

**FACTORS INFLUENCING THE EFFECTIVENESS OF PROGRAM BASED
BUDGETING IN THE KENYAN PUBLIC SECTOR**

BY

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MASTER OF SCIENCE IN COMMERCE (FINANCE AND ACCOUNTING)

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DECLARATION

I declare that this dissertation is my original work and has not been previously published or submitted elsewhere for award of a degree. I also declare that this contains no material written or published by other people except where due reference is made and author duly acknowledged.

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ABSTRACT

Traditionally, line item budgets have been the predominant method of presenting Government budgets. Some budget reformers has criticized Line item budgeting for holding public agencies accountable for only for what they spend and not for what has been achieved from the expenditure and therefore recommended the adoption of Programme Based Budgeting. The purpose of this research was to assess the factors influencing the effectiveness of program based budgeting in Kenyan public sector in terms of organisation structure, transparency and staff capacity. The study was conducted in 51 government ministries, departments and agencies with 102 respondents. The researcher used the questionnaire in the collection of data. The data was analyzed using Statistical Packages for Social Sciences (SPSS) and presented in tables. Discussions for the study were undertaken using descriptive and inferential statistics. The findings of the study concluded that organization structure, transparency and staff capacity are significantly and positively related to the effectiveness of programme based budgeting in the Kenyan public sector.

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He has guided me throughout this dissertation, given me the understanding and knowledge of this dissertation.

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DEDICATION

This dissertation is dedicated to my family who gave me peace and encouragement throughout my research I also dedicate it to the entire KCA staff especially the academia through my supervisor Dr. Peter. Nguguna.

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LIST OF ABBREVIATIONS AND ACRONYMS

GFS - Government Financial Statistics

IFMIS - Integrated Financial Management Information System

MDA - Ministry, Department and Agency

PBB - Programme Based Budget

DEFINITION OF TERMS (Source: PBB Manual 2011)

Budget

This is a Government annual statement of proposed expenditure and revenues. The budget is submitted to parliament which authorizes expenditure by approving an Appropriation Act.

Budgetary Unit

A ministry, department or agency.

Efficiency

Measures the ratio of inputs needed per unit of output produced. An example is, cost of vaccination program/number vaccinated.

Effectiveness

This measures the ratio of outputs per unit of project outcome/impact. An example is the number of vaccination (or cost) per unit decline in mortality rate.

Outcome

This is what is intended to be achieved by the end of implementation on one or more activities. It is impact or effect to be achieved in the society.

Outputs

Goods or services produced by an activity. An example is, number of vaccinations.

Programme

A grouping of ministry functions according to a key objective, based on the main functions performed or services delivered by a ministry.

Programme Based Budget

This is linking Government objective and other resources to the public policy objective. Program Based Budget requires effectiveness measures, which means the outputs and outcomes.

Performance Indicators

These are “quantifiable, enduring measures of public sector outputs, outcomes and efficiency”

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CHAPTER ONE

INTRODUCTION

1.0 Background to the Study

Economies in transition appreciate the role of efficiently managing their expenditure and have initiated several important reforms in their budgeting systems.(OECD, 2001).

Kenya has not been left behind among other African countries in the adoption of Program Based Budgeting (PBB) and the discard of the usual activity based budgeting or line item budgeting. Among the reasons for this shift is that PBB is considered to be more focused on outcomes and it is result oriented.

Lucey 2002 defines a budget as a plan expressed in monetary terms. There is no wide spread agreement about how government funds should be allocated through the budget - the question about “who gets what”. Some of those agreements are political. Usually Government budgets are prepared and normally approved by parliament before the actual period of implementation. The budgeting systems have some benefits but these do not automatically come easily without planning. Lucey 2002, states that the success of the budgeting system is more likely by the fulfillment of the conditions such as, top management involvement and support, clarity of the objectives within which the budgeting system will operate, Governance Structure should be realistic and responsibilities clearly defined, staff should be trained and developed in the formulation and management of programmes in the meaning and use of budgets, an appropriate accounting and information system with the ability to provide more detailed information. Organizations have various unique budgets which are specific to them and are unlikely to be found elsewhere in exactly the same form. Being the most crucial policy vehicle, the national budget is used to drive the economic and social agenda of a country, the main reason being to enhance effective utilization of the scarce resource available to the government. A budget is used as the tool to deliver the

political, economic, administrative and legal functions of a government (Richard and Daniel, 2001).

It is a well known fact that a planned activity has better chances of success than an unplanned one. The budgeting is a forward planning and effective control tool. The installation of budgeting system is an elaborate process and it takes time thus requires the experienced man-power, technical staff, analysis, control etc, hence, it is costly affair.

Public sector budgets are used to carry out fundamental functions like controlling public expenditure. It is exercised by controlling inputs of the financial systems. It is also instrumental for allocating scarce resources to government priorities so that government objectives are achieved in the most efficient and effective manner (Fenta, 2012). The budget therefore can be seen as the tool for policy implementation. As (Rosenberg, 1999) asserted a budget is a tool of macroeconomic policy and also a management mechanism which assists in the achievement of administrative efficiency, economy, and honesty through organized manner. In addition, the budget document if well carried out can be a major tool of accountability, to the legislature as well as to the press and the public (Fenta, 2012). It can also be capable of holding administrators accountable for the funds they receive and for a particular performance level with those resources. A budgeting system cannot execute these functions equally well at the same time, thus relative strength of each function depends on budgeting tools and techniques, but most critically on political decisions about which issues matter to the government (Shah, 2007).

1.1 Alternative Approaches to Budgeting

If properly planned conventional budgeting systems have various advantages but without a plan they often tend to continue with the usual mere extrapolations of the past plus its inefficiencies (Lucey, 2002). The current cost is determined by an inflation percentage added to the past cost; this is known as incremental budgeting. Incremental budgeting may be a reasonable procedure in stable conditions where there are not many changes in the organizational environment and no changes in the objectives. The main issue with incremental budgeting is that it does not show the relationship between costs, benefits and objectives therefore there evolved the development of alternative approaches to budgeting such as Programme Based Budgeting in an attempt to overcome the incremental budgeting (Lucey, 2002).

1.2 Challenges of Conventional Line-Item Budgeting

Despite the public sector having taken various reforms particularly in the budgeting process the budget was not delivering (PBB Manual 2011). The resources available were distributed thinly on too many projects not linked at all to the policy priorities of the government. This often resulted into stalled projects, increase in pending bills low funding to priority areas and hence non delivery of intended services.

The line-item method brings in a number of challenges as it emphasizes inputs; that are it provides information on how much money is spent and how it is spent rather than on what it is spent (PBB Manual 2011). It does not link inputs with outputs and hence does not say as regards the effectiveness of the used resources. The line-item budget puts emphasis to details of expenditure than objectives and outcomes in decision making and (Fenta, 2012) also states that this leads to micromanaging of agency operations by central budget offices and finance ministries. Public managers thus exercise very limited managerial discretion and cannot be held accountable for the performance of government activities. Budget reforms

have sought to remedy these deficiencies first in the 1950s by linking planning with budgeting through program budgeting (Fenta, 2012). Public organizations such as governments local and central governments usually prepare line item budgets which show different categories of expenditure. In the conventional line item budgets there lies a problem of measurement of outputs which is difficult or sometimes impossible to measure (Lucey, 2002). The line item budget just compares current expenditure to budgeted expenditure and no much attempt to compare expenditure against performance achieved.

1.3 Effectiveness of Programme Based Budget

Program Based Budgeting (PBB) is the performance budgeting mechanism which has had the most enduring influence in the public sector. Program based budgeting comprises the objective based program, classification of expenditure and the systematic use of performance information to inform decisions about budgetary priorities between programs (Robinson, 2007).

The primary objective of PBB was to improve allocation efficiency through better expenditure prioritization (Fenta, 2012). The major concern was a belief that expenditure allocation in the public sector was not sufficiently responsive to changing social needs and priorities, and that money could keep flowing year after year to ineffective programs because of a lack of proper expenditure planning processes or of accountability for results linked to the budget process (Robinson, 2007). Further Robinson (2007) argued that program based budgeting exponents viewed traditional line item budgeting as a key part of the problem.

PBB as it known is a concept developed in North America in relation to State and Federal Government activities; it is also an attempt to overcome the problems of conventional budgeting (Lucey, 2002). PBB puts emphasis on outputs and objectives and also require resources to be allocated based on economic analysis. Programme based budgets hold ministries/departments/agencies accountable for what they achieve. The PBB is based on

“programmes” that is grouping of activities with common objectives. The programmes expressed are in terms of objectives to be attained over a medium term plan which is around three to five years. The total estimated costs are for the total programmes which spread across the departments. Conventional annual expenditure budgeting take place within the PBB framework. The result of PBB is termed as key performance indicators. According to Kenya Government (PBB Manual, 2011), key performance indicators are quantitative measures which provide information on the effectiveness, efficiency and equity results. The basics of PBB are MDAs should develop strategic plans of the intended outcomes. These plans should contain objectives based on outcomes that the public values. Based on the strategic plans, MDAs should also develop specific key performance indicators as measures of outcomes that can be used to determine how well the objectives are achieved.

1.4 Factors influencing Effectiveness of Programme Based Budget

Lucey 2002, states that the success of the budgeting system is more likely by the fulfillment of the conditions/factors such as, top management involvement and support, clarity of the objectives within which the budgeting system will operate, Organisation Structure should be realistic and responsibilities clearly defined, staff should be trained and developed in the formulation and management of programmes in the meaning and use of budgets, an appropriate accounting and information system with the ability to provide more detailed information.

PBB reforms involve behavior change of public servants, change of budget classifications that is Government Financial Statistics (GFS), some completely new managerial concepts, introduction of new IT systems such as IFMIS. All these require a positive and determined attitude by government with good communication between The National Treasury and the spending line ministries, departments and agencies; this is confirmed by (Fenta, 2012). Additionally an effective program budgeting system depends

highly on reliable performance measurement and reporting (Kqsek and Webber, 2009). The construction of a performance measurement and reporting system provides a channel for public officials to reach agreement on program goals/objectives and, discuss and compromise on the selection of performance measures, to address their questions and concerns (PBB Manual, 2011). Therefore, this research will focus on the analysis of the factors influencing the effectiveness of PBB in Kenya. Drawing data from Ministries, Departments and Agencies this paper will attempt to show the progresses made in adopting PBB in terms of Organization Structure, transparency in budgeting and the extent of staff training and development in the formulation and management of programmes in the meaning and use of budgets.

1.4.1 Organisation structure

There should be well-planned organisational set-up, authority and responsibility clearly defined, budget committee should be formed consisting of all top executives. Budgets should be prepared on the basis of clearly defined policies after discussion held with the individual departments so that they may provide their suggestions in this regard. In the Government budgeting system the Organisation Structure involves formulating and developing ministerial programme budgets that are aligned with the national goals and strategies (PBB Manual 2011). The example could be several outputs under the preventive health programme will all seek towards reduction in death and disability through prevention. In addition a “crop industries” programme brings services such as extension services, fertilizer subsidies and marketing support targeting common industry.

1.4.2 Transparency

Government priorities in terms of policies and programmes are laid out by way of budgets. A transparent budget is one which involves the citizens' participation throughout its process making. Now days it is a pre-request in budget making process for public participation by way of public and open sector hearings in turn this provides accountability. There should be a good accounting system which provides accurate and timely information. As the citizens participate in the budget making process, it is therefore important that the technical jargons in the process be simplified and even translated in the language understandable to the citizens. Budget transparency has several advantages which include oversight on how the resources are allocated and spent as a result there is less corruption, less deviation from policy decisions. Additional advantage is that there is fewer budget distortion and minimal budget manipulation by the ruling elite.

1.4.3 Staff training

In order to accomplish the task of developing and maintaining the programme based budgeting system budget staff of both the executive and the legislature should be devoted to initial training and ongoing maintenance of the system. Budget officers should be devoted to both initial and continuous training in order to achieve the benefits of the programme based budget. The officers should be taken through the concepts of PBB approach through which the budget estimates will be effectively produced. The training also include the information technology systems of budgets such as Hyperion (Budgeting System) and IFMIS. In addition PBB Manuals are important in addressing issues such as definition of outcomes and outputs, designing of programmes and the measurement of their performance, monitoring and evaluation.

Program Based Budgeting in Kenya was mainly introduced and designed to support Public Finance Management (PFM) reforms by enhancing performance management and

accountability. It was also to enabling a stronger linkage between the annual budget and policy objectives, and improving transparency and accessibility of information (PBB Manual, 2011). The aims of PBB are to mainly facilitate the flow and quality of information so as to provide a healthy basis for resource allocation decision making and to create the right environment and mechanisms that will strengthen the improved PFM (PBB Manual, 2011).

1.5 Problem Statement

The Kenya Government has been reforming the public financial management within the context of the wider public sector reforms since independence. In 2007 the Government to ensure that citizens derive maximum value from public expenditures introduced the Programme Based Budgeting approach of budgeting. It is believed that PBB is efficient and effective in the delivery of public goods and services. The Kenyan public has increasingly demanded for infrastructure and services for which the government then is faced with the challenge of finding ways to provide the essential infrastructure and services within its limited financial resources.

As a matter of fact, problems that arise in linking ministries' budgets and programs have been noticed in various situations of programme based budgeting processes. One of the problems and as noted by Robinson (2010) is the unclear relationship between programs and organizational structure. Additionally and as confirmed by Clifton (2010) there is lack of correlation between a ministries' organizational structure and its outputs and outcomes in developing a program.. The budgets have also regularly not been transparently linked to service delivery and performance. In addition, staff capacity to address the information requirements of program based budgeting is the main institutional requirement, Pugh (1984). Staff involved in budget preparation and executions need to understand PBB methodology in the context of some of the budgetary reforms. Ministries' staffs need to be trained in their understanding of the development and implementation of a programme based budget.

The Kenyan Government has been designing and implementing programme based budgeting system since 2007 by recognizing the need to improve the efficiency and effectiveness of its spending in order to achieve national goals and objectives and enhance public service delivery.

Currently, the implementation of PBB at both national and county government levels has challenges that need to be examined. The persistence of ambiguity in program establishment on the basis of traditional organization structure , well trained staff in PBB needed to carry out the required analysis ,and implementation that fully supports the program based budgeting system are among the important issues in the process and implementing PBB. The budgets have also regularly not been transparently linked to service delivery and performance.

The purpose of this research then is to assess the effect of factors influencing the effectiveness of program based budgeting in Kenyan public sector in terms of organization structure, transparency and staff capacity.

1.6 Objectives of the Study

1.6.1 General objective

To determine the effect of factors influencing the effectiveness of PBB in Kenya Public sector.

1.6.2 Specific objectives

- i. Determine the effect of Organisation Structure on the effectiveness of PBB in Kenyan Public Sector.
- ii. Determine the effect of Transparency on the effectiveness of PBB in Kenyan Public Sector.

- iii. Determine the effect of Staff Capacity on the effectiveness of PBB in Kenyan Public Sector.

1.7 Research Questions

In order to meet the research problem statement, the study would seek to answer the following research questions;

- i. What is the effect of Organisation Structure on the performance of PBB in Kenyan public sector?
- ii. What is the effect of transparency on the performance of PBB in Kenyan public sector?
- iii. What is the effect of staff capacity on the performance of PBB in Kenyan public sector?

1.8 Significance of the Study

This study will contribute to additional literature on the theory and practice of PBB in the public sector. It will also assist scholars, researchers and any interested persons when carrying out their research projects in the same or related area. The study will enable the ministries, departments and agencies to effectively evaluate on the inconsistencies, their effect and implementations during planning, formulation and implementation of the PBB systems of which the performance will improve. The researcher who is a graduate student at KCA University will also benefit with a Master of Science in Commerce (Finance and Accounting) degree on approval of the study. The findings of this study will show the importance of PBB in the Public Finance Management process in the sector. Those officers involved in the PBB process will also benefit by re-analyzing the PBB according to relevant programs in their respective ministries, departments and agencies.

1.9 Scope of the Study

The study will confine within the Government of Kenya ministries, departments and agencies as these are the Budgetary Units through which Government funds are budgeted and accounted for. The study will target budget officers and planning officers as these are the experts who lead the budgeting processes in the ministries, departments and agencies. The data collection will be through questionnaires delivered by hand. It is expected to have a brief oral interview with the respondents for clarification. The study will be collected through the use of primary data. The primary data will be collected by way of a suitable formulated questionnaire which will be delivered to respondents by hand delivery to their respective offices. In about a week's time the researcher will follow up and collect the filled questionnaires. This method of data collection has been chosen because it is most widely used social research technique and also to safe guards the respondent's confidentiality. The questionnaire will be well designed after a review of the objectives of the study so that it performs the intended functions. The researcher will ensure that as far as possible, the questions seek information/responses covering all aspects of study. The questionnaires will have both open and closed ended questions. Closed ended questions will ensure that the answers by the respondents are relevant to the data that is anticipated to be collected. To ensure the respondents are free to give correct information, the researcher will seek the University's intervention to make introductory letters in which the purpose of the study will be explained.

1.10 Limitations of the Study

Due to the tight schedules of budget calendar deadlines in all the sectors of the Government, the officers who are the respondents to the questionnaires may not have time, some as other individuals may not be cooperative. If this happens then it will of course have some impact on the number of responses to be received. As a result the less collected data

will affect the research results. Because of respondents having limited or no time at all, this may limit the clarifications to understand the questionnaire though the questionnaire will be simple and clear as possible. Budgets being political to some extent, this may affect the results as public officers being employees who have sworn the secrets declaration oath may not feel free to provide the required information. However, the questionnaire will include a confidential clause to protect the respondents' identity. In addition, PBB being at its implementation stage, some respondents may not have sufficient knowledge.

The study will also be limited by the time frame which all the activities of the research will be concluded as I intend to defend the study in eight months' time.

For more conclusive results, all the sectors should be included in the study since PBB is a process which cuts across the divide in the MDAs, but this would not be possible due to time factor.

Finally, the cost of this research will be met from my own individual savings which of course is insufficient for the task.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter highlights the literature that has been reviewed from other studies on program based budgeting and its effects. The contents of this chapter are views from other writers and scholars. In this study, the views of these writers and scholars are reviewed and the gaps identified.

2.1 Theoretical Review

2.1.1 Marginal utility

According to Momanyi (2013) while relating to Lewis (1952) who applied the “marginal utility” principle, argued that one has to consider the programme returns for any additional government expenditure. The programme returns in this case should be at the margin that is where the additional expenditure is equal to the returns. For that reason public finance management officers should consider programmes which have relative value in form of returns. While comparing the relative value of programmes to be implemented, various alternatives should be considered before public resources are utilized in “white elephant” programmes. The budget officers in the public sector should therefore critically analyze the viable programmes for funding in order to achieve the intended objectives.

However Lewis (1952) fails to assess what is meant by “relative effectiveness” in analysis of programme costs and outputs. In addition the government has various objectives in the formulation of the programmes. The objectives may not base on returns only but the government has an obligation to provide essential services to its citizens without demanding any returns.

2.1.2 Concepts of value and return (risk-adjusted discount rates)

Pandey (2003) states that sound decision making requires that cash flows which an entity is expected to spend over a period should be logically comparable. It is not possible to directly compare the absolute cash flows which differ in timing and risk. As a result the development of techniques such as Discounted Cash Flow (DCF) was brought in to deal with analysis of Capital Projects and Programmes. According to Ian (2003) it is possible for governments to run large deficits, especially when they are faced with political pressure and the ceiling on department servicing is weakened by low interest rates. Following agreement of the budget at technical level, important political decisions affecting spending may be made late in the budget cycle prior to the budget's adoption by Parliament. Therefore as the implementation period is prolonged there the prices which make programme costs change by losing value. Strong political willingness to ensure that the existing rules are enforced with strictness and that sanctions are applied where necessary will be necessary to bring about lasting improvements in the public expenditure management system. The leaders in the political arm can surge these challenges through development of policies that aren't within the budget framework or sometimes only focusing on short term objectives and neglecting the important long term goals.

2.1.3 Fiscal policy

According to the (World Bank, 1998) government budgeting more or less commonly follows a yearly cycle while managing public finances and certainly requires more extended time as fiscal policy decisions have economic and budgetary implications that go well beyond the fiscal year in which they are taken.

Fiscal Policy refers to the policy of the Government with regard to taxation, public expenditure and public borrowing with specific objectives (Gupta, 2013). While the

developed countries attempt to achieve economic stability through fiscal policy, the goal of developing countries is to achieve economic growth with social justice. Therefore the Government through its fiscal policy strives to sustain the economy by means of resource reallocation according to national priorities by ensuring social justice to its citizens.

2.1.4 Macro-economic forecast

PBB focuses on those macro-economic aggregates that have the greatest influence on the fiscal framework. The growth drive of both revenues and expenditure are mostly dependent on the inflation rate and GDP. Accordingly another critical impact on the PBB is from the external budget financing and payments due to the fluctuations of the exchange rate. Similarly revenues on external trade related taxes are affected by changes in the balance of trade.

According to (BROP 2014) the Kenyan macro-economic environment has remained stable since 2010 growing to 5.7 percent in 2013 compared with the earlier estimate of 4.7 percent of growth owed to macro-economic stability, strong fiscal performance and expanded activities in all the key sectors of the economy.

The Government re-emphasized on its fiscal policy strategy which focuses on maintaining a strong revenue effort and containing the growth of total expenditure, while shifting the composition of expenditure from recurrent to productive capital expenditures and optimally ensuring efficiency and effectiveness in the use of public resources (BROP 2014).

2.2 Empirical Review

Alesina and Perotti (1999) observed that the use of bottom-up approach which involved line budgets by ministries and departments resulted in overspending and unsustainable fiscal deficits. This therefore called for the introduction of the top-down budgeting.

Alesina and Perotti (1999) evaluated the design of the budget process across Latin American countries. This involved distinguishing processes that are ‘hierarchical’ (top-down) from those that are ‘collegial’ (bottom-up). Hierarchical procedures enforce a hard budget constraint and concentrate decision-making authority in the hands of the finance minister, while ‘collegial’ procedures disperse decision-making authority and found out that ‘hierarchical’ procedures were associated with lower deficits. One of the potential benefits of top-down procedures is to protect fiscal discipline.

A major challenge faced by many African countries is to enhance the credibility of the budget by reducing the gap between planned and actual spending (CABRI and ADB, 2008). According to the PEFA framework, a well-performing public financial management system ensures that the budget is ‘implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds’ (PEFA 2005: 2). Poor budget execution can undermine fiscal policy, distort allocations and undermine operational efficiency (Ablo & Reinikko 1998; Stasavage & Moyo 2000). At the same time, however, overly rigid execution rules can be detrimental to performance (Compos & Pradhan 1996; Blöndal 2003).

CABRI and ADB (2008) report that a budget can be altered in the course of the financial year by rescission or cancellation of expenditure as approved by the parliament. Also, the report continues that in-year cuts can aid the state to enhance effectiveness in the management of budgets within the income expectations though they budget priorities. The report also states that Budget execution can also undermine fiscal management when there is no effective control of overspending. In unique situations, expenditure on items not in the original budget may be necessary in cases where there are emergencies such as national disasters as droughts and floods. The use of contingency reserves, which provide flexibility to address such urgent spending needs. Most countries’ budgets include a central reserve fund

for such purposes. The use of contingency reserves should be fully transparent, so that this mechanism is not abused, for instance to finance spending that was not included in the budget and which was foreseeable.

Poor budget planning may be evident through the frequent use of supplementary or adjustment budgets. However, this is dependent on the detail of the budget and the procedures of approval.

Internal audit plays an important role in ensuring the effectiveness of internal control, which underpins sound budget execution (Diamond, 2002). The extensive use of supplementary budgets, and the opportunities that exist for overspending and reallocations, could easily undermine the overall integrity of control mechanisms in the budget process. (CABRI and ADB, 2008). On the other hand, some of these mechanisms allow space for the flexibility that many African countries need as they budget with scarce resources and are subject to numerous uncertainties and shocks.

Grizzle and Pettijohn (2002) note that whether large or small, most agencies employ consultants to help them identify their programs and develop performance measures. GAO (1994) adds that lack of stakeholder consensus on what constitutes meaningful performance measures has hindered implementation of performance-based budget reforms in states. A final resource that Edwards' (1980) includes as a factor critical to success is that the implementers must have the authority to ensure the budget reform is implemented as intended.

Dispositions; in performance based budgeting, the legislature not only mandate the reform, it is also one of the key implementers. It alone has the authority to allocate resources on the basis of performance information and to apply sanctions. An organization's culture derives from the shared beliefs and values of its members and the norms or standards of behavior to which its members are expected to conform.

Edwards (1980) suggested that we can manipulate incentives to alter the dispositions of implementers. Recent literature on budget reform considers incentives to be a key element in influencing stakeholder compliance with implementing orders. These incentives apply both to the legislature and the executive branches. Management style appears to be an important factor influencing agency disposition to implement the reform. If managers find the performance information useful for managing their programs, they are more likely to support developing a reliable performance information system, irrespective of whether the legislature chooses to use performance information.

According to Edwards (1980) bureaucratic structure; as a factor critical to the implementation success, bureaucratic structure has two main components: organizational fragmentation and standard operating procedures or budget routines.”Organizational divisions` may hinder the coordination necessary to implement successfully a complex policy requiring the cooperation of many people, and it may also waste scarce resources, inhibit change, create confusion, lead to policies working at cross-purposes, and result in important functions being overlooked ”. What makes coordinating the work of these stakeholders so difficult is that nobody is in charge of the process. Negotiating what constitutes an acceptable set of performance measures for a program, can become a frustrating gauntlet for agency staff (Grizzle and Pettijohn, 2002)

Gilmour and Lewis (2005) investigated the impact of performance, as measured by the Office of Management of Budget (OMB) performance budgeting initiative called Performance Assessment Rating Tool (PART).

Gilmour and Lewis (2005) also reported that while PART scores were positively correlated with budget increases or decrease, they were not perfectly correlated with overall program grades. Government Accountability Office (GAO) while reviewing PART in the first year realized that scores have a positive and statistically significant impact on suggested

levels in the president's budget, even though much of the variance was wasn't explained in the simple regression analyses (GAO 2004, 43). It is noted in the study that integrating performance information in budget choices can be difficult. Nonetheless, budgeting is a political decision affected by the government manifesto and the political outlooks of key players in the budgeting process.

Hackbart and Jordan (2005) noted that "despite the fact that performance budgeting has existed in some form in state governments since the 1950s, it has not reached a high level of success or acceptance due to a number of conceptual and operational reasons".

Performance based-budgeting has again become a major focus of the budget process in the past decade in order to address several goals. These goals are to improve budget processes and program efficiency, enhance the transparency between resource inputs and program outputs, and improve accountability.

Jordan and Hackbart (2005) noted that performance results are difficult to measure during the initial and early implementation phase. Also, they noted that despite limited success or implementation progress at the state and local level, execution is continuing. The steadfast interest in performance budgeting at the state level is attributable to the desire for improved accountability, increased achievement of priority objectives, and better understanding of activities. An agreed position among the decision makers and users is required for a continuous progress in performance implementation and production of reliable and valid performance information.

2.2.1 Organisation structure and program based budgeting

The most distinguishing features of any public financial management system is the role of legislature in the development and evaluation (Lienert, 2005). A number of scholars including Schick (2002) and Coombes (1976) have studied the trend of legislative control on budgets for a number of OECD countries, mainly highlighting a reduction in legislative

impact. However, little is known about the ‘power of the purse’ elsewhere (Oppenheimer, 1983), with the exception of some case studies (Stapenhurst et al. 2008). National surveys in the recent past have shown that legislative role varies between states (Lienert 2005, Wehner 2006). In addition, a number of legislatures have initiated reforms to strengthen financial scrutiny (Stapenhurst et al., 2008). The survey provides a unique opportunity to assess, for the first time, the budgetary role of African legislatures.

Parliamentary budget capability can be abstracted in different ways (Meyers, 2001). Wehner (2006) assumes an institutional capacity perspective and studies six variables that affect parliamentary control of the budget process, that are scaled between zero (the least favorable from a legislative perspective) and one (most favorable). Parliaments attain a high score when: (a) spending is disallowed without legislative approval, (b) they have free-for-all amendment powers, (c) a budget committee as well as sectoral committees are involved in the scrutiny of the budget, (d) the budget is tabled well in advance of the start of the fiscal year, (e) the executive cannot unilaterally adjust the budget during implementation, and (f) parliament has access to budget research capacity.

According to CABRI and ADB, 2008, even though a number of externally financed programs were started, economic growth and poverty reduction rates have been discouraging. The high flow of aid monies during the cold war era led to a dependency syndrome portrayed by many developing countries. CABRI and ADB persist that, currently external funding comprise a major part of development expenditure in less developed countries. The countries in most scenarios are facing budgetary constraints and use external funds as aids and donations to cover any deficits within the exchequer (Levy, 1987; Mosley et al., 1987; Devarajan, et al., 1998; Au et al., 1999).

However, even with the change in the political strategy and fiscal aids by the donor community, the external funding is seemingly running dry (Feyzioglu et al, 1999). This in

result has major ramifications on the budget process of highly aid-dependent countries (CABRI and ADB, 2008). For a large number of African countries, external development assistance represents a sizable share of public spending. The ways in which foreign aid flows are managed, therefore, is an important factor affecting the quality of policy and budget processes across Africa (CABRI and ADB, 2008). Recently, an international consensus has formed on aid effectiveness, highlighting the importance of aid being channeled through government systems, and in support of policies and interventions defined by the recipient government (OECD, 2005).

While much of the emphasis has been put on changing donor practices, aid management systems within the recipient government are key to ensuring an effective use of aid flows. CABRI has also given a lot of attention to the issue of 'putting aid on budget' by carrying out a series of country case studies to look at ways in which governments in Sub-Saharan Africa can ensure that aid flows are properly captured in the different stages of the budget process, thus emphasizing the importance of aid management Strategies (CABRI 2007: 160-184).

From a recipient government perspective, there are three fundamental issues shaping the government's capacity to effectively manage foreign aid flows (CABRI and ADB, 2008). The first one relates to the structure of government institutions that have responsibility for dealing with the donor community. The second one deal with the policies that governments put in place to actively manage and coordinate donor activities; while the third one is based on the information flows that allow the government to better capture aid flows at different stages of the budget process. More effective aid management systems help to uphold key budgeting principles such as comprehensiveness, transparency and accountability.

2.2.2 Transparency and Program Based Budgeting

According to the (World Bank, 1998) government budgeting almost universally follows a yearly cycle, while managing public finances inevitably requires a more extended time horizon, as fiscal policy decisions have economic and budgetary implications that go well beyond the fiscal year in which they are taken. Medium term budgeting frameworks are tools that are meant to respond to the complementary needs to ensure aggregate fiscal discipline while at the same time allocating resources to policy priorities.

The International Monetary Fund (IMF) (2007) noted that such frameworks help increase budget transparency, and improve the link between the capital and recurrent budgets. Medium Term Expenditure Frameworks (MTEFs) have been promoted across Africa as a ‘best practice’ approach to bridge the gap between the goals and objectives of medium-term country development strategies and the yearly budget process. Specific building blocks of MTEFs would include existing budgeting rules, forecasting, projections and estimates both on the revenue and on the expenditure side, capital budgeting and the integration of aid flows in the budget process.

Transparency in government finances implies ‘openness about policy intentions, formulation and implementation’ (OECD 2002: 7; Kopits & Craig 1998). Several studies have found that fiscal transparency is associated with improved fiscal discipline, better credit ratings and reduced corruption (Alesina & Perotti 1996; Hameed 2005; Alt & Lassen 2006). Others argue that citizens and taxpayers are entitled to full disclosure with regard to the management of public money (Fölscher, 2002) to ensure participation and accountability in policy processes. As a result of this increased focus on the provision and quality of budgetary information, several organizations have developed international guidelines and measurement frameworks.

The OECD has developed Best Practices for Budget Transparency, which is a non-prescriptive reference tool' (OECD, 2002). Other initiatives include the IMF's Code of Good Practices for Fiscal Transparency (IMF, 2007), which is used for formal country assessments, and the International Budget Project's Open Budget Initiative, which develops an index of budget transparency to compare countries across the world (IBP, 2006).

It is difficult to define precisely how much and what kinds of information governments should make publicly available. While a general case can be made in favor of publicizing as much budget information as possible, two caveats should be kept in mind. Firstly, the quantity of information released to the public should not come at the cost of its quality. For example, the OECD 'Best Practices' indicate that all countries should produce monthly reports with updated revenue and expenditure figures during budget execution. In some cases, however, less frequent reports based on more reliable data might be a better option when capacity to produce high-quality data is limited. Secondly, in cases where capacity to use available information is limited, for example within civil society, published information may allow other players, such as donor agencies or lobbying groups with a narrow base to distort overall accountability processes.

The frequency of reporting on actual revenues and expenditure is also crucial in that it allows governments to measure progress on the implemented budget during the fiscal year. In-year reporting also gives practitioners and the general public the information necessary to assess the accuracy of budget projections and to hold government to account for delivery.

2.2.3 Staff capacity and program based budgeting

According to Edwards (1980) the top down model allows us to look at the reform across departments and programs to gain a general impression of the reform as a whole. The model classifies critical implementation factors into four categories; communication, which should provide clear, accurate, and consistent implementation orders without being too

precise; resources, including staff and facilities, as well as information about how to implement the reform and the authority to insure implementation as intended; the dispositions and attitudes of the implementers, which may be grounded in the organizational culture; and bureaucratic structure, whose two main features for the review, are organizational fragmentation and standard operating procedures or routines for doing budgetary and planning. Edwards suggested that these four categories have a direct effect on implementation success and interact in ways that indirectly affect implementation success.

2.3 Study Gap

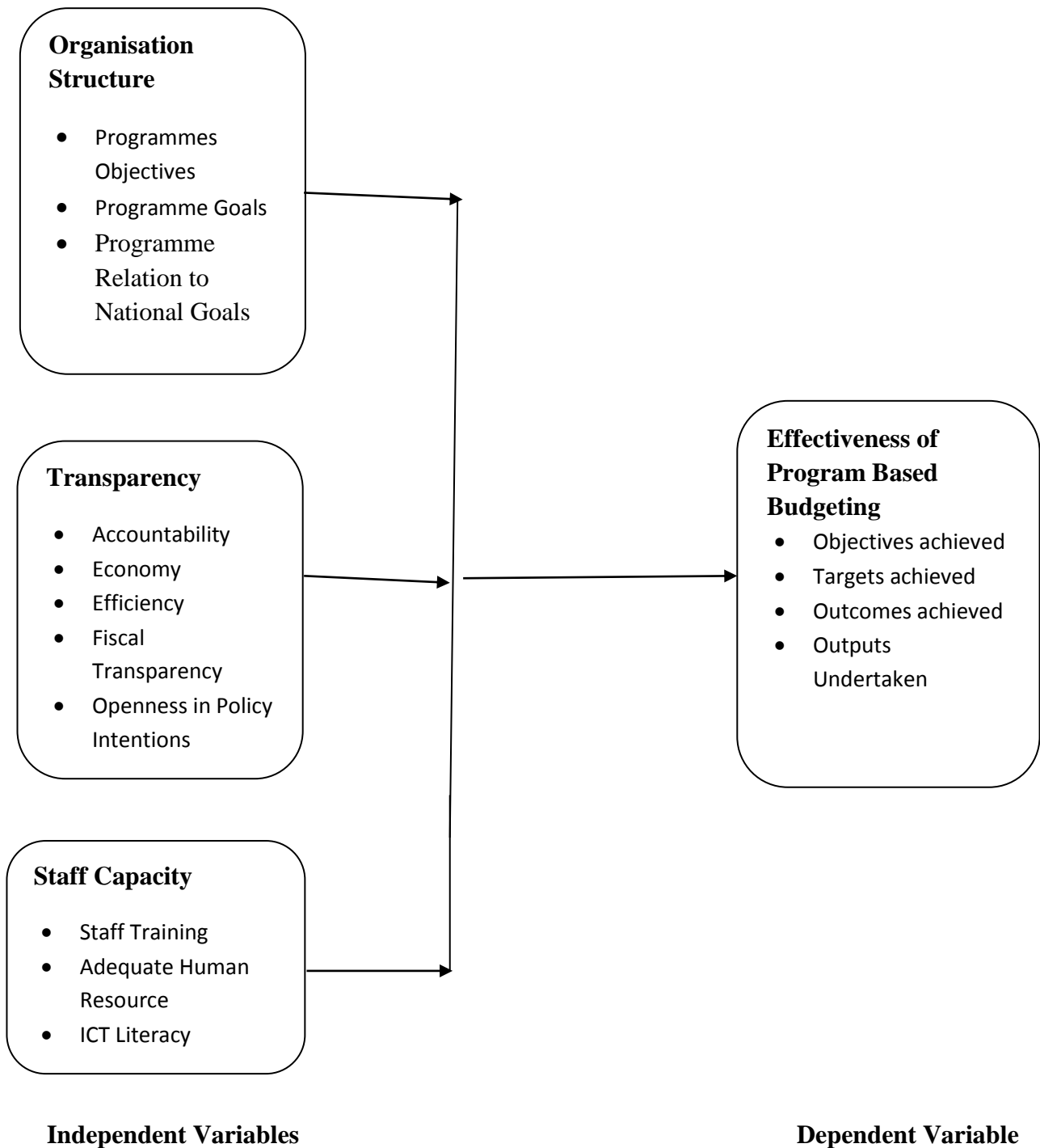
From the literature review, various researches that carried research in this area focused in other countries and as Jordan et.al (1999) observed that though the PBB has existed in the states since the 1950s, it has not reached a high level of success or acceptance. Given that PBB was first implemented in the Kenyan Government budgetary framework in the Financial Year 2013/2014 budget, there is need to attempt to determine the PBB performance in terms of Governance Structure, transparency and staff training at present. This study will also add to the limited existing studies with new findings on the factors influencing the effectiveness of PBB in Kenya Public sector.

2.4 Conceptual Framework

A conceptual framework is used in the research to outline possible courses of action or to present a preferred approach to an idea or thought. A conceptual framework is a schematic presentation which identifies the variables that when put together explains the issues of concern. The conceptual framework is therefore the set of broad ideas used to explain the relationship between the independent variables and dependent variable. According to Kothari (2014) a dependent variable is one variable which depends upon or is the consequence of the other variable while an independent variable is that variable that is antecedent to the dependent variable. This study will adopt some concepts generated by

service quality theories and models and conceptualize them in the framework explaining the relationship between organisation structure, transparency in budget formulation and staff capacity to the effectiveness of program based budgeting as shown in the diagram below. The independent variables in this study are organisation structure, transparency, and staff capacity while the dependent variable is effectiveness of program based budgeting.

Figure 1
Conceptual Framework



Source: Author (2017)

Table.2.1 Operationalization of Variables

Variable	Type	Measurement
Organisation Structure	Independent	<ul style="list-style-type: none">• Programme Objectives• Programme Goals• Programme relations to National Goals
Transparency	Independent	<ul style="list-style-type: none">• Accountability in Reporting• Economy in Budget disbursement• Efficiency in service Delivery• Openness in Fiscal Policy Intentions
Staff Capacity	Independent	<ul style="list-style-type: none">• Staff Training• Adequate Human Resource• ICT Literacy
Effectiveness of PBB	Dependent	<ul style="list-style-type: none">• Objectives Achieved• Targets Achieved• Outcomes Achieved• Outputs Achieved

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter entails the procedure that was used in the study, and this is collection, data analysis and reporting, study limitations, ethical issues and expected outcomes. The chapter explains how the study was carried out and what the researcher did to obtain the required results and gives the detailed explanation of how the study was implemented. The sources and types of data that was used and the sampling procedures determined in this section. The population was also identified. A data collection instrument was designed and data required for the study was collected.

3.2 Research Design

According to (Kothari 2014), the Research Design is the conceptual structure within which research is conducted, that is it constitutes the blue print for the collection, measurement and analysis of data. As such the design includes an outline of what the researcher did from writing the hypothesis and its operational implications, to the final analysis of data.

This research used the descriptive research design in the analysis of the data and interpretation of results.

3.2.1 Target population / respondents

The target population was all the 102 budget officers in the government ministries/departments/agencies as provided by the National Treasury. A census survey is a complete enumeration of all items in the 'population'. If the universe is a small one, it is no use resorting to a sample survey. The researcher thus studied the whole population in order to meet the objectives of the survey.

3.2.2 Data collection

The researcher used a questionnaire in the collection and collation of data. He ensured that as far as possible, the questions sought information/responses covering all aspects of study. Part one covered the demographic variables while parts two, three and four covered transparency, training, and Organisation Structure respectively. The questionnaire had closed ended questions. Closed ended questions ensure that the answers by the respondents are relevant to the data that is anticipated to be collected. The Ratio Scales technique was used. According to (Kothari 2014) ratio scale represent the actual amount of variables. Measures of physical dimensions such as weight, height, distance are examples. Generally all statistical techniques are usable with ratio scales and all manipulations that one can carry out with real numbers can also be carried out with ratio scale values (Kothari 2014)

3.2.3 Tools

Borg and Gall (1983), defines research instruments as “tools for collecting data”. The study was undertaken through the use of primary data. The primary data was collected by way of a suitable formulated questionnaire which was delivered to respondents by hand to their respective offices. The questionnaires comprised closed ended questions which are widely used in social science research.

3.2.4 Procedure

The questionnaire was well designed after a review of the objectives of the study so that it performs the intended functions. The researcher gave the respondents a one week period to fill in the questionnaires after which he collected them. This method of data collection has been chosen because it is most widely used social research technique.

3.2.5 Pilot study

Pre-Test of the methodology was done. The pre-test was to assess the validity of the data collection instruments and procedures, as well as sampling procedures. A pre-test serves as a trial run that allows the researcher to identify potential problems in the proposed study. To make this study more reliable and valid in terms of the data collection instrument, the researcher conducted a pilot study amongst the targeted budget officers. A pilot study was done in similar settings as the actual target. A pilot study was to expose the weaknesses of the instrument before it is used to collect data. The researcher used 5% of the target population as respondents in the pilot study. The results of the pilot study confirmed the instrument capable of collecting reliable and valid data.

3.2.6 Reliability and validity of the research instrument

By the use of the Cronbach's Alpha, the research was able to test the internal consistency of the techniques used to test the reliability of the research instruments. The alpha values normally range from 0 to 1 with reliability increasing with increase in value. Coefficient values greater than 0.7 generally denote that the instrument is reliable (Mugenda, 2008).

Validity is the extent to which an instrument measures what it is intended to measure. It focuses a lot on reducing errors in the data collection and measurement. In as much as there are various forms of validity, the research was keen on ensuring construct validity and content validity in this research.

3.3 Data Analysis and Presentation

After the data has been collected, the researcher classified the raw data into some purposeful and usable categories by coding and editing the data. The completed questionnaires were edited for completeness of responses and inconsistencies correcting them

where possible.. The data was then coded to enable the responses to be grouped into various categories.

Using multiple regression analysis, the study sought to establish the factors influencing the effectiveness of PBB in Kenya Public sector. Assuming a linear relationship between the independent and the dependent variable and guided by OLS estimation methods, the relationship between the independent and dependent variables as presented by the regression model was tested. The multiple regression equation will be:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Whereby Y = effectiveness of program based budgeting in Kenya Public sector

X₁= organisation structures, X₂= transparency of PBB and X₃= staff capacity in PBB,

while β_1 , β_2 and β_3 are coefficients and ε is the error term.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the analysis, findings and discussions obtained from the study. Based on objectives of the study, it shares the background information of the respondents in regards to their positions, qualifications, education and number of years in service. The data was analyzed using Statistical Packages for Social Sciences (SPSS) and is presented in tables and graphs. Discussions for the study are undertaken using descriptive and inferential statistics.

4.2 Response Rate

The target population was 102 budget officers in the 51 government ministries/departments/agencies. Out of the 102 officers, 91 completed the questionnaire hence a response rate of 89.2 percent as shown in table 4.1 below. The response rate was representative. A 50% response rate would be adequate for analysis and discussion as according to Mugenda and Mugenda (1999). A 70% response rate is considered excellent. Based on this assertion, the 89.2% response rate was quite satisfactory.

Table 4.1 Response Rate

Questionnaire	Frequency	Percentage
Filled and Returned	91	89.2
Unreturned	11	10.8
Total Issued	102	100.0

4.3 Reliability Analysis

Cronbach's Alpha test was used to test the reliability of the analysis. Internal consistency was measured and whether items within a scale measure the same construct.

SPSS was used to compute the Cronbach's Alpha, this measured the mean of measurable items and its correlation. Cronbach's Alpha was established for every variable which formed a scale as shown below.

Table 4.2 Reliability Analysis

Cronbach's Alpha	No. of Likert Items
0.814	19

The table shows that with the 19 items considered, the Cronbach's Alpha was 0.814. This indicates that the variables were reliable as their reliability values was above the threshold of 0.7 as contended by Field (2009). The average index was 0.814 which exceeds the adopted threshold of 0.7.

4.4 Findings from Respondents

4.4.1 Demographic information

The study sought to establish the positions at workplace, qualifications, education levels and number of years in service for the officers in the government ministries/departments/agencies. According to table 4.3 majority of the respondents as shown by 84.6 % had been working as budget officers, 9.9 % of the respondents worked as head of budgets while 5.5% of the respondents worked as planning officers. This is an indication that all the worked in the role of budgeting and therefore gave credible information related to this study.

Table 4.3: What position do you hold in your work place?

	Frequency	Percent
Head of Budget	9	9.9
Budget Officer	77	84.6
Planning Officer	5	5.5
Total	91	100.0

According to table 4.4 majorities of the respondents as shown by 64.8 % had the qualifications of **Accounting/Finance**, 14.3 % of the respondents had a management qualifications while 18.7% of the respondents had economics qualifications. Only 2.2% of the respondents had other qualification apart from the above listed.

This is an indication that majority of the respondents had relevant qualifications for budgeting processes.

Table 4.4: Qualifications

	Frequency	Percent
Accounting/Finance	59	64.8
Management	13	14.3
Economics	17	18.7
Others	2	2.2
Total	91	100.0

Table 4.5 indicates that majority of the respondents had a masters qualification, closely followed by bachelor degree holders at 47.3% and diploma holders at 3.3%. This is an indication that all the respondents had the necessary academic qualification for handling the budgeting process.

Table 4.5: Academic Qualifications

	Frequency	Percent
Diploma	3	3.3
Bachelor's Degree	43	47.3
Masters	45	49.5
Total	91	100.0

The study sought to establish to indicate working experience in the government sector. According to table 4.6 majority of the respondents as shown by 34.1 % had been working in for 5-6 years, 26.4 % of the respondents indicated they had worked for 3-4 years,

23.1% had worked for 7-8 years and 16.5% of the respondents indicated had worked for over eight years. This is an indication that all the respondents had sufficient experience to work in their departments.

Table 4.6: Work Service in Years

Work Service in Years	Frequency	Percent
3-4	24	26.4
5-6	31	34.1
7-8	21	23.1
Above 8	15	16.5
Total	91	100.0

4.4.2 Organisation structure and program based budgeting

The respondents were requested to indicate whether the organisation structure of their ministries/departments/agencies affected the Program Based Budgeting.

The study sought to determine the effect of organisation structure of their ministries/departments/agencies on Program Based Budgeting. It asked questions relating to organisation structures of ministries/departments/agencies and Program Based Budgeting

In each question, a likert scale of 1-5 where 1= Strongly Disagree (SD), 2= Disagree (D), 3=Neutral(N), 4= Agree(A) and 5= Strongly Agree(SA) was used. Descriptive statistics (mean and standard deviation) for each question was also analyzed to establish the average response of the respondents.

According to Table 4.7, 78% of the respondents agreed on the statement that internal organisation Structures of their ministry/department/agency are aligned with the programmes in a manner that the programme objectives are achieved. 15.4% of the respondents strongly agreed to the statement. Only 6.6% were neutral with the statement. With a mean scoring of 4.09 this implied that on average the respondents agreed to the statement that internal

organisation Structures of their ministry/department/agency are aligned with the programmes in a manner that the programme objectives are achieved.

On the statement that programmes in their ministry/department/agency are formulated and developed in line with the national goals and strategies, 62.6% of the respondents agreed, 33% were neutral, 4.4% strongly agreed. With a mean of 3.71, on average the respondents agreed to this statement.

We also observe that 59.3% of the respondents were neutral on the statement that their ministry/department/agency have a programme confined to common services such as general administration, financial services, accounting, internal audit, procurement, planning services, human resource management and IT services which are not programme specific in nature. 23.1% agreed to the statement, 11% strongly agreed while only 6.6% disagreed to the statement. With a mean of 3.38, on average the respondents were neutral to this statement.

On whether programmes in their ministry/department/agency have objectives, 68.1% agreed to the statement, 8.8% strongly agreed while 23.1% were neutral on the statement. With a mean of 3.86, on average the respondents agreed with this statement.

Finally in regard to organisation structure, 75.8% of the respondents agreed that programmes are the primary unit of financial allocation decision making in your ministry/department/agency, 12.1% strongly agreed while only 12.1% were neutral. With a mean of 4.00, on average the respondents agreed with this statement.

Table 4.7: Frequency and Mean Analysis of Organisation Structure

Constructs	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean	Std. Dev.
The internal Organisation Structures of your ministry/department/agency are aligned with the programmes in a manner that the programme objectives are achieved.			6.6	78.0	15.4	4.09	.463
Programmes in your ministry/department/agency are formulated and developed in line with the national goals and strategies.			33.0	62.6	4.4	3.71	.543
Your ministry/department/agency have a programme confined to common services such as general administration, financial services, accounting, internal audit, procurement, planning services, human resource management and IT services which are not programme specific in nature.		6.6	59.3	23.1	11.0	3.38	.771
Programmes in your ministry/department/agency have objectives.			23.1	68.1	8.8	3.86	.549
Programmes are the primary unit of financial allocation decision making in your ministry/department/agency.			12.1	75.8	12.1	4.00	.494

4.4.3 Transparency and program based budgeting

The respondents were requested to indicate whether the transparency in their ministries/departments/agencies affected the Program Based Budgeting.

The study sought to determine the effect of transparency in their ministries/departments/agencies on Program Based Budgeting. It asked questions relating to transparency in ministries/departments/agencies and Program Based Budgeting.

From Table 4.8 below, on the statement that there are formal requirements in their ministry/department/agency for PBB management, 29.7% of the respondents were neutral on the statement, 49.5% of the respondents agreed and 20.9% strongly agreed to the statement.

With a mean scoring of 3.91 we observe that on average the respondents agreed to the statement.

On the statement that top ministry/department/agency executives approve the programme based budget proposals before parliamentary approvals, 40.7% of the respondents agreed, 41.8% strongly agreed, 15.4% were neutral while only 2.2% disagreed. With a mean of 4.22, on average the respondents agreed to this statement.

We also observe that 56% of the respondents agreed and 13.2% strongly agreed to the statement that Parliament and the public kept informed through programme statements on the main outputs, performance and expenditures of programmes in your ministry/department/agency. 27.5% were neutral on the statement while only 3.3% disagreed with the statement. With a mean of 3.79, on average the respondents agreed to this statement.

On whether the ministry/department/agency present the programme budget proposals to the public in a simplified manner and language understandable by all before approval, 61.5% agreed to the statement, 29.7% strongly agreed while 8.8% were neutral on the statement. With a mean of 4.21, on average the respondents agreed with this statement.

Lastly on transparency of program based budgeting, 51.6% of the respondents agreed that there is transparency in the Program- Based Budgeting in your ministry/department/agency, 25.3% strongly agreed while only 23.1% were neutral. With a mean of 4.00, on average the respondents agreed with this statement.

Table 4.8: Frequency and Mean Analysis of Transparency of Program Based Budgeting

Constructs	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean	Std. Dev.
There are formal requirements in your ministry/department/agency for PBB management.			29.7	49.5	20.9	3.91	.709
Top ministry/department/agency executives approve the programme based budget proposals before parliamentary approvals.		2.2	15.4	40.7	41.8	4.22	.786
Parliament and the public kept informed through programme statements on the main outputs, performance and expenditures of programmes in your ministry/department/agency.		3.3	27.5	56.0	13.2	3.79	.707
Your ministry/department/agency present the programme budget proposals to the public in a simplified manner and language understandable by all before approval.			8.8	61.5	29.7	4.21	.587
In your assessment, according to the goals below, there is transparency in the Program-Based Budgeting in your ministry/department/agency			23.1	51.6	25.3	4.02	.699

4.4.4 Staff Capacity in Program-Based Budgeting

The respondents were requested to indicate whether the staff capacity in program based budgeting in their ministries/departments/agencies affected the Program Based Budgeting.

The study sought to determine the effect of staff capacity in their ministries/departments/agencies on Program Based Budgeting. It asked questions relating to staff capacity in ministries/departments/agencies and Program Based Budgeting.

We observe from Table 4.9 below that 59.3% of the respondents agreed and 25.3 strongly agreed to the statement that there are foundational and technical knowledge necessary to appropriately define programmes and their performance indicators. Only 15.4%

of the respondents were neutral to the statement. With a mean scoring of 4.10 we conclude that on average the respondents agreed to the statement.

On whether the staff has been trained in program based budgeting, 72.5% of the respondents agreed, 14.3% strongly agreed while only 13.2% were neutral. With a mean of 4.01, on average the respondents agreed to this statement.

The respondents were also asked if they have ever been provided with a Programme Based Budgeting Manual. 63.7% agreed to the statement, 22% strongly agreed while only 14.3% were neutral. With a mean of 4.08, on average the respondents agreed to this statement.

On whether ministry/department/agency has sufficient technical and human resource for PBB implementation and maintenance, 62.6% agreed to the statement, 11% strongly agreed while 26.4% were neutral on the statement. With a mean of 3.85, on average the respondents agreed with this statement.

Lastly the respondents were asked if they had the necessary Information and communication technology skills to input and analyze the concepts, processes and systems needed for programme based budgeting. 67% of the respondents agreed, 13.2% strongly agreed while only 19.8% were neutral. With a mean of 3.93, on average the respondents agreed with this statement.

Table 4.9: Frequency and Mean Analysis of Staff Capacity in Program Based Budgeting

Constructs	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean	Std. Dev.
You have foundational and technical knowledge necessary to appropriately define programmes and their performance indicators.			15.4	59.3	25.3	4.10	.633
You have been trained in Program-Based Budgeting.			13.2	72.5	14.3	4.01	.527
You have ever been provided with a Programme Based Budgeting Manual.			14.3	63.7	22.0	4.08	.601
Your ministry/department/agency has sufficient technical and human resource for PBB implementation and maintenance.			26.4	62.6	11.0	3.85	.595
You have the necessary Information and communication technology skills to input and analyze the concepts, processes and systems needed for programme based budgeting.			19.8	67.0	13.2	3.93	.574

4.4.5 Effectiveness of programme based budget

The respondents were requested to indicate the effectiveness of program based budgeting in their ministries/departments/agencies.

The study sought to determine the effectiveness of Program Based Budgeting to the ministries/departments/agencies. It asked questions relating to effectiveness of Program Based Budgeting in their ministries/departments/agencies.

Table 4.10 shows that 50.5% of the respondents agreed and 5.5% strongly agreed that objectives are regularly achieved. 37.4% were neutral on the statement while only 6.6% disagreed with the statement. With a mean of 3.55 we observe that the respondents were neutral on average to this statement.

The table also shows that 54.9 % of the respondents agreed and 30.8% strongly agreed that the programme targets are regularly achieved. However 14.3% were neutral. On average (4.16) the respondent agreed to the statement.

In regard to regular achievement of programme outcomes, 57.1% agreed to the statement and 33% strongly agreed. Only 9.9% were neutral on this statement. With a mean of 4.23 the respondents agreed to the statement.

Finally 41.8% of the respondents agreed to the statement that programme outputs were regularly achieved. We also observe that 35.2% of the respondents strongly agreed to the statement. Only 23.1% of the respondents were neutral to the statement. The respondents on average agreed to the statement with a mean of 4.12

Table 4.10: Frequency and Mean Analysis of effectiveness of Program Based Budgeting

Constructs	SD (%)	D (%)	N (%)	A (%)	SA (%)	Mean	Std. Dev.
Programme objectives are regularly achieved.		6.6	37.4	50.5	5.5	3.55	.703
Programme targets are regularly achieved.			14.3	54.9	30.8	4.16	.654
Programme outcomes are regularly achieved.			9.9	57.1	33.0	4.23	.616
Programme outputs regularly achieved.			23.1	41.8	35.2	4.12	.758

4.5 Regression Analysis

Table 4.11: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.863 ^a	.745	.736	0.5140

Table 4.11 above shows that the model was significant. From the findings, the value of adjusted R squared was 0.736 an indication that there was variation of 73.6% on effectiveness of program based budgeting due to changes in organisation structures, transparency and staff capacity in program based budgeting at 95% confidence interval. This shows that 73.6% changes on effectiveness of program based budgeting in the government sector could be accounted for by organisation structures, transparency and staff capacity in program based budgeting of government ministries/departments/agencies.

Using multiple regression analysis, the study sought to establish the factors influencing the effectiveness of PBB in Kenya Public sector. Assuming a linear relationship between the independent and the dependent variable and guided by OLS estimation methods, the relationship between the independent and dependent variables as presented by the regression model was tested. The multiple regression equation will be:

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon$$

Whereby Y = effectiveness of program based budgeting in Kenya Public sector

X₁= organisation structures, X₂= transparency of PBB and X₃= staff capacity in PBB,

while β_1 , β_2 and β_3 are coefficients and ε is the error term.

Table 4.12: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	Constant	-8.3189E-19	.054		.000	1.000
	Organisation Structure	.118	.055	.118	2.164	.033
	Transparency	.570	.055	.570	10.268	.000
	Staff capacity	.515	.056	.515	9.199	.000

From the data in the above table 4.14 the established regression equation was:

$$Y = 0.118X_1 + 0.57X_2 + 0.515X_3 + \varepsilon$$

From the above regression equation, we note that all the three variables were significant as their p-values were less than 5%. However the constant term was insignificant. A unit increase in organisation structures would result in effectiveness of program based budgeting in Kenya Public sector 11.8%. A unit increase in transparency of PBB would result in an increase of the effectiveness of program based budgeting in Kenya Public sector by 57%. A unit increase in staff capacity in PBB would result in an increase of the effectiveness of program based budgeting in Kenya Public sector by 51.5%.

From the ANOVA statistics, the study established the regression model had a significance level of 0% which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The calculated value was greater than the critical value an indication organisation structure, transparency and staff capacity in PBB all influenced effectiveness of program based budgeting. The significance value was less than 0.05 indicating that the model was significant.

Table 4.13: Analysis of Variance

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	67.012	3	22.337	84.5350	.000 ^b
Residual	22.988	87	.264		
Total	90.000	90			

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this chapter, we discuss the results of the study, make conclusions from the findings and makes appropriate recommendation. The chapter will make conclusions and recommendations based on the three study objectives. The researcher had intended to determine the effect of Organisation Structure on the effectiveness of PBB in Kenyan Public Sector, determine the effect of Transparency on the effectiveness of PBB in Kenyan Public Sector and determine the effect of Staff Capacity on the effectiveness of PBB in Kenyan Public Sector.

5.2 Summary of the Study

5.2.1 Findings on effect of organization structure on the effectiveness of PBB in kenyan public sector

The first objective was to determine the effect of Organisation Structure on the effectiveness of PBB in Kenyan Public Sector. The study concluded that there is a significant positive relationship ($p\text{-value}=0.033$, $\beta_1= 0.118$) between organisation structure and the effectiveness of PBB in Kenyan Public Sector. The study determined that programmes are the primary unit of financial allocation decision making in the ministry/department/agency, programmes in ministry/department/agency have objectives, the programmes in ministry/department/agency are formulated and developed in line with the national goals and strategies, ministry/department/agency have a programme confined to common services such as general administration, financial services, accounting, internal audit, procurement, planning services, human resource management and IT services which are not programme specific in nature and that internal Organisation Structures of the ministry/department/agency are aligned with the programmes in a manner that the programme objectives are achieved

The study concurs with the findings of Robison M. (2011), who argued that organisation structures are an important factor in the delivery of program based budgeting in the public sector.

5.2.2 Findings on the effect of transparency on the effectiveness of PBB in Kenyan public sector

The second objective was to determine the effect of Transparency on the effectiveness of PBB in Kenyan Public Sector. The study concluded that there is a significant positive relationship (p-value=0.00, $\beta_1 = 0.57$) between transparency and the effectiveness of PBB in Kenyan Public Sector. The study determined that are formal requirements in the ministry/department/agency for PBB management, that top ministry/department/agency executives approve the programme based budget proposals before parliamentary approvals, that parliament and the public kept informed through programme statements on the main outputs, performance and expenditures of programmes in your ministry/department/agency, that the ministry/department/agency present the programme budget proposals to the public in a simplified manner and language understandable by all before approval, and that there transparency in the Program- Based Budgeting in your ministry/department/agency in regard to improved program accountability, increased program effectiveness, increased program efficiency and changes in ministry/department/agency budget allocations.

Similar observations were made from Caruthers, J. I. (2002) who was evaluating the effectiveness of regulatory growth management Programs. He observed that Transparency on the effectiveness of the program based budgeting is a factor in the effectiveness of delivery.

5.2.3 Findings on the effect of staff capacity on the effectiveness of PBB in Kenyan public sector

The third objective was to find out the effect of Staff Capacity on the effectiveness of PBB in Kenyan Public Sector. The study concluded that there is a significant positive relationship ($p\text{-value}=0.000$, $\beta_1= 0.515$) between staff capacity and the effectiveness of PBB in Kenyan Public Sector. The study determined that there are foundational and technical knowledge necessary to appropriately define programmes and their performance indicators, that staff have been trained in Program-Based Budgeting, staff have ever been provided with a Programme Based Budgeting Manual, the ministry/department/agency have sufficient technical and human resource for PBB implementation and maintenance, and that they have the necessary Information and communication technology skills to input and analyze the concepts, processes and systems needed for programme based budgeting.

Gilmour, J. B., & Lewis, D. E. (2006) in their study ‘Assessing performance budgeting at OMB: The influence of politics, performance, and program size.’ Made similar conclusions that staff capacity enhances effectiveness in program based budgeting.

5.3 Conclusion and Recommendations

Descriptive statistics and regression analysis was undertaken to achieve the three objectives of the study. These objectives were to determine the effect of Organisation Structure on the effectiveness of PBB in Kenyan Public Sector; determine the effect of Transparency on the effectiveness of PBB in Kenyan Public Sector; and to determine the effect of Staff Capacity on the effectiveness of PBB in Kenyan Public Sector.

The study concludes that all the three factors, Organisation Structure, transparency and staff capacity affect the effectiveness of programme based budgeting in Kenyan Public Sector. It is the responsibility of the respective departments to ensure that these factors are well implemented in the state departments. The government department can enhance these

processes by enacting policy guidelines that define the functions and processes in all their responsibilities.

Proper organisation structures can be realized by enhancing financial allocation decision making within the government ministries/departments/agencies, defining programme objectives within ministries/departments/agencies, aligning the programmes in ministries/departments/agencies with the national goals and strategies, confining programmes in the ministries/departments/agencies to common services such as general administration, financial services, accounting, internal audit, procurement, planning services, human resource management and IT services. We also align internal organisation structures of the ministries/departments/agencies to the programmes in a manner that the programme objectives are achieved.

Proper governance structures can be realized by enhancing financial allocation decision making withing the government ministries/departments/agencies, defining programme objectives within ministries/departments/agencies, aligning the programmes in ministries/departments/agencies with the national goals and strategies, confining programmes in the ministries/departments/agencies to common services such as general administration, financial services, accounting, internal audit, procurement, planning services, human resource management and IT services. We also align internal organisation structures of the ministries/departments/agencies to the programmes in a manner that the programme objectives are achieved.

To enhance transparency in the government ministries/departments/agencies, they need to develop and formulate formal requirements in the ministries/departments/agencies for Program based budgeting. The top management should approve the programme based budget proposals before parliamentary approvals while parliament and the public should be kept informed through programme statements on the main outputs, performance and expenditures

of programmes in the ministries/departments/agencies. They should also present the programme budget proposals to the public in a simplified manner and language understandable by all before approval, and also improve program accountability, effectiveness, efficiency and adjustments in budget allocations.

Finally, to enhance staff capacity should develop their foundational and technical knowledge necessary to appropriately define programmes and their performance indicators. Training on Program-Based Budgeting and improvement in the technical and human resource for program based budgeting implementation and maintenance should be a continuous process. Information and communication technology skills to input and analyze the concepts, processes and systems needed for programme based budgeting should also be in place.

5.4 Recommendations for Further Research

This study confined itself to the three factors as outlined. Further research should be undertaken to study other factors that enhance program based budgeting within government ministries/departments/agencies. The study also confined itself to the Kenyan government ministries/departments/agencies. Future research should also consider other countries as a way of benchmarking and comparison especially there being a unique way in which the public sector operates.

This research should also be replicated to the private sector to study the effectiveness of program based budgeting while in a private sector. Further research can also be tested with regard to other forms of budgeting other than program based budgeting. Finally, we can also determine the effect of programme based budgeting on the financial performance of government ministries/department/agencies.

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APPENDICES

Appendix I

Programmes implemented by the Education sector in 2016/17 -2018/19 MTEF period.

1. Primary Education
2. Secondary Education
3. Quality Assurance and Standards
4. University Education
5. Technical and Vocational Education and Training
6. Research, Science, Technology and Innovation.
7. Youth Training and Development
8. Teacher Resource Management
9. Governance and Standards
10. General Administration, Planning and Support Services

Source: Sector Working Group Report November 2015

Programmes and their Objectives (Education Sector)

S.No.	Programme Name	Objective
1	Primary Education	To enhance access, quality, equity and relevance of primary education.
2	Secondary Education	To enhance access, quality, equity and relevance of secondary education.
3	Quality Assurance and Standards	To develop, maintain and enhance education quality standards
4	University Education	To enhance access, equity, quality and relevance of university education through training research and Innovation
5	Technical Vocational Education and Training	To enhance access, equity, quality and relevance of technical vocational education and training
6	Research, Science, Technology and Innovation	To develop, harness and integrate research, science, technology and innovation in national production system
7	Youth Training and Development	To promote access, equity, quality and relevance of VET
8	Teacher Resource Management	To provide and maintain a sufficient and equitably distributed teaching force in all public primary and post primary institutions
9	Teaching Standards and Governance	To enhance quality teaching, professionalism and integrity in the teaching service
10	General Administration, Planning and Support Services	To provide effective and efficient support services and linkages among programmes of the sector.

Source: Sector Working Group November 2015

Programmes, Key outputs, Key Performance Indicators and Targets

Programme : University Education									
Outcome : Increased enrolment to university education									
Programme	Delivery Unit	Key Outputs	Key Performance Indicators (KPI)	Targets 2014/2015	Actual Achievements 2014/2015	Target (Baseline) 2015/2016	Targets 2016/2017	Target 2017/18	Target 2018/19
University Education	DHE and Universities	Access to university education	No. of students enrolled in universities	352,700	369,151	405,555	425,829	447,119	469,476
	Kenya Universities and Colleges Central Placement services	Accessible higher education	No. of Government sponsored students admitted to universities and tertiary institutions	57,000	57,986	67,690	77,843	89,520	102,948
	Commission for Universities Education	Quality Assurance in University education	No. of reviewed quality enforcement documents	Nil	Nil	Nil	1	Nil	Nil
			Number of universities inspected for quality assurance	50	30	70	100	130	160

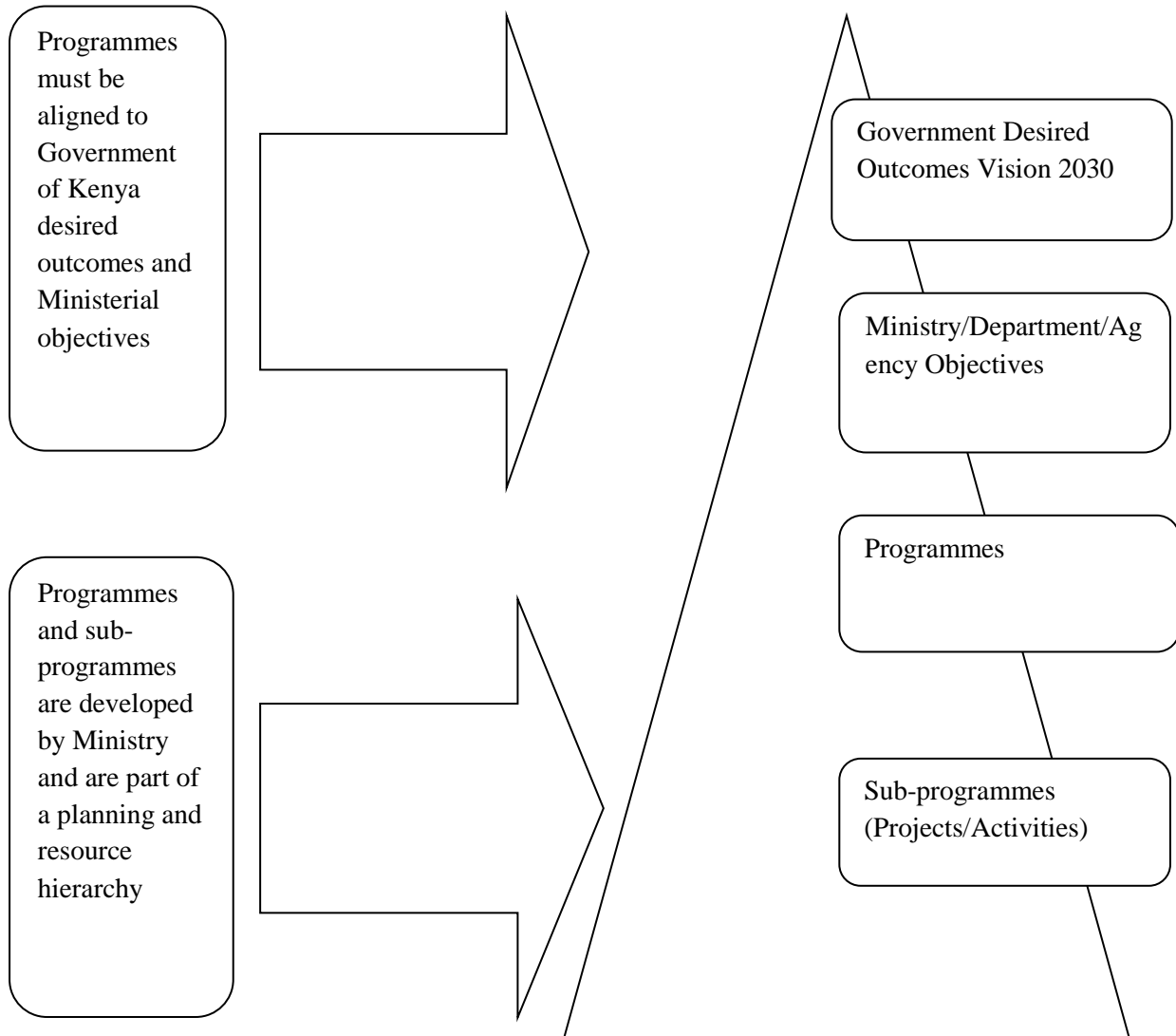
			Number of Programmes accredited	20	44	25	35	45	55
			Number of student recruitment agencies licensed	2	1	5	5	5	5
	Commission for Universities Education	Quality Assurance in University education	Number of collaborations between foreign Universities and local institutions	2	1	2	3	4	5
			Number of Credit Accumulation Transfers (CATs) developed	2	6	5	6	7	8
			No. of Higher Education Information Management System	Nil	Nil	Nil	Nil	1	Nil

		Relevant University Education	Number of surveys conducted to establish state of university education in relation to national development	1	1	2	3	4	5
		Capacity building	Number of peer reviewers trained	100	62	80	80	80	80
		Capacity building	Number trained in Internal Quality Assurance (IQA) at the Universities	67	120	140	140	140	140
	Higher Education Loans Board (HELB)	Effectively financed University Education	Number of students awarded loans and bursaries	161,000	174,874	201,105	231,271	265,961	305,855

Source: Sector Working Group November 2015

Appendix II

Programme Hierarchy



Source: Programme Based Budgeting Manual November 2011

Appendix III

Questionnaire

EFFECTIVENESS OF PROGRAMME-BASED BUDGETING SYSTEM IN KENYA.

PART. I. Position, Qualification, Educational Level and Work Experience of the Respondents.

1. What position do you hold in your work place?

Head of Budget () Budget Officer () Planning Officer () Other, Specify ()

2. What qualification do you have?

Accounting/Finance () Management () Economics () Others, Specify ()

3. What is your Educational Level?

Certificate () Diploma () Bachelors Degree () Masters ()

4. Work Service in Years.

1-2 () 3-4 () 5-6 () 7-8 () Above 8 ()

PART. II. PBB and Organisation Structure

5. What is your level of agreement in relation to the following statements relating to organisation Structure and Programme based budgeting?

Organisation Structure and Programme based budgeting		SD	D	N	A	SA
		1	2	3	4	5
a	The internal Organisation Structures of your ministry/department/agency are aligned with the programmes in a manner that the programme objectives are achieved.					
b	Programmes in your ministry/department/agency are formulated and developed in line with the national goals and strategies.					
c	Your ministry/department/agency have a programme confined to common services such as general administration, financial services, accounting, internal audit, procurement, planning services, human resource management and IT services which are not programme specific in nature.					
d	Programmes in your ministry/department/agency have objectives.					
e	Programmes are the primary unit of financial allocation decision making in your ministry/department/agency.					

PART. III. Transparency of PBB

6. What is your level of agreement in relation to the following statements relating to Transparency of Programme based budgeting?

Transparency of Programme Based Budgeting		SD	D	N	A	SA
		1	2	3	4	5
a	There are formal requirements in your ministry/department/agency for PBB management.					
b	Top ministry/department/agency executives approve the programme based budget proposals before parliamentary approvals.					
c	Parliament and the public kept informed through programme statements on the main outputs, performance and expenditures of programmes in your ministry/department/agency.					
d	Your ministry/department/agency presents the programme budget proposals to the public in a simplified manner and language understandable by all before approval.					
e	In your assessment, according to the goals below, there is transparency in the Program- Based Budgeting in your ministry/department/agency <ul style="list-style-type: none"> • Improved program accountability • Increased program effectiveness • Increased program efficiency 					

PART. IV. Staff Capacity in Program-Based Budgeting

7. What is your level of agreement in relation to the following statements relating to Staff Capacity in Program-Based Budgeting?

Staff Capacity in Program-Based Budgeting		SD	D	N	A	SA
		1	2	3	4	5
a	You have foundational and technical knowledge necessary to appropriately define programmes and their performance indicators.					
b	You have been trained in Program-Based Budgeting.					
c	You have ever been provided with a Programme Based Budgeting Manual.					
d	Your ministry/department/agency has sufficient technical and human resource for PBB implementation and maintenance.					
e	You have the necessary Information and communication technology skills to input and analyze the concepts, processes and systems needed for programme based budgeting.					

PART.V. Effectiveness of Programme Based Budget

8. What is your level of agreement in relation to the following statements relating to Effectiveness of Programme Based Budgeting?

Effectiveness of Programme Based Budgeting		SD	D	N	A	SA
		1	2	3	4	5
a	Programme objectives are regularly achieved.					
b	Programme targets are regularly achieved.					
c	Programme outcomes are regularly achieved.					
d	Programme outputs regularly achieved.					