for the whole country. This is because there are many other NGOs in the different counties which have different dynamics which include procedures, activities, demographics, beliefs among other factors which affect the way they carry out their operations. These are the reasons that bring out the differences in procurement practices used in NGOs. Thus research on NGOs in the various counties in the country should be done.

Further studies can also be conducted on the donor's perspective of procurement practices instead of from the NGOs point of view. This will help identify the real issues that are considered in donor funding and the various donors perspectives which might be different from what NGOs perceive and different among donors. This study also suggests that further studies can be carried out on comparisons between the donor guidelines, the public procurement act and the NGOs guidelines to determine if there are any contradictions and what happens in such cases. For example; what takes precedence or the various tradeoffs during the procurement operations.

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APPENDIX 1

Questionnaire

Dear Sir/Madam,

This questionnaire is solely for academic purposes. The answers you give will not be shared with any person or institution. The questionnaire is divided into two parts, A and B. Your participation is highly appreciated. Thank you in advance.

Yours faithfully,

PART A: General questions

1. What is the name of your NGO _____

2. What is your current position _____

3. Can you classify it as a local or international NGO?

Local

International

If international, in how many countries is it based?

4. Which year was the NGO founded?

If International, how many years have you been in Kenya?

Less than 3 years

3 – 6 years ago

7-10 years ago

More than 10 years ago

5. In which sector is the NGO based?

Health

Poverty alleviation

Human rights

- Education Social enterprise Agriculture/Livestock
 Environment Child rescue Refugees
 Other _____

6. How many employees do you have?

- Less than 50 50 – 100 100 – 200 More than 200

PART B: Donor Funding Questions

7. What is your average annual budget?

Have you always been able to finance it? Yes No Sometimes

8. Is your NGO self-sustaining? Yes No

If No, who funds it?

- Foreign Government Private Donor Bilaterals
 International Organisation International NGO Foundation
 Other _____

9. Kindly state your donors names:

10. Can you term them as consistent?

- Yes No

11. How can you term funding in your organisation in the past five years?

Increasing Constant

Decreasing Fluctuating

12. If the funding has decreased, what factors can you attribute it to?

- Project implementation Accountability issues
- Economic situation in donor countries Sustainability of project
- Lack of Transparency Bureaucracy
- Governance issues Policies in Kenya
- Other _____

PART C: Procurement Practices Questions

13. Among the procurement practices listed below, which ones have been adopted by your organisation? (Please tick where appropriate)

Procurement Practice	Adopted	Not adopted
Pre-qualification / Post-qualification of suppliers		
Advertising		
International competitive bidding		
Procurement review committee		
Scorecard for Procurement Evaluation		
Procurement Database		
Standard documents and templates		
Exemptions e.g. tax		
Procurement Plans		
Annual Procurement Report		

14. Does your NGO have a procurement manual?

Yes

No

Is it a standard one or dependent on the donor funding the project?

Standard manual

Donor dependent

15. If donor dependent; what happens during projects which are funded by more than one donor? -

16. How conflicts between two or more guidelines are resolved when they happen?

17. Does the Public Procurement and Disposal Act have an impact on how procurement is conducted in your organisation?

Yes

No

Sometimes

18. Do you find the procurement manual to be useful?

Yes

No

19. Does the procurement manual tend to be over-bureaucratized?

Yes

No

20. Considering that procurement is a key function, what percentage of the funding goes through procurement department?

Less than 25% 25% - 50% 51% - 75%

More than 75%

21. What factors are majorly emphasized in the procurement manuals?

Transparency

Accountability

Free competition

Efficiency

Effectiveness

Best value for money

Other _____

22. Can you term procurement as a key factor during evaluation of projects for funding?

Yes

No

On a scale of 1 to 5 (where 1 is the least and 5 is the strongest), kindly rate the below procurement practices with regard to consideration during evaluation for funding (tick where appropriate):

	1	2	3	4	5
Transparency					
Accountability					
Efficiency (e.g. pricing)					
Effectiveness (e.g. quality of work)					
Integrity (Fairness)					
Prequalification of suppliers					
Outsourcing/ Contracting					
Strict internal controls (e.g. procurement manuals)					

23. Ever had an incidence where procurement had been done contrary to donor's guidelines?

Yes

No

If yes, what was the consequence? _____

Thanks for taking your time to fill the questionnaire