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Financing Conditions and Effective Donor Funds Utilization in the Health Sector in Nyanza Region, Kenya

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Abstract: *Donors play a critical part in the functioning of the national health systems of many countries in Africa. However, the streamlining of the funding regime to achieve effective utilization of donor funds still remains a challenge despite the imposition of financing conditions by the donors. Donors have consistently given funding conditions for their developmental aid and even explored different program financing models. Empirical evidence indicates that several implementing agencies in developing countries characteristically deviate from implementing the conditions that donors have set as a requirement for granting foreign aid and this considerably lowers the absorption rate of these funds into the intended projects. This, therefore, puts into question the effectiveness of the donor financing conditions on the effective utilization of donor funds. Therefore, the general objective of the study was to establish the influence of donor imposed financing conditions on effective utilization of donor funds focusing on the health sector in Counties of Nyanza Region, Kenya. The study used descriptive survey research design and targeted 4 donor organizations with projects in Kisii, Kisumu and Homa Bay Counties all in Nyanza Region. 84 persons comprisingfund management team members, accountants, auditors, and fund evaluation team members from the area obtained using stratified random sampling participated in the study. Pre-tested questionnaires were used for data collection. Both descriptive and inferential statistics were used for analysis. The findings revealed that donor financing conditions on projects insulated the projects funding base from interferance by external actors, thereby, effectively mitigating the agency problem in fund utilization. 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.*

Keywords: *Financing Conditions; Effective Donor Funds Utilization; Health Secto*

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I. Introduction

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 (Hodge & Piccolo, 2005). Consequently, over the years, governments from third world or developing countries have been enjoying considerable support and development 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). However, recent times have seen a marked shift of donor organizations many of which now prefer partnering with non-governmental organizations (NGOs) instead of state agencies 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). Padilla, Staplefoote and Morganti (2012) observed that donor funded projects in the developing countrires contexts were experiencing a myriad of problems that included ineffective boards, absence of strategic planning activities, poor reporting practices, lack of adherence to policies and procedures, high turnover of employees and volunteers and dependence on a limited number of funding sources.The shift of the development assistance regime has also seen donors impose various conditions in a bid to strengthen the capacity of the implementing agencies in absorbing funds and delivery of projects. Donors do set a number of conditions that govern the entire disbursement of funds to recipients, these are the financing conditions. Among these conditions are the accountability criteria for previously disbursed funds before additional tranches are released to PIUs. The process is rigorous and time consuming and, moreover, the recipient must abide by all rules and regulations for disbursement of funds failure to which may lead to suspension of aid. The donor agency may have vested interest in the fund disbursement process which may not be in the best of the recipient agency. 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 agency.Therefore, 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. 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 conditions (Hendrickse, 2008). Financial control practices such as budgeting and accurate reporting are essential in not only meeting the donor objectives but also building their confidence. However, there are queries as to whether the conditions donor funds impose on fund utilization actually translates to efficient management of resources and project implementation as desired.

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). However, the streamlining of the funding regime to achieve effective utilization of donor funds still remains a challenge despite the imposition of financing conditions by the donors. Donors have consistently given funding conditions for their developmental aid and even explored different program financing models. Empirical evidence indicates that several implementing agencies in developing countries characteristically deviate from implementing the conditions that donors have set as a requirement for granting foreign aid. Nevertheless, most aid is still disbursed irrespective of the recipient's implementation record (WB, 1992; Svenson, 2000). A number of studies done on absorption of donor funds have found that the actual annual absorption of these funds in involving such agencies has been below fifty percent. The World Bank concluded that even though the rate of compliance with the World Bank conditions was only 50%, the release rate of loans was nearly 100%. This, therefore, puts into question the effectiveness of the donor financing conditions on the effective utilization of donor 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.

II. Literature Review

2.1 Health Sector Funding

Reports from the World Health Organization (WHO) macroeconomics commission estimated that in the year 2004 the WHO African region 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 suggested that external funding on health as a percentage of total health expenditure varies between countries. For instance, 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 up to 89% of the Human immunodeficiency virus syndrome (HIV/AIDS) management budget - including lifesaving antiretroviral therapy

(ARV) for over one million HIV-positive Kenyans. Hence, 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 conditions 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. In essence, donor assistance 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 conditions (WHO, 2008).

Following with the perceived altruist view of the donor, Wunder et al., (2008) 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. Lundsgaarde, Breunig and 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 have been some 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.

Even so, there are a number of challenges posed by financial restrictions among them 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).

2.2 Agency Theory

Agency theory was first proposed by Stephen Ross and Barry Mitnick and further developed by Jensen and Meckling in 1976 (Mitnick, 2013). 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. 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).In the case of the present study, the donor can be referred to as the Principal whereas the recipient or implementing organization as the agent. The donor determines the level of funds to be disbursed and channels the same to the borrower who acts based on aid conditions agreements thereby deciding on expenditure patterns which eventually lead to outcomes such as economic growth, infrastructure development, access to education and health care. The donor reviews these outcomes based on a structured monitoring and evaluation system and chooses the funding level to influence the choice of action by implementing partners and hence outcomes (Jensen and Meckling, 1976). This theory sought to provide a framework for examining whether the agency relationship between the donor and the recipient improved as a result of imposing financing conditions.

III. Research Design And Methodology

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 (Mugenda&Mugenda, 2003). 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. Since this study sought to obtain descriptive and self-reported information on the influence of donor conditions on effective utilization of donor funds focusing on the health sector in Nyanza Region, Kenya, the descriptive research design was deemed appropriate. The study targeted active donor agencies that carry out interventions on reproductive health, infectious diseases control and public health and sanitation among others in three Counties in Nyanza Region, that is, Kisii, Kisumu and Homa bay Counties. The researcher targeted 36 fund management team members, 36 accountants, 18 auditors, and 42 fund evaluation team members. This brought the target population to 132 persons.Since the target population was 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) which yielded a sample size of 99 respondents. The derived sample size was distributed in the sampling frame as shown in Table 1.

Table 1: Target Population and Sample Size

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

The study used questionnaires 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. Data obtained from the questionnaires 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 simple regression to determine the nature of the relationship between the variables.

IV. Results And Discussions

4.1 Introduction

This section presents study findings obtained from the questionnaires in frequency distribution tables with mean values, standard deviations and regressions. Interpretations as well as the explanations of the study results have been given alongside the findings.

4.1 Financing Conditions and Effective Donor Funds Utilization

The first objective of the study was to determine the influence of financing conditions on effective donor funds utilization in the health sector in the Nyanza Region. The findings are presented in Table 2.

Table 2: Financing Conditions and Effective Donor Funds Utilization

Statement	Mean	Std. Deviation
The rules and regulations for disbursement of funds are rigorous and time consuming leading to delays	2.88	0.629
The disbursement procedures are usually cumbersome and lead to delays in project implementation	2.17	0.576
The donor agency usually requires accountability for the previous disbursement(s) before releasing the funds	4.33	0.774
The time required for fulfillment of all the precedent funding conditions before disbursement of funds is usually enough	3.62	0.835
Political pressures sometimes lead to premature disbursement of funds	1.68	0.946
Political pressures sometimes lead to delayed disbursement of funds	2.82	0.838
Delays in disbursing funds are sometimes costly to the project implementation	3.42	0.764
Disbursements are usually done following scheduled tranches that are favorable to the implementing partner	3.57	1.009
Aggregate Score	**3.06**	**0.796**

The results in Table 2 suggest that the rules and regulations for disbursement of funds were not necessarily perceived by the respondents as being rigorous and time consuming leading to delays (Mean = 2.88). The disbursement procedures were not usually cumbersome leading to delays in project implementation (Mean = 2.17). The findings also indicate that the donor agencies usually required accountability for the previous disbursement(s) before releasing the funds (mean = 4.33). Most of the donor agencies usually allowed enough time for fulfilment of all the precedent funding conditions before disbursement of funds (Mean = 3.62). The findings, however, suggest that political pressures did not lead to premature disbursement of funds (Mean = 1.68) or to delayed disbursement of funds (Mean = 2.82). The findings also indicate that delays in disbursing funds whenever they happened were sometimes costly to the project implementation (Mean = 3.42). 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 conditions on projects insulated the projects fund from interferance by external actors and ensured that there was high compliance with the conditions leading to prompt disbursement in most cases. Therefore, the financing conditions 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 studyrevealed 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 Odedekun (2003) who established that political process and pressures often lead to premature or delayed disbursements of aid commitments.

4.3 Effective Donor Funds Utilization

It was also salutary to determine the status of donor funds utilization in health projects in Nyanza Region. This was the dependent variable whose status was described in terms of planned and actual finance utilization, planned and completed deliverables and scheduled implementation.The results are presented in Table 3

Table 3: Effective Donor Funds Utilization

Statement	Mean	Std. Deviation
Our organization experienced high budget variances in the last reporting period	2.30	0.902
Based on the last audit report, our organization performed well	3.62	0.657
All of our planned projects are completed in good time	3.68	0.679
We are always working within the budget limits	3.65	0.799
All funds are often allocated adequately as per the votes	3.49	0.925
We have accrued only minimal debts in the last 3 years	3.52	0.784
We seldom request for extra funding for our projects	3.79	1.001
Aggregate Scores	**3.44**	**0.821**

The results in Table 3 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 accured 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 prescibed by the donor agencies. This meant that in most cases the funds were being well utilized owing to the conditions imposed by the donors.

4.4 Regression Analysis

These results of the regression analysis are summarized in this section and discussed as follows. Table 4 shows the model summary of the regression analysis.

Table 4: Summary of Correlations

R	R Square	Adjusted R Square	Std. Error of the Estimate
.528	0.278	0.27	2.36148
a Predictors: (Constant), Financing Conditions			

The linear regression analysis shows that the model coefficient R = 0.547 which was high and its adjusted coefficient of determination could explain up to 27% of the variations in the effective utilization of donor funds focusing on the health sector in Nyanza Region. This indicates that the model could improve when more variables are incoporated when trying to analyze the influence of donor conditions on effective utilization of donor funds focusing on the health sector in Nyanza Region. The results of the ANOVA performed on the independent and dependent variables are summarized in Table 5.

Table 5: Summary of ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	176.471	1	176.471	31.645	.000b
Residual	457.279	82	5.577		
Total	633.75	83			
a Dependent Variable: Effective Utilization of Donor Funds					
b Predictors: (Constant), Financing Conditions					

The results of Table 5 indicate that there is a significant difference between means of donor financing conditions influencing the effective utilization of donor funds in health projects in Nyanza Region ($F_{o'} = 31.645 > F_c = 4.00$; $\alpha < 0.05$; df = 1, 82; p = 0.000). This finding confirms that the model predicted by Table 4 and shows it is indeed significant. The regression model coefficients summary is given in Table 6.

Table 6: Multiple linear regression results

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	7.861	3.013		2.609	0.011
Financing Conditions	0.46	0.082	0.528	5.625	0
a Dependent Variable: Effective Utilization of Donor Funds					

The study hypothesis was tested under the null hypothesis;

H_{O1}: Financing conditions have no significant effect on effective donor funds utilization in the health sector in Nyanza Region**.**

From the beta values in Table 6, it was evident that there was a significant relationship ($\beta = .528$, $p < 0.05$) between the variables indicating that financing conditions 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 conditions significantly influenced effective donor funds utilization in the health sector in Nyanza Region. The study therefore establishes that donor imposed financing conditions was a factor influencing effective utilization of donor funds in Nyanza Region, Kenya. Therefore, the emergent model can be predicted by the regression equation;Effective Utilization of Donor Funds = 7.861 + 0.46 Financing Conditions Where the model constant can be used to explain other factors not included in the model. These findings imply that the financing conditions effectively mitigated the agency problem and led to effective utilization of donor funds. The findings concur with Odedukun (2003) on the importance of donor determined aid conditions such as expenditure patterns which eventually lead to specific outcomes that can be assessed through a structured monitoring and evaluation system. Furthermore, according to Nikkinen and Sahlström (2004), 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. However, it appears the financing conditions effectively moderate the agency problem by reducing the levels of information asymmetry prior to the release of funds and providing a channel through which the activities of the partnering agencies remain tractable against their common goal.

V. Conclusions And Recommendations

5.1 Conclusions

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 conditions before disbursement of funds. The findings, moreover, 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. Regression results revealed that there was a significant and strong positive relationship between financing conditions and effective donor funds utilization in the health sector in the study area. Therefore, it can be concluded that donor financing conditions on projects and insulated the projects funding base from interferance by external actors. This ensured that there was high compliance with the conditions and led to undelayed disbursement in most cases. Therefore, donor financing conditions translated to effective utilization of project funds in health sector projects in the area.

5.2 Recommendations

The study recommends 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. Delays in disbursing funds are sometimes costly to the project implementation and, therefore, contingencies must be put in place to mitigate these costs.

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