

**INFLUENCE OF DONOR REGULATIONS ON EFFECTIVE UTILIZATION  
OF HEALTH SECTOR FUNDS IN THE FORMER NYANZA PROVINCE**

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**A RESEARCH PROJECT SUBMITTED TO THE DEPARTMENT OF  
BUSINESS IN THE SCHOOL OF HUMAN RESOURCE DEVELOPMENT IN  
PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD  
OF THE MASTER OF SCIENCE IN FINANCE OF JOMO KENYATTA  
UNIVERSITY OF AGRICULTURE AND  
TECHNOLOGY, KENYA**

**MAY, 2018**

## DECLARATION

This Research Project is my original work and to the best of my knowledge it has not been presented for a degree award in any other university.

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**HD335-C007-5692/2015**

This Research Project has been submitted for examination with my approval as the university supervisor.

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## **DEDICATION**

I wish to dedicate this work to my beloved parents for their patience and support during times of great apprehension and work.

## **ACKNOWLEDGEMENT**

Gratitude is the most equitable thing to those who do well to others; I am humbled, grateful and indeed thankful the following persons for their kind contribution which helped accomplish this work. First and foremost, I give glory to God who has taken care of me this far. I also extend my sincere appreciation to my supervisor Anthony Wahome for his for his kindness and well executed professional and intellectual guidance offered to me while writing this proposal. Special thanks to my lovely wife and daughters Libbie and Trina for their patience while Daddy was away looking for his second degree. Finally, to my year mates at College of Human Resource Development, Department of Commerce and Economic Studies 2015, I feel honored to have shared learning space with such great minds.

## TABLE OF CONTENTS

<b>DECLARATION.....</b>	<b>ii</b>
<b>DEDICATION.....</b>	<b>iii</b>
<b>ACKNOWLEDGEMENT.....</b>	<b>iv</b>
<b>LIST OF FIGURES .....</b>	<b>vii</b>
<b>LIST OF TABLES .....</b>	<b>viii</b>
<b>ACRONYMS AND ABBREVIATIONS.....</b>	<b>ix</b>
<b>DEFINITION OF TERMS.....</b>	<b>x</b>
<b>ABSTRACT .....</b>	<b>xi</b>
<b>CHAPTER ONE .....</b>	<b>1</b>
<b>INTRODUCTION.....</b>	<b>1</b>
1.1 Background of the Study .....	1
1.2 Statement of the Problem.....	8
1.3 Objectives of the Study.....	9
1.4 Research Hypotheses .....	9
1.5 Significance of the Study .....	9
1.6 Scope of the Study .....	10
<b>CHAPTER TWO .....</b>	<b>11</b>
<b>LITERATURE REVIEW .....</b>	<b>11</b>
2.1 Introduction.....	11
2.2 Theoretical Review .....	11
2.3 Conceptual Framework.....	14
2.4 Empirical Review.....	15
2.5 Critique of Existing Literature .....	25
2.6 Research Gaps.....	25
<b>CHAPTER THREE .....</b>	<b>27</b>
<b>RESEARCH METHODOLOGY .....</b>	<b>27</b>
3.1 Introduction.....	27
3.2 Research Design.....	27
3.3 Target Population.....	27
3.4 Sampling Procedure and Sample Size .....	28
3.5 Data Collection Instruments .....	29
3.6 Data Collection Procedures.....	30
3.7 Data Analysis and Presentation .....	31

<b>CHAPTER FOUR.....</b>	<b>32</b>
<b>DATA ANALYSIS, PRESENTATION AND DISCUSSIONS OF FINDINGS .....</b>	<b>32</b>
4.1 Introduction.....	32
4.2 Demographic Characteristics of the Respondents .....	32
4.3 Financing Regulations and Effective Donor Funds Utilization.....	33
4.4 Administrative Regulations and Effective Donor Funds Utilization.....	35
4.5 Risk Management Regulations and Effective Donor Funds Utilization.....	37
4.5 Financial Reporting Regulations on Effective Donor Funds Utilization.....	39
4.6 Effective Donor Funds Utilization.....	42
4.7 Correlation Analysis .....	43
4.8 Regression Analysis.....	45
4.9 Hypothesis Testing.....	47
<b>CHAPTER FIVE .....</b>	<b>50</b>
<b>SUMMARY, CONCLUSIONS AND RECOMMENDATIONS .....</b>	<b>50</b>
5.1 Introduction.....	50
5.2 Summary of the Findings.....	50
5.3 Conclusions.....	52
5.4 Recommendations.....	53
5.5 Suggestions for further study .....	53
<b>REFERENCES.....</b>	<b>54</b>
<b>APPENDICES .....</b>	<b>59</b>

## LIST OF FIGURES

<b>Figure 2. 1:</b> Conceptual Framework .....	14
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## LIST OF TABLES

<b>Table 3. 1:</b> Sampling Frame.....	28
<b>Table 3. 2:</b> Target Population and Sample Size.....	29
<b>Table 4. 1:</b> Response Rate.....	32
<b>Table 4. 2:</b> Demographic Characteristics of the Respondents.....	33
<b>Table 4. 3:</b> Financing Regulations and Effective Donor Funds Utilization.....	34
<b>Table 4. 4:</b> Administrative Regulations and Effective Donor Funds Utilization.....	36
<b>Table 4. 5:</b> Risk Management Regulations and Effective Donor Funds Utilization.....	38
<b>Table 4. 6:</b> Financial Reporting Regulations on Effective Donor Funds Utilization.....	40
<b>Table 4. 7:</b> Effective Donor Funds Utilization.....	42
<b>Table 4. 8:</b> Summary of Correlations.....	44
<b>Table 4. 9:</b> Multiple Linear Regression Analysis Model Summary.....	46
<b>Table 4. 10:</b> Summary of ANOVA.....	46
<b>Table 4. 11:</b> Multiple linear regression results.....	47



## **ACRONYMS AND ABBREVIATIONS**

<b>ADB</b>	-	Africa Development Bank
<b>AIDS</b>	-	Acquired Immune Deficiency Syndrome
<b>ARV</b>	-	Antiretroviral Therapy
<b>CBOs</b>	-	Community Based Organizations
<b>DAC</b>	-	Development Assistance Committee
<b>DDA</b>	-	Donor Driven Approach
<b>EU</b>	-	European Union
<b>GOK</b>	-	Government of Kenya
<b>HIV</b>	-	Human Immuno-deficiency Virus
<b>IMF</b>	-	International Monetary Fund
<b>MDGs</b>	-	Millennium Development Goals
<b>NGOs</b>	-	Non-Governmental Organizations
<b>ODA</b>	-	Official Development Assistance
<b>OECD</b>	-	Organization for Economic Cooperation and Development
<b>PEPFAR</b>	-	President's Emergency Plan for AIDS Relief
<b>PIUs</b>	-	Program Implementation Units
<b>SDGs</b>	-	Sustainable Development Goals
<b>SPSS</b>	-	Statistical Package for Social Sciences
<b>UN</b>	-	United Nations
<b>USA</b>	-	United States of America
<b>WHO</b>	-	World Health Organization

## DEFINITION OF TERMS

**Administrative Regulations:** These are rules and procedures of operation laid down by the donor that management has to conform to (Ouma, 2012).

**Donor Funds:** These are funds transferred by the donor to the program implementation organization usually as loans or grants (Cheboi, 2014).

**Donor Projects:** Refers to projects financed in form of a loan repayable with interest and accrues penalties in case of default by a country's external creditors who may be bilateral; from a government or multilateral; group of organizations, banks or countries.

**Donor Regulations:** These are Regulations imposed by the donor that must be met before the donor's commitment to support the program can be guaranteed (Hendrickse, 2008).

**Effective Utilization:** This refers to fully putting the solicited donor funds to the intended usage in the projects (Bagoole (2011).

**Financial Reporting Mechanisms** The process of recording financial transactions and keeping financial records (Needles & Powers, 2008).

**Financial Reporting Practices** These are the local practices and procedures for bookkeeping and communication of financial records and data to the relevant authorities (Bernstein & Sessions, 2007).

**Financing Regulations:** These are laid down plans and legal requirements for successful budget implementation (Edwards & Hulme, 2007).

**Risk Management Regulations:** These are the approaches expected to be taken by the implementing agencies to guard against risk or reduce the impact of the risks on the programs survival (Aven, 2015).

## ABSTRACT

Donors play a critical part in the functioning of the national health systems of many countries in Africa. These developmental assistances in form of programs in the Province are to augment existing efforts in reducing and preventing illnesses and premature mortalities among the population. Moreover, most of these programs are expected to be sustainable in the long run meaning that they need to be capable of going on even after the withdrawal of the donor. However, studies still suggest that donor programs still experience considerable implementation challenges. This, therefore, puts into question the effectiveness of the donor Regulations on the effective utilization of donor funds. Therefore, the general objective of the study was to establish the influence of donor Regulations on effective utilization of donor funds focusing on the health sector in Counties of the former Nyanza Province. Specifically, it sought to determine the influence of financing Regulations, administrative Regulations, risk management Regulations and financial reporting mechanisms on effective donor funds utilization in the health sector in the former Nyanza Province. The study was guided by the Agency Theory and the Dependency Theory. The study used descriptive survey research design and targeted 4 donor organizations with projects in Kisii, Kisumu and Homa Bay Counties all in the former Nyanza Province. The study used a sample size of 84 persons comprising fund management team members, accountants, auditors, and fund evaluation team members from the area obtained using stratified random sampling. Pre-tested questionnaires were used for data collection. Both descriptive and inferential statistics were used for analysis. The findings revealed that; first, donor financing Regulations on projects insulated the projects funding base from interference by external actors; second, the donors often imposed strict administrative Regulations on their projects and they were particularly keen on establishing a sound managerial base for their funded projects so as to improve the levels of financial controls and accountability without compromising the levels of service delivery. Thirdly, it emerged that risk ranking was not prioritized by the donors probably due to the view that most of the projects they funded were in partnership with the government which indemnified the risks associated with the projects. Finally, it was evident that the donor agencies were keen on their reporting requirements and that this was well communicated to their implementing partners. It was, therefore, recommended that; there needs to be better correspondence between the donors and the implementing agencies on the modalities influencing fund disbursement so as to avoid costly delays; the donor agencies and the implementing partners also need to agree on a long term template for administration so as to ease recruitment and managerial requirements. It is also recommended that donors should require implementing partners to practice risk management so as to enable them maximize on every opportunity available in the operating area to deliver on the projects. The study also recommends that the donor agencies need to agree with their implementing partners on the standardization of the financial reporting.

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Background of the Study**

Health for all is considered both a basic human right and essential for social and economic development. Health is central to human happiness, and it contributes to growth and development as healthy populations are more productive, live longer and save more (WHO, 2010). The signing of the United Nations Millennium Development Goals created a platform for the injection of billions of dollars of donor funds into countries with great need but cash strapped. Of particular concern is the situation in Sub-Saharan Africa, where there have been concerted efforts through donor funding to improve on health care delivery and health outcomes (Yu, Souteyran, Banda& Kaufman, 2008).

In many developing countries including those in the Sub-Saharan African region, Development Aid consists of a considerable share of the total government budget. In most of those countries, internally generated resources are not adequate to fully cater for huge capital investment needs. As a result, the financing of capital investment projects from domestic resources in form of tax revenues, user fees, and domestic borrowing is often supplemented with external resources in the form of bi-lateral and multi-lateral loans and grants. In essence, DA involves transfer of capital, goods, or services from donor country to recipient country. Such assistance includes grants and concessional loans with a grant element higher than 25 percent.

There are four types of Development Aid which are extended to support development projects in recipient countries, namely; Public (ODA) or private (NGOs); Bilateral or multilateral; Balance of Payments (BoP) support which may take the form of monetary transfers or technical assistance and training; and tied or untied funding which may be linked to or not linked to the purchase of goods and services from the donor country, or in kind specific economic or political Regulations (WHO, 2008).

Reports from the World Health Organization (WHO) macroeconomics commission estimated that in the year 2004 the WHO African Province total health expenditure was approximately US\$ 35.53 billion, of which approximately US\$ 2.23 billion (6.25%) was from external sources (WHO, 2008). The report has it that external funding on health as a percentage of total health expenditure varies between countries.

Further analysis of the report revealed that 18 countries received less than 11% of their total health expenditure from external sources; 9 countries received 11–20%; 7 countries received 21–30%; 6 countries received 31–40%; and the remaining 6 countries received 41–60% of their total health expenditure from external sources (WHO, 2008). In 2005, Mozambique's total health expenditure was \$356m while foreign assistance accounted for US\$243m (Martinez, 2006). Similarly, Zambia's entire Ministry of Health budget for 2006 was a paltry sum of US\$136m from its own local sources while the President's Emergency Plan for AIDS Relief (PEPFAR) providing the country with a budget of US\$150m for tackling HIV/AIDS (Bernstein & Sessions, 2007).

In Ethiopia, an inflow of external resources such as loans and grants started in the mid 1950s, when the bilateral relationship between the United States and Ethiopia was at its highest. For instance prior to 1975, about 75% of the required total investment during series of five year development plan periods (1957-1973) was covered by external capital (Abegaz, 2001). According to Gathara (2013) 53% of health care is delivered through private sector including, Public Benefit Organizations (PBOs) and Faith Based Organizations (FBOs) such as churches and mosques. The national health budget in Kenya is 55% funded by the taxpayer through PBOs while external donors through Donor Fund Organizations fund the rest of the budget including upto 89% of the Human immunodeficiency virus syndrome (HIV/AIDS) management budget - including lifesaving antiretroviral therapy (ARV) for over one million HIV-positive Kenyans.

Therefore, it is evident that donors play a critical part in the functioning of the national health systems of many countries in Africa and, therefore, understanding their demands and Regulations is important to all stakeholders in the health sector. Donors or funders are usually international multilateral organizations which justify their sectoral assistance on the basis of promoting accountability, good governance, citizen participation, peace and human rights in developing and transitional countries as part of bilateral and multi-lateral aid spending (Meyers et. al, 2014). This arises in part due to the belief that foreign aid is driven by donor interests with some perceiving it as bribe and some perceive it as donors' selflessness and even concerns for global justice.

Many studies have been done but decisive evidence for either view is still elusive (Neumayer, 2003; Berthelemy & Tichit, 2004; Milner & Tingley, 2010; Van der Veen, 2011). It is also observed that donor nations exert tough influence over the powerful international institutions such as the UN, World Bank and IMF allowing them undue influence in shaping the global policy environment (Campbell, 2008). Lundsgaarde, Breunigand Prakash (2010) found that countries tend to trade with and give aid to the same partners most likely because they know how to align their goals to the donor requirement. Strict donor procedures has been one of the most glaring argument and the concept of decentralization and reforms are necessary when bound to achieve democratic objectives of empowering the people to effectively govern themselves in an efficient and effective way and the reason that leads to this is the converging external and domestic interests, donor-driven decentralization reforms have not performed as expected.

Effective financial management practices are essential in improving transparency, efficiency, accuracy and accountability resulting in the implementing organizations achieving their objectives according to the donor Regulations (Hendrickse, 2008). With increasing levels of donor interest and funding, the implementing organizations need to be more accountable and improve in their financial management practices so as to make them more flexible, less bureaucratic and more responsive and closer to the people. Financial control practices such as budgeting and accurate reporting is essential in not only meeting the donor objectives but also building their confidence. Whether the Regulations donor funds impose on fund utilization actually translates to efficient management of resources and project implementation as desired is not always clear. Padilla, Staplefoote and Morganti (2012) observe that donor funded projects in the country are experiencing a myriad of problems that include ineffective boards, absence of strategic planning activities, poor recording practices, lack of necessary policies and procedures, high turnover of employees and volunteers and dependence on a limited number of funding sources. Pompa (2013) found that international donors have shifted their funding regime from a traditional model to a new Challenge fund concept which has been widely used in medical and academic research, as well as the social sectors.

Donors also impose administrative Regulations on some of the programs they fund. For example, Kephher et al., (2017) study on Donor Driven Approach (DDA) to planning in Donor Fund Organizations within Kisumu County, Kenya established that the DDA allowed donors to exert much influence over the Donor Fund Organizations projects to the extent of controlling their performance substantially. Donor demand beyond organization capacity was found to significantly influence the performance of the Donor Fund Organizations individually. Keng'ara (2014) found that donors sometimes provide technical experts to the project, mostly foreigners at the expense of locals as an administrative imperative. Monaheng (2007) who argued that donors find expatriate technical staff as helpful in sensitive aspects of project management and control of budgets and are also knowledgeable about home office reporting requirements even when locals can competently handle the same tasks.

Funding programs from external sources is a risky business and, therefore, donor organizations should need to carefully navigate the risks attached no matter what funding regime they use (Rezakhan, 2012). Risk is a multi-faceted concept and often referred to as the presence of potential or actual threats or opportunities that influence the objectives of a project (Narayan & Ebbe, 2007). Risk can be effectively managed to mitigate its adverse impacts on project objectives. In donor funded projects, financing risks as well as other risks such as political risks, technological risks, legal risks, economic risks are inevitable in the life of the project and, therefore, need to be well mitigated (Aven, 2015). This is so, since, most donor funded projects are competitive in nature and, therefore, carries the risk of innovation that requires the good strategies to hedge against loss.

Budgets help officials to check if the flows of revenues and expenditures during the fiscal period materialize as planned, and if operational adjustments are necessary. At the end of the fiscal period, comparisons of budgets with accounting final reports allow an evaluation of whether the flows of revenues and expenditures were in accordance with expectations or not. If linked to the laid down objectives, budgets allow for an assessment of its efficiency. In many instances, the administration system and accounting procedures in budget implementation are not well understood by the relevant authorities (Iratni, Djasuli, & Hayati, 2012). Bagoole (2011), in a review of periodic technical and financial reports of projects alongside interviews revealed that

timing of disbursement of funds was affected by funds accountability requirements by financial partners prior to disbursement of funds thereby affecting effectiveness of projects.

From the preceding discussions, it is evident that donor funding is indeed crucial for funding development projects such as the health programs. However, operating Regulations such as accountability and capacity makes it imperative for the donors to impose Regulations for funding. What has not yet been established is the extent to which some of these Regulations affect efficient fund utilization. In this study, fund utilization in the crucial health sector which draws approximately 45% of annual budget from external development partners is examined against the donor funding Regulations.

### **1.1.1 Donor Fund Programs**

The World Bank's Transforming Health Systems for Universal Care project intends to reach the poorest and most needy population who hardly use hospital services because they can neither afford or cannot access them. In close collaboration with other development partners, the project seeks to enhance coordinated support in pursuit of shared objectives of improving reproductive health. The project's support aims at building the Ministry of Health and counties capacity for implementing Universal Health Coverage reforms in Kenya will pave the way to improved access to health care services for the poor and enable Kenyans to realize their rights to quality health care as enshrined in the 2010 Constitution. It provides support to all the 47 counties to address critical gaps not currently funded by domestic or external funding and to build institutional capacity. The total cost of the project is \$191.1 million, of which \$150 million will be financed by an International Development Agency (IDA) credit, a \$40 million grant from the Multi-donor Trust Fund for the Global Financing Facility and \$1.1 million grant from the Government of Japan's Policy and Human Resources Development Fund (World Bank, 2016).

The UNDP program Making Devolution Work helps the national and county governments to have i) the capacity to strengthen the legal and institutional framework for a coordinated and effective transition to the devolved system of government and; ii) appropriate regulatory framework to enable the implementation



of responsive, accessible, participatory, equitable, transparent, and accountable service delivery systems (Making Devolution Work: An integrated UNDP Support Program to the Devolution Process in Kenya Project Document, 2014-2018). The four year program (2014-2018) has a budget of 35 MUSD, whereof 7.6 MUSD are currently committed (UNDP, 2016).

The USAID program AHADI is a five year devolution program aimed at improving service delivery and increase civic engagement in the devolution process. It is a cross sectoral program addressing both national and county level structures. Subject to the availability of funds the program budget is 50 MUSD over five years (2014-2019) (USAID, 2015). The EU Instrument for Devolution Advice and Support (IDEAS) has for specific objective of supporting the central and county governments' capacities in the responsible transfer and use of resources for the achievement of local economic development at the county level (IDEAS, 2015).

APHIA Plus is implementing a wide-reaching project called AIDS, Population, and Health Integrated Assistance Zone 1—or APHIA Plus - Western for short. Led by PATH and funded by the United States Agency for International Development, the initiative works with nearly 800 health facilities in 10 counties that hold more than 10 million people. The University of Maryland Baltimore Global Health Initiatives through its operating arm Maryland Global Initiatives Corporation (MGIC) Kenya runs the CDC funded PACT Endeleva Program. The program aim is to support the Implementation and Expansion of High Quality, Comprehensive, Integrated and Sustainable HIV Prevention, Care and Treatment Programs in Nairobi County under the President's Emergency Plan for AIDS Relief (PEPFAR) (APHIA Plus, 2017).

### **1.1.2 Donor Fund Regulations**

Studies have shown that donors usually issue threats of punishment in the event of non-implementation such as withdrawal of access to the agreed or prospective aid (Killick, 1998). According to Danida, the lender opens a separate account for the loan, and that disbursements, accrued interest etc., are allocated when due on a continuing basis. Separate accounts are kept of interest subsidy used for funding and any prepaid support in respect of each individual mixed credit. Upon final repayment of the loan and application of the interest subsidy for the agreed purpose, the Lender shall give

Danida notice thereof in writing. Finally, during the utilization period the Lender will issue quarterly statements of the loan account to Danida to facilitate follow-up on specific projects (Danida, 2017).

The World Bank's main instruments for assistance to its clients' countries are Development Policy Operations (DPOs) or Development Policy Lending (DPLs). A DPO can be a loan or a grant that provides financing "to help the borrower address the actual or anticipated development financing requirements. DPOs take place through a program with a policy and institutional focus that can target public finance management, the investment climate or the diversification of the economy to give a few examples (WB, 2009). DPOs emphasize country ownership, stakeholder consultation and donor coordination. The Operational Policy which details the functioning of the Bank's DPOs, states that the Bank makes its resources available if "the borrower (a) maintains an adequate macroeconomic framework, (b) implements its overall program in a manner satisfactory to the Bank, and (c) complies with the policy and institutional actions that are deemed critical for the implementation and expected results of the supported program (WB, 2009).

The requirements for World Bank include crediting the amount of the Loan to the Loan Account in the Loan Currency. If the loan is denominated in more than one currency, the Bank divides the loan account into multiple sub-accounts, one for each loan currency. The borrower may from time to time request withdrawals of amounts of the loan from the loan account in accordance with the provisions of the loan agreement and of the general Regulations. Each withdrawal of an amount of the Loan from the Loan Account shall be made in the Loan Currency of such amount. The Bank shall purchase such currencies as the borrower shall reasonably request to meet payments for eligible expenditures (WB, 2012).

When the IMF and client countries negotiate a loan, the program is described in a letter of intent (which often has a memorandum of economic and financial policies attached to it). It describes the policy reforms that the recipient country intends to undertake during the program. Disbursements can take place only upon its approval, or completion of reviews, by IMF's Executive Board. Programme approval or reviews are based on various policy commitments agreed with the country authorities through the letter of intent. These can take different forms: Prior actions are measures that a

country agrees to take before the IMF's Executive Board approves financing or completes a review. Quantitative Performance Criteria (QPCs) are specific macroeconomic and measurable Regulations that have to be met to complete a review (IMF, 2015).

## **1.2 Statement of the Problem**

In almost all of sub-Saharan Africa there is a high degree of indebtedness, high unemployment, absolute poverty and poor economic performance. The average per capita income in the Province has fallen since 1970 despite the high aid flows. Donor funded projects in South Africa and in other parts of Africa were found to be experiencing challenges related to erroneous use of technology, monitoring and evaluation, empowerment of primary stakeholders, and accountability issues. Kenya has experienced major standoffs with the donor community in the past due to its policy environment, the latest being the foreign funds inflow caps introduced in 2013. As a result, donor funding disbursements have been short lived due to the continued uneasiness amongst the donors with Kenya's implementation of aid conditionalities. Delays in donor projects gestation has always been identified as a recurrent bottleneck constraining the performance of most operations. For over 50 years, the impact of foreign on social and economic development remains very small compared to the annual donations of over \$80 billion (Abuzeid, 2009). Studies point out to lack of proper supervision on the donor funds and the use of donations to implement political agendas among others (Alesina & Weder, 2002; Svenson, 2000). Donors have consistently given funding Regulations for their developmental aid and even explored different program financing models. Empirical evidence indicates that poor countries frequently abstain from implementing the Regulations that donors have set as a requirement for granting foreign aid. Still, it is found that the aid is disbursed irrespective of the recipient's implementation record. A number of studies done on absorption of donor funds have found that the actual annual absorption of these funds in many countries has been below fifty percent. If resources in donor-funded projects are not utilized as planned thereby resulting in low absorption, the following are the likely implications: Opportunity cost is lost, hence slower development of economy than planned; there is still payment of commitment fees to Development Partners; and cost over-runs of projects occurs. The World Bank concluded that even though the rate of compliance with the World Bank Regulations was only 50%, the release rate

of loans was nearly 100%. This, therefore, puts into question the effectiveness of the donor Regulations on the effective utilization of funds. The present study, thus, sought to explore this question in the context of the health sector in Kenya which is substantially funded through external donor funds.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective**

The general objective of the study was to establish the influence of donor Regulations on effective utilization of funds focusing on the health sector in the former Nyanza Province.

#### **1.3.2 Specific Objectives**

The specific objectives were:

- i. To determine the influence of financing Regulations on effective donor funds utilization in the health sector in the former Nyanza Province.
- ii. To examine the influence of administrative Regulations on effective donor funds utilization in the health sector in the former Nyanza Province.
- iii. To establish the influence of risk management Regulations on effective donor funds utilization in the health sector in the former Nyanza Province.
- iv. To determine the influence of financial reporting Regulations on effective donor funds utilization in the health sector in the former Nyanza Province.

### **1.4 Research Hypotheses**

The study was based on the following hypotheses:

**H<sub>01</sub>:** Financing Regulations have no significant effect on effective donor funds utilization in the health sector in the former Nyanza Province.

**H<sub>02</sub>:** Administrative Regulations have no significant effect on effective donor funds utilization in the health sector in the former Nyanza Province.

**H<sub>03</sub>:** Risk management Regulations have no significant effect on effective donor funds utilization in the health sector in the former Nyanza Province.

**H<sub>04</sub>:** Financial reporting mechanisms have no significant effect on effective donor funds utilization in the health sector in the former Nyanza Province.

### **1.5 Significance of the Study**

There is growing need to use Donor Fund Organizations to spur economic development in Kenya today hence the need to have these institutions capable of governing themselves properly through proper financial utilization and control. This

is important because of the following reasons: Firstly, if the projected operating results are unsatisfactory, management can “go back to the drawing board” reformulate its plans, and develop more reasonable targets for the coming period. Secondly, it is better to know a problem in advance and tackle it than when it is too late and bring operations to a halt. The Donor Fund Organizations officials in the former Nyanza Provinceas other donors may use the findings to strengthen their financial control practices to enhance achievement of objectives thus making them more effective. The Donor Fund Organizationsand other donors funding the projects will also be in a position to identify the gaps hence support the Donor Fund Organizationsby building their capacities in Financial Management. For the scholars that may be interested in pursuing knowledge in related areas, this study will provide some critical insights and guidelines on the factors that influence financial control practices and suggestions on areas that require further research. The government may also use the findings together with others from similar studies to enlist the support of the Donor Fund Organizationsin carrying out interventions and other community support programs. The findings are also meant to be used together with others in policy formulation.

### **1.6 Scope of the Study**

This study investigatedthe influence of donor Regulations on effective utilization of donor funds focusing on the health sector inCounties in the former Nyanza Province, that is; Kisii, Kisumu and Homa Bay Counties. As such, the study drew its population from agencies implementing donor funded health sector projects stationed in these areas. It involved collection of primary data from6 organizations with projects in the former Nyanza Provincefrom which 36 fund management team members, 36 accountants, 18 auditors, and 42 fund evaluation team members making a total of 132 respondents. The study focused on four independent variables financing Regulations, administrative Regulations, risk management Regulations and financial reporting mechanisms. The study was undertaken over a period of 3 weeks in October and November 2017. The project cost a total of Kenya shillings 109,500/=.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter reviews the literature relevant to the current study with a critical focus on influence the influence of donor Regulations on effective utilization of donor funds. It gives the theoretical review, conceptual framework, and the empirical literature relevant to the study. By critically evaluating gaps in the previous research studies, this chapter provided information to support the study.

#### **2.2 Theoretical Review**

A theory is a set of interrelated principles and definitions that present a systematic view of the phenomena by specifying relationships among variables with the purpose of explaining natural phenomena. Theoretical frameworks are explanations about the phenomena (Camp, 2001) and they provide the research with the lens to view the world clearly (Merriam, 2001). The study will be guided by the Agency Theory and the Resource Dependency Theory.

##### **2.2.1 Agency Theory**

Agency theory was first written by Alchian and Demsetz (1972) and further developed by Jensen and Meckling (1976). Agency theory addresses the relationship where in a contract one or more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. Agency theory is concerned with resolving problems that can exist in agency relationships; that is, between principals such as shareholders and agents of the principals for example, company executives. Agency theory addresses the problems that arise when the desires or goals of the principal and agent are in conflict, and the principal is unable to verify what the agent is actually doing and the problems that arise when the principal and agent have different attitudes towards risk. Because of different risk tolerances, the principal and agent may each be inclined to take different actions.

As demonstrated by Odedukun (2003), in this case, the donor can be referred to as the Principal whereas the recipient country is the agent. The donor determines the level of funds to be disbursed and channels the same to the borrower who acts based on aid Regulations agreements thereby deciding on expenditure patterns which eventually

lead to outcomes such as economic growth, infrastructure development, access to education and health care. The donor reviews these outcomes based on a structured monitoring and evaluation system and chooses the funding level to influence the choice of action by implementing partners and hence outcomes (Jensen &Meckling, 1976).

The theory acknowledges that different parties involved in a given situation with the same given goal will have different motivations. It states that there will always be partial goal conflict among parties, efficiency is inseparable from effectiveness, and information will always be somewhat asymmetric between principal and agent (Nikkinen&Sahlström, 2004). Jensen and Meckling (1976) assert that stakeholders may have differing interests as opposed to a single agent. The national government or the county government may be in possession of information which donors may not have and may not readily or wholly supply the donor with all critical information for decision making and therefore methods for aligning these must be crafted so that both parties are not disenfranchised. One method is use of loan protocol document which among other things contains disbursement procedures that must be complied with, hence trust is created. However, these alignments sometimes tend to favor the donor at the expense of the recipient country to an extent that funds disbursement becomes so erratic and unpredictable (Keng'ara, 2013).

The Agency Theory is relevant to this study because the donor and the implementing partner in this case the County Government of Kisii are unitary entities whereby the county government is represented by only a set of preferences while the donor is concerned more with the poor than with the county government itself. Therefore the donor is able to institute conditionalities in loan protocol agreement based on actions by the recipient. The donor can induce appropriate county government action through offer of unconditional funds disbursement. This makes the donor dominant and better off given his preferences and the assumption that the donor cares more for the poor than the poor's own government hence the borrower has no choice.

According to Walker 2003, the agency theory model is anchored on the fact that information asymmetries and pursuant of self-interests, principals lack basis to trust their appointed agents and will seek to mitigate these concerns by putting in place

mechanisms to align the interests of agents with principals and to reduce the scope for information asymmetries and opportunistic tendencies (Keng'ara, 2013).

### **2.2.2 Efficiency Theory**

In economics, the term economic efficiency refers to the use of resources so as to maximize the production of goods and services Sullivan and Shefrin (2003). An economic system is said to be more efficient than another (in relative terms) if it can provide more goods and services for society without using more resources. In absolute terms, a situation can be called economically efficient if a) No one can be made better off without making someone else worse off (commonly referred to as Pareto efficiency). b) No additional output can be obtained without increasing the amount of inputs. c) Production proceeds at the lowest possible per-unit cost. These definitions of efficiency are not exactly equivalent, but they are all encompassed by the idea that a system is efficient if nothing more can be achieved given the resources available.

There are two main strains in economic thought on economic efficiency, which respectively emphasize the distortions created by governments (and reduced by decreasing government involvement) and the distortions created by markets (and reduced by increasing government involvement). These are at times competing, at times complementary – either debating the overall level of government involvement, or the effects of specific government involvement. Broadly speaking, this dialog is referred to as economic liberalism or neoliberalism, though these terms are also used more narrowly to refer to particular views, especially advocating laissez faire. Further, there are differences in views on microeconomic versus macroeconomic efficiency, some advocating a greater role for government in one sphere or the other (Barr, 2004).

A market can be said to have allocative efficiency if the price of a product that the market is supplying is equal to the value consumers place on it, represented by marginal cost. Because productive resources are scarce, the resources must be allocated to various industries in just the right amounts, otherwise too much or too little output gets produced. When drawing diagrams for firms, allocative efficiency is satisfied if the equilibrium is at the point where marginal cost is equal to average revenue. This is the case for the long run equilibrium of perfect competition.

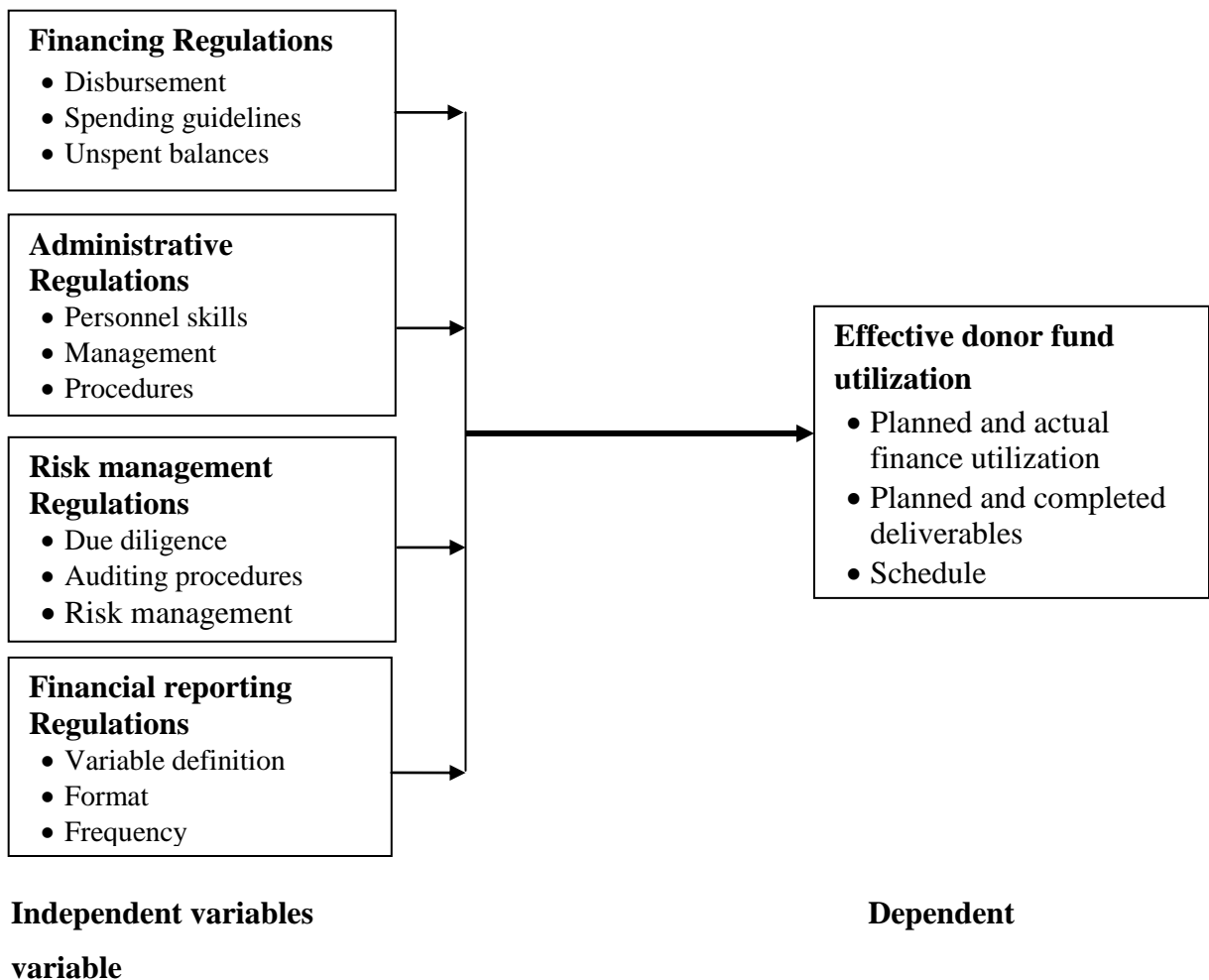


Productive efficiency is when units of goods are being supplied at the lowest possible average total cost (Barr, 2004).

The Efficiency Theory is applicable to the current study as donor agencies aim at having the maximum possible impact on the societies in which they institute intervention programs. However, they can only do this in partnership with the county or national government in a country. The Efficiency theory refers to the capacity of the implementing partner to produce desired results with a minimum expenditure of energy, time, money, personnel, materiel, etc. Funds received by the Kisii County Government for the Health Programs have to be efficiently utilized so as to achieve their stated objectives.

### 2.3 Conceptual Framework

According to Orodho (2013), conceptual framework covers the main features of a study and their presumed relationship.



**Figure 2.1: Conceptual Framework**

The conceptual framework in Figure 2.1 shows the expected relationships existing between the independent variables and the dependent variable. It is expected that donor financing Regulations measured through disbursement, spending guidelines and unspent balances will have a significant effect on the utilization of donor funds in health sector projects. The study also anticipates that donor stipulations on administrative Regulations especially in terms of personnel skills required for their mission, managerial set up and work procedures could significantly impact the effectiveness of fund utilization in the projects. Another variable of interest to the study that is, donor terms on risk management Regulations that is operationalized in this study by predictors such as due diligence, auditing procedures and risk management practices can considerably affect the utilization of donor funds in health sector projects. Finally, financial reporting mechanisms measured in this study in terms of definition, reporting format and reporting frequency are also theorized to affect the effectiveness of donor funds utilization in health sector projects.

## **2.4 Empirical Review**

In this section, a review of the study variables is done in relation to various study contexts in order to underpin the real issues behind donor Regulations and fund utilization by the County Governments.

### **2.4.1 Financial Regulations and effective donor funds utilization**

Governments from third world or developing countries have enjoyed lots of support and assistance from Multi-Donor agencies, countries and some financial institution like the World Bank and African Development Bank (ADB). This support includes the transfer of financial aid to partner countries. According to Chinulwa (2004), the flow of funds into developing countries plays an increasing role towards the budget process and services delivery in most African countries. These funds are brought in purposely for capacity building, skills development programs and lately, infrastructural development like roads, bridges, water and sanitation, and schools among others (Action Aid Report, 2011).

Consequently, there has been a shift in partnering agencies where donors now prefer to work with non-governmental organizations (NGOs) instead of the governments. Recent years have seen a rising involvement of Donor Fund Organizations in the development process (Edwards & Hulme, 2007). This phenomenon is partly a

consequence of dissatisfaction with government performance in the delivery of public services. Much of the dissatisfaction of donors with government public service delivery originates in concerns over corruption. The general sentiment is that civil servants running government schools and health centers are motivated by self interest, and this explains why they divert resources from the public (Reinikka & Svensson 2003; Lindelow, Reinikka & Svensson 2003).

Donors do set a number of Regulations that govern the entire disbursement of funds to recipients. It also sets out the accountability criteria for previously disbursed funds before additional tranches are released to PIUs. The process is rigorous and time consuming and moreover, the borrower must abide by all rules and regulations for disbursement of funds failure to which may lead to suspension of aid. Odedekun (2003) found that political process and pressures often lead to premature, as opposed to delayed disbursements of aid commitments. Political reasons have led to allocation of excessive funds even before conditionalities are met. The donor country may have vested interest in the loan disbursement process which may not be in the best of the recipient country. Ndaruhutse and Brannelley (2006) argue that there can be low absorption capacity of existing funds resulting in slower than predicted disbursement. Often, the issue of absorption capacity by PIUs is raised by donors and this may be due to weak procurement systems in the recipient country.

Terms and Regulations consist of precedent and subsequent loan Regulations, terms for repayment of the loans and penalties. The special Regulations of effectiveness are also referred to as Precedent Regulations to first loan disbursements. The first loan disbursement can only be released to the project account after all the required Regulations have been met by the Borrower. The Borrower is normally given defined time to fulfill all the precedent loan condition, otherwise commitment fee charged at 0.5 % per annum on undisbursed loan amount accruing 120 days, starting at loan signature date. (African Development Bank Group Loan Administration, June 2012)

The challenges posed by financial restrictions include inflexible scheduling of payments into multiple tranches; delayed payments; the requirement to return unspent balances; very short expenditure eligibility windows, particularly for budgetary surpluses allocated at the end of donor fiscal years; and limited flexibility to negotiate

no-cost extensions or re-allocations of funds to adapt to changed humanitarian requirements and operational circumstances. Un-earmarked funding allows organizations to internally prioritize funding to urgent life-saving activities in countries that are critically underfunded and receive little donor support or media attention. Earmarking of funds reduces the ability of humanitarian organizations to respond to the most urgent needs of affected people, was singled out as having a range of detrimental effects and was felt to be on the increase (IASC, 2016).

A study by Keng'ara (2014) on the effects of funds disbursement procedures on implementation of donor projects in Homa Bay County, Kenya revealed that there is delayed receipt of funds by projects of up to 15 months between suppliers' inability to honour contractual obligations and projects incurring cost overruns. Unresolved audit issues result in donors suspending aid and returning huge unspent funds to Treasury. The study also established that provision of staff to man key departments by donors is not a guarantee to completion of projects as scheduled.

#### **2.4.2 Administrative Regulations and effective donor funds utilization**

The effectiveness of donor funded projects is determined by both technical and managerial capacity of the human resources of the implementing agencies. In addition, appropriate supportive infrastructure is a necessity. According to Arndt (2000), the officers in the donor funds projects chain may lack the formal training in foreign aid management, budgeting and accounting. Weak skills may lead to poor understanding of the donor expenditure protocols resulting in ineligible expenditures, which lead to rejection for further funding by the donor. This may be affected by the quality and timeliness of the liquidation documents which complicate the donor fund release, with obvious implications on levels of donor aid effectiveness (Ouma, 2012).

A study by Adelman (2000) found that regularly imposing Regulations to the aid offered is not totally bad idea, it all matters on the type of Regulations imposed, as all are not having the same effects. He described the four different aid tying and are given as follows: ODA loans are provided on the premise that the recipient country returns the money with interest according to the financial terms stipulated in the loan agreement: ODA grants and loans can be tied to procurement in the donor country or, in case of partial tying, in the donor country as well as a certain number of specified

developing countries; ODA grants and loans may be tied for specific development projects under supervision of the donor; and in the case of program aid the money is committed and disbursed in accordance with the recipient country's compliance with an agreed set of policies vis-à-vis the domestic economy (Adelman, 2000).

In World Bank funded projects before expenditure is incurred a no objection has to be sought from the World Bank office and this delays the process and may lead to collapse of the process especially when it is not approved. This therefore means there is no flexibility on the side of the recipient of the aid as well as lack of confidence by the donor on the proper use of the funds. As stated in the World Bank consultancy guideline revised July 2014, when, under time based contracts, the services are of a routine nature or do not require an innovative approach, the Borrower may, subject to the Bank's no objection, require the consultants to include in their proposal the same level of experts' time inputs as indicated in the Request for Proposal RFP, failing which their financial proposal shall be adjusted for the purpose of comparison of proposals and decision for award (World Bank, 2014).

Other conditionalities that must be met by the requisitioning government before any approvals include, but not restricted to:-provision of counterparts funds by respective government, establishment of Project Implementation Units (P.I.U.s) to run the project and opening of offshore account where funds are channeled in hard currency (Keng'ara, 2014). Ouma (2012) did a study on factors affecting the effective implementation of donor funded projects in Kenya. The findings revealed that lack of/or inadequate human resource capacity (Knowledge and skills); lack of accountability (overstatement of prices and use of substandard materials); insecurity; disagreements among beneficiaries; and social-cultural obstacles.

Keng'ara (2014) in his study of Disbursement Performance in Kenya recommends that to reduce the delay between signing the loan agreement and first disbursement the PIU must be constituted. Nkamlue, Tourino and Edwin (2011), also supports that approval of project at later stage of the procurement process including adequate capacity assessment before board approval of the loan would help reduce delays in loan effectiveness. This implies that precedent loan Regulations will be fulfilled at

much earlier stage before approval or signing of the project loan thus eliminating unnecessary delays in loan effectiveness

### **2.4.3 Risk management Regulations and effective donor funds utilization**

Risk is defined as the exposure to the chance of occurrences of events adversely or favorably affecting project objectives as a consequence of uncertainty (Walewski, 2003). The source of risk includes inherent uncertainties and issues related to the company's fluctuating project margin, competitive bidding process, job site productivity and the political situation, inflation, contractual rights, and market competition (Rezakhan, 2012). Risk assessment is the process used by an organization (management) to decide how it will deal with the risks that pose a threat to achieving its objectives (Farrugia, 2002). It entails the identification and prioritization of objectives, the identification of risks and assessment of their likelihood and impact. Consequently Jones (2008), looks at risk assessment as the identification, evaluation and management of risks. He further notes that risks can relate, to financial statement fraud or to the misappropriation of assets.

Aven (2015) opined that, it is important for organizations carrying out intervention projects to face uncertain risks by assessing their effects on the project objectives because a risk quantitative method enables them to decide which of the projects is more risky, planning for the potential sources of risks in each project, and managing each source during construction. It is important that risk is distinguished from uncertainty. The one is measurable uncertainty, the other is immeasurable risk. Therefore, methods for managing risks involve Risk avoidance or prevention, Risk control (loss control or risk mitigation) Risk transfer and Risk retention.

Risk monitoring and control is the processes of keeping track of the identified risks, monitoring the residual risks and identifying new risks. This process should also ensure the execution of the risk plan and continually evaluate the plan's effectiveness in reducing risk (Finkler, 2005). Resource allocations can also be monitored as these too will have been pre-planned and, where appropriate, allocated to the agreed actions (Hendrick, 2000). According to time value of money concept, individual investors prefer possession of a given amount of cash now rather than the same amount at some

time in future. This is mainly attributable to uncertainty of cash flows (risk), preference for consumption, and availability of investment opportunities (Keng'ara, 2014). The GOK requires timely receipt of funds by PIUs in order to implement projects as scheduled in the annual work plans and budget lest the purchasing power is eroded with passage of time leading to overall cost escalation hence implementation bottlenecks.

Following much disillusionment with previous top-down approaches, most donor agencies, including governments from developed countries and international organizations, are rushing to adopt with a lot of enthusiasm the so called participatory, or community-driven approach to development. Such an approach, which has long been on the agenda of Non-Governmental Organizations (NGOs) working in or with developing countries, seems to hold much promise for reducing poverty and increasing aid effectiveness. In order to persuade their constituencies or supporters that the new strategy works well, donor agencies need rapid and visible results and, since they have sizeable financial resources at their command, they typically want to disburse them within a short period of time. This approach carries with it obvious risks.

The natural tendency is then to spread them widely so as to reach as large a number of village communities as possible. Such a rush is problematic in so far as communities need to evolve and be institutionally strengthened if they are to achieve the objectives of the participatory approach: economic growth, democratic governance, sustainability, equity and protection of the poor (Platteau & Abraham, 2002). Lack of capacity building especially the building of organizational skills at community level and lack of 'ownership' of the projects by the beneficiary groups have been recognized to be among the main limitations of the World Bank's social funds program. According to this assessment, the program remains too much driven by a supply-led approach rather than being responsive to the needs of rural people as a participatory approach should be (Narayan & Ebbe, 2007; Tandler, 2000). As pointed out by Berg (2007) in a broader context, it too often happens that the requirement of a rapid and effective implementation of aid programs drives the donors to adopt policies that are detrimental to the development of local capacities.

Mismanagement of aid transfers can obviously occur in societies in which landed elites use their dominant economic, social, and political position to appropriate for themselves whatever portion of the resources that they need and to let the poor have the leftovers only (Conning & Kevane, 2002; Bardhan & Mookherjee, 2000; Bardhan, 2002). As aptly noted by Brett (2009), participatory systems are rarely a response to demands from local people who may well be locked into hierarchical and deferential structures, but rather promoted in response to western values imported by donors. This obliges local communities to develop different kinds of organization from those they have used in the past, thus demanding new skills and the ability to overcome local opposition if they are to succeed. Participatory development, therefore, “cannot be treated as a process in which facilitators merely ‘enable’ local people to do what they would have wanted to do anyway” (Platteau & Abraham, 2002).

The traditional elite are not the only category of persons to benefit from the newly channeled resources since they are frequently involved in tactical alliances with educated persons and politicians operating outside the village domain. Thus, in Sub-Saharan Africa, it is a frequent practice for chiefs to coopt new elites in their village ‘associations’, for example by creating neo-traditional titles that are then sold to the new rich eager to acquire a political base in the countryside (Geschiere, 2004; Bayart, 2009). In the other way around, the urban, rather than the rural elite may be responsible for initiating the process that deflects the participatory development program from its intended purpose. Witness to it is the rapid multiplication of national Donor Fund Organizations that are created at the initiative of educated unemployed individuals, politicians, or state employees who may have been laid off as a result of structural adjustment measures. These people, acting as ‘development brokers’, have been quick to understand that the creation of an NGO has become one of the best means of procuring funds from the international community (Bierschenk, de Sardan & Chauveau, 2000).

#### **2.4.4 Financial reporting Regulations and effective donor funds utilization**

An important function of accounting and financial reporting is to assist in the analysis and evaluation of organizations. In the commercial sector, financial statement users look at measures of profitability or leverage to make judgments about a firm’s performance. However, in the not-for-profit sector, there is not a similar profit motive or an ability to reward equity stakeholders. It is therefore imperative to determine



which accounting measures provide financial statement readers with useful information for evaluating the operations of not-for-profit (NFP) organizations. Gordon and Khumawala (1999) suggest that several factors influence the decision to make a charitable contribution. These include preference for the cause to which the entity is dedicated, discretionary income, religious affiliation and personal belief in altruism. Once a donor has decided to give a certain amount to a particular cause, accounting reports may be used to select a particular organization. Accounting researchers explore whether and how donors use accounting information when making donation decisions. Studies to date incorporate a number of accounting data and financial ratios to demonstrate that donors benefit from the financial statements from NFPs.

Donor reporting requirements can divert critical time, resources and focus away from humanitarian implementation. In some cases they can be fragmented, duplicative and excessive, with organizations describing examples of spending disproportionate amounts of time customizing reports to multiple donor formats and content requirements. Parsons (2003) proposes that the efficiency of operations and the financial stability of the organization are the most important factors used by donors faced with a giving decision. Weisbrod and Dominguez (1986) infer that the quantity of information available to donors influences donations. Tinkelman (1999) suggests that the importance of accounting information is dependent on the quality of the information provided. He shows that the relationship between donations and his proxy for efficiency is affected by the proxies for information quality.

Parsons (2003) defines efficiency as the degree to which NFPs direct their available resources to the organization's mission. This measure indicates the average portion of each contribution that reaches the organization's beneficiaries. Hyndman (1991) and Khumawala and Gordon (1997) report that donors' principal financial concern is the percentage of expenses dedicated to programs. Watchdog agencies, such as the Better Business Bureau's Wise Giving Alliance and the American Institute of Philanthropy, guide donors to focus on this aspect of NFP performance and offer suggestions on minimum acceptable levels. Several proxies for efficiency appear in the nonprofit literature.

Financial stability is defined as an NFP's ability to continue to operate in the future (Parsons (2003)). In addition to knowing that an NFP works efficiently, donors want to know whether an organization can continue to operate in the future (analogous to a measure of “going concern”). Anthony (2013) asserts that, just like business entities, NFPs must maintain positive net equity, with assets in excess of obligations, in order to operate. Mautz (2008) and Pallot (2010) suggest that donors are interested in NFPs’ future cash commitments and the ability to fulfill their obligations. Tuckman and Chang (2001) suggest four measures to assess an organization’s financial condition. Greenlee and Trussel (2000) and Trussel and Greenlee (2004) find that Tuckman and Chang’s stability measures are useful for predicting the financial vulnerability of a charitable organization. Parsons and Trussel (2003) find that certain stability measures are positively linked to total donations. Tuckman and Chang’s (2011) stability measures are defined below.

Garner (2008) points out that all non-profit making organizations have a common objective; they all have many of the same needs for financial information. Thus the accounting, financial system and financial reports are similar to profit making organizations. However, because of the differences in organizational objectives, financial procedures are modified to suit the specific type of organizations. In his study of CBOs in Western Kenya, Wanyama (2001) observes that most CBOs do not have qualified personnel, lack sufficient resources, have inefficient systems in place and officials have self-interests and are corrupt. Many small CBOs also cannot afford to engage auditors as they are very expensive and given that their funder’s require them to have an annual audit by a registered audit firm it means that they should request funding for this by including it in the budget as a line item.

In order to generate charitable contributions, NFPs must alert potential donors to the mission of the organization and the plight of its beneficiaries. Fundraising efforts work similarly to advertising by providing potential donors with information about organizations and their operations. A study by Hansmann (2000) found that donors rely on information from NFPs for assurance that donations are used appropriately. Gordon et al. (2009) claim the widespread availability of accounting reports impacts donors (and thereby total contributions) and other financial statement users. Each of these papers implies that donors are more likely to make contributions to NFPs when

they have adequate information for doing so. The quantity of information donors receive is difficult to measure directly, but two proxies for quantity of information have been used in the previous literature. The Financial Accounting Standards Board argues that the reliability of information determines its usefulness to financial statement users. Tinkelman (2009) also states that donors are influenced by the reliability of information and suggests the following measures may assist in ascertaining the reliability or quality of financial statement information.

Hendrickse (2008) points out that NGO financial management should include: keeping an accurate record of all financial transactions; linking the budget to the organization's strategic and operational plans; producing management accounts so that managers can compare the organization's progress against the budget and then make decisions about the future; producing financial statements for outside scrutiny to demonstrate how funds have been applied in the past; having internal controls or checks and balances in place to safeguard the organization's assets, and to manage risk and having an audit committee or auditor to assist in the quality and reliability of financial and other performance information used. Financial sustainability can be gauged by an organization's net income (the surplus of revenues over expenses); liquidity (the cash available to pay bills); and solvency (the relationship of assets and debt or liabilities).

For many donor organizations, the amount of time spent customizing reports to multiple donors' requirements (format, content, variable definitions of categories such as expenditures, varying timeframes and frequencies) is disproportionate. Some donors do not accept standardized or harmonized reports from humanitarian organizations. They may have specific requirements on customized narrative reporting, including photos or captions, or require complex reporting (indicator log-frames) which may need input from multiple staff across different agencies. Conversely, other donors may have reporting requirements that are not clearly specified and are thus difficult to anticipate (IASC, 2016).

A number of donors have agreed to common reporting requirements and accept general reports (e.g. UNHCR Global Report, WFP Standard Project Reports, OCHA Annual Report, WHO Syria Quarterly Donor Updates), eliminating the need for

separate donor reports. SIDA reporting requirements were also noted as a best practice as they involve interim reports only for projects longer than 12 months in duration, with financials only required for the project completion report (due 6 months after the project's conclusion for some organizations, or 18 months for final certified statements of some UNOs) (IASC, 2016).

## **2.5 Critique of Existing Literature**

Parsons (2003) found that donor reporting requirements can divert critical time, resources and focus away from humanitarian implementation. In some cases they can be fragmented, duplicative and excessive, with organizations describing examples of spending disproportionate amounts of time customizing reports to multiple donor formats and content requirements. Hansmann (2000) found that in order to generate charitable contributions, NFPs must alert potential donors to the mission of the organization and the plight of its beneficiaries. Fundraising efforts work similarly to advertising by providing potential donors with information about organizations and their operations. Hansmann (2000) further stated that donors rely on information from NFPs for assurance that donations are used appropriately. However, he did not explain the exact relationship between the donor community's requirements and utilization of the funds. The current study will seek to establish the impact of the donor conditionalities on the utilization of the funds. The preceding discussions have highlighted very important aspects of donor funding for programs worldwide. However, most of the studies seem to focus on funding to governments and little attention has been given to other subcontractors such as NGOs. However, the fundamentals of donor funding have been examined and it emerged that donors have now embarked on different models of funding in a bid to increase the levels of transparency and efficiency in fund utilization. However, the stipulations by donors on fund usage have not received considerable attention in literature and this warrants further investigations.

## **2.6 Research Gaps**

Majority of the previous studies have not examined how donor Regulations on disbursement affect the utilization of the funds in the specific projects. Instead the focus in most studies has been on the mechanisms and delays in disbursement. Regarding administrative Regulations requisite for donor funding and fund utilization,

it emerges that donor insistence on agency capacity coupled with delay leads to staff erosion. However, there was more stability in administration in public sector organizations as opposed to NGOs. Nonetheless, studies have not clearly pointed out how donor Regulations on administration translate to efficient management of funds donated for their activities. Donor reporting requirements can be fragmented, duplicative and excessive, with organizations describing examples of spending disproportionate amounts of time customizing reports to multiple donor formats and content requirements.

Studies on donor Regulations on program risks have shown that such programs face a myriad of risks which can at best be mitigated rather than eliminated due to their complex nature. However, existing studies have not shown the link between donor Regulations on risk assessment and fund utilization. Finally, in relation to financial reporting, it was established that transparency in reporting remains key to program implementation. Nevertheless, studies in this area have not revealed the financial reporting requirements by donors and how this affects fund utilization.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter gives detailed information on research methods, and the research design used in carrying out the study. It gives details on the location where the study was done, population of the study, sampling procedure and sample size, instrumentation, data collection and data analysis.

#### **3.2 Research Design**

The study used descriptive survey research design. This type of design is appropriate for gathering information, summarizing, presenting and interpreting it for the purpose of clarification (Orodho & Njeru 2004). According to Orodho (2005), descriptive survey research design can generate accurate information for large number of people over a wide area using a small sample. It is used to explore relationships between variables and allows generalizations across populations. Since this study sought to obtain descriptive and self-reported information on the influence of donor Regulations on effective utilization of donor funds focusing on the health sector in Nyanza Region, the descriptive research design enabled the researcher to expose the respondents to a set of standardized questions to allow comparison.

#### **3.3 Target Population**

The target population for this study comprised active Donor Funds in three Counties in the former Nyanza Province, that is, Kisii, Kisumu and Homa Bay all which have a significant presence of Donor Funds and partnering organizations in the health sector. These included the World Bank, DANIDA, Afya-Plus and University of Maryland that carry out interventions on reproductive health, infectious diseases control and public health and sanitation among others. Other donor funds such as USAID, DfID and GTZ were not included in the study since they had either moved their operations from the area or were not actively funding the health sector. The accessible population for the study were 132 officials in the 4 Funds. This comprised of 36 fund management team members, 36 accountants, 18 auditors, and 42 fund evaluation team members. The various managers of the Donor Fund Organizations were involved since they are expected to be best placed to articulate issues in the study as they have the conceptual view of the organizations of concern. The accountants and auditors were also targeted since they are in a position to give in depth information on fund utilization and constraints imposed. However, it should be noted that not all Donor Fund

Organizations in the area are in a position to hire their own accountants, hence, the reason why there are less accountants than project managers. The population was categorized as shown in Table 3.1.

**Table 3.1: Sampling Frame**

<b>Respondent Type</b>	<b>Target Population</b>
Fund management team members	36
Accountants	36
Project Auditors	18
Fund evaluation team members	42
Total	132

Source: Field Data from Donor Funds (2017)

### **3.4 Sampling Procedure and Sample Size**

Sampling may be defined as the selection or some part of an aggregate or totality on the basis of which a judgment or inference about aggregate or totality is made. In other words, it is the process of obtaining information about an entire population by examining only a part of it (Kothari, 2004). Frankel and Wallen (2000) defined sampling as a procedure of selecting members of a research sample from the accessible population which ensures that conclusions from the study can be generalized to the study population. A sample is a smaller group obtained from the accessible population and each member has equal chance of being selected to be a sample. It is also a finite part of a statistical population about the whole (Mugenda & Mugenda, 2003). The present study used stratified random sampling in order to obtain the required sample size.

#### **3.4.1 Sample Size Determination**

Since the target population is small, that is, 132 persons drawn from the area, to obtain the required sample size from the study adopted the formula proposed by Israel (2009);

$$n = \frac{N}{1 + N(e)^2}$$

Where,

N= the total population under consideration, in this case, 132 persons

$e$  = level of significance, in this case 0.05 or 5%

Substituting these values into the equation, we obtain

$$n = 99.24 \approx 99 \text{ respondents as the required sample size}$$

Therefore the sample size comprised of 99 respondents. This sample size was larger than 30 and hence amenable to most methods of statistical analysis.

### 3.4.2 Sample Selection

Stratified random sampling was also ideal for the other respondents as it has the characteristic of providing each member of the target population in their strata an equal chance of being included in the study while at the same time keeping the size manageable. The main factor that was considered in determining sample size is the need to keep it manageable while being representative enough of the entire population under study (Kothari, 2004). The derived sample size was distributed in the sampling frame as shown in Table 3.1.

**Table 3.2: Target Population and Sample Size**

<b>Respondent type</b>	<b>Population</b>	<b>Sample size</b>
Fund management team members	36	27
Accountants	36	27
Project Auditors	18	14
Fund evaluation team members	42	31
<b>Total</b>	<b>132</b>	<b>99</b>

Source: Field Data from Donor Funds (2017)

### 3.5 Data Collection Instruments

The study used questionnaires (Appendix II) as data collecting instruments. Both closed and open ended items were used in the questionnaire. The selection of these tools was guided by the nature of data to be collected, time available and the objectives of the study. It has quite a number of advantages which include: confidentiality; time saving; and reduced interviewer bias. Questionnaires also have the advantages of low cost, easy access, physical touch to widely dispersed samples (Fowler, 1993) and also the fact that the results are quantifiable. However, the use of questionnaires requires careful preparation as it could easily confuse the respondents, discourage them, or simply fail to capture important information needed in the study (Mugenda & Mugenda, 2003). This enabled the researcher to reduce both researcher and respondent biases.



### **3.6 Validity and Reliability of the Instruments**

#### **3.6.1 Validity Test**

Validity and reliability was established for standardization of the research instruments used in the study. The study opted for the content validity method of instrument validation. Content validity which is sometimes called logical or rational validity and face validity - which is personal judgment on the respondents capability in understanding the concepts of the instrument and whether it addresses the research problem - of the research instruments was established in order to make sure that they reflect the concepts of budgeting in devolved set ups. First, the researcher went through the instruments and compared them with the set objectives and ensured that they contain all the information to answer the set questions and address the objectives. Secondly, expert judgment of the research supervisor was used to test the validity of the research instruments.

#### **3.6.2 Reliability Test**

To test reliability the study employed the internal consistency method which is a correlation method that measures the reliability of alternate items in the questionnaire based on responses from the pilot study (Kothari, 2003). The pilot study was carried in Migori County out to assess the effectiveness of the data collection instruments before venturing fully into data collection. The pilot study was carried out on a population that is similar to the target population. The results from the pilot study were subjected to the Cronbach's reliability test for internal consistency. Cronbach's Alpha was calculated and used as a measure of internal consistency. It measures how well a set of variables or items measure a single one dimensional aspect of an individual. According to Fraenkel & Wallen (2000), a Cronbach reliability coefficient  $\alpha = 0.70$  or more indicates that the instrument is highly reliable and, therefore, usable for the study. Subsequently, modifications, additional questions and any shortcomings that were found in the questions were duly corrected at this stage.

#### **3.6 Data Collection Procedures**

Questionnaires were administered to the respondents by the researcher directly to the respondents so as to make clarifications as may be required. The researcher arranged visits to the Donor Fund Organizations for familiarization purposes and to seek permission from the administration/management concerning the intended study and make arrangements for the dates of data collection. The respondents were approached

through the management separately before the questionnaires are administered. Care was taken to ensure that scoring is done correctly and systematic observations made.

### **3.7 Data Analysis and Presentation**

Data obtained from the questionnaires was first cleaned and edited before being coded and subjected to further analysis. The Likert scales in closed ended questions in the questionnaires were converted to numerical codes and be scored on 1-5 point scale in order of magnitude of the construct being measured, then be entered into the Statistical Package for Social Sciences (SPSS) version 21.0 computer program. The data was analyzed using both descriptive and inferential statistical methods. Descriptive analysis was done using, means and standard deviations to describe the basic characteristics of the population. Inferential statistics involved the use of Pearson's Product Moment correlation and multiple regression models to determine the nature of the relationship between the variables. The multiple regression model was assumed to hold under the equation;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$$

Where;

$y$  = Effective Utilization of Donor Funds

$\beta_0$  = Constant

$X_1$  = Financing Regulations

$X_2$  = Administrative Regulations

$X_3$  = Risk Management Regulations

$X_4$  = Financial Reporting

$\beta_1$  to  $\beta_4$ , are the coefficients of the variables to be determined by the model

$e$  = the estimated error of the regression model

## CHAPTER FOUR

### DATA ANALYSIS, PRESENTATION AND DISCUSSIONS OF FINDINGS

#### 4.1 Introduction

This chapter presents results arising from the analysis of data collected using questionnaires. The data collected was analysed using descriptive and inferential statistical methods for each variable and the findings presented in tabular summaries, and their implications discussed.

##### 4.1.1 Response Rate

Table 4.1 shows the response rate of the questionnaires.

**Table 4.1: Response Rate**

<b>Target No. of respondents</b>	<b>No. of questionnaires Returned</b>	<b>Response Rate (%)</b>
99	84	85

The high questionnaire response rate (85%) shown in Table 4.1 resulted from the method of administration of the instrument, which was in this case self-administered. This was acceptable according to Mugenda and Mugenda (2003). This method also ensured that the respondents' queries concerning clarity were addressed at the point of data collection; however, caution was exercised so as not to introduce researcher bias in the process. The other questionnaires were either not returned or were found to be unusable for the study; hence, their results were not included in the findings.

#### 4.2 Demographic Characteristics of the Respondents

The study sought to determine the demographic characteristics of the respondents as they give some basic insight about the respondents. The characteristics considered in the study were; range of ages of the respondents; gender; highest level of education attained by them and; work experience in the banking sector. The findings on these are summarized in Table 4.2

**Table 4.2: Demographic Characteristics of the Respondents**

<b>Variable</b>	<b>Category</b>	<b>Frequency</b>	<b>Percentage(%)</b>
Gender	Male	46	55
	Female	38	45
Level of study	Undergraduate	65	77
	Post-Graduate	19	23
Work Experience in the Donor Projects	Less than 3yrs	44	52
	3 - 6 yrs	23	28
	7 yrs and above	17	20

The results in Table 4.2 indicate that majority 55 % of the respondents were male, though there were high number of females suggesting that there was higher gender representation in recruitment and appointment in the donor funded projects. The results also suggest that the highest academic qualifications of most (77%) of the respondents was university undergraduate level and that most (52%) had worked in the donor funded projects for less than five years. These demographic characteristics provide a clear spectrum of the employee's basic background information. Hence, their conversance with the study problem and their capability to provide reliable information for the study could be reasonably expected.

#### **4.3 Financing Regulations and Effective Donor Funds Utilization**

The first objective of the study was to determine the influence of financing Regulations on effective donor funds utilization in the health sector in the former Nyanza Province. This objective was determined by posing several statements related to the extent to which donor agencies imposed financing Regulations on the management of projects they funded in the areas. A five point Likert scale was used to rate responses of this variable and it ranged from; 1 = strongly disagree to 5 = strongly agree and was analyzed on the basis of the mean score and standard deviation. The closer the mean score on each item was to 5, the more the agreement concerning the statement. A score around 2.5 would indicate uncertainty while scores significantly below 2.5 would suggest disagreement regarding the statement posed. The findings are presented in Table 4.3.

**Table 4.3: Financing Regulations and Effective Donor Funds Utilization**

<b>Statement</b>	<b>SA Freq (%)</b>	<b>A Freq (%)</b>	<b>N Freq (%)</b>	<b>D Freq (%)</b>	<b>SD Freq (%)</b>	<b>Mean</b>	<b>Std. Dev</b>
The rules and regulations for disbursement of funds are rigorous and time consuming leading to delays	5(6)	70(83)	4(5)	4(5)	1(1)	3.88	0.629
The disbursement procedures are usually cumbersome and lead to delays in project implementation	9(11)	45(54)	5(6)	17(20)	8(9)	3.6	0.576
The donor agency usually requires accountability for the previous disbursement(s) before releasing the funds	8(23)	15(43)	5(14)	4(11)	3(9)	3.38	0.774
The time required for fulfillment of all the precedent funding Regulations before disbursement of funds is usually enough	14(17)	52(62)	7(8)	9(11)	2(2)	3.81	0.835
Political pressures sometimes lead to premature disbursement of funds	17(20)	32(38)	28(33)	5(6)	3(3)	3.66	0.946
Political pressures sometimes lead to delayed disbursement of funds	14(17)	48(57)	17(20)	3(4)	2(2)	3.83	0.838
Delays in disbursing funds are sometimes costly to the project implementation	4(5)	36(43)	36(43)	7(8)	1(1)	3.43	0.764
Disbursements are usually done following scheduled tranches that are favorable to the implementing partner	9(11)	49(58)	11(13)	11(13)	4(5)	3.57	1.009
<b>Aggregate Score</b>						<b>3.645</b>	<b>0.796</b>

The results in Table 4.3 suggest that the rules and regulations for disbursement of funds were perceived by the respondents as being rigorous and time consuming leading to delays (Mean = 3.88). The disbursement procedures were usually cumbersome leading to delays in project implementation (Mean = 3.6). The findings also indicate that the donor agencies usually required accountability for the previous disbursement(s) before releasing the funds (mean = 3.38). Most of the donor agencies usually allowed enough time for fulfilment of all the precedent funding Regulations before disbursement of funds (Mean = 3.81). The findings, however, suggest that

political pressures led to premature disbursement of funds (Mean = 3.66) or to delayed disbursement of funds (Mean = 3.83). The findings also indicate that delays in disbursing funds whenever they happened were sometimes costly to the project implementation (Mean = 3.43). The disbursements were usually done following scheduled tranches that are favorable to the implementing partner (Mean = 3.57).

These findings indicate that the donor financing Regulations on projects insulated the projects fund from interference by external actors and ensured that there was high compliance with the Regulations leading to prompt disbursement in most cases. Therefore, the financing Regulations were expected to translate to effective utilization of project funds. These findings particularly the one on cost implications of delayed fund disbursement are consistent with those of Keng'ara (2014) whose study revealed that delayed receipt of funds by projects of up to 15 months led to suppliers' inability to honour contractual obligations and projects incurring cost overruns. However, with regard to the effects of political externalities, the findings departed from the views of Oddekun (2003) who established that political process and pressures often lead to premature or delayed disbursements of aid commitments.

#### **4.4 Administrative Regulations and Effective Donor Funds Utilization**

Determining the influence of administrative Regulations on effective donor funds utilization in the health sector in the former Nyanza Province was the second objective of this study. The status of this variable was described in terms of management requirements, training and internal controls. The responses were rated on a 5 point Likert scale ranging from; 1 = strongly disagree to 5 = strongly agree and were analysed on the basis of the mean score and standard deviation. The closer the mean score on each score was to 5, the more the agreement concerning the statement. A score around 2.5 would indicate uncertainty while scores significantly below 2.5 would suggest disagreement regarding the statement posed. These results are presented in Table 4.4.

**Table 4.4: Administrative Regulations and Effective Donor Funds Utilization**

	SA	A	N	D	SD		
<b>Statement</b>	Freq(%)	Freq(%)	Freq(%)	Freq(%)	Freq(%)	<b>Mean</b>	<b>Std. Dev.</b>
The Donor agency imposes strict Regulations on the managerial quality	12(14)	69(82)	2(2)	1(1)	1(1)	4.07	0.456
The Donor agency ensures there is the requisite human resource capacity to manage and implement the project	14(17)	47(56)	19(23)	2(2)	2(2)	3.84	0.824
Donor agencies require implementing partners to have consultants included in their proposal with the same level of experts' time inputs as indicated in the request for proposal	12(14)	50(59)	18(21)	5(6)	0	3.81	0.752
Donor agencies require that officers in the donor fund projects have formal training in foreign aid management.	12(14)	50(60)	22(26)	0	0	3.88	0.629
Our donors require that financial management systems are clearly defined, well managed, internally audited and verified by independent agents	26(31)	41(49)	16(19)	1(1)	0	4.1	0.738
Donor agencies require that officers in the donor fund projects have knowledge on budgeting and financial control	18(21)	49(58)	13(16)	4(5)	0	3.95	0.752
The Donor agency requires that all staff often undergo capacity building workshops	5(6)	38(45)	23(27)	13(15)	6(7)	3.28	0.834
Poor understanding of the donor expenditure protocols by administrators results in ineligible expenditures and rejection	9(11)	46(55)	18(21)	9(11)	2(2)	3.62	0.859
<b>Aggregate Score</b>						<b>3.819</b>	<b>0.734</b>

It is evident from the results in Table 4.4 that most of the donor agencies imposed strict Regulations on the managerial quality (Mean = 4.10) in the implementation of their projects. As such, the donor agencies sought to ensure there was the requisite human resource capacity to manage and implement the projects (Mean = 3.82). However, most donor agencies did not necessarily require implementing partners to have consultants included in their proposal to have same level of expertise and time

inputs as indicated in the request for fund proposal (Mean = 2.81). Nonetheless, most donor agencies required that officers in the donor fund projects have formal training in foreign aid management. (Mean = 3.88). The donors also required that financial management systems be clearly defined, well managed, internally audited and verified by independent agents (Mean = 4.18). They also required that officers in their fund projects possess knowledge on budgeting and financial control (Mean = 3.96). Moreover, most donors demanded that all staff regularly undergo capacity building workshops (Mean = 3.75) as poor understanding of the donor expenditure protocols by administrators results in ineligible expenditures and rejection (Mean = 3.64). Other findings indicate that most donor agencies usually required the implementing partner to establish Project Implementation Units (Mean = 3.61).

The aggregate score with a Mean of 3.819 suggests that the respondents were in agreement with most of the statements indicating that the donors often imposed strict administrative Regulations on their projects. The general implications of these findings are that the donor agencies were particularly keen on establishing a sound managerial base for their funded projects so as to improve the levels of financial controls and accountability without compromising the levels of service delivery. The findings agree with Ouma (2012) whose findings revealed that donors were keen on the managerial capability of the implementing agencies as lack of/or inadequate human resource capacity (Knowledge and skills) and lack of accountability (overstatement of prices and use of substandard materials) often presented formidable obstacles to the implementation of the projects. The findings also agree with Keng'ara (2014) on the donor requirement that the implementing agencies establish Project Implementation Units (PIUs) to run the project in order to increase the levels of efficiency.

#### **4.5 Risk Management Regulations and Effective Donor Funds Utilization**

The third objective of the study was to establish the impact of risk management Regulations on effective donor funds utilization in the health sector in the former Nyanza Province. The status of this variable was described in terms of due diligence, auditing procedures and risk management. A five point Likert scale was used to rate responses of this variable and it ranged from; 1 = strongly disagree to 5 = strongly agree and was analysed on the basis of the mean score and standard deviation. The closer the mean score on each score was to 5, the more the agreement concerning the



statement. A score around 2.5 would indicate uncertainty while scores significantly below 2.5 would suggest disagreement regarding the statement posed. These results are presented in Table 4.5.

**Table 4.5: Risk Management Regulations and Effective Donor Funds Utilization**

Statement	SA	A	N	D	SD	Mean	Std. Dev
	Freq(%)	Freq(%)	Freq(%)	Freq(%)	Freq(%)		
The Donor agency requires that internal controls instituted in the implementing organization be adequate to minimize risk	15(18)	43(51)	21(25)	4(5)	2(2)	3.81	0.51
The Donor agency requires that all risks be mapped and subjected to a voting system to establish their rank in order of severity	9(11)	9(11)	17(20)	43(51)	6(7)	2.68	0.814
The Donor agency requires that we rank the risks to a desirable risk level before we take further action	9(11)	13(15)	12(14)	45(54)	5(6)	2.71	0.773
Our donors require that control systems are clearly defined, well managed, internally audited and verified by independent agents	26(31)	41(49)	14(17)	1(1)	0	4.04	0.831
The Donor agency requires that we give priority to the risks with the highest impact on costs	12(14)	31(37)	12(14)	19(23)	10(12)	3.18	0.748
At times we are compelled to reevaluate the risks but this does not necessarily involve going back to the field	16(19)	38(45)	17(20)	8(10)	5(6)	3.61	0.712
Risk ranking helps us to scale down project costs	12(14)	14(17)	16(19)	29(35)	13(15)	2.79	0.603
<b>Aggregate Score</b>						<b>3.26</b>	<b>0.734</b>

Looking at the results in Table 4.5, it is evident that most donor agencies required that internal controls instituted in the implementing organization be adequate to minimize risk (Mean = 3.93). However, there was uncertainty over the requirement that all risks be mapped and subjected to a voting system to establish their rank in order of importance (Mean = 2.65). Similarly, there was uncertainty over donor agency requirements that risks rank be to a desirable risk level before further action was undertaken (Mean = 2.70). The findings also indicate that most donors required that

control systems are clearly defined, well managed, internally audited and verified by independent agents (Mean = 4.04). Most donors required that the risks with the highest impact on costs be prioritized (Mean = 3.18). Other findings indicate that sometimes the implementing agencies were compelled to reevaluate the risks but this did not necessarily involve going back to the field (Mean = 3.61). However, the findings also indicate that there was uncertainty over the value of risk ranking in helping to scale down project costs (Mean = 2.79).

The aggregate mean of 3.271 suggest that overall, there was some slight agreement with the statements indicating that risk ranking was not strongly emphasized by the donors. This was attributed to the fact that most of the projects they funded were in partnership with the government which indemnified the risks associated with the projects. The findings disagree with Finkler (2005) who pointed out that it is imperative for donor agencies to mitigate the funding risks by developing a risk plan, executing and continually evaluate the plan's effectiveness in reducing risk. The findings, however, agree with Hendrick (2000) who established that donor organizations expected the development partner rather than the implementing agency to shoulder the risks as they had capacity to do so. As such, the current findings suggest that risk profiling and mitigation was not emphasized as a condition by the donor agencies.

#### **4.5 Financial Reporting Regulations on Effective Donor Funds Utilization**

The fourth objective of this study was to determine the influence of financial reporting Regulations on effective donor funds utilization in the health sector in the former Nyanza Province. The status of this variable was described in terms of standardization, formatting and reporting frequency. A five point Likert scale was used to rate responses of this variable and it ranged from; 1 = strongly disagree to 5 = strongly agree and was analyzed on the basis of the mean score and standard deviation. The closer the mean score on each score was to 5, the more the agreement concerning the statement. A score around 2.5 would indicate uncertainty while scores significantly below 2.5 would suggest disagreement regarding the statement posed. The results are presented in Table 4.6.

**Table 4.6: Financial Reporting Regulations on Effective Donor Funds Utilization**

	SA	A	N	D	SD		
<b>Statement</b>	Freq(%)	Freq(%)	Freq(%)	Freq(%)	Freq(%)	<b>Mean</b>	<b>Std. Dev</b>
The Donor agencies require that the implementing partner uses a particular accounting system	22(26)	40(48)	8(10)	8(9)	6(7)	3.76	0.845
The Donor agencies require that the implementing partner subscribes to the international accounting standards	20(24)	44(52)	10(12)	8(10)	2(2)	3.86	0.714
The Donor agencies require that the implementing partner updates its accounting records regularly	26(31)	39(46)	13(15)	7(8)	0	4	0.621
The Donor agencies require that the implementing partner prepares financial reports on a timely basis	24(29)	40(48)	11(13)	7(8)	2(2)	3.95	0.82
The Donor agencies require that the project is audited annually	23(27)	37(44)	11(13)	7(8)	7(8)	3.74	0.995
The Donor agencies require that the implementing partner uses an appointed audit Committee for audit purposes	22(26)	34(41)	13(16)	9(11)	5(6)	3.71	0.847
The Donor agencies require that all audit recommendations are fully implemented	21(25)	35(42)	17(20)	8(10)	3(3)	3.76	0.83
The donor reporting requirements are cumbersome and time consuming	19(23)	30(36)	9(11)	17(20)	8(10)	3.43	0.96
<b>Aggregate Score</b>						<b>3.71</b>	<b>0.85</b>

The findings in Table 4.6 indicate that the donor agencies require that the implementing partner uses a particular accounting system (Mean = 3.76). Most donor agencies required their implementing partners to subscribe to the international accounting standards (3.86). The implementing partners were also required to update their accounting records regularly (Mean = 4.00) and file timely financial reports (Mean = 3.95). The findings also indicate that the donor agencies required that the project be audited annually (Mean = 3.74) and that the implementing partner uses an appointed audit Committee for audit purposes (Mean = 3.71). In addition, the donor agencies required that all audit recommendations are fully implemented (mean = 3.76). Other findings, however, indicate that most of the respondents found the the donor reporting requirements cumbersome and time consuming (Mean = 3.43) as they contained a considerable amount of duplication. The aggregate mean of 3.71 with a

standard deviation of 0.85 suggest that there was a lot of agreement with the statements indicating that the donor agencies were keen on their reporting requirements and that this was well communicated to their implementing partners. Gordon and Khumawala (1999) suggest that several factors influence the decision to make a charitable contribution. These include preference for the cause to which the entity is dedicated, discretionary income, religious affiliation and personal belief in altruism. Once a donor has decided to give a certain amount to a particular cause, accounting reports may be used to select a particular organization.

Donor reporting requirements can divert critical time, resources and focus away from humanitarian implementation. In some cases they can be fragmented, duplicative and excessive, with organizations describing examples of spending disproportionate amounts of time customizing reports to multiple donor formats and content requirements. Parsons (2003) proposes that the efficiency of operations and the financial stability of the organization are the most important factors used by donors faced with a giving decision. Weisbrod and Dominguez (1986) infer that the quantity of information available to donors influences donations. Tinkelman (1999) suggests that the importance of accounting information is dependent on the quality of the information provided. He shows that the relationship between donations and his proxy for efficiency is affected by the proxies for information quality.

A study by Hansmann (2000) found that donors rely on information from NFPs for assurance that donations are used appropriately. Gordon et al. (2009) claim the widespread availability of accounting reports impacts donors (and thereby total contributions) and other financial statement users. Each of these papers implies that donors are more likely to make contributions to NFPs when they have adequate information for doing so. The quantity of information donors receive is difficult to measure directly, but two proxies for quantity of information have been used in the previous literature. The Financial Accounting Standards Board argues that the reliability of information determines its usefulness to financial statement users. Tinkelman (2009) also states that donors are influenced by the reliability of information and suggests the following measures may assist in ascertaining the reliability or quality of financial statement information.

#### 4.6 Effective Donor Funds Utilization

Finally, the study sought to determine the status of donor funds utilization in health projects in the former Nyanza Province. This was the dependent variable and the status of this variable was described in terms of planned and actual finance utilization, planned and completed deliverables and scheduled implementation. The status of this variable was rated on a 5 point Likert scale ranging from; 1 = strongly agree to 5 = strongly disagree and was analysed on the basis of the mean score and standard deviation. The closer the mean score on each score was to 5, the more the agreement concerning the statement. A score around 2.5 would indicate uncertainty while scores significantly below 2.5 would suggest disagreement regarding the statement posed. These results are presented in Table 4.7.

**Table 4.7: Effective Donor Funds Utilization**

Statement	SA	A	N	D	SD	Mean	Std. Dev
	Freq(%)	Freq(%)	Freq(%)	Freq(%)	Freq(%)		
Our organization experienced high budget variances in the last reporting period	7(8)	9(11)	13(15)	30(36)	25(30)	2.3	0.902
Based on the last audit report, our organization performed well	22(26)	32(38)	13(16)	9(11)	8(9)	3.62	0.657
All of our planned projects are completed in good time	26(31)	29(35)	12(14)	9(11)	8(9)	3.68	0.679
We are always working within the budget limits	17(20)	39(47)	14(17)	8(9)	7(8)	3.65	0.799
All funds are often allocated adequately as per the votes	15(18)	37(44)	14(17)	9(11)	8(10)	3.49	0.925
We have accrued only minimal debts in the last 3 years	16(19)	39(46)	11(13)	10(12)	8(10)	3.52	0.784
We seldom request for extra funding for our projects	18(22)	41(49)	15(18)	7(8)	3(3)	3.79	1.001
<b>Aggregate Score</b>						<b>3.44</b>	<b>0.821</b>

The results in Table 4.7 indicate that most implementing organizations did not experience high budget variances in the last reporting period (Mean = 3.3). According to the organizations, based on the last audit report, their performance was good (Mean

= 3.62). Most of their planned projects were completed in good time (Mean = 3.68). The findings also indicate that most of the implementing organizations were able to work within the budget limits (Mean = 3.65) as all of their funds were often allocated adequately as per the votes (mean = 3.49). Most had accrued very minimal debts in the last 3 years (Mean = 3.52) and they seldom requested for extra funding for their projects (mean = 3.79). The aggregate scores (Mean = 3.44; SD = 0.821) suggest that there was a general agreement among the donor project implementing agencies that they had been performing well within the limits prescribed by the donor agencies. This meant that in most cases the funds were well utilized owing to the Regulations imposed by the donors.

#### **4.7 Correlation Analysis**

In this subsection a summary of the correlation analyses is presented. It seeks to first determine the degree of interdependence of the independent variables and also show the degree and strength of their association with the dependent variable separately. These results are summarized in Table 4.8

**Table 4.8: Summary of Correlations**

		Financial Regulations	Administrative Regulations	Risk Management Regulations	Financial Reporting Regulations	Utilization of Donor Funds
Financial Regulations	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	84				
Administrative Regulations	Pearson Correlation	.199	1			
	Sig. (2-tailed)	.069				
	N	84	84			
Risk Management Regulations	Pearson Correlation	-.001	.184	1		
	Sig. (2-tailed)	.994	.094			
	N	84	84	84		
Financial Reporting Regulations	Pearson Correlation	.033	.133	0.419	1	
	Sig. (2-tailed)	.763	.227	.742		
	N	84	84	84	84	
Utilization of Donor Funds	Pearson Correlation	.528**	.218*	.096	.443**	1
	Sig. (2-tailed)	.000	.047	.386	.000	
	N	84	84	84	84	84

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

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

The correlation summary shown in Table 4.8 indicates that the associations between the independent variables and the dependent variable were significant save for one which was insignificant at the 95% confidence level. Also, the inter-variable correlations between the independent variables were insignificant to affect the relationship with the dependent variable, hence, the effects of multicollinearity were minimized. Therefore, further analysis of the variables was carried out as follows.

The first correlation analysis was carried out to determine whether financing Regulations have any significant effect on effective donor funds utilization in the health sector in the former Nyanza Province. The correlation results showed that a strong positive significant relationship existed ( $r = 0.528$ ;  $p < 0.05$ ). This led to the rejection of the null hypothesis and subsequently the adoption of the view that the imposition of financing Regulations by donor agencies was instrumental in ensuring effective utilization of funds advanced to their implementing partners in the area.

A correlation analysis was also done to determine whether administrative Regulations had a significant influence on effective donor funds utilization in the health sector in the former Nyanza Province. The results showed a significant relationship existed ( $r = 0.218$ ,  $p < 0.05$ ) between the two variables. The degree of the association of the two variables was weak but positive suggesting that administrative Regulations was not a strong factor in the effective donor funds utilization in the health sector. This could be due to the fact that the donors were careful to vet their implementing partners especially their track record prior to agreeing to work with them.

The study also sought to determine the influence of risk management Regulations on effective donor funds utilization in the health sector in the former Nyanza Province. The correlation analysis showed that there was no significant relationship existing between the two variables ( $r = 0.096$ ,  $p = 0.386$ ). This result suggest that the way things were at the moment, risk management was not a priority to the organization probably owing to the low risk profiles of the projects given that most were done in partnership with the government.

Finally, the correlation analysis to determine whether financial reporting Regulations influenced effective donor funds utilization in the health sector in the former Nyanza Province indicates that the relationship is, in fact, significant ( $r = 0.443$ ,  $p < 0.05$ ). This finding suggests that the donors put strong emphasis on the quality of financial reporting in their projects. This could be explained by the fact that that donors rely on information from NFPs for assurance that donations are used appropriately as Hansmann (2000) found. Gordon et al. (2009) also claims that the widespread availability of accounting reports impacts donors (and thereby total contributions) and other financial statement users.

#### **4.8 Regression Analysis**

Multivariate regression analysis was used to determine the multiple regression model postulated in chapter three held and actually represented what was happening on the ground. It was also used to determine how the independent variables influenced the dependent variable collectively. The analysis was also meant to establish the extent to which each independent variable affected the dependent variable in such a collective set up and which were the more significant factors. The multivariate linear regression



analysis shows that the relationship between the dependent variable and all the independent variables pooled together is significant with a value obtained for R, which is the model correlation coefficient = 0.547 which was higher than any zero order value in Table 4.9. This indicates that the model improved when more variables are incorporated when trying to analyze the influence of donor Regulations on effective utilization of donor funds focusing on the health sector in the former Nyanza Province.

**Table 4.9: Multiple Linear Regression Analysis Model Summary**

R	R Square	Adjusted R Square	Std. Error of the Estimate
.547 <sup>a</sup>	.300	.264	2.37043

a. Predictors: (Constant), Financial Reporting Regulations, Financial Regulations, Risk Management Regulations, Administrative Regulations

The results in Table 4.9 also suggest that the model could explain up to 30% of the variations in the effective utilization of donor funds focusing on the health sector in the former Nyanza Province. The results of the ANOVA performed on the independent and dependent variables are summarized in Table 4.10.

**Table 4.10: Summary of ANOVA**

	Sum of Squares	Df	Mean Square	F	Sig.
Regression	189.856	4	47.464	8.447	.000 <sup>b</sup>
Residual	443.894	79	5.619		
Total	633.750	83			

a. Dependent Variable: Effective Utilization of Donor Funds

b. Predictors: (Constant), Financial Reporting Regulations, Financial Regulations, Risk Management Regulations, Administrative Regulations

The results of Table 4.10 indicate that there is a significant difference between means of donor Regulations influencing the Effective Utilization of Donor Funds ( $F_o = 8.447 > F_c = 2.50$ ;  $\alpha < 0.05$ ;  $df = 4, 79$ ;  $p = 0.000$ ). This finding confirms that the model predicted by Table 4.9 and shows it is indeed significant.

In order to determine which of the independent variables was more important when it came to the Effective Utilization of Donor Funds the beta value was used. The results are given in Table 4.11 provides a summary of the multiple linear regression analysis correlation coefficients.

**Table 4.11: Multiple linear regression results**

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.250	4.759		.473	.638
Financing Regulations	.445	.084	.510	5.295	.000
Administrative Regulations	.177	.103	.181	1.751	.001
Risk Management Regulations	.060	.108	.058	.557	.579
Financial Reporting Regulations	.358	.117	.256	3.494	.000

a. Dependent Variable: Effective Utilization of Donor Funds

It can be deduced from the findings in Table 4.11 that the most influential donor condition in the model predicting Effective Utilization of Donor Funds was Financing Regulations ( $\beta = 0.510$ ,  $p < 0.05$ ). This was followed by Financial Reporting Regulations ( $\beta = 0.256$ ,  $p < 0.05$ ) and Administrative Regulations ( $\beta = 0.181$ ,  $p < 0.05$ ) respectively. This indicates that the dependent variable, that is, the Effective Utilization of Donor Funds, would change by a corresponding number of standard deviations when the respective independent variables change by one standard deviation. However, the variable Risk Management Regulations was found not to contribute significantly to the model ( $\beta = 0.058$ ,  $p = 0.557$ ). The study therefore establishes that staff donor Regulations, such as; Financing Regulations, Administrative Regulations and Financial Reporting Regulations were factors influencing Effective Utilization of Donor Funds in the former Nyanza Province.

#### 4.9 Hypothesis Testing

The first hypothesis was tested under the null hypothesis;

**H<sub>01</sub>: Financing Regulations have no significant effect on effective donor funds utilization in the health sector in the former Nyanza Province.**

From the beta values in Table 4.11, it was evident that there was a significant relationship ( $\beta = .51$ ,  $p < 0.05$ ) between the variables indicating that financing Regulations indeed influenced donor fund utilization among their implementing partners in the study area. Therefore, we fail to accept the null hypothesis and adopt the view that financing Regulations significantly influenced effective donor funds utilization in the health sector in Nyanza Region.

The second hypothesis was tested under the null hypothesis;

**H<sub>02</sub>: Administrative Regulations have no significant effect on effective donor funds utilization in the health sector in the former Nyanza Province.**

The beta value from the multiple regression results in Table 4.11 indicate that there was a significant relationship between the two variables ( $\beta = 0.181$ ,  $p < 0.05$ ). Consequently, we fail to accept the null hypothesis and this implies that administrative Regulations had a significant influence on effective donor funds utilization in the health sector in Nyanza Province albeit the fact that the variable had the least influence in the model.

The third hypothesis was tested under the null hypothesis;

**H<sub>03</sub>: Risk management Regulations have no significant effect on effective donor funds utilization in the health sector in the former Nyanza Province.**

Looking at the results in Table 4.11, it is evident that there was no significant association between the variables ( $\beta = 0.058$ ,  $p > 0.05$ ). This meant that the null hypothesis was valid and was, thus, accepted. Therefore, it can be inferred that risk management as a condition imposed on donor funded projects carried out in partnership with government organizations in the area did not influence effective utilization of funds.

The fourth hypothesis was tested under the null hypothesis;

**H<sub>04</sub>: Financial reporting mechanisms have no significant effect on effective donor funds utilization in the health sector in the former Nyanza Province.**

The results from the multiple regression analysis suggest that there was indeed a significant relationship between the two variables ( $\beta = 0.256$ ,  $p < 0.05$ ). This led to the rejection of the null hypothesis and, subsequently, the view that financial reporting condition significantly influenced effective donor funds utilization in the health sector in Nyanza Province was adopted.

Therefore, the emergent linear model was;

Effective Utilization of Donor Funds = 0.445 Financing Regulations + 0.177Administrative Regulations + 0.358 Financial Reporting Regulations

These findings agree imply that the donor Regulations on their requirements their implementing partners needed to qualify for funding had significantly reduced the agency problems and associated costs leading to effective utilization of donor funds. Jensen and Meckling (1976) asserted that stakeholders may have differing interests as opposed to a single agent. Nikkinen and Sahlström (2004) supported this view

pointing out that there will always be partial goal conflict among principal and agent and information will always be somewhat asymmetric between principal and agent leading to loss of effectiveness of the enterprise. However, from the current study findings, it appears that the donors have actually circumnavigated the agency problem through imposing of Regulations that allow them to exercise considerable influence over the management of their projects.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

This chapter summarizes and concludes on the research findings as carried out. It presents the summary of the findings and the conclusions drawn from them, and lastly the recommendations. The implications of the research are discussed and suggestions made on areas of further study. Some useful recommendations for all the stakeholders are proposed by this study at the end of the chapter to enlighten and enable them to craft viable solutions with regard to the problem statement based on the research findings.

#### 5.2 Summary of the Findings

This section presents the summary of the findings in terms of the objectives, the types of analysis and the major findings of the research. The present study sought to establish the influence of donor Regulations on effective utilization of donor funds focusing on the health sector in the Counties of the former Nyanza Province. To gain insight into this, the study sought to establish how; financing Regulations, administrative Regulations, risk management Regulations and financial reporting mechanisms on effective donor funds utilization in the health sector in the Counties of Nyanza Region.

The first objective of the study was to determine the influence of financing Regulations on effective donor funds utilization in the health sector in the former Nyanza Province. The results revealed that the rules and regulations for disbursement of funds were not necessarily rigorous and time consuming leading to delays. Similarly, in most cases the disbursement procedures were not usually cumbersome leading to delays in project implementation. The findings also revealed that the donor agencies usually required accountability for the previous disbursement(s) before releasing the funds. In addition, most of the donor agencies usually allowed enough time for fulfilment of all the precedent funding Regulations before disbursement of funds. The findings, however, revealed that political pressures did not lead to premature disbursement of funds or to delayed disbursement of funds. Nevertheless, delays in disbursing funds whenever they happened, were sometimes costly to the project implementation. The disbursements were usually done following scheduled tranches that are favorable to the implementing partner. Both correlation and

regression results revealed that there was a significant and strong positive relationship between financing Regulations and effective donor funds utilization in the health sector in the study area.

Concerning the second objective which sought to Determine the influence of administrative Regulations on effective donor funds utilization in the health sector in the former Nyanza Province, the study established that this was the third most important factor in the order determined by the regression model. Other findings revealed that most of the donor agencies imposed strict Regulations on the managerial quality in the implementation of their projects. As such, the donor agencies sought to ensure there was the requisite human resource capacity to manage and implement the projects. However, most donor agencies did not necessarily require implementing partners to have consultants include in their proposal the same level of experts' time inputs as indicated in the request for proposal. Nonetheless, most donor agencies required that officers in the donor fund projects have formal training in foreign aid management have knowledge on financial controls. The donors also required that financial management systems be clearly defined, well managed, internally audited and verified by independent agents. They also required that officers in their fund projects possess knowledge on budgeting and financial control. Moreover, most donors demanded that all staff regularly undergo capacity building workshops as poor understanding of the donor expenditure protocols by administrators results in ineligible expenditures and rejection. Other findings indicate that most donor agencies usually required the implementing partner to establish Project Implementation Units.

The third objective of the study was to establish the influence of risk management Regulations on effective donor funds utilization in the health sector in the former Nyanza Province. The findings revealed that most donor agencies required that internal controls instituted in the implementing organization be adequate to minimize risk. However, they were not emphatic over the requirement that all risks be mapped and subjected to a voting system to establish their rank in order of importance. Similarly, the donors did not necessarily require that risks rank be to a desirable risk level before further action was undertaken. The findings also revealed that most donors required that control systems are clearly defined, well managed, internally audited and verified by independent agents. Most donors required that the risks with the highest impact on costs be prioritized. Other findings revealed that sometimes the

implementing agencies were compelled to reevaluate the risks but this did not necessarily involve going back to the field. However, the findings also indicate that there was uncertainty over the value of risk ranking in helping to scale down project costs.

Finally, the fourth objective of this study sought to determine the influence of financial reporting Regulations on effective donor funds utilization in the health sector in the former Nyanza Province. The results from the multiple regression analysis revealed that this was the second most important factor with the strongest influence on effective donor funds utilization in the area. In particular, the findings revealed that the donor agencies require that the implementing partner uses a particular accounting system. Most donor agencies required their implementing partners to subscribe to the international accounting standards. The implementing partners were also required to update their accounting records regularly and file timely financial reports. The findings also indicate that the donor agencies required that the project be audited annually and that the implementing partner uses an appointed audit Committee for audit purposes. In addition, the donor agencies required that all audit recommendations are fully implemented. Other findings, however, indicate that the donor reporting requirements were quite cumbersome and time consuming as they contained a considerable amount of duplication.

### **5.3 Conclusions**

Based on the results of the study, it can be concluded that, first, donor financing Regulations on projects and insulated the projects funding base from interference by external actors. This ensured that there was high compliance with the Regulations and led to undelayed disbursement in most cases. Therefore, the financing Regulations translated to effective utilization of project funds. Second, the donors often imposed strict administrative Regulations on their projects and they were particularly keen on establishing a sound managerial base for their funded projects so as to improve the levels of financial controls and accountability without compromising the levels of service delivery. Thirdly, it emerged that risk ranking was not prioritized by the donors probably due to the view that most of the projects they funded were in partnership with the government which indemnified the risks associated with the projects. Finally, it was evident that the donor agencies were keen on their reporting requirements and that this was well communicated to their implementing partners.

#### **5.4 Recommendations**

The following recommendations are drawn with regard to the study findings.

There needs to be better correspondence between the donors and the implementing agencies on the modalities influencing fund disbursement so as to avoid costly delays. Delays in disbursing funds are sometimes costly to the project implementation and, therefore, contingencies must be put in place to mitigate these costs.

The donor agencies and the implementing partners need to agree on a long term template for administration so as to ease the requirement and managerial requirements. This will go a long way in ensuring the continuity of the projects team and reduce costs associated with delays in assembling project management teams.

The donor should stop relying on their host governments wholly to shoulder the project risks. Therefore, they should require implementing partners to practice risk management so as to enable them maximize on every opportunity available in the operating area to deliver on the projects.

The study also recommends that the donors agencies need to agree with their implementing partners on the standardization of the financial reporting. This will enable the implementing partners to either recruit staff based on understanding of the standards or request the donors to facilitate the carrying out of capacity building for their staff on financial reporting and standardization.

#### **5.5 Suggestions for further study**

This study focused on donor Regulations affecting the effective donor funds utilization in the health sector in the Nyanza Region. The Regulations identified ultimately explain 30% of the effective donor funds utilization in the health sector in the Region. Therefore, this study recommends that more research be conducted to find out on more other factors that could explain effective donor funds utilization in the health sector in the Nyanza Region. It also recommends that a cross-sectional study be done on donor Regulations influencing effective donor funds utilization in the health sector across several counties so as to have a clearer view of the challenges of effective donor funds utilization.



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## APPENDICES

### Appendix I: Letter of Transmittal

Obwoye Ongeni Lukio  
P. O. Box 960  
Kisii

10<sup>th</sup> October 2017

The Fund Manager,

---

Kisii

Dear Sir/Madam,

**RE: REQUEST TO CARRY OUT RESEARCH WITHIN DONOR FUND**

I do request to be allowed to carry out the above research among offices concerned with budgeting within Nyanza Region.

I am a post graduate student in Jomo Kenyatta University of Agriculture and Technology - Student No. **HD335-C007-5692/2015**, and currently taking Master of Science Finance Degree. I am doing a research on *the influence of donor Regulations on effective utilization of donor funds focusing on the health sector in Nyanza Region*. This research is to be conducted in the County Government of Kisii and is meant for academic purposes only; however, evaluation results may be made public after the completion of the study for future researchers and other relevant stakeholders to guide them in their work, on request.

Every care will be taken in the data collection procedure to ensure that it is within ethical limits.

Thank you in advance for your cooperation.

Yours faithfully

**Brian Obwoye**

## Appendix II: Questionnaire for Respondents

Dear respondent,

I am a University student pursuing a Master of Science Finance degree course at JKUAT. I am carrying out a research on *the influence of donor Regulations on effective utilization of donor funds focusing on the health sector in Nyanza Region*.

I hereby humbly ask for your assistance in filling this questionnaire to the best of your knowledge.

Any information given is strictly intended for academic purposes only and it will be treated with utmost confidentiality.

### Section A: Background Information - Respondent's

1. Name of the Fund (Optional)

.....

2. Work experience in the current donor funded project;

0-3 yrs                    4 - 6 yrs                            7 - 9 yrs             

10 – 12 yrs                    13 yrs and above     

3. Have you previously worked in a similar institution before? If so, please indicate the number of years served.

.....

### SECTION B: Financing Regulations and Effective Donor Funds Utilization

4. Please rate how you agree with these statements on influence of Financing Regulations on effective donor funds utilization in the health sector in Nyanza Region

Key: 5 - Strongly Agree    4 - Agree    3- Neutral    2 – Disagree    1 – Strongly Disagree

Statement	5 SA	4 A	3 N	2 D	1 SD
The rules and regulations for disbursement of funds are rigorous and time consuming leading to delays					
The disbursement procedures are usually cumbersome and lead to delays in project implementation					
The donor agency usually requires accountability for the previous disbursement(s) before releasing the funds					

The time required for fulfilment of all the precedent loan Regulations before disbursement of funds is usually enough					
Political pressures sometimes lead to premature disbursement of funds					
Political pressures sometimes lead to delayed disbursement of funds					
Terms for repayment of the loan is usually favourable					
The penalty payable in case of delay in repayment of the loan is usually reasonable					
The commitment fee charged on the undisbursed loan amount in case of delays is at a reasonable rate					
Disbursements are usually done following scheduled tranches that are favorable to the implementing partner					

### **SECTION C:Administrative Regulations and Effective Donor Funds Utilization**

8. Please rate how you agree with these statements on influence of Administrative Regulations on effective donor funds utilization in the health sector in Nyanza Region.

Key: 5- Strongly Agree    4 - Agree    3- Neutral    2 – Disagree    1 – Strongly Disagree

<b>Statement</b>	<b>5 SA</b>	<b>4 A</b>	<b>3 N</b>	<b>2 D</b>	<b>1 SD</b>
The Donor agency imposes strict Regulations on the managerial quality					
The Donor agency ensures there is the requisite human resource capacity to manage and implement the project					
Donor agencies require implementing partners to have consultants include in their proposal the same level of experts' time inputs as indicated in the Request for Proposal					
Donor agencies require that officers in the donor fund projects have formal training in foreign aid management have knowledge on financial controls					
Our donors require that financial management systems are clearly defined, well managed, internally audited and verified by independent agents					
Donor agencies require that officers in the donor fund projects have knowledge on budgeting and financial control					
The Donor agency usually requires the implementing partner to establish a Project Implementation Unit					



Poor understanding of the donor expenditure protocols by administrators results in ineligible expenditures and rejection					
The Donor agency requires that all staff often undertake capacity building workshops					

**SECTION D: Risk Management Regulations and Effective Donor Funds**

**Utilization**

10. Please rate how you agree with these statements on the impact of Risk Management Regulations on effective donor funds utilization in the health sector in Nyanza Region.

Key: 5- Strongly Agree    4 - Agree    3- Neutral    2 – Disagree    1 – Strongly Disagree

Statement	5 SA	4 A	3 N	2 D	1 SD
The Donor agency requires that internal controls instituted in the implementing organization be adequate to minimize risk					
The Donor agency requires that all risks be mapped and subjected to a voting system to establish their rank in order of importance					
The Donor agency requires that we rank the risks to a desirable risk level before we take further action					
Our donors require that control systems are clearly defined, well managed, internally audited and verified by independent agents					
The Donor agency requires that we give priority to the risks with the highest impact on costs					
At times we are compelled to reevaluate the risks but this does not necessarily involve going back to the field					
Risk ranking helps us to scale down project costs					

**SECTION E: Financial Reporting Regulations on Effective Donor Funds**

**Utilization**

12. Please rate how you agree with these statements on influence of Financial Reporting Regulations on effective donor funds utilization in the health sector in Nyanza Region

Key: 5- Strongly Agree    4 - Agree    3- Neutral    2 – Disagree    1 – Strongly Disagree

<b>Statement</b>	<b>5 SA</b>	<b>4 A</b>	<b>3 N</b>	<b>2 D</b>	<b>1 SD</b>
The Donor agencies require that the implementing partner uses a particular accounting system					
The Donor agencies require that the implementing partner subscribes to the international accounting standards					
The Donor agencies require that the implementing partner updates its accounting records regularly					
The Donor agencies require that the implementing partner prepares financial reports on a timely basis					
The Donor agencies require that the project is audited annually					
The Donor agencies require that the implementing partner uses an appointed audit Committee for audit purposes					
The Donor agencies require that all audit recommendations are fully implemented					
The donor reporting requirements are cumbersome and time consuming					
The donor reporting requirements have a lot of duplication					

**SECTION F: Effective Donor Funds Utilization**

12. Please rate how you agree with these statements on effective donor funds utilization in the health sector in Nyanza Region

Key: 5- Strongly Agree    4 - Agree    3- Neutral    2 – Disagree    1 – Strongly Disagree

<b>Statement</b>	<b>5 SA</b>	<b>4 A</b>	<b>3 N</b>	<b>2 D</b>	<b>1 SD</b>
Our organization experienced high budget variances in the last reporting period					
Based on the last audit report, our NGO performed well					
All of our planned projects are completed in good time					
We are always working within the budget limits					
We have accrued very minimal debts in the last 3 years					
All funds are often allocated adequately as per the votes					
We seldom request for extra funding for our projects					

*Thank you for your cooperation  
God Bless*

### **Appendix III Funds Operational in the Health Sector in Kisii County**

1. Afya Plus
2. DANIDA
3. University of Maryland
4. World Bank
5. USAID
6. WHO
- 7.

Source: Kisii, Kisumu and Homa Bay Counties (2017)



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Ref. No. **NACOSTI/P/18/43731/21079**

Date: **8<sup>th</sup> February, 2018**

Obwoye Ongeni Lukio  
Jomo Kenyatta University of  
Agriculture and Technology  
P.O. Box 62000-00200  
**NAIROBI.**

**RE: RESEARCH AUTHORIZATION**

Following your application for authority to carry out research on ***“Influence of donor conditions on effective utilization of health sector donor funds in Nyanza Region,”*** I am pleased to inform you that you have been authorized to undertake research in **Homabay, Kisii, Kisumu and Migori Counties** for the period ending **8<sup>th</sup> February, 2019.**

You are advised to report to **the County Commissioners and the County Directors of Education of the selected Counties** before embarking on the research project.

Kindly note that, as an applicant who has been licensed under the Science, Technology and Innovation Act, 2013 to conduct research in Kenya, you shall deposit a **copy** of the final research report to the Commission within **one year** of completion. The soft copy of the same should be submitted through the Online Research Information System.

**GODFREY P. KALERWA MSc., MBA, MKIM  
FOR: DIRECTOR-GENERAL/CEO**

Copy to:

The County Commissioners  
Selected Counties.

The County Directors of Education  
Selected Counties.

*National Commission for Science, Technology and Innovation is ISO9001:2008 Certified*