

**UNIVERSITY OF NAIROBI**

**INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES**

**GOVERNANCE AND FOREIGN ASSISTANCE IN AFRICA: A CASE STUDY OF  
KENYA**

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## DECLARATION

This research project is my original work and has not been presented to any other examination body.

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This research project has been submitted with my approval as university supervisor.

**Sign .....** **Date.....**

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## **DEDICATION**

This work is dedicated to my wonderful family, specifically my mother and daughter, for their unconditional support through this journey. Their continuous encouragement gave me the strength to keep going.

## **ACKNOWLEDGMENT**

I want to first of all thank the Almighty God for enabling me to begin and finish my despite the numerous challenges I faced along the way. It has not been an easy journey but He made it an easy load for me to carry.

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## TABLE OF CONTENTS

DECLARATION .....	ii
DEDICATION .....	iii
ACKNOWLEDGMENT.....	iv
TABLE OF CONTENT .....	v
LIST OF TABLES LIST OF FIGURES.....	viii
ABSTRACT.....	x
ABBREVIATIONS .....	xi
<b>CHAPTER ONE: INTRODUCTION .....</b>	<b>1</b>
1.1. background of the Study .....	5
1.2.Problem Statement .....	8
1.3 Research Objectives.....	9
1.4 Literature Review.....	10
1.4.1.Relationship between Foreign Aid and Development.....	10
1.4.2. Relationship between corruption and foreign aid .....	14
1.5 Justification of the Research Problem.....	18
1.6 Hypotheses .....	19
1.7 Conceptual Framework.....	20
1.8 Chapter Outline.....	22

## **CHAPTER TWO: AN ANALYSIS OF GOVERNANCE AND FOREIGN AID IN AFRICA**

.....	<b>23</b>
2.1. Introduction.....	23
2.1. Official Development Aid (ODA) and its Effectiveness in Promoting Development in Developing Countries .....	23
2.2. How ODA works .....	26
2.3. Governance .....	28
2.4. Dimensions of governance.....	30
2.5. The Relationship between Governance and Foreign Assistance .....	30
2.6. How Foreign Aid Affects Governance .....	32
2.7. Governance, Foreign Assistance and Health .....	34
2.8. Conclusion .....	37

## **CHAPTER THREE: CORRUPTION IN THE KENYAN HEALTH SECTOR** .....

3.1. Introduction.....	38
3.2 A Historical Background of Financing in the Kenyan health Sector.....	38
3.3.Effects of Devolution on the Health Sector .....	43
3.4 Corruption in the Kenyan Health Sector.....	44
3.5.NGOs and the Health Sector in Kenya .....	51
3.6. Conclusion .....	54

<b>CHAPTER FOUR: A CRITICAL ANALYSIS OF EFFECT OF CORRUPTION ON</b>	
<b>FLOW OF FOREIGN AID TO THE HEALTH SECTOR IN KENYA .....</b>	<b>55</b>
4.1. Introduction.....	55
4.2. Flow of Foreign Aid and Health Financing in Recent Times .....	55
4.3. Corruption and Effectiveness of Health Financing in Kenya .....	58
4.4. Progress of Recent Declarations .....	62
4.5 Conclusion .....	64
<b>CHAPTER FIVE: CONCLUSION AND RECOMMENDATIONS .....</b>	<b>66</b>
5.1. Introduction.....	66
5.2 Summary of findings.....	66
5.3. Conclusion and Recommendations.....	68
5.4. Suggestions for Further Research .....	70
<b>BIBLIOGRAPHY .....</b>	<b>71</b>

## LIST OF TABLES

Table 1: Development of Health Care Financial Policies in Kenya .....	40
Table 2: Corrupt Malpractices Experienced By Patients in Kenya .....	50



## LIST OF FIGURES

Figure 1: Net Official Development Assistant and Official Aid Received in Kenya from 2006-2014.....	56
Figure 2: Chart Showing Country Stakeholder Views On World Bank Funding-When High Level Of Corruption Is In Existence with no Concrete Measures to Tackle the Menace.....	62

## **ABSTRACT**

This study examines the effect of governance on foreign aid to the health sector in Kenya. It focuses mainly on corruption as a key variable of governance by analyzing literature on governance, foreign aid, development and corruption as well as looking at the trend of donor funding in the past eight years to the health sector in Kenya. The study finds that whilst generally there has been a decline funding for health in the world, funding in the Kenyan health sector seems to be on a decline also. Many donors have moved from funding the government directly, to channeling their funds through NGOs instead, due to corruption. The study proposes the need for more research on the effectiveness of funding through NGOs in improving governance in the health sector and promoting health given the fact most health indicators are on a decline, despite the billions of funds injected into various health programs in the county.

## ABBREVIATIONS

AMREF	-	Africa Medical and Research Foundation
CSOs	-	Civil Society Organizations
DAH	-	Development Assistance for Health
EACC	-	Ethics and Anti Corruption Commission
EU	-	European Union
GDP	-	Gross Domestic Product
GNI	-	Gross National Income
GNP	-	Gross National Product
GOK	-	Government of Kenya
IMF	-	International Monetary Fund
KDHS	-	Kenya Demographic Health survey
KEMSA	-	Kenya Medical Supplies Agency
MDGs	-	MILLENUM Development Goals
MOH	-	Ministry of Health
NGO	-	Non Governmental Organization
NHIF	-	National Health Insurance Fund
ODA	-	Official Development Aid
OECD	-	Organization for Economic Co-operation and Development
OOP	-	Out Of Pocket
PEPFAR	-	U.S. President’s Emergency Plan for AIDS relief
TI	-	Transparency International
UK	-	United Kingdom

UN	-	United Nations
UNICEF	-	United Nations Children Fund
USA	-	United States of America
USAID	-	United States Agency for International Development
WB	-	World Bank

## CHAPTER ONE

### INTRODUCTION

The development agenda has been changing since the First World War, through the cold war era and post the September 2011 terrorist attack in the USA; all these developments have had significant changes to the flow of aid in Africa. For instance, there has been over a 50% decline of ODA to third world countries since the 1990s. This decline has been due to several factors. One of them is the declining end to the military and strategic importance of foreign aid. Western<sup>1</sup> allies including the United States used foreign aid as a military and strategic tool to ‘buy’ allies in the third world during the Cold War period to fight its enemy, the former Soviet Union and vice versa.

Third world countries were a fertile ground for these wars and their governments received a lot of bilateral aids. However, the military and strategic importance of foreign aid diminished with<sup>2</sup> the end of the Cold War as it brought a new policy agenda driven by liberal economics and liberal democratic. The role of governments within economies has been reduced to that of providing an enabling environment through creating legal and policy frameworks for the private sector to provide goods and services. Thus, increasingly, NGOs are seen as the right instruments to improve democratization and provide goods and services to the poor and marginalized members of the society, where the governments of most third world countries lack the necessary capacity and means.

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<sup>1</sup> Asongu Simplace and Jacinta Chikodi .Foreign Aid and Governance in Africa. 2014. Ppg 24

<sup>2</sup> Ibid

Increased skepticism on the effectiveness of foreign aid has also led to reduced public support of foreign aid in some of the major donor countries, in most cases due to skepticism of the effectiveness of it in the developing countries. This explains why in recent times donors have insisted on projects and programmes that are sustainable through insisting on capacity building efforts. So as to maximize the use of the reduced funds, many donors are therefore using NGOs to channel their funds. For example, in the 1980s, funding to NGOs from the international community accounted for less than 10% of their budgets. However, in the 1990s it rose to 35%.

There has been increased criticism of foreign aid in the past two decades mostly based on a widespread perception that it has not given the desired and expected results. This is based on<sup>3</sup> two perceptions. One is that only in a good governance policy can foreign aid be of help and have lasting impact. This perception is hinged on cross-country studies by among others the World Bank thus proving that where the political and economic environment is stable, foreign aid can bring and support economic and social progress. On the contrary, when the latter are missing, that is, a good economic and social environment, foreign aid will be of no effect and will unfortunately go to waste.

The second perception holds that foreign aid cannot 'buy' good policies through conditionality due to the fact that economic reforms that are caused by foreign assistance are not time<sup>4</sup> consistent and thus lack credibility. Empirical research has shown that repeated and increased interactions between donors and recipients do not change the effectiveness of the recipients and

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<sup>3</sup> Foreign Aid and Governance in Africa; Asongu Simplace and Jacinta Chikodi, 2014 pg 24

<sup>4</sup> Ibid

thus, donors who revert to using threats of aid withdrawal to the recipients who do not reverse<sup>5</sup> policies is normally not credible since there is pressure on the donor staff to continue lending.

A good example of this was the structural adjustment loans that were advanced to Kenya in return for alteration of certain policies that were causing economic inefficiency. Some of these policies included price controls, move towards free trade, and reduction of public service through retrenchments, among others. However, conditional aid rarely causes any economic development or an improvement in governance. Gilbert et al conclude that “policy conditionality is<sup>6</sup> ineffective. Not only is aid not necessarily used for what it is directly intended, but also, on average, it has no effect on growth, either directly, or indirectly through improved government policies. What matters is the policy environment, but lending appears to have little direct impact on this”

Another reason for the declining trend in ODA is the rise of ‘global housekeeping activities’.<sup>7</sup> Ampaw argues that these activities have in the recent past risen to about 40% of the total ODA remitted by OECD members. These activities include environmental management, prevention of infectious diseases like AIDs and fight against illicit drugs. They have diverted funds previously geared towards poverty reduction in Africa towards dealing with these global issues.

Most African countries receive foreign aid for development of various sectors of the government and economy. Research has been conducted on effect of governance on foreign assistance in

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<sup>5</sup> Deepak Lal. "Foreign Aid." *The Concise Encyclopedia of Economics*. 2008. Library of Economics and Liberty. Retrieved October 17, 2016 from the World Wide Web: <http://www.econlib.org/library/Enc/ForeignAid.html>

<sup>6</sup> Gilbert, C., A. Powell, and D. Vines. “Positioning the World Bank.” *Economic Journal* 109, no. 459 (1999): pg F169

<sup>7</sup> Ampaw A.”*Aid and Development Paradigms in Africa: The Missing Equation for Human Security? in Kwame K, ed., Where Has Aid Taken Africa? Re-Thinking Development*” 2002. Media Foundation for West Africa.

different countries. Freytag and Pehnelt indicate that countries that are well governed get more debt relief. Results of that study also revealed that good governance gives a positive prediction of economic infrastructure aid, budget support aid, as well as aid towards productive sectors. On the other hand, poor governance gives a positive prediction of technical assistance together aid being channeled via Non-governmental organizations (NGOs). Countries that are better governed receive more budget support aid and the donor countries are much<sup>8</sup> willing to use government institutions as channels for their aid funds in the better governed nations<sup>9</sup>.

A 2006 UNDP report shows that the sectors that receive the highest share of foreign aid in Kenya are infrastructure, health and HIV/AIDS. The health sector gained prominence after<sup>10</sup> increased international awareness to the threat and challenges that HIV/AIDS and Malaria were posing. Prior to the post election violence of 2007, Kenya was making a marked improvement towards the achievement of Millennium Development Goals (MDGs) after a decline in the health indicators that had been previously observed in the 1990s. For instance, Immunization coverage improved from 59% in 2003 to 71% in 2006/7 countrywide. Prevalence of HIV declined from 5.9% in 2003 to 5.1% in 2007.

This study shall focus on three main objectives. The first objective is an analysis on the effects of governance on the flow of donor funding to the health sector in Kenya. The second objective will

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<sup>8</sup>. Freytag, A., & Pehnelt, G. (2009). Debt relief and governance quality in developing countries. *World Development*, 37(1), 62-80.

<sup>9</sup> Dietrich, S. (2013). "Bypass or engage? Explaining donor delivery tactics in foreign aid allocation." *International Studies Quarterly* 57, no. 4: 698-712.

<sup>10</sup> Wolfensohn Centre for Development, Working Paper 8, January 2009. Pg 37



be to investigate the correlation between governance and the flow of foreign aid in Kenya. Lastly, the third objective will be to evaluate the trend in foreign assistance advanced to Kenya in the last eight years, for the period covering 2008-2016. This shall enable the researcher to compare and contrast the flow of funding between the two regimes, that is, the period between the last five years of rule of the coalition government led by President Mwai Kibaki and the new regime under the new constitution led by President Uhuru Kenyatta

### **1.1 BACKGROUND OF THE STUDY**

Africa has attracted a lot of foreign assistance from the developed countries over the years because of poverty. Initially, Western governments preferred working with the public agencies to administer aid to poor deserving citizens. However, with time, it became obvious that the public sector was lacking in capacity and seriousness to eliminate poverty. They consequently resulted to using technical assistance (foreign advisers who would stay for years in a country to ensure that projects were free from government interference). With time, many agencies resulted to using non-governmental organization and the private sector to channel their assistance.

Since the id 1990s, some countries have used the fortunes of foreign assistance to turn their economies round. They include countries like Rwanda, Benin, Zambia, Mozambique, Tanzania, Rwanda and Uganda among others. They have foreign assistance strategically and efficiently to improve the livelihoods of their citizens. However, many countries in Africa are still stuck in the culture of dependence and indifference where foreign assistance funds end up being misused and in the hands of a few. Liberia, for instance, received a total of \$765 million in foreign assistance in 2011, making up 73% of its gross national income. Despite this, all the 25,000 students that

sat exams to be admitted to the University of Liberia in 2013 failed. This means that all the numerous aid that the nation has been receiving over the decades has failed to provide decent education to Liberians.

During the post-cold war era, issues of governance, anticorruption as well as transparency in foreign aid was much ignored. However, during the mid-1990s, agencies for both bilateral and multilateral donors began to pay more attention to those issues. As numerous programs and projects are being implemented across the world, priority that is accorded to aid and governance has slackened. Both programs and strategies that are implemented by the donors tend to ignore the tougher governance as well as corruption problems that greatly influence development<sup>11</sup>.

There is a looming culture of corruption and little effort among most African states to fight poverty. The attitudes, policies and politics in these countries are not favorable to foreign assistance which has resulted to some western states opting to reduce aid to Africa until there is a clear shift in policy and attitude. For instance, the USA was criticized for only increasing funding in the international fight against HIV-AIDS by a margin of only 2%, which saw some clinics in Uganda being closed down or turning away patients. In its defense, the USA officials stated that the country, Uganda, had recently discovered oil and gas but instead of focusing on such pertinent health issues had gone a shopping spree, ordering fighter jets worth \$300 million from Russia. World Bank statistics show that a quarter of school-age children in the continent are

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<sup>11</sup> Abuzeid, F. (2009). Foreign Aid and the "Big Push" Theory: Lessons from Sub-Saharan Africa. *Stanford Journal of international relations*, 11(1), 16-23.

still not enrolled in school, while majority of those who are enrolled receive very poor quality education. Agricultural productivity is still very stagnant.

NGOs have increasingly become very important in the international aid arena. One of the main reasons for this is the fact that they translate corporate and private funding into humanitarian projects. Similarly, they are having a growing role as recipients of funding from governments for example from the USAID and World Bank. This growth of NGOs as the preferred choices for direct finding by individuals, corporations and foundations was brought about by two major factors. Firstly, the mentioned groups are able to state and express what they prefer for specific aid projects, the goals of their aid/ assistance and to what level they wish the host country to be involved in the project. Secondly, due to the smallness of NGOs, there is reduced bureaucracy and room for greater efficiency and effectiveness in the use of the donated funds.

They for instance are not so limited to working with state officials as is the case with more official aid, they can better access information on what a country values most and thus be in a position to implement much more effective projects. Due to their ability to be effective and efficient they are also most able to provide emergency services during crises in a timely and efficient way.

Addison, Mavrrotos and McGillivray examine trends within the official aid to African countries for the period between 1960 and 2002. These researchers emphasized on the tremendous decline in foreign aid for that past decade on the African economy and the African people who lived in poverty. Results of that study revealed that the shortage in aid it would make it much harder for the MDGs to be achieved (Millennium development Goals). In 2007, McCormick and others

carried out a research on how aid coordination efforts made in Kenya with the study population being government officials and donors. The results of this study indicated that the period between 2000 and 2005 experienced significant changes in donor harmonization as well as in the interactions between the Kenyan government and donors.<sup>12</sup>

## **1.2 PROBLEM STATEMENT**

The period after 2003, when Kenya voted in a new President; President Mwai Kibaki, saw an improved relationship between NGOs and the government in Kenya. This can be attributed partly due to the change in governance and a new style of leadership from an authoritative regime led by the former president Daniel Moi for 25 years, to a new period led by the former President Mwai Kibaki. The coalition government was more accommodative and open to civil society organizations and NGOs, and did not treat them as a threat, unlike his predecessor. Kenya received the highest of aid in the health sector within the period 2004/2005 with a record increase of 18 donors within that period. Due to the MDGs there was also an increase in the level of funding for NGOs involved in health projects.

However, there has been a considerable reduction in the level of funding to both international and local NGOs in the recent past. For instance, the Health Cabinet Secretary James Macharia in 2014 revealed that there was a significant reduction in donor funding of HIV and AIDS programs in the current budget that would see Kenya's successful campaign that reduced new infections from 7.2 per cent to 5.6 per cent in five years affected adversely. ODA to the health

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<sup>12</sup> McCormick, D., Mitullah, W., & Manga, E (2007). *Extent and Forms of Donor Proliferation and Coordination in Kenya*. Working Paper. Nairobi, Kenya: University of Nairobi.

sector has reduced in the last 6 years however, especially funds meant to fight the spread of HIV-AIDs. To put this more into perspective, in 2015, AMREF Health Africa in Kenya, one of the largest African health NGOs saw over 40 short-term and long-term staff (known as ‘permanent’ staff; to mean staff with a 2-year contract and above, and not contracted on a short term basis) loses their jobs. Some were working with traditional AMREF donors like the European Union (EU) and Italy. There have been massive job losses in the past few years within NGOs conducting health programs. This study seeks to investigate this phenomena, and try to analyze why the shift in donor funding to the health sector. It will seek to establish whether the quality of governance, with a special focus on graft and transparency, has an effect on the flow of official development aid extended to the health sector in Kenya.

### **1.3 RESEARCH OBJECTIVES**

1. To analyze the effects of governance on the flow of official development assistance in Kenya to the health sector
2. To investigate the correlation between corruption and flow of foreign assistance to health projects in Kenya
3. To evaluate the trend in the flow of foreign assistance to NGOs conducting health projects in Kenya in the last eight years (2008-2016)

## 1.4 LITERATURE REVIEW

### 1.4.1. Relationship between Foreign Aid and Development

The debate among scholars and analysts on whether foreign aid in Africa has had any effect on development is endless and most often than not unfruitful. What is not debatable is that the trillions of dollars that the continent has been receiving in form of aid meant for development does not equal nor translate to the slow economic growth witnessed in most of these countries. Riddell identifies several motives that influence the allocation of ODA. These are 1) <sup>13</sup> Emergencies 2) Poverty reduction 3) as a show of solidarity 4) promotion of donors strategic, political and commercial interests 5) historical ties 6) reduction of globalization ills and 8) aid giving based on a recipients records of human rights. The main goal however in donor funding is fostering development and raising the least developed countries from poverty as well as change their status, that is, if possible from being donor recipients to states that are self-sufficient or change some recipient countries to donor states such as Portugal or Japan. <sup>14</sup>

There has been a growing gap between the developed and developing countries for decades and this debate has dominated the international relations and diplomacy for a long time. This has led to constant capital inflow from the developed countries to Africa and other developing countries mostly in the form of grants and ODA to enable them reduce this gap and tackle their problems. However, growing research as well as empirical evidence shows that this assistance has not done much to change the narrative of most African states as some are even experiencing low growth

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<sup>13</sup> Riddell RC (2007). *Does Foreign Aid Really Work?*. Oxford University Press, Oxford.

<sup>14</sup>Addison, T., & Mavrotas, G. M. McGillivray (2005)," Aid to Africa: an unfinished agenda,". *Journal of International Development*, 17, 989-1001.

rates. Whereas foreign aid serves to promote development, then this begs the question what is underdevelopment?

Development is economic, social or cultural progress that serves the basic needs of a community for the present and future period. These needs can include political freedoms, economic opportunities, transparency, and security. Therefore, underdevelopment will happen when these needs are not fulfilled or are not equally accessible to all persons within a country.

A research study conducted by Addison, Mavrotas and McGillivray that examined trends within the official aid to African countries for the period between 1960 and 2002. These researchers emphasized on the tremendous decline in foreign aid for that past decade on the African economy and the African people who lived in poverty. Results of that study revealed that the shortage in aid will make it much harder for the MDGs to be achieved (Millennium development Goals). This research made a conclusion that it is possible to achieve the Millennium Goals using foreign development aid alone, however, there is need to explore other innovative sources for development finances of any given country <sup>15</sup>.

Aid dependence has in ability to affect incentives as well as the institutional framework in which government, societies, and donors interact. Whenever there is persistence in aid dependence for long durations, then these actors get accustomed to carrying out their operations within the foreign aid system. The sanctions and rewards offered by the aid's system have become a major

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<sup>15</sup> Addison, T., Mavrotas, G., & McGillivray, M. (2005). Aid to Africa: an unfinished agenda. *Journal of International Development*, 17(8), 989-1001.

aspect for developmental politics within the countries that depend on foreign aid besides being institutionalized within the donor countries' domestic politics as well as incentive structures of the aid agencies.<sup>16</sup>

Various researches have been conducted on effect of governance on foreign assistance in different countries. Study conducted by Freytag and Pehnelt in 2009, indicated that countries that are well governed get more debt relief. Results of that study also revealed that good governance gives a positive prediction of economic infrastructure aid, budget support aid, as well as aid towards productive sectors. On the other hand, poor governance gives a positive prediction of technical assistance together aid being channeled via Non-governmental organizations (NGOs)<sup>17</sup>. Countries that are better governed receive more budget support aid and the donor countries are much willing to use government institutions as channels for their aid funds in the better governed nations<sup>18</sup>.

There are various studies that have also been carried out to investigate on the relationship between inflows of donor funding and economic development of nations. For instance, the studies conducted by Knack in 2001 and by Bräutigam, done in 2000, revealed that foreign aid

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<sup>16</sup>Bräutigam, D. (2000). *Aid dependence and governance* (Vol. 1). Stockholm: Almqvist & Wiksell International.

<sup>17</sup>Freytag, A., & Pehnelt, G. (2009). Debt relief and governance quality in developing countries. *World Development*, 37(1), 62-80.

<sup>18</sup>Dietrich, S. (2013). "Bypass or engage? Explaining donor delivery tactics in foreign aid allocation." *International Studies Quarterly* 57, no. 4: 698-712.



has positive impact upon growth in cases where good economic policies have been established. These two researchers revealed that poor governance have a negative effect on the nation's development due to the mismanagement of the donated funds. When the intensity of aid continues for a long duration of time, it is likely to create aid dependence that is linked with political challenges as well as attitudinal and behavioral problems. These studies concluded that good governance is vital for not only promoting governance but also foreign aid and this governance is based on good leadership.<sup>19</sup>

A study conducted by Karras in the year 2006, on the investigation of the correlation between donor funding and growth within per capita through use of data from 1960 to 1997 used a sample size of 71 developing countries that received foreign aid. The results of the study indicated that foreign aid has a positive and permanent effect on economic growth. The research concluded that this effect is statistically significant. However, these results were attained without putting consideration on the impact of policies.<sup>20</sup>

Burnside and Dollar conducted a study on a panel of 56 countries over the period 1970-1993 with a time interval of four years. The study concludes that with the right monetary, trade and<sup>21</sup> fiscal policies, foreign aid can cause economic growth. Easterly et al retested the results of

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<sup>19</sup>Knack, S. (2001). Aid dependence and the quality of governance: cross-country empirical tests. *Southern Economic Journal*, 310-329.

<sup>20</sup>Karras, G. (2006). Foreign aid and long-run economic growth: empirical evidence for a panel of developing countries. *Journal of International Development*, 18(1), 15-28.

<sup>21</sup> Burnside, Craig and Dollar, David. "Aid, policies and growth." *American Economic Review*, September 2000, 90(4), pp.847-68

Burnside and Dollar in 2004 with the same measurements but more data, for the years covering<sup>22</sup> 1970-1997, four years longer than Burnside and Dollar. His results find that even with good policies, aid does not promote economic development. From all these studies, there appears to be no consensus among scholars and analysts on the effect of foreign aid on economic development as studies differ from each other to great lengths.

On the contrary however, there are scholars who support the notion that foreign aid has a positive effect on economic growth. Dowling and Hiemenz used a sample of 13 Asian countries to find out the effect of Aid on economic growth. The study found that aid has a significant and positive effect on economic growth. Other scholars including Levy, Durberry, Gemmell and Greeaway get the same results.

#### **1.4.2. Relationship between corruption and foreign aid**

Twenty-five years ago, anticorruption, transparency and governance in the donor funding were largely ignored. However, since mid-1990s both bilateral multilateral official donor agencies have been paying much attention on these issues. In order to deal with these issues effectively, several projects and programs that were supported by numerous aid agencies were started across the world. However, for the past few years, priority granted to governance in donor funding has really slackened. In addition, the programs and strategies being implemented by donors

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<sup>22</sup> Easterly, William; Levine, Ross and Roodman, David. "New Data, New Doubts: A Comment on Burnside and Dollar's "Aid, Policies, and Growth" (2000). The American Economic Review, 2004

nowadays focus on the ‘supply side’ whereas they often times ignore the need to give support to the anticorruption and governance measures that mean a lot to the nation’s development.<sup>23</sup>

Corruption has also hindered the economic development of most aid dependent Sub-Saharan countries, with some countries experiencing declining GDP rates despite foreign aid advanced to them to improve their economic development. An example is that of Zambia whose average income fell from USD 540 to USD 300 in the period 1994-2000 this despite it being receiving ore aid per capital than any other country. In the same breath, a 1994 UN study across 100 aid receiving countries finds that in the 1990s, 70 of those countries have an average income that is lower what was recorded in 1980s, whereas 43 of these has an average income that was lower than the average in 1970.

Analysts site one of the reasons that aid does not promote economic growth is due to the fact that aid is advanced to countries which do not have policies that are favorable to economic growth. Another reason that s cited by any analysts is corruption. Many aid recipient countries have deep<sup>24</sup> rooted practices of corruption that are a big hindrance to economic development. Some scholars like Brautig and Knack believe that an increase in aid actually leads to increased corruption as there are now more resources for the corrupt people to fight over.

The study by Vanarith Chheang also finds that there is a negative relationship between aid and corruption. That is, an increase in aid causes a decrease in corruption. Not until recently, the

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<sup>23</sup>Lawson, M. L. (2011). Foreign aid: international donor coordination of development assistance. *Journal of Current Issues in Globalization*, 4(1), 77.

<sup>24</sup> Ibid. *The Effect of Foreign Aid on Economic Development and Corruption in 67 Developing Countries*.Pg. 11

adverse effects of corruption on the political, social and economic fabric of the society were largely ignored even by the big financial lenders like World Bank. However, efforts by people like Peter Eigen, founder of Transparency International, have brought to light the adverse effects that corruption has on economic development.

Gyimah and Camacho find that corruption causes a decrease in foreign exchange and private investment in human and capital, leads to increase in transaction costs, distorts free market,<sup>25</sup> incentives and causes misallocation of funds. This study also found that the biggest effect of corruption on economic can be found in Africa. A 10% increase in corruption in Africa causes economic growth to decrease by 1.7% to 2.8%. Rose Ackerman says that “a country is poorer if the corruption levels are high”. For instance, a study<sup>26</sup> carried out in Pakistan found that tax evasion by businesses was hindering its economic growth; a reduction of 50% of the leakages that were caused by mismanagement at the tax bureau would potentially improve the country’s GDP to 15% from 13.6%.

A study by Brautigam finds that large amount of aid in African countries is associated with poor<sup>27</sup> quality of governance. It causes a country to slacken and lack the incentives to improve its quality of governance and increase rent seeking behavior. This indirectly shows that aid can lead to an increase in corruption.

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<sup>25</sup>Gyimah, B.K. and Camacho, S. M., “*Corruption, Growth, and Income Distribution: “Are there Regional Differences?”* Economics of Governance, 2006, 23(7), pp. 245-269.

<sup>26</sup>Rose-Ackerman, S., “*Corruption and Government: Causes, Consequences, and Reform.*” New York: Cambridge University Press, 1999, pp. 1-266

<sup>27</sup>Brautigam, A. D., and Knack, S., “Foreign Aid, Institutions, and Governance in Sub-Saharan Africa.” *Economic Development and Cultural Change*, 2004, 52(2), pp.255-285

In a study that sought to establish whether corrupt countries receive less aid, Alesina and Weder find that corrupt governments get more aid. The study also concludes that the more aid corrupt<sup>28</sup> governments get, the more corrupt they become. Similarly, a study conducted by Vanarith Chheang on the effect of foreign aid on governance in 67 developing countries from 1985-2005 finds that while aid has no positive effective on economic development; it is positively related<sup>29</sup> to corruption and can be effective in improving the quality of governance in the developing countries. The study concludes that conditional aid is effective in promoting good governance by making the recipient countries more responsive to the fight against corruption.

Initially, very little was going on concerning foreign aid since most of the donors had drawn off their aid from the Kenyan government by re-directing most of the attention towards the Non-governmental organizations (NGOs). Just a few donors like UNDP, the World Bank and Sweden sustained their association with the government, however, at reduced levels of funding.<sup>30</sup>

In 2009, Mwega conducted a research study on how foreign funding had turned to be erratic in the aspects of commitments as well as unpredictable based on the volume and timing of the funding. The study revealed that donors might make use of aid in advancing a political agenda whose drive involves political concerns of their varying domestic electorates. Donor's disbursement procedures may tend to be much cumbersome to an extend that when donor funds

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<sup>28</sup>Alesina, A. and Weder, B., "Do Corrupt Government Receive Less Foreign Aid?" *The American Economic Review*, Sep 2000, 94(4), 1126-1240

<sup>29</sup>Vanarith Chheang. *The Effect of Foreign Aid on Economic Development and Corruption in 67 Developing Countries*. Washington DC. 2009. Pg. 10

<sup>30</sup>Njeru, J. (2003). *The impact of foreign aid on public expenditure: The case of Kenya*. Vol.135. African Economic Research Consortium.

are committed, there are long as well as unpredictable lags occurring before the government receiving the aid is capable of utilizing these resources.<sup>31</sup>

The study conducted by Bearce and Tirone, in 2010 on Foreign aid effectiveness and the strategic goals of donor governments revealed that governments become much overwhelmed by the donor-funded projects to an extent that they turn to be dominated by the need of satisfying donors, hence replacing the need of satisfying their citizens. However these researchers discovered that the level of the negative effect on African economic growth, that is approximately 30% of GDP was much higher compared to the level of the foreign aid that is received by these African countries. This study was based on a good policy environment. Bearce and Tirone concluded that in order for foreign aid to be effective in the donor recipient country, there ought to be good policy environment that is provided by the governance of the recipient state.<sup>32</sup>

## **1.5 JUSTIFICATION OF THE RESEARCH PROBLEM**

Whilst there are numerous research studies that have been done to show the correlation between governance and foreign aid allocation for instance Burnside and Dollar (2000), Moyo (2009), Pedersen (1996), Asongu (2012a) and Asongu (2014b), Asongu and Jellal (2013); not many

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<sup>31</sup>Mwega, F. M. (2009). A case study of aid effectiveness in Kenya. *Wolfensohn Center for Development Working Paper*, (8).

<sup>32</sup>Bearce, D. H., & Tirone, D. C. (2010). Foreign aid effectiveness and the strategic goals of donor governments. *The Journal of Politics*, 72(03), 837-851.

studies have been conducted to show whether the level of corruption has any effect on the flow of ODA that is administered to developing countries. The afore mentioned authors, for instance, all support the notion that foreign aid has a tendency to promote corruption and weaken the government institutions charged with the mandate of fighting corruption. However, they do not explain if this then has led to the ‘lenders’, that is, the donor institutions and governments to either reduce or increase the amount of funding conferred to such governments.

This study shall therefore add to existing knowledge by other scholars like Asongu Simplace, Phillip Stevens, and Solomiya Shpak among others on the effect that the quality of governance of a country has on the flow of ODA to health projects in a country. Aid agencies compliment the government in its efforts to provide services to its citizens. As a third world country, aid agencies play a very key and integral role in ensuring that citizens have access to quality health, water, education and can enjoy basic freedoms. This study will show why governance is integral in ensuring that this is achieved, by maintaining a steady flow of foreign funding, considering the fact that most aid organizations have 80% of their budgets funded externally.

## **1.6 HYPOTHESES**

This study shall be based on the three main hypotheses:

1. Bad governance in a country negatively affects the flow of official development assistance.
2. Good governance leads to an increase of foreign aid given to a country.
3. There is no link between bad governance (corruption) and the flow of funding for NGOs in the health sector.

## 1.7 CONCEPTUAL FRAMEWORK

Earlier classical views of foreign aid have been that it supplements domestic savings, based on the Harrod Domar Growth Theory. According to this theory, foreign aid plays the role of increasing resources which are available for domestic savings. Harrod identifies internal and<sup>33</sup> external preconditions as the two necessities for the economic development of market economies for developing countries. Internally, inadequate savings translate to poor investments, creating a Savings Gap. To close this gap, it is necessary to inject foreign direct investment to the economies of such countries. Externally, a Trade Gap is created when the inability to export vis-à-vis high importation creates a short fall in foreign exchange. This gap can be corrected by foreign aid.

Several analysts have criticized the theory for its lack of empirical evidence and numerous assumptions. The growth of foreign aid has also restricted the Harrod Domar theory savings and foreign exchange gap. For instance, a study by Lluch established that the savings performance of most developing countries including in Africa after World War Two improved since the 1950s.<sup>34</sup> Similarly, a study by Lal and Myint of 21 developing countries for the period between 1950 and 1985 establishes that contrary to Harrod's assumption that economic development is related to differences in investment, economic growth is actually more related to differences in productivity and investment instead. Further to this, statistical data on the effect of foreign aid on economic growth has not been very favorable. A survey of these studies by Gilbert et al<sup>35</sup>

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<sup>33</sup> Romwsh K. Diwan. A Test of the Two Gap Theory. Pages 529-537. Published online: 23 Nov 2007

<sup>34</sup> Deepak Lal. "Foreign Aid." *The Concise Encyclopedia of Economics*. 2008. Library of Economics and Liberty. Retrieved October 17, 2016 from the World Wide Web: <http://www.econlib.org/library/Enc/ForeignAid.html>

<sup>35</sup> Ibid, Deepak Lal. "Foreign Aid." *The Concise Encyclopedia of Economics*. 2008



concluded that “there is now widespread skepticism that concessional assistance does have positive effects on growth, poverty reduction or environmental quality”.

This study shall be built on the concept of Trap Theory that was proposed by Paul Collier in his book *The Bottom Billion* to explain why some countries in Sub-Saharan Africa do not develop in comparison to the developed ones. Collier’s development traps include conflict, reliance on natural resources, being landlocked with bad neighbors, and bad governance. The traps were<sup>36</sup> developed by analyzing cases and empirical data from a variety of countries. According to Collier, a trap is like a hole that developing countries walk into unknowingly, that prevents them from developing as they are in a perpetual dysfunctional state. For the purposes of this study, the study shall focus on bad governance as a trap to development. As mentioned afore, the main purpose of ODA is to reduce poverty and promote economic development.

According to Collier, the main reason for bad governance among the bottom billion is that the political leaders of these countries lack the political will to reform. The leaders are among the wealthiest in the world even as the citizens in these countries wallow in poverty. Lack of educated people is also a big contributing factor, according to Collier, to the problem of governance in these countries as a political reform will require knowledge and necessary training beside political will. Scholars, including Collier, have argued that one way to promote good governance in developing countries is by attaching conditions to ODA. Increasingly, more and more donors are seeing the need to attach conditions to their aid to ensure that it achieves what it is meant to. However, these governments will only promise to reform without actually<sup>37</sup>

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<sup>36</sup> Collier P (2007). *The Bottom Billion: Why Poor Countries Are Falling and What Can Be Done About It*. Oxford University Press, Oxford

<sup>37</sup> Ibid, p 67

reforming. This is also supported by Knack who argues that conditional aid is not really effective in promoting good governance.<sup>38</sup>

## **1.8 CHAPTER OUTLINE**

This is a study on the effect that governance has on the flow of foreign assistance in Kenya, with a special focus on the health sector. As earlier mentioned, this study shall focus on corruption as a key indicator of governance all through. The first chapter shall cover a background to the study, the research objectives, the literature review, the justification and research methodology. The second chapter is an analysis of the concept of governance with particular interest on corruption and foreign aid, which are the key elements in this study. Chapter three shall focus on Kenyan health sector as a case study with relation to corruption and foreign aid. Chapter four shall focus on analyzing the key issues identified in Chapter Two and three while Chapter Five shall give the conclusions and recommendations made based on the information acquired during the study.

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<sup>38</sup> Knack, 2001, p 311

## CHAPTER TWO

### AN ANALYSIS OF GOVERNANCE AND FOREIGN AID IN AFRICA

#### 2.1. INTRODUCTION

This chapter shall discuss deeply about the concept of governance with a bias to corruption, official development aid and how the two concepts relate with each other with reference to the research objective. The author shall quote studies and researches conducted by other scholars with relation to the same concepts.

#### **2.1. Official Development Aid (ODA) and its Effectiveness in Promoting Development in Developing Countries**

Foreign assistance in International Relations is synonymous with Foreign Aid, International Aid, and Foreign Assistance. This study shall therefore sometimes use the word interchangeably. There are different forms of aid. They include; military assistance, food aid, emergency humanitarian aid among others. It may be given by individuals, governments or private organizations. In analyzing ODA, this study shall look at its effectiveness in promoting economic development and welfare of the recipient countries. This can be done by comprehensively looking at past researches based on cross-country studies done to establish the same. This is informed by the OEDC's definition of ODA in the 1970s<sup>39</sup>.

Based on the definition of ODA that was proposed by the OEDC in the 1970s, ODA is meant to promote economic development and welfare of the recipient countries. Numerous studies have

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<sup>39</sup> OECD, "Is it ODA?" Note by the DAC Secretariat, Paris, 22 May 2001

evaluated the effectiveness of ODA at the macro and micro-economic levels, using broad surveys qualitative, multi-disciplinary and analytical studies.

Two views conceptually exist with differing broad views of the effectiveness of ODA. On one hand, proponents of foreign assistance to developing countries argue that most developing countries lack domestic savings to finance profitable ventures in existence and lack access to international private capital markets thus official foreign assistance, which is the only source of<sup>40</sup> assistance to developing countries, can help bridge that gap. Scholars like Sachs (2005), Stiglitz (2002) and Stern (2002) argue that although sometimes aid has failed, it has prevented worse scenarios of poverty and promoted successful development efforts. Examples proposed by these scholars include the green revolution in Asia, eradication of infectious diseases like polio and TB, spread of family planning. Sachs argues that ‘if the foreign assistance is substantial, and<sup>41</sup> lasts long enough, the capital stock rises sufficiently to lift households above subsistence’.

On the other hand however, earlier critics of foreign assistance who include Freidman (1958), Bauer (1972) have argued that much as the intentions of foreign assistance are noble, the premises are wrong and result to misuse of money. Easterly (2003-2006), a contemporary critic of foreign assistance proposes that there is widespread corruption and unaccountability of donor funds mechanisms, which has made the recipient countries worse. He is also against up scaling of foreign aid. Easterly (2003 and 2006),

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<sup>40</sup> Sachs, Jeffrey (2005). “The End of poverty: Economic Possibilities of Our Time”, p. 246.

<sup>41</sup> Sachs, Jeffrey, Ibid.

To this end, there are two extreme sides to the same coin advanced by scholars like Dambisa Moyo and Jeffrey Sach. For instance, in her book *Dead aid*, Dambisa Moyo argues that Official development Aid (ODA) is not working towards promoting effective economic development in Africa. She further argues that despite the over a trillion dollars of aid pumped into Africa in the past 60 years, there is very little to show for it. She backs this argument citing examples like Uganda in the early 70s, Mobutu Sese Seko's Congo. on corruption, Dambisa cites Edward Clay, a British Envoy who visited Kenya in 2004 and complained about corruption, saying that Kenya's corrupt ministers were 'eating like gluttons' and vomiting on the shoes of foreign donors. (When asked to apologize later, Edward Clay said that he was sorry for the 'moderation' of his language and for underestimating the scale of looting and failing to speak out earlier)

Most, indeed, all of the foreign aid comes from the developed nations to developing countries. A common misunderstanding is that these rich countries give a lot of development aid to poor countries. In the year 1970, rich countries passed a resolution at the United Nations to be giving about 0.7% of their Gross National Income to the poor developing countries. However, since<sup>42</sup> then, very few rich countries have met their actual promised targets. In fact, the target that has been achieved is roughly about 0.2%-0.4%, which is 150 dollars short of what is expected each<sup>43</sup> year. This has been attributed mainly to the fact that most of this aid is tied to the donor's interest. Action Aid conducted a study in 2004 that revealed that most 9% was not targeted for poverty reduction<sup>44</sup>.

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<sup>42</sup>*International Development Strategy for the Second United Nations Development Decade, UN General Assembly Resolution 2626 (XXV), October 24, 1970, para. 43*

<sup>43</sup>*Pekka Hirvonen, Stingy Samaritans; Why Recent Increases in Development Aid Fail to Help the Poor, Global Policy Forum, August 2005*

<sup>44</sup>*Real Aid: Making Technical Assistance Work, Action Aid, July 5, 2006, pp.5-6*

## 2.2. How ODA works

Different literatures allude to different meanings of foreign aid. Some authors will allude to foreign aid as all the financial assistance given by donor nations to developing countries, including official loans and grants, military assistance. Others will only allude to foreign aid as any official loans and grants. Despite these differences, it's important to note that the different aids will possibly different effects on the recipients' development. For instance, while military aid may enable a country to allocate a greater share of its funds to development oriented projects, it will more likely help a country to build stronger armed forces or acquire more sophisticated fighting artillery and thus, consequently, less of the military funding will be used for direct development purposes.

This study shall adapt the definition of Official Development Assistance that was proposed by the Organization of Economic Cooperation and Development (OECD) in the 1970s. According to this definition, official development assistance consists of official grants and highly concessional loans from bilateral or multilateral donors to developing countries aiming to<sup>45</sup> promote economic development and welfare. According to this definition therefore, official development assistance therefore excludes any form of military assistance, political development programs and dept forgiveness for military loans.<sup>46</sup>

Then comes the question; what is the difference between official development aid and official aid? Again this study shall adapt the difference given by OECD. According to OECD, OA meets

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<sup>45</sup> Ibid

<sup>46</sup> Ibid

the conditions for eligibility to be included in OAD, that is, i) aid should be given by the official sector of the donor country ii) the aid should serve the purpose of promoting development and welfare iii) loans should have a grant value. Additionally, the recipient countries of OA are in transition mainly in Eastern Europe and the former Soviet Union (these were the biggest recipient of aid flows in the period after the cold war, around the time that OECD was formed). For the purposes of this study, the words shall be used interchangeably to mean financial aid advanced to Kenya from bilateral or foreign donors. There are shortcomings to the OECD<sup>47</sup> definition of ODA and OA. Chang et al argues that “as a result the evolution of net ODA over time, as well as across donors and recipients, likely provides a distorted picture of aid trends”.<sup>48</sup>

There have been numerous empirical studies that have been conducted to analyse whether development assistance has any positive effects in promoting economic growth of the recipient countries. In defining ODA, the OECD considered promotion of economic development and welfare of the recipient countries to be the main objective of foreign aid. At that time, the most<sup>49</sup> common measure of measuring the effectiveness of foreign aid was whether it was promoting economic development and welfare of recipient economies.<sup>50</sup>

There are two distinct models that are used to explain what foreign aid is meant to achieve. On one hand are scholars like Ghura, Burnside and Dollar, Clement et al, Mosley et al, Sachs, Okada and Samreth and Asongu and Jella who carried out cross-sectional studies on the effectiveness of

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<sup>47</sup> Ibid, pg 26

<sup>48</sup> Chang et al

<sup>49</sup> OECD, “Is it ODA?” Note by the DAC Secretariat, Paris, 22 May 2001

<sup>50</sup> Kamiljon T. Akramov, Governance and Foreign Aid Allocation, pg 32

development assistance. They all come to a conclusion that proposes the argument that foreign aid is essential in promoting the economic development of a country.

However, on the other hand are Mosley et al, Reichel, Ghuta, Boone, Collier, Moyo, Asongu and Jellal who argue that foreign aid does not promote savings and instead has a negative impact on the saving culture of a country and thus, consequently, does not promote economic growth of its recipients due to various reasons including historical conflicts, weak governance and few good governance mechanisms that can effectively distribute aid as needed. Okada and Samreth concluded that foreign aid decreases corruption in developing countries of Africa. This was however rejected by Asongu. Asongu and Jella used indirect mechanisms to reconcile the debate by emphasizing that whereas development assistance that is channeled through government mechanisms increased corruption, foreign aid that was channeled through private mechanisms decreases corruption.

### **2.3. Governance**

The United Nations Development Programme defines governance as “the exercise of economic, political, and administrative authority to manage a country’s affairs at all levels”. Three<sup>51</sup> contexts can be derived from this latter definition proposed by UNDP which are; administrative, political and economic. The political context involves policy formulation; the economic context involves the decision making process that may affect a country’s relationship with the<sup>52</sup>

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<sup>51</sup> UNDP, “Reconceptualizing Governance”, New York: UNDP 1997, pp.2-3.

<sup>52</sup> Ibid, p 13



international community as well as its domestic economic development whereas the administrative context of governance focuses on the system guiding policy implementation.

The World Bank gives a more integrative approach to understanding the word governance. The World Bank Handbook describes governance as the way “power is exercised through a country’s economic, political, and social institutions”. The United National Development Program (UNDP) similarly describes governance as “The exercise of economic, political, and administrative authority to manage a country’s affairs at all levels. It comprises mechanisms,<sup>53</sup> processes, and institutions, through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations, and mediate their differences”.

The World Bank further offers another definition of the term through the World Bank Experience, in relation to the developing countries. To this end, it describes governance as such; “Good governance is epitomized by predictable, open and enlightened policy-making, a<sup>54</sup> bureaucracy imbued with a professional ethos acting in furtherance of the public good, the rule of law, transparent processes, and a strong civil society participating in public affairs. Poor governance (on the other hand) is characterized by arbitrary policy making, unaccountable bureaucracies, unenforced or unjust legal systems, the abuse of executive power, a civil society unengaged in public life and widespread corruption”. This definition highlights the key indicators through which good governance is measured in third world countries.

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<sup>53</sup><http://magnet.undp.org/>

<sup>54</sup> Reforming Public Institutions and Strengthening Governance: A World Bank Strategy-Implementation Update,” March 28 2002

## **2.4. Dimensions of governance**

Kaufmann, Kraay, and Zoido-Lobato<sup>n</sup> conducted a cross sectional study of over 150 countries that provided a strong evidence of a causal relationship between good governance and improved development. The study led to the conclusion of six indicators of governance namely; voice and accountability; political instability and violence, government effectiveness, regulatory burden<sup>55</sup>, rule of law and graft. These indicators also correspond to the six basic component of governance. David Kaufmann Kraay and Zoido-Lobato<sup>n</sup> mention that the keys aspects of governance include: graft, rule of law and government effectiveness. Other aspects include political instability,<sup>56</sup> violence and regulatory burden. This then begs the question; what is good governance? The UNDP states that good governance entails transparency and accountability, equitability and effectiveness.

## **2.5. The Relationship between Governance and Foreign Assistance**

The concept of governance gained prominence since the early 1990s especially in the international development arena. There has been increased interest among academicians, policy makers, and analysts on the role that governance plays in development of states. The concept has been used and applied in different contexts including international governance, national governance, local governance and corporate governance. For the purpose of this study however, the focus will be on national governance.

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<sup>55</sup> Daniel Kaufmann, Aart Kraay, and Pablo Zoido-Lobato<sup>n</sup> (1999 a), "*Aggregating Governance Indicators*," World Bank Policy Research Working Paper No. 2195 (Washington)

<sup>56</sup>Ibid

Kauffman conducted a cross-cutting study that came up with six major indicators of governance that have been widely accepted and are referred to by the academia and international financial institutions. These indicators include: rule of law, corruption, voice and accountability, political stability, government effectiveness, regulatory burden and corruption.

Poor quality institutions, weak rule of law, an absence of unaccountability, tight controls over information, and high levels of corruption still characterize many African countries today<sup>57</sup>, especially in the Sub-Sahara. This can be attributed to many reasons. First of all, colonialist did not help to establish strong, indigenously rooted institutions that could deal with the development demands of a modern state. For instance, in the 1960s, only six public universities had been<sup>58</sup> established in the whole of sub-Saharan Africa; secondary school enrollment was a one-sixtieth of those in Asia and Latin America. In India, the British, during their occupation of the country had established the Indian Civil Service which ensured that India had a good number of qualified well-trained civil services to take over the institutions after they gained independence.

The one party-state also did little in improving the quality of local institutions. It caused a weakening of the bureaucracy of the post independent countries as there was very little<sup>59</sup> demand for accountability exerted from the civil servants. For example, in Burundi there existed only one accountant in 1990, while there were only six in Mali. Similarly, unsustainable development, economic crises, civil war and political instability have taken a hard toll on most of these economies. Other contributing factors to why many sub-Saharan countries especially experience

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<sup>57</sup> World Bank, *Sub Saharan Africa : From Crisis to Sustainable Growth: A Long Term Perspective Study* (Washington, D.C. : World Bank, 1989), P. 60.

<sup>58</sup> Knack. S. and Brautigam. D. *Foreign Aid Institutions and Governance in Sub-Saharan Africa*, pg 5

<sup>59</sup> Ibid, p6

a crisis in governance are weak state capacities and institutions of governance. This<sup>60</sup> can be attributed to the fact that after independence, most of the newly formed states were ill prepared to govern themselves; they were characterized by ethnic tensions and polarization, sometimes caused by the former colonies.

## **2.6. How Foreign Aid Affects Governance**

Studies show that foreign aid can have two possible effects on the level of governance in the recipient country. On one hand, it can cause an improvement in governance levels in recipient countries with clear development goals like Taiwan and South Korea in East Asia and<sup>61</sup> Botswana in Sub-Saharan Africa. On the other hand, it can lead to a reduction in the quality of governance of the recipient country. Asongu and Jacinta, in an empirical research that cut across 52 African countries from 1996-2010 find that similar to Moyo, Collier and Eubank's findings,<sup>62</sup> foreign assistance in Africa has a significant effect on governance in that it “deteriorates *economic (regulation quality and government effectiveness) and institutional (corruption-control and rule of law) governance, but has an insignificant effect on political (political stability and voice & accountability) governance*”.

One of the common effects of corruption is that it aggravates poverty. Transparency International says that the group of people that is most affected by corruption are poor households because<sup>63</sup> their net income is reduced making it impossible for them to meet their basic needs including,

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<sup>60</sup> Ibid, p5

<sup>61</sup> Foreign Aid Institutions and Governance in Sub-Saharan Africa, p 6

<sup>62</sup> Simplace, A and Chikaodi, J. *Foreign Aid and Governance in Africa*. 2016

<sup>63</sup> TI Policy Paper. *Poverty Aid, and Corruption*,

hygiene and sanitation, water and health. Corruption also diverts a significant amount of aid that was intended for development away from what it was initially intended to do and benefit. According to Transparency International, corruption also starts at the top of the 'ladder', when the donor select projects to funds which are not within a country's long term national objectives or the needs of the recipient country. Basically what this means is that corruption in the aid industry is two way; it involves the donor as well as the recipient country.

Nations have increasingly seen the need to fight the enigma of corruption as it is a big impediment to reducing poverty. More than a 100 nations have so far signed the UN Convention against Corruption (UNCAC). A Global Poll commissioned by the World Bank in 2008 and carried out by Gallup USA found that 35% of the sampled respondents, when asked what steps<sup>64</sup> international aid agencies like the World Bank should take when making decisions on funding to developing countries with high corruption, responded that there should be no funding to such countries until the concerned governments fight corruption.

However, this has still not done much to wish away the vice. The aid system, that is, both the donor and the recipients need to understand that they need to fight the vice collectively, if indeed aid is to improve the welfares of the poor. Coincidentally, some of the <sup>65</sup>the top ten aid recipient countries in the world (India, the Democratic Republic of Congo, Iraq and Viet man) are also the most corrupt.

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<sup>64</sup> Global Poll 2008

<sup>65</sup> TI Corruption Perception Index, 2004

## 2.7. Governance, Foreign Assistance and Health

Studies show that there is a strong correlation between health and the economy of a country. A healthy nation translates to an effective workforce, reduced mortality, reduced births and consequently reduced number of dependants. According to the World Health Organization, 50% of the economic growth difference between developed and developing economies is attributed to poor health and low life expectancy. The biggest strain to developing countries is communicable diseases the citizens are communicable diseases like HIV, malaria and tuberculosis (TB).

A 2010 report on the MDGs established that in 2008 alone, a total of US \$18 billion of ODA was given to developing countries targeting health care. However, many experts see that not much of it was used to achieve the MDGs. For instance, in Ukraine, WHO data shows that about 1.1% of the population lives with HIV, an increase from 1997 when only 0.5% of the population was living positively. A UN sponsored report titled '*Towards Human Resilience: Sustaining MDG Progress in an Age of Economic Uncertainty*,' concluded that 'much aid has had little<sup>66</sup> meaningful impact on development outcomes and the MDGs'

According to the 2008/2009 KDHS report, maternal mortality rate increased from 414 deaths in 2003 to 488 deaths per 100,000 live births in 2009. The National AIDS Control Council reported that as of 2013, 1.6 million were living with the HIV virus in Kenya. This raises concern on the effectiveness of health programs in the country and whether there are other factors involved, like the level of transparency of NGOs as well as donors, that affect the effectiveness of health programs in Kenya.

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<sup>66</sup> United Nations, 2010, *MDG Gap Task Force Report 2010*, United Nations, New York, pg 151

It is these findings that beg the question whether the deteriorating level of governance in Africa had any effect on the flow of foreign assistance in Africa, particularly in Kenya, and more specifically, in the health sector.

Numerous studies have been conducted to show the effect that ODA has in improving health indicators (bilateral/ multilateral aid and aid given through NGOs) and reducing the mortality rates in LCDs. Despite his skepticism about foreign aid, Easterly found that foreign assistance was effective in reducing infant mortality. Gebhard and Kitterman conducted a cross-sectional study across 118 countries to establish the effect of foreign aid on child mortality from 1973-2004. The study established that 100% increase in foreign aid contributed to a 2% decrease in child mortality rate. Mishra and Newhouse used data from non OECD countries between 1975-2000 to test the relationship between foreign aid, infant mortality and life expectancy in the recipient countries. The study established that aid does not improve health outcomes and when it does, it is under good governance including democracy and transparency.

Interestingly though, Simone Dietrich conducted a study on the role that corruption plays in the public health sector. She found that unlike conventional belief that foreign aid is more effective in less corrupt states; governments in corrupt states are more compliant in the health sector<sup>67</sup>. Corrupt states seem to perform better in the health sector. Simone attributes this to the fact that health aid is mostly channeled through NGOs and not government institutions which are more prone to corruption. Health aid is also associated with low compliance levels unlike other sectors like infrastructure and trade. However, even despite these latest findings, it is still hard that as

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<sup>67</sup> Simone Dietrich. *The Politics of Public Health Aid: Why Corrupt Governments Have Incentives to Implement Aid Effectively*. World Development, 2011, vol, 39, issue 1, p 55-63

said before, there is stifling progress made towards achieving the MDGs especially in the health sector. For instance, Tanzi and Davoodi (1997) found that corrupt government officials direct expenditures to education and health care and large projects where corruption activities are difficult to detect.

There has been over a 50% decline of ODA to third world countries since the 1990s. This decline has been attributed to several factors. One of them is the declining end to the military and strategic importance of foreign aid. Western allies including the United States used foreign aid as a military and strategic tool to 'buy' allies in the third world during the Cold War period to fight its enemy, the former Soviet Union and vice versa. The third world countries were a fertile ground for these wars and their governments received a lot of bilateral aids. However, the end of the Cold War brought with it a new policy agenda driven by liberal economics and liberal democratic, and thus the military and strategic importance of foreign aid diminished.

Under this new thinking, the role of governments within economies has been reduced to that of providing an enabling environment through creating legal and policy frameworks for the private sector to provide goods and services. Thus, the New Policy Agenda sees NGOs are the right instruments to improve democratization and provide goods and services to the poor and marginalized members of the society, where the governments of most third world countries lack the necessary capacity and means.

There has also been reduced public support of foreign aid in some of the major donor countries, in most cases due to skepticism of the effectiveness of it in the developing countries. This explains



why in recent times donors have insisted on projects and programmes that are sustainable through insisting on capacity building efforts. So as to maximize the use of the reduced funds, many donors are therefore using NGOs to channel their funds. For example, in the 1980s, funding to NGOs from the international community accounted for less than 10% of their budgets. However, in the 1990s it rose to 35%.

## **2.8. CONCLUSION**

Generally, it appears that poor governance does not seem to affect the flow of funding. This analysis supports similar sentiments shared by Martin Acht, et al that quality of governance in recipient countries does not affect the amounts of foreign aid received, more so to the health sector. The issue of health places a moral dilemma on many donors as it directly affects the lives of the people, in most cases the poor. So for the donors, who genuinely want to save lives, reduce maternal and child mortality rates, it can become a bit of a challenge to impose conditionalities on aid, as there is fear of massive loss of lives. The donors may therefore want instead to channel their funds through NGOs and the private sector. This however does not remove the responsibility from either the government or the NGOs themselves to practice good governance.

## CHAPTER THREE

### CORRUPTION IN THE KENYAN HEALTH SECTOR

#### 3.1. Introduction

This chapter shall focus on Kenya as a case study with regards to the subject of the effect of governance on the flow of donor funding. It shall look at whether the quality of governance in Kenya has affected the amount of foreign aid advanced to Kenya in the past decade. This shall be based on three hypotheses. One, poor governance affects the amount of funding negatively. That is, it reduces the amount of funding that a country gets. The second hypothesis is that poor governance positively affects the amount of foreign aid advanced to a country, that is, it leads to increased funding. The third hypothesis is that poor governance has no effect on the flow of funding that country gets.

#### 3.2 A Historical Background of Financing in the Kenyan health Sector

One of the key policy goals of Kenya's post-colonial government was to make health universally available. Two years after Kenya's independence in 1963, the user fees charged at public hospitals by the colonialists were abolished. Up until 1988, health services were funded primarily by general tax. However, the IMF and World Bank pressured the Kenyan<sup>68</sup> government into introducing user fees due to the country's poor economic performance, declining budgets and inadequate financial resources. This was suspended for a year in 1990 due to among other reasons hurried implementation, massive under utilization of health services and poor revenue collection.

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<sup>68</sup> Chuma, J and Okungu, V. *Viewing the Kenyan Health System Through an Equity Lens: Implications for Universal Coverage*. Int J Equity Health.2011; 10:22. Published online 2011 May 26 doi: 10.1186/1475-9276-10-22. Accessed on 13<sup>th</sup>, July 31, 2016

The system was again re-introduced in 1991 where this time individual services like injections, laboratory services, and drugs were charged. The revenue that was collected was taken back to<sup>69</sup> the district level where it would then be trickled down to the district health facilities to take care of their needs. The introduction of user fees has had a bad and negative impact on utilization of health care services in the country as most Kenyans could not afford the Out Of Pocket payments being demanded by the public and private hospitals. As of 2002/2002, OOPs were the highest source of health financing in Kenya accounting for 51.1% of the total health expenditure in the country.

Due to this, the Kenyan government encouraged the growth of the health private sector. Many Kenyans were already used to paying at public hospitals and thus saw it better to pay the same amount, and slightly more, to private health care providers instead for ‘better’ services. This led to a growth in the sector which currently claims about 49% of health services offered in the country. It has been a big challenge to regulate the industry however. However, user fees are still the largest source of health funds in the Kenya.

While general taxes in Kenya are collected by the Kenya Revenue Authority (a proportion of<sup>70</sup> this revenue supports about 100 public health institutions owned and operated by the local governments), OOPs are collected directly by both the public and private health care providers. Government owned facilities are allowed to retain 75% of these funds while the rest is forwarded to the counties to support the promotion and prevention of health services in the centre. It is important to note that in 204 user fees at dispensaries and health centers were totally abolished

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<sup>69</sup> Ibid. Chuma, J and Okungu, V. *Viewing the Kenyan Health System Through an Equity Lens: Implications for Universal Coverage*. Int J Equity Health

<sup>70</sup> Ibid.

but a registration fee of at a registration fee at a flat rate of Ksh 10 introduced. Evidence however shows that user fees are still being charged in most primary health care providers and besides<sup>71</sup> that, the flat rate ranges from the Ksh 10 to as high as Ksh 50. There is also no clear mechanism of accounting of these funds, which creates a big loophole for mismanagement and embezzlement of the funds.

**Table1: Development of Health Care Financial Policies in Kenya**

<b>Years</b>	<b>Policy</b>	<b>Impacts</b>
Colonial period	User fees in all public facilities	Discriminative policy against Kenyans, imposed by colonial government
1963-1965	User fees initially introduced continued to exist for two years after independence	Negative impacts of affordability and utilization of health care services
1965	User fees removed at all public health facilities. Health services provided for free and funded predominantly through tax revenue	Potential for equity provided there are mechanism to ensure that the poor benefit from tax funded system
1989	User fees introduced in all levels of care.	Negative impact on demand for health care especially among the poorest population; decreased

<sup>71</sup> Chuma J, Musimbi J, Okungu V, Goodman C, Molyneux C. *Reducing user fees for primary health care in Kenya: Policy on paper or policy in practice*. Int J Equity Health. 2009;8:15. doi: 10.1186/1475-9276-8-15. [\[PMC free article\]](#) [\[PubMed\]](#) [\[Cross Ref\]](#)

Years	Policy	Impacts
		utilization including essential services like immunization
1990	User fees suspended in all public health facilities. Waivers and exemption put in place to protect the poor and vulnerable. Failure linked to poor policy design and implementation.	Increase in utilization patterns, confirming previous reports that user fees are a barrier to access.
1991-2003	User fees were re-introduced in 1991, through a phased implementation approach starting from hospital level. Children under five, special conditions/services like immunization and tuberculosis were exempted from payment. User fees continued to exist in Kenya at all levels of care.	User fees major barrier to access, high out-of-pocket payment, catastrophic impacts, and negative implications for equity.
2004	User fees abolished at dispensaries and health centre's (the lowest level of care), and instead a registration fees of Kenya shillings 10 and 20 respectively was introduced. Children under five, the poor, special conditions/services like malaria and tuberculosis were exempted from payment.	Utilization increased by 70%; the large increased was not sustained, although in general utilizations was 30% higher than before user fee removal. Adherence to the policy has been low, due to cash shortages

<b>Years</b>	<b>Policy</b>	<b>Impacts</b>
2007	All fees for deliveries at public health facilities were abolished	No data on extent to which policy was implemented and no evaluation has taken place.
2010	A health sector services fund (HSSF) that compensates facilities for lost revenue associated with user fee removal introduced. Dispensaries and health centre receive funds directly into their bank accounts from the treasury.	Possible positive impacts on adherence to fee removal policy and equity.

*Source: Viewing the Kenyan Health System through an Equity Lens: Implications for Universal Coverage. May, 2011*

The Kenyan government has implemented various reforms to ensure that health services are affordable to all citizens. One key reform was the development of a health financing strategy<sup>72</sup> and the sector plan for health (2008-2012), which introduced the national health insurance scheme that ensured that NHIF covered all Kenyans. NHIF has been going through reforms and recently included coverage of pre and post natal maternal service, diseases like cancer and even treatment outside the country. All this is aimed at achieving universal coverage of health care in Kenya.

Relationship between the GoK and NGOs has also changed over time. From the period after independence till the 1970s, many NGOs in Kenya worked closely with the Government of

<sup>72</sup> Government of Kenya. Vision 2030: Sector Plan for Health 2008-2012. Ministry of Medical Services and Ministry of Public Health and Sanitation; 2008

Kenya (GoK) by complementing its services in service delivery to the public. However, the period between the 1980 and 1990s saw new dynamics in the NGO- GoK relationship; Western NGOs gave economic support to the government with conditionality attached to democratization and good governance. They began to demand for a multi-party system from the government and became more vocal national political issues such as good governance and constitutional reforms. For instance, NGOs highly contributed to the political transition in 2002 from authoritarian to democratic leadership. This was through advancement of political rights and freedoms as well as widening the democratic processes.

### **3.3.Effects of Devolution on the Health Sector**

Kenya ushered in a new government in 2013 which also brought along a dew dawn in Kenya; a devolved system of governance. A major aim of devolution is to be more relevant to the needs of the local community, as opposed to the previously centralized government system that many felt was more out of touch with local development needs. According to the Kenyan government economic blueprint, Vision 2030, the main goal under the health pillar is to provide “*equitable and affordable health care at the highest affordable standard*”.

The Kenyan Health Sector adopted the Kenya Health Policy 2012-2030 which is aligned to Vision 2030. Under this new dispensation, health services were devolved to be controlled by county governments. The National Government focuses on Health policy, National Referral<sup>73</sup> Hospitals, Capacity Building and Technical Assistance to Counties while on the other hand County Health services focus on County Health Facilities and Pharmacies, Ambulance Services; Promotion of primary Health Care; licensing and control selling of food in public places;

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<sup>73</sup> Muchomba F. and Karanja N. *Influence of Devolved Governance and Performance on the Health Sector*. 2015. pg 9

veterinary services, cemeteries, funeral parlors and crematorium; referral removal; refuse dumps and solid waste.

However, the developed governance has faced a myriad of challenges in Kenya across most sectors, but more frequently in the health sector. More than any other sector, the health sector has been plagued by numerous unrest of its health workers, stock outs of essential drugs, subserviced equipments, vehicles and facilities, underfunding, poor control of resources, embezzlement and pilferage of funds. The secretary-general of the Kenya Medical Practitioners Pharmacists and Dentist Union (KMPDU), Dr. Ouma Oluga, confessed that over 800 doctors had resigned from the public sector to delve in the private sector due to the poor working conditions<sup>74</sup> county governments were subjecting them to.

The increased countless unrest of health workers affects service delivery and consequently causes health scares and scaring away potential investors. Unfortunately, county governments do not seem keen on ensuring that they resolve these statements on time, which is causing unnecessary loss of lives and disruption of the economy. Atieno, Nancy and Spitzer find that there is an overwhelming feeling of dissatisfaction with the current devolved system with regards to provision of health services; 73% of respondents they interviewed felt that health services had not improved with devolution.

### **3.4 Corruption in the Kenyan Health Sector**

The health sector is crucial in promoting economic growth as reflected in the MDGs. It is no coincidence that three out of the eight goals relate directly to health. This is because a healthy

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<sup>74</sup> <http://www.businessdailyafrica.com/Devolution-causes-a-storm-in-health-sector/539546-2568794-1693ay/index.html>



nation means a healthy workforce that can participate fully in nation building. According to the Abuja Declaration of 2001, countries were to dedicate 15% of their budgets to health. Very few countries have achieved the Abuja declaration. High income countries spend about 7% of their GDP on health while 4.2% is spent by low-income countries. Whilst many African countries are slowly increasing their revenue to the health sector, in Kenya, the government spends less than half of the 15%. In fact, the rate had been declining over the years, and was the lowest in East<sup>75</sup> and Southern Africa. Since 2001 to 2008, the percentage slightly increased however. This has been caused by deteriorating economic performance of most countries and increasing health problems which has caused a shortage of health workers, drugs, poor quality of health care and inequitable health care especially among the low income countries.

Corruption in the health sector lowers the quality, quantity and effectiveness of the health care services. Citizens are not able to afford health care, and this ultimately affects their health and productivity. A study conducted by IMF across 71 countries finds that countries with high levels of corruption coincidentally also had high levels of child mortality; a key indicator of the health<sup>76</sup> status of a country. A 2012 report by UNICEF established the following percentages as a measure of the status of health in Kenya; infant mortality rate for Kenya stood at 48% (for children under a year old), life expectancy at birth is at 58% (global average is 68%), the mortality rate of children under the age of five years is 73%, while neonatal mortality rate is 27%. Life expectancy stands at 58 years for men and 61 for women. There has been increased burden on the health sector in Kenya with a rise in diseases like diabetes and high blood pressure, even among the poor. These diseases require state of the art equipments and more

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<sup>75</sup> Int J Equity Health.2011; 10:22. Published online 2011 May 26 doi: 10.1186/1475-9276-10-22. Accessed on 13<sup>th</sup>, July 31, 2016

<sup>76</sup> IMF, 2000

facilities, all which require funding from both the public and private sector. For instance, there have been numerous reports on the Kenyan media on the inefficiency of the MoH to handle the increasingly huge cases of cancer patients. A report by a local station showed the plight that most cancer patients go through, having to sleep for days hungry and cold on the slabs of Kenya's largest referral hospital, the Kenyatta Hospital, while awaiting cancer treatment. This despite the billions reported to have been misappropriated by the hospital and MoH at large.

'Quiet corruption' is a term that was coined by the World Bank in 2010 to mean the failure of public servants to deliver goods or services paid for by governments. World Bank came up with the term to explain why the health care system in Africa is failing which is a reason why Africa can never achieve full development. According to World Bank, the health care system in Africa is plagued by inadequate funding and poor payment of medical workers. These reflect the same problems that the health care system in Kenya has been facing since the country gained independence. Most citizens know that once they get to the hospital or clinic, they will have to pay out of pocket for the services rendered, when in reality there was aid money given to the<sup>77</sup> country for this specific cause. Thousands of deaths could be prevented if these people were able to access the type of healthcare donors intend on providing.

According to Jamiemu Sacchio, the root cause of this corruption is absence of controls and accountability. Health ministries get foreign aid but absence of a clear tracking system, little or<sup>78</sup> sometimes nothing of these funds gets to the facilities. The facilities consequently lack money to maintain their health workers which forces most of them to look for jobs elsewhere, leaving the

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<sup>77</sup> "'Quiet Corruption' Impedes African Development, World Bank Report Says." *THE MEDICAL NEWS* | from *News-Medical.Net – Latest Medical News and Research from Around the World*. 17 Mar. 2010. Web. 14 Dec. 2011. <<http://www.news-medical.net/news/20100317/Quiet-corruption-impedes-African-development-World-Bank-report-says.aspx>&gt;

<sup>78</sup> <https://globalhealthpolicynyu.wordpress.com/author/jamiemusacchio/>

masses with a shortage of doctors and nurses. In Kenya for instance, this problem is so real, especially with the devolved system. The health ministry has been the worst affected as health workers constantly get their salaries delayed, in some instances going for months.

There is need for more inquiries and research on whether these new channels being used by the foreign donors are any better. For instance, a report by International Commission for Aid Impact (ICAI) commissioned by DfID found that the latter's decision to finance NGOs directly had created "parallel delivery systems which are effective but not sustainable". The report by ICAI which focused on five core health programmes funded by UK aid totaling £163m also found that there was massive corruption in health centers where patients were often asked to buy drugs elsewhere at expensive prices, where the drugs are expected to be provided freely at the hospitals. It also found that most respondents had difficulty accessing health services especially at night, higher user fees and lack of staff.

Dambisa Moyo, in an article titled 'Why Foreign Aid is Hurting Africa' cites the example of Kibera, the largest slum in Africa. Kibera is located a few miles away from the UN's agency for human settlement, which has an annual budget of millions of dollars. In the past 60 years, over a trillion dollars worth of foreign aid has been given by rich countries to poor ones in Africa and Asia. However, despite this, the real per capita income today is much lower than it was in the 1970s.

The Kenya Medical Supplies Agency (KEMSA) is the government arm that procures and distributes medical supplies. It falls under the MoH. A study by Transparency International-Kenya found that high levels of unaccountability in the procurement of drugs and medical

supplies were hindering many of the donors in Kenya from working with the government and<sup>79</sup> Ministry of Health directly. A 2010 study conducted by John Snow Inc established that the donor group through the Global Fund consortium laid out plans to make KEMSA autonomous through building procurement and logistics, the management capacity, conducting programmes<sup>80</sup> for capacity building and establishing a procurement database for KEMSA. However, the group of experts was frustrated by endless accusations and conflicts among MoH staff with interest in the government drug and medical supplies body, which made them, walk away. In brief, the type of corruption that plagues the MoH manifests itself in a number of forms, among them absenteeism (especially common among senior doctors and staff as they are engaged running other private engagements, in most cases their own private experiences); bribes; procurement corruption; theft and misuse of property.

While this seems to place the blame mostly on the health workers, it is also worth noting that some foreign donors will also fund or donate hugely expensive projects with little, if any, care on the effectiveness of the projects on the local communities. For instance, it is not an uncommon sight to go to a local dispensary and find very expensive medical equipments (what some scholars commonly refer to as medical device graveyards) that are not been used as the local health staff do not have the technical knowledge of operating the equipments (sometimes the persons who may have been trained have been transferred/are no longer available) or the manuals are written in a foreign language. Other times the equipment breaks down and there is no expertise within the region to fix it.

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<sup>79</sup> The Kenya Health Sector Integrity Study Report, Transparency International-Kenya, 2011. Pg 28

<sup>80</sup> John Snow Inc. 2010 report.

The National Corruption Perception Survey (2005) found that the MoH was the second most corrupt ministry, with public hospitals being the third most corrupt public institutions. A similar report published in 2007 also found that the MoH was the second most corrupt ministry. A Global Corruption Report by TI in the same year found that corruption in the health sector had led to market distortions and counter freight drugs thus undermining the fight against diseases in specific HIV AIDS. This ultimately leads to a negative effect on the economy.

A study conducted by the Kenya Anti Corruption Commission reveals that 24.8% of the<sup>81</sup> sampled service providers procured sub-standard and poor quality drugs. 34.2% cited manipulation of tender documents, 31.7% admitted to misappropriation of supplies, 11.8% mentioned hoarding of supplies while 6.8% mentioned unnecessary procurement and purchase that are not supplied however.

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<sup>81</sup> The Kenya Anti Corruption Commission. Sectoral Perspectives of Corruption in Kenya: The Case of the Public Health Care Delivery. Research and Policy Department. Directorate of Preventive Services. February 2010.

**Table 2: Corrupt Malpractices Experienced By Patients in Kenya**

<b>Malpractice</b>	<b>% of patients who experienced</b>
Informal payments required from patients	13.6
Unofficial payments for services that are supposed to be free	11.4
Theft of drugs and medical supplies	9.0
Use of public facilities and equipment for private practice	1.9
Unnecessary referral of patients to private clinics	14.4
Absenteeism of staff	41.1
Billing patients for services that were unavailable	4.1
Prescribing or performing unnecessary procedures	1.5
Scheduling surgery dates	2.4
Theft or user fee revenue, other diversion	0.5

*Source: Kenya Anti Corruption Commission, February 2010*

Corruption in the Kenyan health public sector is worth mentioning in relation to this study, for a number of reasons. One is that corruption reduces government funding available for health services. This study has already established that as it is, government spending on health is at around 6%, making it among the lowest in East and south of Africa. The study has also established that there has been a reduction in ODA financing to health projects in recent times. One of the options that the government can adapt to increase funding to the health sector is encourage private public partnerships. However, many private companies are reluctant to invest in highly corrupt states, which generally lower the economic growth of a country, which means less revenue to the health sector.

Secondly, decisions on resource allocation can be distorted where the officials are corrupt because it will be easier to solicit for some bribe on a hospital construction contract or purchase of expensive medical equipment instead of focusing on provision of primary health care services.

Thirdly, it is worth noting that it is the same officials who donors engage in most cases to administer and sometimes implement their projects. As mentioned before, many analysts have raised concern over the engagement of public health officials by NGOs in their projects and programmes. This is because it creates a conflict of interest where the health officials at both the public and local level have been found to be more to be more engaged in NGO activities at the expense of their official duties. This is due to incentives that the officials receive from the NGOs. This gets worse in health centers that are not well staffed. It is not uncommon to find a health facility closed down for three to five days because the staff traveled to attend a training being conducted by a local NGO in a far away town. I believe that this is an issue that the relevant ministry needs to address as it not only infringes on the rights of the citizens meant to be served by these government officials, but can also be termed as a form of corruption i.e. absenteeism.

### **3.5. NGOs and the Health Sector in Kenya**

Kenya is the fourth largest African country to receive ODA as of 2014, according to OECD records. ODA to the health sector has reduced in the last 6 years however, especially funds meant to fight the spread of HIV-AIDs. In Kenya, only 5% of the budget comes from foreign assistance, in comparison to 40% in the neighboring countries. The largest donors are the US President's Emergency Plan for AIDS Relief and the Global Fund to fight AIDS, Tuberculosis and Malaria. There have been spirited efforts from the current government to amend the Public Benefits Organizations (PBO) Act 3 which has led to the exit of some NGOs from Kenya in

recent times. For NGOs to exist and render services that are of impact and benefit to the needy, there is need for a good governance system in place within the country.

The Kenyan health financing system is also very highly fragmented, although this is not unique to Kenya as many low income countries suffer similar challenges. There exist various funding<sup>82</sup> mechanisms and health care providers in the country. Thus, there is lack of a pooling mechanism that can bring together these funds into one fund as people from different socioeconomic are covered under different mechanisms. For instance, the National Health Insurance Fund (NHIF) mostly funds people working in the formal sector, people who work in the high income groups are funded by the private sector insurance companies.

The Kenyan health sector has also been blighted by a proliferation of NGOs undertaking<sup>83</sup> duplicate projects. For instance, in Kitui County alone, there are about 6 NGOs that are promoting and engaging in agri-nutrition interventions, all targeting small scale farmers. This is despite the GoK's efforts to curb proliferation of donor agencies by formalizing the Kenya Health Sector Wide Approach (SWAA) Code of Conduct in August of 2007. There is still a heavy dependence on donor funding, especially for people living positively with HIV AIDS.

Corruption in Kenya has made many traditional donors to bypass the government and instead channel their funding through private organizations and NGOs. For instance, the United Kingdom is the third biggest aid donor to the health care system in Kenya. However, it stopped spending money in healthcare through the government after the 2007 election. This scenario was repeated in 2009 after the UK discovered massive fraud in the Education sector in 2009.

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<sup>82</sup> Mwega, F. *A Case Study of Aid Effectiveness in Kenya: Volatility and Fragmentation of Foreign Aid with a Focus on Health*. Wolfensohn Centre for Development. Working Paper 8. January 2009.

<sup>83</sup> Ibid



Currently, The UK is the third largest aid donor to healthcare in Kenya, but stopped spending money through the government after the 2007 elections and the discovery of major fraud in the education sector in 2009.

Other donors have also chosen to bypass the government, and now approximately three-quarters of international aid for healthcare in Kenya do not go through its budget. An internal audit that revealed misappropriation of over 160 million shillings in the MoH and loss of over 700,000 vaccines in October 2016 caused GAVI, the leading vaccine distributor in the country, to temporarily halt its support to Kenya and demand for a refund of the misappropriated funds. The MoH is also currently rocked in a scandal over the alleged loss of over 3B shillings meant for free maternal health services. All these show the level of corruption within the health sector.

Funding to primary health care providers, that is, health facilities has also reduced in the recent past raising concern among many analysts. Community based facilities are the best channels of preventing diseases and improving people's health. They are however poorly funded and lack enough personnel and equipments. They are also rampant with corrupt malpractices. Atieno, Nancy and Spitzer report that while the health sector has achieved considerable outcomes as per its mandate: reduction of Under Five Mortality from 115 per 1,000 live births in 2003 to 74 per<sup>84</sup> 1,000 live births in 2008/9 and Infant Mortality from 77 per 1000 live births to 52 per 1000 live births in the same period, increased immunization coverage for under 1 year olds from 71% in 2008 to 77% in 2011, there have been some major challenges facing the sector. Despite considerable funding to the sector, Maternal Mortality Ratio has deteriorated from 414 in 2003 to 488 deaths per 100,000 live births in 2008-09; Births attended by skilled health personnel

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<sup>84</sup> Muchomba F. and Karanja N. Influence of Devolved Governance and Performance on the Health Sector. 2015.  
Pg 13

declined from 51 percent in 2007 to 43 percent in 2010/11. Actual recurrent expenditures totaled to Kshs 12.4 billion in 2011/12, up from Kshs 6.1 billion in 2009/10.

As of December 2014, there were 9,728 registered NGOs according to the NGO Coordination Board. 1,800 of these were set up in the 2013/2014 period to deal with education, health and relief services. NGOs have received some backlash in the recent past by claims that they do not do the work that they were actually set up to do. Rather, most of the funds are spent on supporting flamboyant lifestyles and paying allowances to attend numerous meetings and conferences by staff. Some of the NGOs are also not keen on disclosing the sources of their funds. In 2014, over 200 NGOs mostly working in the HIV/AIDS advocacy sector were deregistered by the NGO Coordination Board because they failed to comply with statutory obligations, including accounting of funds.

### **3.6. Conclusion**

The Ministry of Health in Kenya is among the top three most corrupt public institutions in Kenya according to studies conducted by TI-Kenya as well as the National Anti Corruption Commission. Not much information shows the steps that the government has taken to address the issues, whereas it appears that most donors have decided to no longer channel their funds directly through the Ministry like before, but instead fund NGOs. Despite this however, there are NGOs that have been accused of not actually implementing their programs as they are supposed to, with a larger chunk of donor funds been spent on administrative expenses incurred by the staff. The problem of governance is therefore not only being exhibited by the GoK alone, but also the donors themselves.

## **CHAPTER FOUR**

### **A CRITICAL ANALYSIS OF EFFECT OF CORRUPTION ON FLOW OF FOREIGN AID TO THE HEALTH SECTOR IN KENYA**

#### **4.1. Introduction**

Chapter four shall take a critical look on the findings of Chapter 2 and Chapter 3 in relation to the three key objectives set out for this study, namely, to analyze the effects of governance on the flow of official development assistance in Kenya to the health sector, to investigate the correlation between corruption and flow of foreign assistance to health projects in Kenya and lastly to evaluate the trend in the flow of foreign assistance to NGOs conducting health projects in Kenya in the last decade (2006-2016).

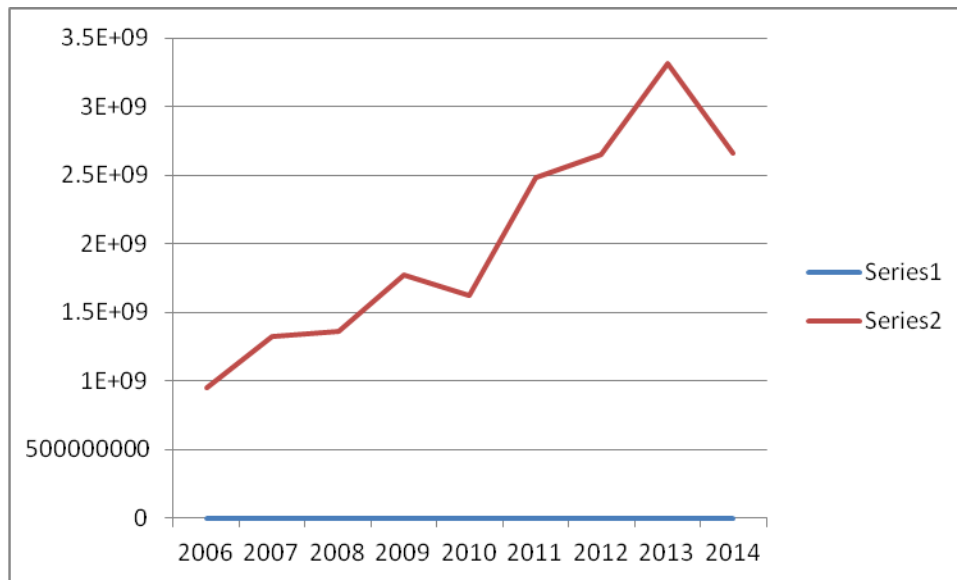
#### **4.2. Flow of Foreign Aid and Health Financing in Recent Times**

Generally, the level of aid flow to most African countries has reduced in recent times. However, it is important to note that due to increased volatility, it is virtually difficult to analyze the trend in donor funding post the cold war era. This is because in most cases an increase or decrease of funding is a direct manifestation of the economic condition of the donor country. Thus, aid will increase when the conditions are good and it will reduce when the conditions are not good. For<sup>85</sup> instance, when the effects of the economic meltdown between 2008 and 2009 were not good, 10 EACD donors including Australia, Austria, Canada, New Zealand, Germany, Greece, Ireland, Italy and Japan, reduced their funding. The fight against terrorism is also putting a big strain on the economies of most countries. However, as mentioned in earlier chapters, the flow of foreign aid to Kenya has reduced since the 1990s.

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<sup>85</sup> WHO. Official Development Assistance. Pg 20

**Figure 1: Net Official Development Assistant and Official Aid Received in Kenya from 2006-2014**



Source: OECD-Data (various years)

There has been a steady increase of financing in the health sector from donor contributions, from 11% of the health budget in 2005/2006 to 15% in 2009/2010. Sometimes donor contributions<sup>86</sup> have accounted for over 90% of the development budget of the MoH. As mentioned earlier, many donors have resolved to finance the health care system through the private sector instead of the government as was the practice before. However, the contributions have reduced in the last 6 years, especially funds meant to fight the spread of HIV-AIDs

Health financing has also shifted in recent times. While many donors were giving their funds directly to government key ministries, many have shifted to using private organizations. Similarly, donors have resolved to dealing with specific diseases since early 2000. This has

<sup>86</sup> Health Financing in Kenya: The case of RH/FP. Pg 8

created vertical programmes like the US's PEPFAR and President's Malaria Initiative; the<sup>87</sup> Global Fund to Fight Aids Tuberculosis and Malaria; the World Bank's multi-country AIDS programme, and its myriad other specific disease programmes; the UN's Global Alliance on Vaccine and Immunization (Gavi); and the WHO's "3 by 5", Stop TB and Global Malaria Programme. Many donors have preferred to prefer these programmes as they provide quick, measurable results.

However, this selective funding creates two unfavorable results of aid according to Phillip Stevens. One is that giving priority to a single disease like AIDS leads to distortion in the provision of primary health care. Secondly, it places an unfavorable burden on the administrative function of many governments as such funds normally have separate reporting structures. The plans, budget and operations are normally separate from those of the overall MoH thus creating an undue influence on the direction of funding. Phillip reports that the IMF in 2004 warned against increasing aid flow to AIDS projects as the poor would hurt the most due to the resulting increase of local exchange rates caused by the inflow of huge volumes of foreign currency. "Inflation will increase when aid funds are spent locally on "non-tradable goods"; and domestic interest rates will be pushed up, thereby squeezing social spending by raising public debt service payments"<sup>88</sup>

High levels of donor funding for specific diseases also results in budgets, plans and operations that are separate from those of the Ministry of Health, meaning that donors have an undue influence on the direction of spending. Meanwhile, each vertical fund imposes its own reporting

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<sup>87</sup> Ibid, pg 10

<sup>88</sup> Peter Heller, et al., "Sizeable Boost in HIV/AIDS Assistance Will Challenge Low Income Countries", IMF Survey, July 12, 2004.

requirements and plans on countries, thereby adding to the strategic confusion and administrative burden faced by the government.

There is an over dependence on donor funding in the health sector, with some funding even covering for staff salaries e.g. the ICAP programme. This is in comparison to the average of 4.7% of the annual budget that the government dedicates to the MOH, far from the 15% as per the Abuja Declaration. Large inflows of foreign aid can also have impacts that reverberate beyond the health sector.

According to the Center for Global Development, aid levels are already fairly high. Nearly half of the countries are receiving aid worth more than 50% of government expenditures and more than one-third above 75 per cent. Aid flows can give governments even less of a reason to go through the tedious task of building and improving tax administration if they can get more resources from donors than their governments. When the governance structures of a country like Kenya are weak, it compounds the problem even further.

#### **4.3. Corruption and Effectiveness of Health Financing in Kenya**

There has been extreme bad governance of official aid in the past where the donors would not hesitate to fund enormously to governments of people like Mobutu Sese Seko of Zaire and Marcos of Philippines. This is a rare occurrence today. However, it does not mean that the practice has ended.

Over the years many research findings have showed that aid that flows to governments that<sup>89</sup> have ineffective policies is actually wasteful. Donors have tried to improve aid effectiveness by creating better coordinating mechanisms including the Effectiveness High Level Forum (HLF) process initiated in Rome in 2003. This was followed by the Paris Declaration in the second HLF which was held in early 2005 that insisted on mutual accountability. Unfortunately, there has been very little progress on implementation of the Paris Declaration.

Numerous studies including Alesina and Weder's (2002) have been done to show that many donors will use different aid delivery mechanisms to channel their funds based on the level of governance of the recipient country. In most cases, where the recipient country has weak governance structures, donors will bypass their governments and channel their funds through<sup>90</sup> non-state actors like NGOs and private organizations. In most cases unfortunately, these donors will rarely consider the recipient merit, thus more corrupt governments will get higher amounts of aid, but reduced bilateral aid.

Corruption poses a big challenge in the provision of health care as earlier mentioned. A study by TI for instance showed that a 10% increase in extortion fees by medical personnel in Philippines led to a 20% reduction of child immunization. In Cambodia, some health indicators worsened<sup>91</sup> due to corruption despite an increase in foreign aid. all these shows that it is not an increase in foreign aid that is of importance as it only serves to make a few people rich, while diminishing the necessary help that the poor should benefit from

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<sup>89</sup> Kaufman, Daniel. Aid Effectiveness and Governance: The Good, The Bad and The Ugly. The Brookings, March,17, 2009. <https://www.brookings.edu/opinions/aid-effectiveness-and-governance-the-good-the-bad-and-the-ugly/>

<sup>90</sup> Kiel Working Papers. No 1901. Corrupt Governments Receive Less Bilateral Aid: Governance and the Delivery of Foreign Aid through Non-Government Actors. Pg. 14

<sup>91</sup> Ibid, pg 10

When we narrow this down to the Kenyan health sector system, as earlier mentioned, it is the third most corrupt sector in Kenya according to a report by the EACC. A study commissioned<sup>92</sup> by TI in 2011 finds that the health sector in Kenya is plagued by a couple of corrupt malpractices including; acute shortage of drugs and other essential supplies in public hospitals, poor accountability mechanisms, conflict of interest affecting quality of health care, high cases of corruption in procurement of drugs and medical supplies especially at KEMSA, delay in service delivery, favoritism in employment, poor management of grants and resources, and poor accountability for the Global Fund.

Philip Steven correctly notes that the biggest reason why the current model of health aid being used is not producing the required outcomes is that many donors rarely consider the effects and results of their funds. He cites two examples to back his argument. The Global Fund for<sup>93</sup> Tuberculosis, Aid and Malaria in 2006 reported that 1.1 million people were on ARVs support through GF-supported programs while 30 million insecticide treated mosquito nets had been distributed. While this is all good, “GF gives no records of drug resistance, viral suppression rates from using drug ‘x’ versus drug ‘y’, mortality rates, co-morbidities, adherence rates, time of survival rates, and progression to AIDS-related illness”. Without such important data therefore, it becomes hard to know if patients are actually benefitting from the drugs and if there is indeed need to change takes for instance where the drugs are failing.

Phillip cites a second example where the US government, in 2006, completed an audit of the USAID’s largest programme, Child Survey. It found that USAID could not exactly account for

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<sup>92</sup> Tackling corruption key in improving access to quality, equitable and efficient healthcare” Transparency International. 31 January 2011.

<sup>93</sup> Phillip Stevens. Foreign Aid for Health. Pg 6



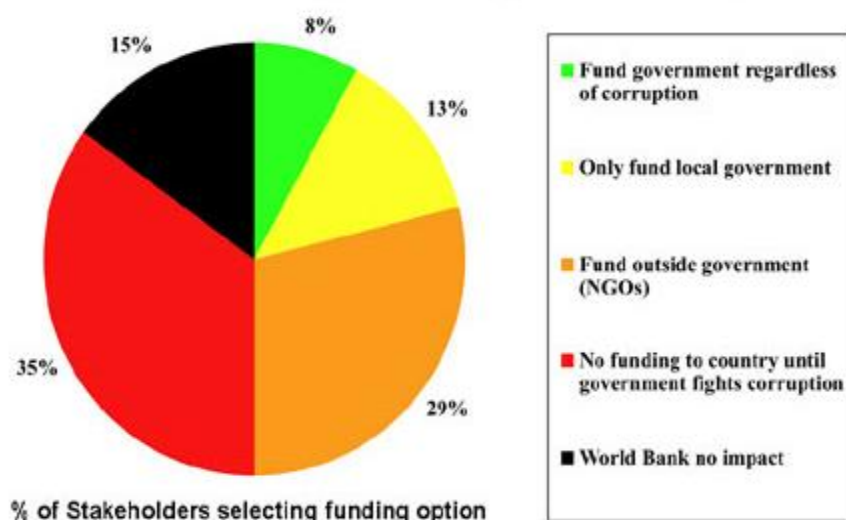
how the 2004/5 budget of US\$675.6 million funds that had been disbursed had been subsequently allocated. There was also no clear data on the outcomes of the patients. This same attitude is common in the public sector of most governments. Many seem to be concerned with provision of funds, with little concern over the utilization, results and outcomes of these funds. A study undertaken by the Centre for Global Development found that “poor resource tracking and<sup>94</sup> inadequate data within LDC health systems greatly impedes planning, decision making, and advocacy efforts”, thus seriously undermining the effectiveness of donor funding.

For aid to be effective, both the donor community and the recipient countries need to realize the need to embrace clear measures of ensuring that aid is effective. A recent survey commissioned by World Bank shows that officials from developing countries, including government officials, feel that a country’s governance should be a determinant of whether a donor will or will not provide funding.

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<sup>94</sup> Powell-Jackson, T., & Mills., A., (2007), “A Review of resource tracking in developing countries”, *Health Policy and Planning*, 22(6)

**Figure 2: Chart Showing Country Stakeholder Views On World Bank Funding-When High Level Of Corruption Is In Existence with no Concrete Measures to Tackle the Menace.**



Source: Global Poll 2008 commissioned by the World Bank

From these responses, it clear that there is need for donors to put aside whatever political motives that will sometimes lead them to chose recipients of their funds, and instead focus reducing corrupt malpractices that render aid ineffective and somewhat useless.

#### **4.4. Progress of Recent Declarations**

Budgets are a good way of showing a government’s commitment to tackling pertinent issues that affect its citizens, like health, and level of priority assigned to tackling with such challenges. The Abuja Declaration was established in April, 2001 by Heads of State of AU countries who agreed to commit 15% of annual budgets to finance and improve the health sector, as a way of<sup>95</sup> achieving the eight MDGs, of which two are directly linked to health, and a further two had components of health. The international community was also to meet its target of 0.7% of their

<sup>95</sup> Govender V, McIntyre D, Loewenson R. EQUINET Discussion Paper Series 57. Harare: EQUINET; 2008. Progress towards the Abuja target for government spending on health care in East and Southern Africa.

GNP as ODA to developing countries. Neither of the two has been fully achieved. Only Rwanda and South Africa have at least achieved the 15% target under the Abuja Declaration. The<sup>96</sup> Kenyan government spending on health is less than half of the Abuja. Besides it being the lowest in East and South of Arica, it has also been declining, despite the fact that other African countries have been increasing their budgetary allocations to the health sector, albeit slowly.

With regards to ODA, only five countries achieved the target of 0.7% of their GNI that was to be devoted to ODA. The financial crisis of 2008-2009 caused the dollar value of ODA<sup>97</sup> disbursements to fall for 11 out of the 23 countries that report to the OECD. In 2009, just over 0.31% of GNI accounted for the total ODA to developing countries. There was therefore been a steady decrease of overall ODA sent by the international community from the year 2001.

The WHO estimates that if all the ODA that donors report they are disbursing to recipient countries for health and population programmes actually arrived in these countries and was<sup>98</sup> spent according to their needs and priorities, added to the government expenditure on health, close to US\$61 per capita would be available. This close to what is required to achieve the MDGs in the poorest countries.

Closer home, there was a 59% decrease in funding in the 2013/14 budget. The MoH was allocated KSh36bn (\$410.4m) from KSh87.8bn (\$1bn) in 2012/13. The reason for this huge<sup>99</sup> reduction was that due to devolution, county governments had been allocated KSh64bn

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<sup>96</sup> Ibid.

<sup>97</sup> “Development aid rose in 2009 and most donors will meet 2010 aid targets” OECD  
[http://www.oecd.org/document/11/0,3746,en\\_2649\\_34447\\_44981579\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/11/0,3746,en_2649_34447_44981579_1_1_1_1,00.html)

<sup>98</sup> WHO. “The Abuja Declaration: Ten Years On” Pg 4

<sup>99</sup> Devolution and Fresh Funds Should Help Improve Access and Indicators  
<https://www.oxfordbusinessgroup.com/overview/devolution-and-fresh-funds-should-help-improve-access-and-indicators>

(\$729.6m) for health care programmes. This brought a total of health care spending to KSh100bn (\$1.14bn), according to the government's 2014/15 budget statement. While the GDP stood at an estimated \$39.1bn in fiscal year 2013/14, health spending still represented 2.9% of the GDP and a total spending of just 6.9%. This is way below the Abuja target.

Kenya recently changed from a low Income Country (LIC) to a Low Middle Income Status (LMIC) after a rebasing exercise carried out by the Ministry of Finance in September, 2014. While this was of course good news to businesses seeking investment, there have been jitters among those involved in development work that this could have a negative effect on the amount of foreign aid that will be advanced to Kenya with the new status. In an interview to the Oxford Business Group, Thomas Maina, a senior health finance advisor at the USAID- and Futures Group-funded Health Policy Project<sup>100</sup> said that “This (Kenya's new LMIC status) has implications for the health sector because some donors will withdraw support should the country reach middle-income status, as the programmes delivered will not be viewed as quite so critical. We have managed to flatten the curve of HIV prevalence, but now we must look inwards and seek local solutions”

#### **4.5 Conclusion**

From the critical analysis above, it appears that the amount of foreign aid advanced to the health sector in Kenya is diminishing and it is safe to say that with the new LMIC status, it may continue to progressively decrease over the few coming years. It is therefore important for the government, civil society, to look into ways of bridging this gap so as to ensure that the public, and especially the poor, still have access to good health services. The government should work

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<sup>100</sup> Ibid

more towards achieving a Universal Health Care status, where every person, including has access to good health services, and doesn't have to spend a lot to achieve that. The analysis has established also established that the level of governance of malpractices does not affect the flow of funding. It supports similar sentiments shared by Martin Acht, et al that quality of governance in recipient countries does not affect the amounts of foreign aid received, more so to the health sector.

## CHAPTER FIVE

### CONCLUSIONS AND RECOMMENDATIONS

#### 5.1. Introduction

The main objective of this study was to find out if the governance has any effect on the flow of foreign aid to the health sector in Kenya. This chapter shall give a conclusion of the findings and recommendations based on the analysis conducted in Chapters 2, 3 and 4.

#### 5.2 Summary of findings

From the literature review and analysis, the study has established that poor governance does not affect the flow of funding. It supports sentiments by scholars like Martin Acht et al that quality of governance, in specific corruption, does not affect the flow of funding to the health sector. Many donors instead channel their funds through NGOs and not the Ministry of Health as before. However, despite this, the key indicators of health have not improved in comparison to the large amounts of aid that is advanced to the country every year. For instance, a recent report showed that there is an increase in HIV infections in the country, this despite the billions that have been channeled to the government and NGOs through the Global Fund and PEPFAR in the fight against HIV AIDS.

There is poor resource tracking of donor funds by both the donor community and the recipients. Many donors do not have the incentive to clearly track and monitor how money is allocated once it gets to the hands of the recipient government and NGOs. It appears that corrupt government are aware of this loophole and so do not fear any sanctions if they do not achieve results, these

governments are also receiving funds from different donors and so their resolve and incentive is further weakened. Despite the limited resources allocated to the MoH by the government, corruption is still rampant within the sector complicating access to equitable, quality and effective's health services.

With regards to Kenya attaining its new status as a low middle income country, analysts fear that this could reduce the flow of funding to the country, including to the health sector, where donors may focus on the least developed countries. There is need for the GoK to look for other ways to supplement its funding and reduce its overdependence on donor funding. The government should work more towards achieving a universal health care system where every citizen can get access to quality health care services.

In terms of governance within NGOs, many appear to slack in enforcing strict accountability and transparency measures that ensure that good governance practices are upheld. Sometimes the nature of the sector itself may place a moral dilemma on the donors on whether to reduce funding in cases where corruption has been identified or not, due to the behind-the-curtain possible effects on the health of the public. There lacks clear measures on how to account for funds disburse their usage, results and outcomes. This greatly impedes planning, decision making and advocacy efforts for better governance.

Generally, the amount of foreign aid given to the Kenyan health sector has been on a decline, especially aid meant for fighting HIV AIDS, which makes the biggest percentage of aid to the health sector. With the country's recent status as a low middle income country, analyst's project

that many donors may resolve to divert their funds to more deserving least developed countries. The government should therefore brace for this and take measurements that ensure the health sector is getting more funds, and is slowly becoming led dependent on external funding to support its activities.

### **5.3. Conclusion and Recommendations**

From the study, basically, there is no clear correlation between corruption in Kenya and the flow of funding to the health sector. What is clear is that corruption in the government has many donors to channel their funds through non-profit making organizations, community based organizations and civil societies, instead of directly through the government. Studies have shown that the top ten aid recipient countries are also among the most corrupt. Interestingly though, unlike the conventional belief that aid is more effective in less corrupt states, corrupt states tend to perform better in the health sector. This is partly due to the fact that ODA is in most cases channeled through NGOS and the private sector and not through the government which are more prone to corruption. Health has low compliance issues also, in comparison to other sectors like infrastructure and trade.

The Ministry of Health in Kenya is among the most corrupt sectors in the country. It has been established that corruption reduces spending of the government on the health sector. It also impedes the private entities from investing in a country. The government needs to be more proactive in dealing with corruption within the sector as it ultimately affects access and quality of health services to the public, with the poor being the most affected.



Corruption in Kenya has made many traditional donors to channel their funds through NGOs. There is need for more research on whether this has led to an improvement to health indicators in the country with comparison to when funds were being channeled directly through government agencies. Poor governance also blights many NGOs and thus donors need to seek ways on improving governance among NGOs undertaking health programmes. This will ensure that health programmes are effective and bring the desired results, which will ultimately lead to economic growth of the country.

The Kenyan government should increase their budgetary allocations to the health sector and reduce their overreliance on donor funding. The government has been performing way below par with regards to the Abuja Declaration where AU members should dedicate 15% of their annual budgetary allocations to the health sector. While her neighbors like Rwanda and South Africa have achieved this target, Kenya's budgetary allocation to the health sector is getting lower and lower. There is therefore need for the government to change this trend, because the health of a nation directly affects its economic growth and GDP.

Foreign aid in the Kenyan health sector is very highly fragmented, with many donors seemingly not clear on what they should be doing. This inhibits the attainment of universal health care in the country. While this problem is not unique to Kenya, the country should adapt reforms similar to those being adapted by her neighbors Tanzania and South Africa that promote universal coverage and harmonization. There is also need for streamlining and coordination of donor projects and programmes between the government and the donor community to ensure harmonization and avoid duplication of projects.

In conclusion, the relationship between governance and flow of foreign aid is not exactly straightforward. Many scholars and analysis give differing views on the topic. There is therefore need to move away from the debate and focus more on ways to make aid more effective, which is the main crucial issue.

#### **5.4. Suggestions for Further Research**

This study sought to establish the effect of governance on the flow of foreign aid to the health sector (with corruption as the key variable) with Kenya as a case study. It examined the contribution of foreign aid to development, and the relationship between foreign aid and governance. One of the key findings is that many donors have resulted to channel their funds through NGOs instead of directly funding the government due to increased cases of corruption. There is need for research on whether these new channels are as effective in delivery of service.

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