EFFECT OF PUBLIC FINANCIAL MANAGEMENT PRACTICES ON DEVELOPMENT BUDGETARY ABSORPTION WITHIN GOVERNMENT DEPARTMENTS IN KENYA

BY

EDWARD NJOI

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DECLARATION

This research project is my original work and has not been presented to any university for any award or anywhere else for academic purposes.

Signature________________________ Date ____________________

Edward Njoi

Registration No:

This project has been submitted for examination purposes with my approval as University Supervisor

Signature________________________ Date ____________________

Dr. Duncan Elly Ochieng` PhD, CIFA

Supervisor

This project has been submitted for examination purposes with my approval as the school Advisor.

Signature________________________ Date ____________________

Advisor

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ABSTRACT

In order for the government of Kenya to meet its fiscal objectives, it is necessary that government ministries effectively be able to spend budgeted provisions to the highest levels. Government officers need to understand the importance of being able to fully utilize funds as budgeted and as efficiently as possible so as to have an impact to the highest population. The broad objective of this study is to establish the effects of public financial management practices on budgetary absorption within government departments in Kenya. The specific objectives of this study were to determine the impact of financial administration on budgetary absorption, to find out if financial controls has an effect on budgetary absorption, to determine the effect of budget management on budgetary absorption and to find out the effectiveness of fiscal accountability on budgetary absorption within government departments in Kenya. This study adopted a descriptive research design. The target population for this study was all government departments in the country. Focus was on population in the accounts, finance department and other officers responsible for budget preparation and implementation in the 18 government ministries and there are 1,045 of such employees. This study had a sample size of 209 employees from all the targeted departments. This study exclusively used primary data collection method. Primary data was derived from questionnaires distributed to employees of the 18 government ministries. This study collected both qualitative and quantitative data. Content analysis was used on qualitative data collected. On the other hand the researcher used descriptive and inferential statistics to analyse the quantitative data. Majority of the respondents stated that management strength had the greatest effect in relation to the financial control factors on budgetary absorption. This study results show that most of the respondents felt that budget management had an impact on budgetary absorption. Most of the respondents felt that establishing a clear budgeting process which links to strategic priorities and business needs had the greatest effect among the factors considered in relation to budget management. Most of the respondents suggested fiscal accountability affected budgetary absorption. The findings show that most of the respondents were of the opinion that conducting fiscal reviews had the greatest effect on budgetary absorption. In conclusion for governments to achieve high budgetary absorption then reforming central bureaucracies, financial administration and enhancing public financial management should be primarily a problem of political will and government capacity to effectively use persuasive and manipulative forms of power. In summary effective public service delivery requires an appropriate mix of inputs in relation to financial control. In conclusion budget rules have an effect on budgetary absorption and regulations are in three kinds: procedural rules; rules on transparency, and numerical targets such as balanced budget laws and thus budget procedures formulation, approval and implementation of the budget strongly influence fiscal outcomes. It recommended that financial administration performance information needs to be used systematically in the resource allocation and financial administration process. The study recommends that greater effort is required to enforce uniform accounting standards as one of the financial control. There are research gaps in relation to the effect of public financial management reforms in the effective management of public funds in Kenya and establishing the role of budgeting on performance of organizations and to determine a performance measurement approach to improve financial management in government departments.

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LIST OF ABBREVIATIONS

ALH	Analyst License Holders
GDP	Gross Domestic Product
IFMIS	Integrated Financial Management Information Systems
OBT	Output-Budgeting Tool
PFM	Public Financial Management
PFMP	Public Financial Management Practices
SPSS	Statistical Package for the Social Sciences

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The causal relationship between government revenue and government expenditure is an issue that has generated heated debate globally, over the years, among economists and policy analysts. An understanding of this relationship is critical in the formulation of a sound or excellent fiscal policy to prevent or reduce unsustainable fiscal deficits and budgetary absorption (expenditure) among governments (Eita and Mbazima, 2008). Indeed, a good understanding of the relationship between public revenue and public expenditure is of crucial importance in appreciating the consequences of unsustainable fiscal deficits and in addressing such imbalances (Hondroyiannis and Papapetrou, 1996; Eita and Mbazima, 2008). It is also highly consequential in evaluating government`s role in the distribution of resources (Chang, 2009). In Uganda for example the budget absorption rate was 99 per cent at the close of the past financial year, with Ush5.11 trillion ($2.21 billion) used out of a total allocation of Ush5.17 trillion ($2.24 billion) (Government Annual Performance Report FY 2012/13). The government of Kenya had failed to spend over 402 billion shillings in fiscal year 2014-15 and nothing has been done to indicate that any improvement will be noted (Controller of the Budget Report FY 2014-15).

Government spending patterns in developing countries have changed dramatically over the last several decades. Thus, it is important to monitor trends in the levels and composition of government expenditures, and to assess the causes of change over time. This is necessary because countries are face challenges of budgetary absorption (expenditure). Equally important is the composition of government expenditures reflecting on government spending priorities. The composition of total expenditure across departments reveals many differences (Wolf, 2004). Any increase in public provision of services occassioned by severed link between public spending and development outcomes could lead to a crowding out of private sector provision. Factors that lead to the ineffectiveness of public spending include poor targeting and/or institutional inefficiencies in the form of leakage in the spending of public funds as well as institutional capacity which is weak. More often than not when budget management is poor has been cited as one of the main reasons why developing countries find it hard to translate public spending into effective services delivery to citizens (World Bank, 2003). A reasonable proposition, therefore, can be made: managing public resources to promote development requires well-trained, skillful personnel, working in an institutional setting with an incentive system that reduces fraud and promotes cost efficiency.

In Kenya various ministries and departments failed to spend more Sh339.6 billion allocated to them in the year 2012/2013 while in the financial year 2013/14 recorded a higher proportion of funds not spent because of the length of time it took to install the new government into office. According to Budget Implementation Review Report Fourth Quarter 2014/15 various ministries and departments in Kenya failed to spend a massive Kshs. 402.1 billion allocated to them in the financial year ended June 30, 2015. This is Kshs.100 billion more than was left unspent in the previous financial year. Out of Kshs.1.15 trillion for the 2012/13 financial year as an example, only Kshs. 814.7 billion was spent by the relevant ministries. This is despite the allocation of more development resources to fuel the economy. According to the report it is also noted that out of Ksh. 437.1 billion meant for development, the ministries spent Ksh.193.9 billion, representing a 44.4 per cent absorption rate. This performance is quite low if the country is to meet the targeted economic growth rate as envisioned in Vision 2030.

It is important for government departments to meet their budgetary objectives of spending all the budgeted funds on the intended programmes. One of the performance contracting requirements of the government is maximum budgetary absorption by the various government ministries and departments. In 2011, the regulations concerning the rewards and punishment are regulated through finance minister regulation number 38 of 2011, about the procedure for the results of the optimization of the 2010 budget by the ministries/institutions for 2011 fiscal year, and the deduction of the 2011 expenditures which was not fully implemented in 2010 fiscal year. The slowness of absorption of the budget is caused by, one of them, lack of planning government activities on the ministries / institutions. There are still many officers who have not realized their plans in accordance with their main tasks and functions. The lack of planning has made the ministries not use the budget rapidly. The awareness of the apparatus of government bureaucrats to effectively and optimally use the budget determines the success of the government to achieve its purpose which is to improve the welfare of the people (Budget Implementation Review Report Fourth Quarter, 2012/13).

The core of public finance is that trusted people spend other people`s money, two aspects of this delegation arrangement are particularly important for the conduct of fiscal policy. The first is the principal agent relationship between voters and politicians where elected politicians extract rents from being in office and spend public moneys on projects other than those that the voters desire. The second is the common pool problem of public finances governments spend money drawn from a general tax fund on public policies targeted at individual groups in society. As a result, the net benefits for the targeted groups typically exceed the net benefits for society as a whole, and this situation leads to excessive levels of public spending and deficits. Comprehensiveness of the budget, transparency of the budgeting process, and use of the budget as a tool for strategic management rather than for purely legalistic control are therefore important for the budget to be a financial mirror of society`s economic and social choices, and to reflect all components of good governance-accountability, transparency, participation, and predictability (Donaldson, 2006).

1.1.1 Public Financial Management Practices

Public financial management practice refers to the legal and institutional framework for supervising all phases of the budget cycle, including formulation and preparation of the budget, budget execution and expenditure management, internal controls and audit, procurement, monitoring and reporting arrangements, and external audit. The broad objectives of public financial management are to achieve overall fiscal discipline, allocation of resources to priority needs, and efficient and effective delivery of public services (Tommasi, 2009).

A solid and strong public financial management system is, thus, a tool to evade fiscal waste and to guarantee that taxpayers` money is used wisely. It encompasses the mobilization of revenue, the allocation of these funds to various activities, expenditure, and accounting for spent funds (Tommasi, 2009). Andrews (2008) is of the opinion that in practice there is no big distinction between the two concepts. According to him this is so because the various PFM processes are structured around the budget cycle and complete participatory resulting in decentralized budget leading to effective public financial management.

1.1.2 Budgetary Absorption in Kenya

There is an overall improvement in total budget absorption in FY 2014/15 compared to FY 2013/14, from 31 percent to 34 percent. Absorption of the development budget in particular improved by 10 percentage points in that same period, from 16 percent to 26 percent. At sector level, lands and housing, security, agriculture and, planning and devolution each improved their absorption rates by over 15 percentage points. However, the absorption rates for gender, youth and culture, health, and infrastructure decreased by around 10 percentage points. Overall, the picture that emerges from these comparisons is that security and planning and devolution are performing at high rates. However, education is actually not performing as well as it was last year, even though it has spent the largest share of the budget in 2014/15 of any sector. Infrastructure is also performing poorly compared to last year (Controller of the Budget Report FY 2014-15).

The overall absorption rate for the full 2014/15 budget year is likely to be 83 percent, which is significantly higher than an average of 72 percent in the last three financial years. Development absorption will still fall below the 80 percent target announced by the Cabinet Secretary for Finance at the beginning of the year. The areas where the county is doing particularly well are gender, youth and culture, planning and devolution, as well as lands and housing. The areas where the government is doing poorly are international relations and commerce, infrastructure and energy, health, and state administration. While the absorption rates for some ministries seem to be improving over this period, there are ministries such as transport and energy that generally do not spend even half of the monies allocated to them though transport has performed well in the first half of 2014/15 (Controller of the Budget Report FY 2014-15).

1.1.3 Government Departments in Kenya

The government unveiled released the list of 18 ministries and state departments that will form the National Executive. They include the Ministry of Interior and Coordination of National Government and the Ministry of Devolution and Planning. Other ministries include Defence; Foreign Affairs; Education which will have the Department of Education and Department of Science and Technology; The National Treasury; Health; Transport and Infrastructure which will have the Department of Transport Services and the Department of Infrastructure; Environment, Water and Natural Resource; Land and Housing and Urban Development (Kenya Gazette, 2013).

In addition it includes Information, Communication and Technology (ICT); Sports, Culture and the Arts; Labour, Social Security and Services; Energy and Petroleum; Agriculture, Livestock and Fisheries under which are the Department of Agriculture, Department of Livestock and Department of Fisheries; Industrialization and Enterprise Development; Commerce and Tourism which has the Department of Commerce and Department of Tourism; and Mining (Kenya Gazette, 2013).

1.2 Statement of the Problem

In order for governments accross the globe to meet their fiscal objectives, it is necessary that government ministries and departments are effectively be able to spend budgeted provisions to the highest levels. Government officers need to understand the importance of being able to fully utilize funds as budgeted and as efficiently as possible so as to have an impact to the highest population (Eita & Mbazima, 2008).

Budgetary absorption in Kenya today according to the budget implementation review report (2014/2015) is well below the target rate of 80% which is a major problem affecting most of the government departments as reported by the auditor general over the years, yet every year the government goes through a budget process allocating funds to departments in order to meet its fiscal objectives. In the first quarter of 2015, it was only 29 percent of the budget that was absorbed. It was five percent lower than the same period in year 2014. Over time economic impact effectiveness has been given ideas, views and inputs from various stakeholders for the government to be able to accelerate its uptake of the budget. For example there were efforts to accelerate the absorption of the budget through the simplification of budget disbursement procedures (Kenya, 2007). It is therefore necessary for the present study to be carried out in order to shed light on the effects of public financial management practices on budgetary absorption within government departments in Kenya.

Various studies have been carried out on the effects of public financial management practices on budgetary absorption within government departments globaly for example in the USA, Werlin, (1992) argues that for governments to achieve high budgetary absorption then reforming central bureaucracies and enhancing public financial management should be primarily a problem of political will and government capacity to effectively use persuasive and manipulative forms of power, Catao and Terrones (2005) established in Australia that the relationship that exists between government revenues and expenditure gives an insight as to how different government formulated policies might help control the growth of the government expenditure. On the other hand a study in the USA by North, (1990) concluded that piecemeal reforms in public financial management practices as the more typical strategy to be adopted for effective budgetary absorption.

No known study has been carried out and published in Kenya on the effects of public financial management practices on budgetary absorption within government departments in Kenya. This therefore arouses more critical academic thinking within this subject area. The studies above were carried out mainly before 2013. From 2013, a lot of the fundamental changes have occured in the operating environement and governance in Kenya. It has been noted that researches done including the above discussed have not specifically dealt with effects of public financial management practices on budgetary absorption within government departments in relation to financial controls/administration, fiscal accountability and government revenues and how they affect budgetary absorption. Consequently, this leaves a knowledge gap that was addressed by the current study. This study poses the question, what were the effects of public financial management practices on budgetary absorption within government departments in Kenya?

1.3 General Objective

The general objective of this study was to establish the effects of public financial management practices on budgetary absorption within government departments in Kenya.

1.3.1 Specific Objectives

The specific objectives of this study were:

i. Determine the effect of financial administration on budgetary absorption within government departments in Kenya.

ii. Establish the effect of financial controls on budgetary absorption within government departments in Kenya.

iii. Evaluate the effect of budget management on budgetary absorption within government departments in Kenya.

iv. Assess the effects of fiscal accountability on budgetary absorption within government departments in Kenya.

1.4 Research Questions

The study was governed by the following questions:

i. What is the effect of financial administration on budgetary absorption among government departments in Kenya?

ii. How does financial controls affect budgetary absorption within government departments in Kenya?

iii. To what extent does budget management affect on budgetary absorption within government departments in Kenya?

iv. What is the effect of fiscal acountability on budgetary absorption within government departments in Kenya?

1.5 Significance of the Study

The study might benefit top management of the various government departments who would use it to understand the effect of public financial management practices on budgetary absorption and thus make necessary steps to improve on utilization of budgeted funds. The ministry of finance and particularly the office of the Controller of budget might use the study for policy formulation and implementation. The bilateral donors and other stake holders would use it to understand what affects budget absorption. The staff in the accounts, finance, procurement and the Analyst License Holders would use it to improve on spending so as to spur economic growth in the country, improve standards of living, employment and customer satisfaction.

The findings of this study would enable various department authorities to undertake benchmarking of ministries with a view to improving on service delivery, spending as well as economic growth. At the same time the results might be crucial for planning on such aspects of efficient utilization of funds. The study findings would add to the existing knowledge as it shall act as a point of reference for other researchers and academicians who could use it to borrow ideas in regard to methodology and thoretical orientation.

1.6 Scope of the Study

The study focused on the effect of public financial management pracitces on budgetary absorption within government departments in Kenya. This study took place at the headquarters of all the government ministries between the period 2005-2015 where secondary data was sought. The parameters/or respondents of this study were employees in various sections including the accounts section, finance, procurement section.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter covered the theoretical review of the study, empirical review and the conceptual framework.

2.2 Theoretical Review

This study considered the following three theories.

2.2.1 Peacock and Wiseman's Theory of Expenditure

One of the best known analyses of the time pattern of public expenditures was done by a study carried out by Peacock and Wiseman in 1961 and 1979 they founded their analyses upon a political theory of public determination that governments like to spend more money and citizens do not like to pay taxes, and that government need to pay some attention to the wishes of their citizens. Accordingly they saw taxation as setting a constraint on government expenditure. As the economy and thus incomes grew, tax revenue at constant tax rate would rise, thereby enabling public expenditure would show a gradual upward trend even though within the economy, there might be a divergence between what people regarded as being desirable level of public expenditure and the desirable level of taxation (Peacock and Wiseman, 1979).

During the periods of social upheaval however, this gradual upward trend in public expenditure would be disturbed. These periods would coincide with war, famine or some large-scale social disaster, which would require a rapid increase in public expenditures; the government would be forced to raise taxation levies. The rising of taxation levels would, however, be regarded as acceptable to the people during the period of crisis. Peacock and Wiseman referred to this as the displacement effect. Public expenditure is displaced upwards for the period of the crisis. After displacment however public expenditure does not fall to its original level.

In all A war is not paid for from taxation; no nation has such large taxable capacity (Peacock and Wiseman, 1961). Countries therefore borrow and debt charges have to be not after the event. The government therefore expands its scope of services to improve these social conditions and because people perception to tolerable levels of taxation does not return to its former level, the government is able to finance these higher levels of expenditures originating in the expanded scope of government and debt charges. This theory is important in this study since it will enable the researcher to understand the time pattern of public expenditures and how to best use public financial management practices to enhance budgetary absorption among ministries. These theory will enhance the understanding on financial administration, financial controls, budget management and fiscal acountability and the relationship that exists between these variables and budgetary absorption.

2.2.2 Ernest Engel's Theory of Public Expenditure

Ernest Engel was also a German economist writing almost the same time as Adolph Wagner in the 19th century. Engel (1821–1896) pointed out over a century ago that the composition of the consumer budget changes as family income increases. A smaller share comes to be spent on certain goods such as work clothing and a larger share on others, such as for coats, expensive jewelries etc.

At the earlier stages of national development, there is need for overhead capital such as roads, harbors, power installations, pipe-borne water etc. But as the economy developed, one would expect the public share in capital formation to decline over time. Individual expenditure pattern is thus compared to nation expenditure and Engel finding is referred to as the declining portion of outlays on foods. This theory enhanced this study in that relavant ministries were required to increase or decrease budgetary absorption through effective public financial management practices depending on the requirements of the departments. The theory was also used to establish the financial administration, financial controls, budget management and fiscal acountability and the relationship that exists between these variables and budgetary absorption.

2.2.3 Wagner Law of Increasing State Activities

Wagner was emphasizing long-term trend rather than short-term changes in public expenditure. Moreover, he was not concerned with the mechanism of increase in public expenditure. Since it is based on historical experience, the precise quantitative relationship between the extent of increase in public expenditure and time taken by it was not fixed in any could not used to predict its rate of increase in future (Bhatia, 2003).

Actually, it is consistent with the Wagner's law of the state that in future, the state expenditure will increase at a rate slower than the national income though speaking; it has increased at a faster rate in the past. Thus, in the initial stage of economy growth, the state finds out that it has to expand its activities quite fast in several fields like education, health, civil amenities, transport, communications, and so on. But when the initial deficiency is removed, then the increase in state activities many be slowed down. The factors, which contribute to the tendency of increasing public expenditure, relate to a growing role of the state in ever-increasing socio-economic complexities of modern society. This study was anchored on this theory so as to enable policy makers of public financial management practices to be able to ascertain correctly what factors increase public spending in relation to various socio-economic complexities among the government departments which may influence budgetary absorption. The theory also guided on an understanding of how financial administration, financial controls, budget management and fiscal acountability relate with budgetary absorption which are major issues on changes that occur in public expenditure.

2.3 Empirical Review

2.3.1 Institutional Quality and Budget Absoprtion

Financial management practices are likely to have a marked effect on the financial performance of a corporate enterprise. Therefore, sound financial decisions/practices can contribute towards meeting the desired objective of having profitable operations. This subject assumes paramount significance in view of the present dynamic and turbulent business environment, which has produced more intense competition and smaller profit margins across the world.

Fagerberg (2000) produced another paper that investigates the relationship between the economic structure of a country and its productivity growth. He notes that one may expect countries specializing in high-tech production to experience high productivity growth, while countries specializing in low-tech products will lag behind. If prices fully adjust to reflect differences in productivity growth (that is, in a globalised world), this may not be such a big problem in terms of welfare. However, if producers of high-tech products, for some reason, manage to keep most of the rewards from faster technological progress, for example, by controlling prices low-tech producers, they will face severe problems.

2.3.2 Budget Allocation, Credibility and Budget Absoprtion

Some sectors and spending agencies are allocated funds in excess of their capacity to absorb, yet others may have budget ceilings that are not commensurate with the mandates they are supposed to deliver. If a work plan involves large and lumpy investments and less than the required funds are approved and actually released, the project cannot begin and nothing can be spent. Effective public service delivery requires an appropriate mix of inputs. Insufficient recurrent budget undermines the implementation of development projects. This is a bigger problem at the Local Government level, where lack of resources for the supervision of private contractors has been a problem. It is also evident that whereas development funds have been provided and school and health facilities constructed, a number of these are non-functional because there are no matching recurrent funds to recruit health personnel and teachers and other requisite consumables (Horvat, 2008).

Large discrepancies between the approved budget and actual releases result form weaknesses in the fiscal framework and seemingly arbitrary cash rationing. The evidence suggests that cuts to the approved budget by often do not reflect the capacity to absorb these intra-year reallocations only serve to introduce additional unpredictability that undermines intra-vote planning and budget execution processes. Unpredictable access to public funds is one the most important absorption constraints particularly for Central Government Votes and has created incentives for spending units to over budget and bypass formal channels, thus undermining the effectiveness of the recent budget reforms. For Central Government ministries, departments and agencies, not only does this undermine budget execution with likely implications for development results, but future absorptive capacity may also be weakened; as the ability to successfully implement development projects depends on past experience (Boeckhout et al., 2002).

2.3.3 Delayed Releases and Budget Absoprtion

There are often unnecessary delays at several stages of the quarterly release process, particularly the determination of cash limits. The proportion of releases coming in the first month of the quarter has significantly declined over the last two years. In some cases the timeliness of releases has become less of an issue for spending performance, but this is more a reflection of informal networks than institutionalized mechanisms. There have been some technical teething problems during the introduction of the Output-Budgeting Tool (OBT), but in general there is appreciation for the tool's rationale and potential to improve the budget process (Boot, de Vet & Feekes, 2002).

The manner in which releases are received may be a more important determinant of absorption than their total amount. The effective and timely execution of quarterly and annual work plans is certainly more difficult if funds are not received until the last month of the quarter or the final quarter of the year. Late releases are one of the most commonly provided explanations when planned activities are not implemented or delayed, particularly for ongoing programmes which require a continuous and predictable cash flow, such as road maintenance. It is therefore important to understand the factors that affect the timeliness of releases, and whether delayed access to funding constitutes a binding constraint to absorption. The strategies adopted by some spending units to ease access to their budgeted resources have mitigated the effects of delayed releases but have also undermined the recent PFM reforms. Where these mitigation methods are unavailable, late releases do undermine absorption but only where more pressing problems have been overcome (Polverari & McMaster, 2006).

2.3.4 Technology Adoption and Budget Absoprtion

By absorptive capacity is meant a wide range of capacities, from the most basic skills in reading, writing and mathematics to scientific and other advanced capabilities. Empirical indicators usually only include research and development and human capital, the latter in a very broad sense so that it includes health and experience in addition to education. Viewing these indicators in terms of absorptive capacity, it is suggested that the effect on technology adoption is direct human capital accumulation obviously also has indirect effects on technology adoption by raising income, although these are not considered here. When thinking of knowledge in terms of ideas that are codifiable one might believe that much of it can be found in books and manuals. Unfortunately, this is seldom the case, as much of it tends to be tacit. In other words, such knowledge can be acquired only via consultants, visits to plants, etc. Old growth theory tends to assume that technology transfer was more or less free of cost. Although technology is a public good it can only be acquired at some positive cost. This seems to be also true in the long term. In fact, technology developed elsewhere could be very expensive because, in order to acquire relatively advanced knowledge, the borrower must develop an innovative capacity (Acha, Marsili & Nelson, 2004).

Benhabib and Spiegel (1994) extend this model by adding an endogenous growth component showing that the level of human capital influences a country's capacity to develop its own technological innovations, which in turn is a determinant of technologies growth. The gap is measured as the ratio between the income per capita of two countries interacted with human capital (education) in the lagging country over the period considered. Diffusion of technology from abroad can be expressed so that it directly relates to technology transfer, which, for example, can lead up to a Coe et al. (1997) specification for adoption. In this case, technology adoption is a function of R&D stock in the importing country's trading partner, the ratio to GDP of machinery and equipment imports from countries with significant domestic R&D expenditure in GDP, human capital and a country-specific parameter. Their results show that technology spills over from leaders to followers, and the rate at which this occurs depends on levels of education.

Mayer (2001) introduces an interaction between human capital and imports of machinery and equipment, covering 53 developing countries over the period 1970-1990. Technology diffusion is measured as the average of machinery imports over GDP during the sample period. The measure is based on the idea that a persistent increase in the stock of ideas requires a continuous stream of technology inflows. The results are clear: the interaction term has a significant coefficient. Therefore, human capital is used for technology adoption and is not a separate factor in the production function. Imports of machinery alone do not seem to affect growth, which could be an indication of their being too low.

2.3.5 Financial Management Practices and Budget Absoprtion

Andrews (2008) observes commonalities among the contextual variables for each distinct performance league. His findings suggest several factors, working in combination, are likely to facilitate PFM reform in a country and consequently to boost PFM performance. These factors are: a high economic growth rate; social and political stability; a 'fiscal state' reliant on domestic tax revenues; sustained government policy commitments; and non-Francophone heritage. However, these do not alone explain the emergence of the PFM reform space necessary for performance-enhancing reforms. That may have more to do with the intrinsic features of the reform process and its management than the country context.

A comparative study by Lienert (2003) suggests Francophone budget execution and government accounting systems have some potential advantages, but these have not typically led to stronger PFM performance in practice. Earlier work by Stevens (2004) corroborates the argument that such institutional and incentive issues are central to the challenge of PFM reform in African countries. His view is supported by extensive practitioner experience. The critical influence of capacity, politics and incentives persists in the African cases examined by Andrews (2008), alongside specific references to the focus of donor effort; the reach of information networks; and the nature of the authorising environment.

Evidence from emerging economies outside Africa shows that authority, transparency, capacity and incentives have proved critical to successful PFM reforms.

In those cases, change management disciplines have come to be incorporated more deliberately and systematically in the reform process (Diamond, 2006). Evidence from the wider public finance field suggests strong returns to the emphasis on institutional change in the case of revenue administration reforms (van Eden, 2009). Administrative structure, management style, staff retraining and organisational culture are given equal priority to reforms of technical processes and systems. It may be that a similar balance would result in more effective expenditure-side reforms within the more stubborn PFM dimensions.

According to a World Bank (2005) report why public financial management practices are essential for government, it was found out that PFMP are essential for implementation of policies and achievement of development objectives by supporting aggregate fiscal discipline and that PFMP are essential for strategic allocation of resources and efficient service delivery by government departments. Werlin, (1992) argues on linking decentralization and centralization: a Critique of the New Development Administration, Public Administration and Development that for governments to achieve high budgetary absorption then reforming central bureaucracies and enhancing public financial management should be primarily a problem of political will and government capacity to effectively use persuasive and manipulative forms of power.

On other hand North, (1990) found out on Institutions, Institutional Change and Economic Performance that views piecemeal reforms in public financial management practices as more typical strategy to be adopted. Catao and Terrones, (2005) investigated the role of inflation in the government spending and budget deficit for developing countries with high inflation. Their study found out that identification of causal relation between government expenditure and revenue provides insight as to how different policies might help control the growth of the government expenditure.

Miranda and Keefe, (1998) looked at how IFMIS has consequently become an important benchmark for the country's budget reform agenda. They established that IFMIS is often regarded as a precondition for achieving effective management of the budgetary resources on government spending. Jacobs, (2009), *l*ooked at effective financial controls in public financial management practices and affirmed that budget support through effective financial controls is seen as the instrument of choice for many donors and partners to help them to avoid aid proliferation and fragmentation and the resultant transaction costs.

Alesina and Perotti (1996) examined how budget process affects fiscal deficits and borrowing they established that budget rules and regulations are in three kinds: procedural rules; rules on transparency, and numerical targets such as balanced budget laws. Alesina, Hausmann, Hommes, and Stein (1996), looked at the index of budget. They concluded that budget procedures- formulation, approval and implementation of the budget strongly influence fiscal outcomes. Catao and Terrones (2005), investigated the role of inflation in the government spending and budget deficit for developing countries with high inflation. Their identification was of a causal relation between government expenditure and revenue which provides insight as to how different policies might help control the growth of the government expenditure.

Several studies have beeen carried on this topic including the one illustrated in table 2.1 below:

Table 2.1 Summary of Research Studies and Gaps

Author	**Focus of the study**	**Study findings**	**Research gaps identified**	**How current study addresses these gaps**
World Bank (2005)	"Why public financial management practices are essential for government"	PFMP are essential for implementation of policies and achievement of development objectives by supporting aggregate fiscal discipline PFMP are essential for strategic	The journal did not cover the effects of PFMP in developing countries and more specifically Kenya which the current study seeks to fill The time variance justified the current study	The current study will seek to establish whether among others the following PFMP affect government expenditure; financial controls/administration, fiscal accountability and government revenues affect budgetary absorption

		allocation of resources and efficient service delivery by government departments		
Werlin, H (1992)	Linking Decentralization and Centralization: a Critique of the New Development Administration", Public Administration and Development	He argues that for governments to achieve high budgetary absorption then reforming central bureaucracies and enhancing public financial management should be primarily a problem of political will and government capacity to effectively use persuasive and manipulative forms of power	This study did not determine whether public financial management practices has an impact on budgetary absorption/execution within government departments in specifically in Kenya	This study will seek to look at how PFMP has an impact on budgetary absorption/execution within government departments in specifically in Kenya
North, D, (1990)	Institutions, Institutional Change and Economic Performance. New	He views piecemeal reforms in public financial management practices as more typical strategy to be adopted	This study looks at piecemeal reforms in public financial management practices as more typical strategy to be adopted but did not look at the reforms as a	This study will seek to establish how PFMP government expenditure, financial controls/administration, fiscal accountability and government revenues affect

			whole and the current study will look at PFMP on budgetary absorption	budgetary absorption
Catao and Terrones (2005)	They investigated the role of inflation in the government spending and budget deficit for developing countries with high inflation.	The study found out that identification of causal relation between government expenditure and revenue provides insight as to how different policies might help control the growth of the government expenditure.	The study looked at the role of inflation on government spending but they did not look at how PFMP affects budgetary absorption	This study will look at how PFMP variables such as government expenditure, financial controls/administration, fiscal accountability and government revenues affect budgetary absorption
Miranda, R. and T. Keefe (1998)	Looked at how IFMIS has consequently become an important benchmark for the country's budget reform agenda	The study found out that IFMIS is often regarded as a precondition for achieving effective management of the budgetary resources on government spending.	The study looked at the importance of IFMIS on effective management of the budgetary resources on government spending did not consider how PFMP affects budgetary absorption	This study will seek find out how PFMP affects budgetary absorption
Jacobs, D (2009)	Looked at effective financial controls in public financial management practices	The study affirmed that budget support through effective financial controls is seen as the instrument of choice for	This study looked at the increase of the availability of resources for financing recurrent costs, which is an essential element of sustainability and strengthen public financial	This study did not look at variables such as financial administration, financial controls and accountability that affect budgetary absorption. The current study will seek to establish how these variables

		many donors and partners to help them to avoid aid proliferation and fragmentation and the resultant transaction costs	management (PFM) systems by integrating resources into national planning, budgeting	influence budgetary absorption
Alesina and Perotti (1996)	They examined how budget process affects fiscal deficits and borrowing	The established that budget rules and regulations are in three kinds: procedural rules; rules on transparency, and numerical targets such as balanced budget laws.	This study focused on the numerical targets and argued that such targets encourage creative accounting, and are not optimal and flexible from an economic point of view.	This study will seek find out how PFMP affects budgetary absorption focusing on creative accounting
Alesina, Hausmann, Hommes, and Stein (1996)	They looked at the index of budget	They concluded that budget procedures-formulation, approval and implementation of the budget strongly influence fiscal outcomes	The study concentrated on budget formulation and implementation.	The study did not specifically look at how PFMP affects budgetary absorption which the current study seeks to look at
Catao and Terrones (2005)	They investigated the role of inflation in the government spending and budget deficit for developing	Their identification was of a causal relation between government expenditure and revenue	This study touched on government spending but in developed countries	They did not deal with the effect of public financial management practices on budgetary absorption within government departments which

	countries with high inflation	which provides insight as to how different policies might help control the growth of the government expenditure		is the target of the current study

2.4 Conceptual Framework

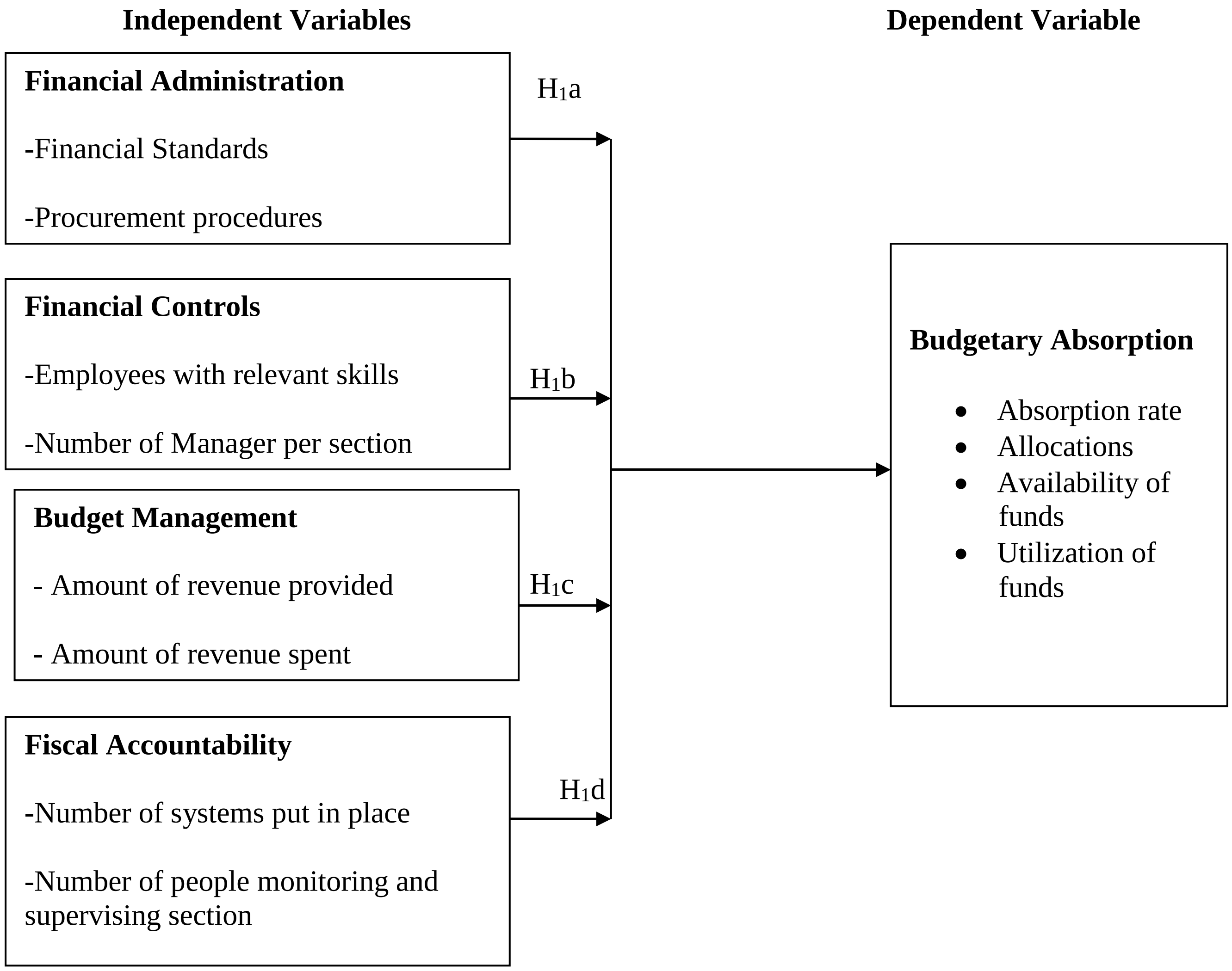

Figure 2.1 The effects of public financial management practices on budgetary absorption

The study was guided by various variables and how they relate with one another. The independent variables for this study was government expenditure, financial administration, revenues as well as the accountability while the dependent variable will be budgetary absorption. The study also considered the moderating variable of government legislation.

The relationship that the study sought was how financial administration relates with budgetary absorption focusing on two variables of financial standards and procurement procedures. Another independent variables that was looked at is that of financial controls with measures such as competence and management strength being considered.

Another relationship that the study looked at was on budget management and budgetary absorption covering extra revenue collected and expected revenue spending. Fiscal accountability as an independent variable was also looked at and how it relates to budgetary absorption in regards to measures of systems put in place and monitoring and supervision.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction

This chapter looked at the research design, target population, sample frame and sampling procedures. On the other hand the chapter discussed instrumentation and data collection methods. In addition to this the chapter captured data analysis techniques.

3.2 Research Design

This study adopted a descriptive research design to describe how public financial management practices affect budgetary absorption within government departments in Kenya. This design was appropriate for the study as it enabled higher level analysis that allowed for establishing the nature, strength and extent of the associations between the variables. It also assisted in determining the practices that prevail, paradigms and point of view of the respondents' in so far as budgetary absorption in their public ministries is concerned. According to Cooper and Schindler (2009), explanatory research design is structured with clear investigative questions and can be used to discover associations among different variables.

3.3 Target Population

Target population of the study were employees working in the accounts, finance, procurement and budgeting departments in the 18 government ministries of Kenya who are 1045 (PSC, 2015). The target population was summarized in the table 3.1;

Table 3.1 Target Population

Department	Population frequency	Percentage
Accounts	513	49
Finance	134	13
Procurement	133	13
Officers responsible for budget Implementation(AIE Holders)	265	25
Total	**1045**	**100**

Source: PSC, (2015)

3.4 Sampling Design and Sample Size

The study adapted a stratified random sampling method to sample the target population, where 20% from the above target population of 1045 were considered. This method was prefered because the population will be divided into smaller groups known as strata based on members' shared attributes or characteristics. This is normally used when population of interest is not homogenous (Mugenda & Mugenda, 2005). The main advantage with stratified random sampling was that it ensures inclusion in the sample, of sub-group, which otherwise would be omitted entirely by other sampling methods because of their small numbers in the population (Merriam, 1998). This study had a sample size of 209 employees from all the targeted departments as shown in table 3.2. The choice of 20% was considered adequate and representative because according to Kothari (2002), a representative sample of atleast 10% of the population is adequate.

Table 3.2 Sampling and Sample Size

Department	Population frequency	Sample size (20%)
Accounts Department	513	103
Finance Department	134	26
Procurement Department	133	26
Officers responsible for budget implementation(AIE Holders)	265	54
Total	**1045**	**209**

3.5 Instrumentation

This study used the questionnaire as the main tool for primary data collection. The questionnaire had two sections. Section one covered personal data while section two covered effects of public financial management practices on budgetary absorption. Section two was divided into four section containing the four variables being looked at in this study. The questionnaires was justified for use in this study because they are relatively easy to analyze, a large sample of the given population can be contacted at relatively low cost and they are simple to administer.

3.6 Data Collection

The researcher personally delivered the questionnaires to the respondents and picked it after two weeks. The study exclusively used primary data collected from the respondents because it is well suited in this study which sought to establish the effects of public financial management practices on budgetary absorption within government departments in Kenya.

3.7 Data Analysis

Questionnaires was first checked for completeness, consistency and accuracy. They were then coded and entered into a computer data base. Data was analysed using descriptive statistics analysis and multiple regression analysis. Content analysis was used on qualitative data collected. On the other hand quantitative data was subjected to inferential and descriptive statistics. The researcher performed correlation and reggression analysis on collected data using SPSS software.

The following multiple regression analysis model on the effects of public financial management practices on budgetary absorption within government departments in Kenya was adopted and analysed using the SPSS software. The prediction equation was as shown below:

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

Where:

Y: budgetary absorption within government departments.

X_1: Financial Administration

X_2: Financial Controls

X_3: Budget Management

X_4: Fiscal Accountability

Where:

β0 was the intercept; and reflects the constant of the equation.

β1 was the sensitive coefficient of each independent variable (i=1,2,3,4).

ε was the error term.

Diagnostic test was carried out using the T-test at 95% ($\alpha=0.05$) level was used to test the significance of the difference in pre and post budgetary absorption within government departments. Once data has been analyzed data it was presented by the use of graphical and statistical techniques. Measures of central tendency such as the mean, median and mode were used the statistical whereas diagrammatic representation in the form of tables and charts were considered in graphical techniques.

In relation to parameters in the independent variable using the informal rule for example a change in the coefficient in either direction by 10% or more met the criteria for confounding. Meaning part of the association between the independent variable and the dependent variable in this case was explained by the parameters indicated in the conceptula framework.

Table 3.3 Operationalization

Factor	**Measure**
Financial Administration	-Number of financial standards adopted by ministiries -Number of procurement procedures used by ministries
Financial Controls	-Number of employees with financial control education -The number of managers per each section of the ministry department
Budget Management	-The amount of revenue collected per each quarter -The amount of expected revenue spending per each quarter
Fiscal Accountability	-The type of systems put in place -The number of systems used for monitoring and supervision

3.8 Data Validity and Reliability

Validity refers to the internal coherence of the findings and means checking out the responses for consistency, and ruling out ambiguity and contradiction (Robson, 2002). The researcher used content validity through expert and supervisor’s opinion in regards to the research instrument. On the other hand reliability was tested through pilot testing to ensure that the instrument gives the same results every time.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATON

4.1 Introduction

This chapter reviewed data analysis and intrepretation of the data from the questionnaire. The chapter covered results obtained in relation to the study objective that was used by the researcher to draw conclusions and give recommendations in regards to the study purpose.

4.2 Presentation of Findings

The following section covers the response rate in regards to effects of public financial management practices on budgetary absorption within government departments in Kenya.

4.2.1 Response Rate

The study sought to get information from a sample of 209 respondents from different government department in relation to the effects of public financial management practices on budgetary absorption. However, 154 of the 209 targeted responded to the research questions representing 74% success rate which is high enough and was used to draw conclusions and give recommendations.

4.2.2 Gender Representation

The study was interested in finding out the gender category of the respondents. The findings are discussed in figure 4.1.

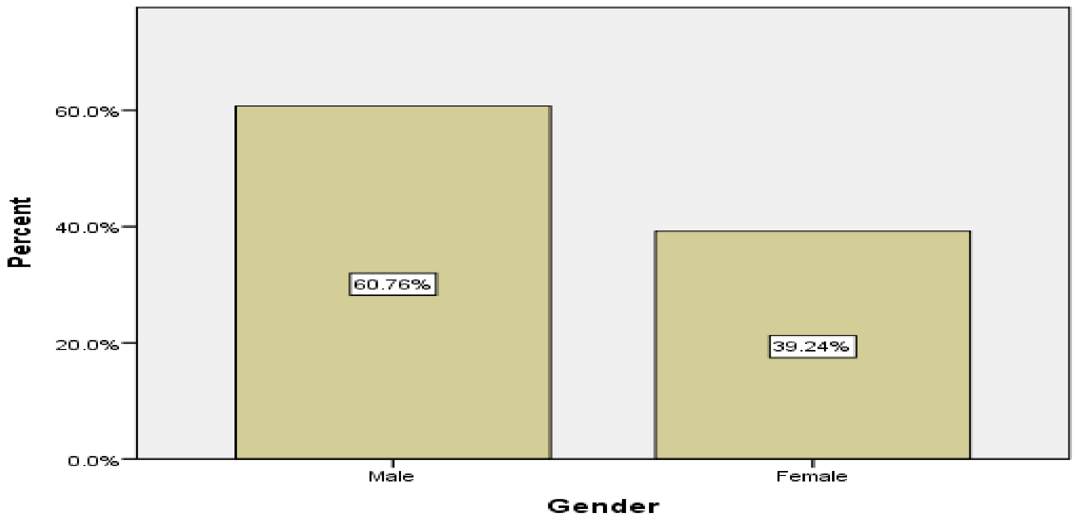

Figure 4.1 Gender Representation

As shown in figure 4.1 most respondents were male represented by 60.76% as opposed to female respondents who were represented by 39.24%. From the results it is clear that majority of those that responded were male respondents.

4.2.3 Age Category

The study was interested in findings out the age categorization of the respondents**.**

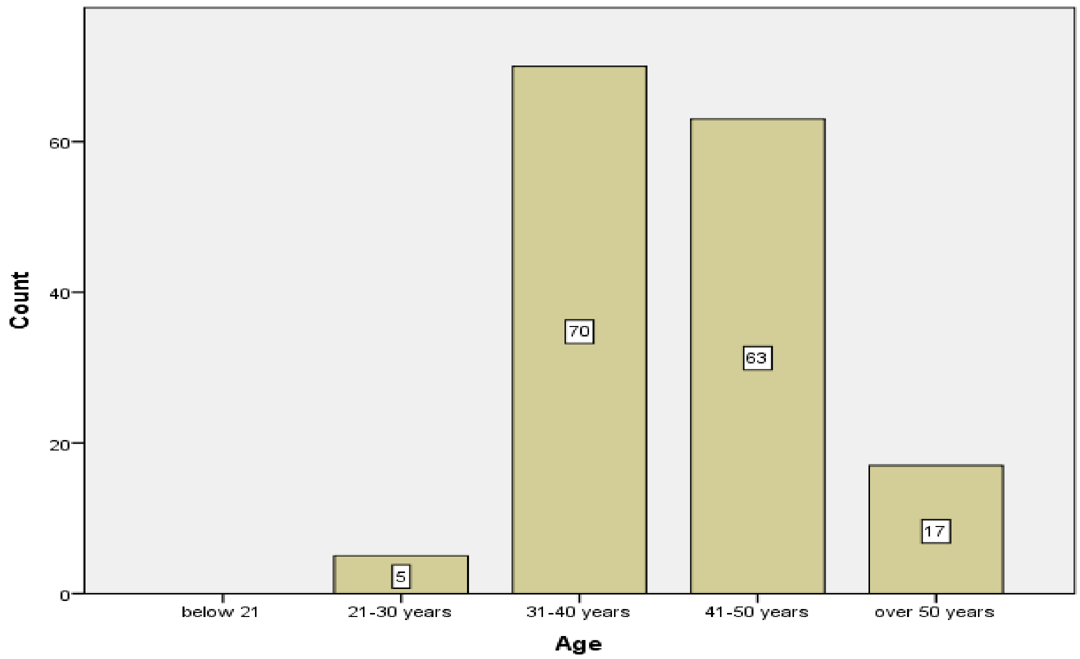

Figure 4.2 Age Category

As indicated in figure 4.2 most of the respondents were in the age category of between 31-40 years at 70 respondents followed by those in the age category of between 41-50 years representing 63 respondents. The results indicate that those in the age category of over 50 years were were 17 while those in the age category of 21-30 years were were 5 respondents. The findings therefore shows that majority of the respondents were in the age category of between 31-40 years.

4.2.4 Educational Qualification

The study sought to establish the respondents educational qualifications.

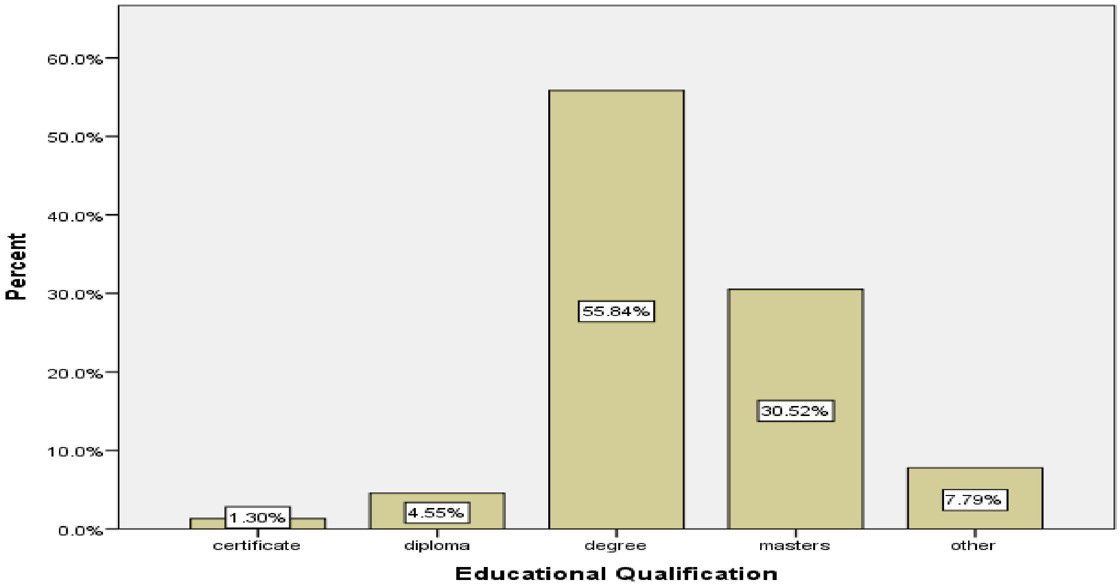

Figure 4.3 Educational Qualification

Figure 4.3 illustrates that most of those who participated in the study were degree holders at 55.84% followed by those with masters degree at 30.52%. The findings indicate that 7.79% of the respondents had other qualification including PhD and post graduate diplomas while 4.55% had diploma as their educational qualification. The study findings also indicate that 1.30% of the respondents had certificate qualification. It is conclusive that majority of the respondents were degree holders and above meaning that they were better placed to provide relevant answers to the study questions.

4.2.5 Experience in the Organization

The study was interested in finding out the experience of the respondents.

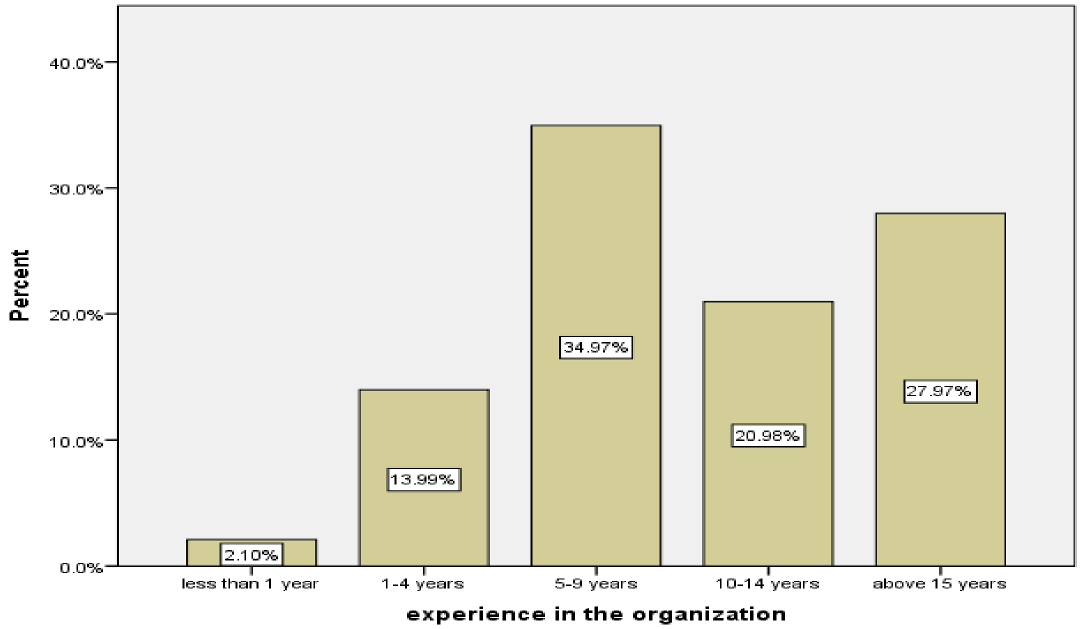

Figure 4.4 Experience in the Organization

As shown in figure 4.4 the majority of the respondents had been with respective departments for a period of between 5-9 years representing 34.97% followed by those that had been with the organization for a period of years above 15 at 27.97%. The results also show that 20.98% of the respondents had been with the organization for a period of 10-14 years while 13.99% had been with the organization for a period of 1-4 years. It is clear that most of those who responded had been with the organization for a period of more than five years which meaning they are experienced to provide answers to the research questions.

4.3 Financial Administration

The study wanted to find out from the repondents whether financial administration had an impact on budgetary absorption. This is as illustrated in figure 4.5.

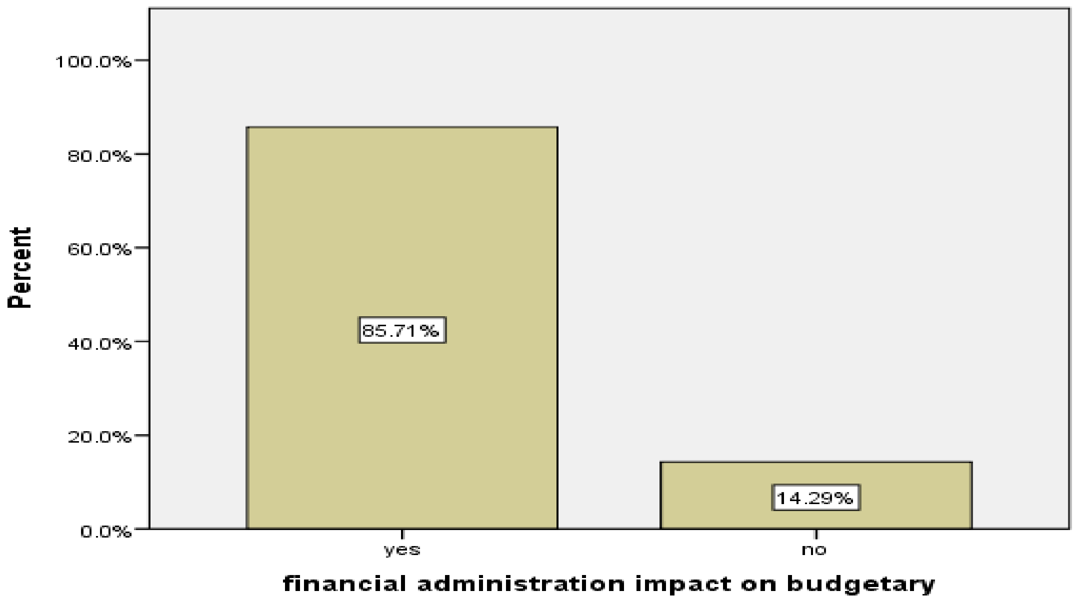

Figure 4.5 Financial Administration Impact on Budgetary Absorption

The results indicate that most of the respondents had the opinion that financial administration had an impact of budgerary absorption represented by 85.71% as opposed to 14.29% of the respondents who felt this was not the case.

The study sought to find out the extent of effect of financial administration on budgetary absorption from the respondents. This is illustrated in table 4.1.

Table 4.1 Extent Of Effect Of Financial Administration On Budgetary Absorption

	Mean	Std. Deviation	N
Financial Standards	3.9677	.88581	154
Financial Controls are Being Monitored Regularly	3.7161	.85853	154
Solid Financial Management	3.9613	.93894	154
Reliable Financial Reporting	3.6194	.93469	154
Procurement Procedures	4.1161	.86756	154

As illustrated in table 4.1 most of the respondents with a standard deviation of .867 indicated that procurement procedures had the greatest effect followed by solid financial management of the operations with a standard deviation of .938.

4.4 Financial Controls

The study was interested in finding out from the respondents whether financial controls have an effect on budgetary absorption.

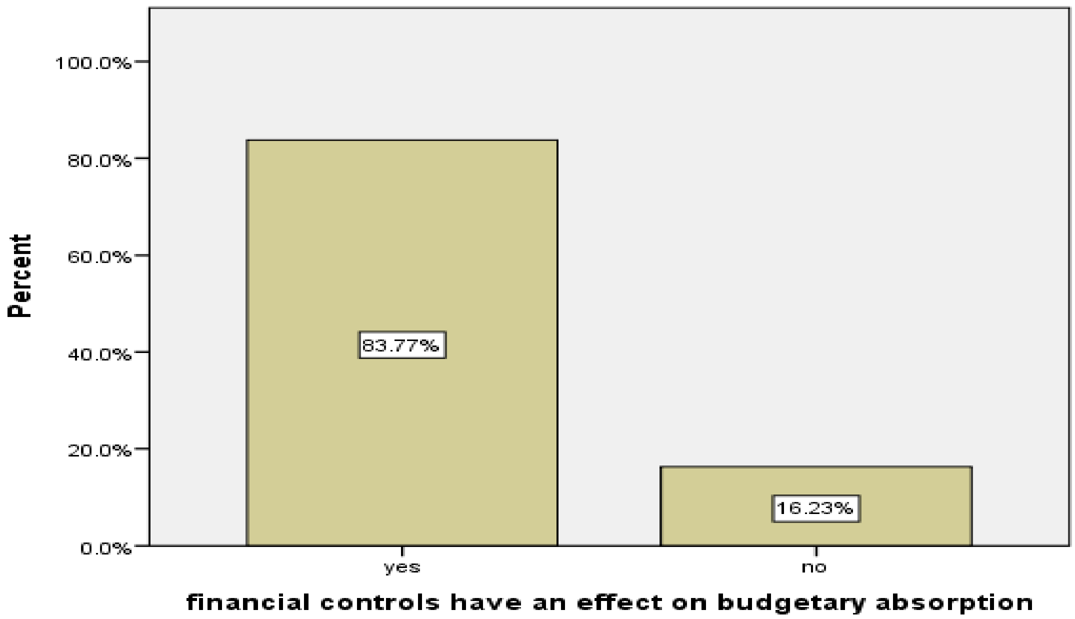

Figure 4.6 Financial Controls Effect on Budgetary Absorption

The study results show that majority of the respondents at 83.77% indicated that financial controls had an effect on budgetary absorption. This was as opposed to 16.23% of those who responded that they felt that financial controls did not have an effect on budgetary absorption.

The study sought to find out the extent of effect of financial controls factors on budgetary absorption. This is illustrated in table 4.2.

Table 4.2 Extent of Effect of Financial Controls Factors on Budgetary Absorption

	Mean	Std. Deviation	N
Competence of Employees	3.8247	.85660	154
Expenditure and Purchasing Controls	3.7857	.89999	154
Segregation of Duties	3.8506	.94130	154
Management Strength	3.6688	.95010	154

The study findings show that majority of the respondents stated that management strenght had the greatest effect in relation to the financial control factors on budgetary absorption with a standard deviation of .950.

4.5 Budget Management

The study was interested in finding out whether budget management had an impact on budgetary absorption. The study results are are shown in figure 4.7.

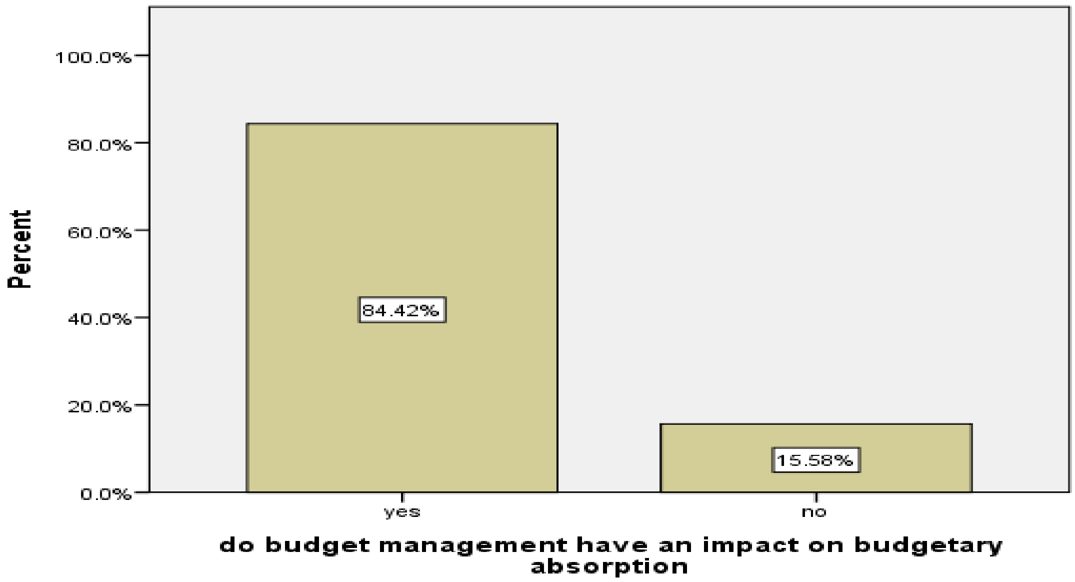

Figure 4.7 Budget Management Effect on Budgetary Absorption

This study results show that most of the respondents felt that budget management had an impact on budgetary absorption representing 84.42% as opposed to 15.58% who indicated that budget management did not have an impact on budgetary absorption.

The study wanted to find out the extent of effect of budget management factors on budgetary absorption. This is best illustrated in table 4.3

Table 4.3 Extent of Effect of Budget Management Factors on Budgetary Absorption

	Mean	Std. Deviation	N
Revenue Received	3.6623	.92334	154
Remain Within Budget Parameters	3.7468	.88975	154
Establish a Clear Budgeting Process	4.1364	1.02942	154
Variance are Actively Managed	3.8636	.95704	154

From the study findings it is clear that most of the respondents with a standard deviation of 1.03 who felt that establishing a clear budgeting process that includes business and stakeholders and links to strategic priorities and business needs had the greatest effect among the factors considered in relation to budget management.

4.6 Fiscal Accountability

The study sought to establish from the respondents whether they thought fiscal accountability affected budgetary absorption. This was as shown in figure 4.8.

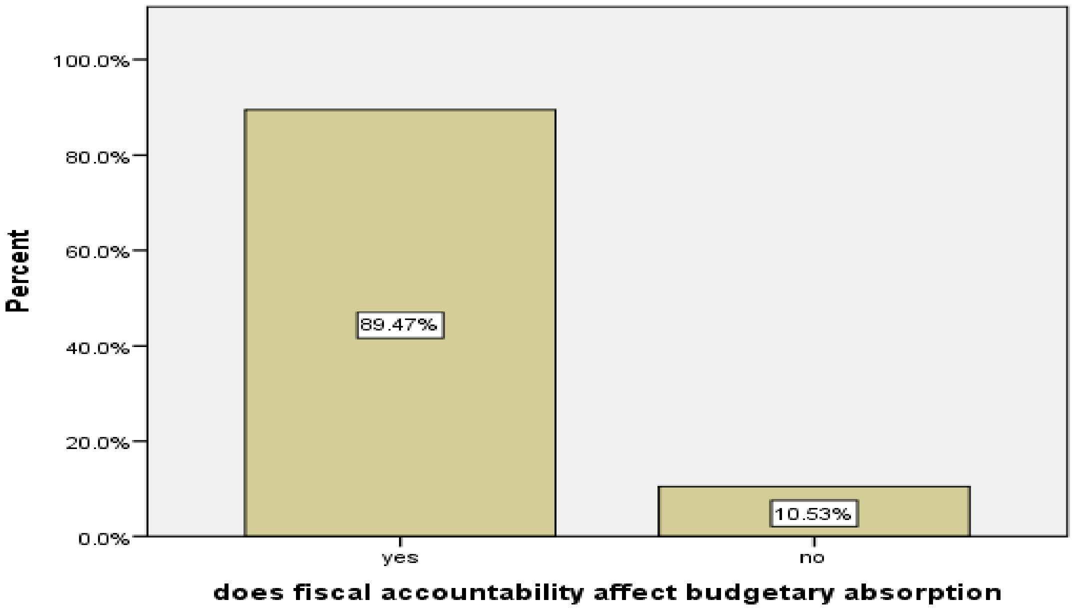

Figure 4.8 Effect of Fiscal Accountability on Budgetary Absorption

From the study results it was indicated by most of the respondents at 89.47% that they thought fiscal accountability affected budgetary absorption. On the other hand 10.53% of the respondents stated that fiscal accountability did not affect budgetary absorption.

The study was concern with finding out from the respondents the extent of effects of fiscal accountability on budgetary absorption. This was as shown in table 4.4

Table 4.4 Effects of Fiscal Accountability on Budgetary Absorption

	Mean	Std. Deviation	N
Systems Put in Place	3.9276	.92143	152
Maintaining Individual Accountability	3.7368	.88950	152
Auditing of Various Programs	3.8355	.95906	152
Conducting Fiscal Reviews	4.2961	.98894	152
Monitoring and Supervision	3.9079	.88666	152

The findings show that most of the respondents with a standard deviation of .989 stated that they felt conducting fiscal reviews had the greatest effect among the fiscal accountability on budgetary absorption.

4.7 Budgetary Absorption

The study sought the opinion of the respondents on whether there are other reasons affecting budgetary absorption. This is as illustrated in figure 4.9.

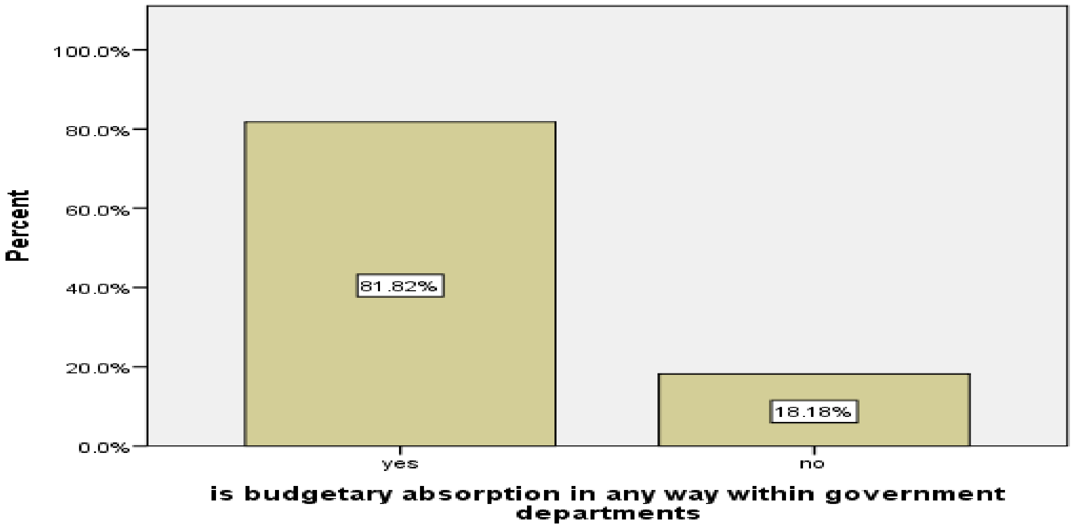

Figure 4.9 Whether Budgetary Absorption Affected in any Way

The results indicate that most of those who responded felt that budgetary absorption was affected in any way with 81.82% response while 18.18% of the respondents stated that budgetary absorption was not affected in any way.

The study wanted to establish from the respondents the extent of effects of budgetary absorption factors. This were as shown in table 4.5.

Table 4.5 Extent of Effects of Budgetary Absorption Factors

	Mean	Std. Deviation	N
Unpredictability in the availability of and access to budgetary provisions	4.2662	.92914	154
Weaknesses in the macro-fiscal framework	4.1948	.97738	154
The continued bypassing of formal procedures governing the release of funds	4.2597	.93449	154
Allocative inefficiencies across sectors and inputs	4.0065	.87445	154
Weak supervision and accountability mechanisms	3.9610	.89941	154

As shown in the study findings majority of those that responded with a standard deviation of .929 were of the opinion that unpredictability in the availability of and access to budgetary provisions had the greatest effect.

4.8 Regression Analysis

In relation to the objectives, the study adopted the following model:

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

The fitted multiple regression model of the variables is presented as follows:

$$Y = 8.357221_{(0.015)} + 0.690401_{(0.059)} X_1 + 0.600817_{(0.058)} X_2 + 0.714664_{(0.073)} X_3 + 0.641154_{(0.041)} X_4$$

The fitted model was diagnosed and found that the regression was statistically significant at 5% significance level (regression *FP*-value= .05 >. 043415). This shows that the combination of these factors (explanatory variables) significantly affect the response variable (budgetary absorption). Further, R-square = 75.434%, implying that the explanatory variables accounted for 75.434% of the response variable.

Where; Y: budgetary absorption within government departments.

X_1: Financial Administration

X_2: Financial Controls

X_3: Budget Management

X_4: Fiscal Accountability

To assess the statistical significance of the result, it is necessary to look in the table below: ANOVA. This tests the null hypothesis that Regression (R) in the population equals 0. The model presented here reaches statistical significance of 0 i.e, [Sig = .000, this means p<.0005

Table 4.6 ANOVA[a]

Model	Sum of Squares	Df	Mean Square	F	Sig.

1	Regression	44.867	31	5.607	32.723	.000[b]
	Residual	4.122	62	.171		
	Total	48.980	93			

The multiple regression summary table is as shown in table 4.7.

Table 4.7 Regression Summary Table

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
Constant	8.357221	0.015	0.28666	0.774
X_1	0.690401	0.059	2.16424	0.031
X_2	0.600817	0.058	0.93993	0.347
X_3	0.714664	0.073	3.42736	0.007
X_4	0.641154	0.041	0.55235	0.260
R^2	0.75434			
Adjusted R^2	0.71327			
F-statistic	80.4977			

The study adopted a regression analysis model on effects of public financial management practices on budgetary absorption within government departments using the SPSS software on four different variables namely: financial administration, financial controls, budget management and fiscal accountability.

The T-test at 95% (α=0.05) level was used to test the significance of the difference in pre and post budgetary absorption in relation to different variables. The standard errors (SE) of the coefficients of the explanatory variable of M are given in the parenthesis. In the estimated model coefficients, the SE values were less than .05 (i.e. 0.05 >SE) implying that the public financial management practices` tested significantly affect budgetary absorption at 5% significance level. At the 95% confidence level an interval of any value less than 0.05 was acceptable in this study for purposes of interpretations.

For governments to achieve high budgetary absorption then reforming central bureaucracies, financial administration and enhancing public financial management should be primarily a problem of political will and government capacity to effectively use persuasive and manipulative forms of power. In the study period, a 1% increase in financial administration by 0.690 which is equivalent to 69.04% of budgetary absorption.

The findings above are in agreement with those of Fagerberg (2000) who argued that financial management practices are likely to have a marked effect on the financial performance of a corporate enterprise. Therefore, sound financial decisions/practices can contribute towards meeting the desired objective of having profitable operations.

Effective public service delivery requires an appropriate mix of inputs in relation to financial control. Insufficient recurrent budget undermines the implementation of development projects. A unit change in financial control positively affects budgetary absorption by 0.601 or 60.08%.

The current study concurs with the findings Horvat (2008) who argues that there is a bigger problem at the Local Government level, where lack of resources for the supervision of private contractors has been a problem. It is also evident that whereas development funds have been provided and school and health facilities constructed, a number of these are non-functional because there are no matching recurrent funds to recruit health personnel and teachers and other requisite consumables.

The study findings indicate that budget rules have an effect on budgetary absorption and regulations are in three kinds: procedural rules; rules on transparency, and numerical targets such as balanced budget laws and thus budget procedures formulation, approval and implementation of the budget strongly influence fiscal outcomes. In study period the researcher found out that a unit change in budget management increased the budgetary absorption by 0.715 or 71.47%.

The current study supports the findings of Alesina, Hausmann, Hommes, and Stein (1996), who looked at the index of budget. They concluded that budget procedures-formulation, approval and implementation of the budget strongly influence fiscal outcomes.

Change management disciplines have come to be incorporated more deliberately and systematically in the reform process. Evidence from the wider public finance field suggests strong returns to the emphasis on institutional change in the case of revenue administration reforms. Administrative structure, management style, staff retraining and organisational culture are given equal priority to reforms of technical processes and systems. From the study findings it is clear that fiscal accountability positively influences budgetary absorption by at least 64% in the study period.

According to the study findings it is clear that the current results are in agreement with Andrews (2008) observes commonalities among the contextual variables for each distinct performance league. His findings suggest several factors, working in combination, are likely to facilitate PFM reform in a country and consequently to boost PFM performance and this can be achieved if there is fiscal accountability . These factors are: a high economic growth rate; social and political stability; a 'fiscal state' reliant on domestic tax revenues; sustained government policy commitments; and non-Francophone heritage.

In summary all together the effects of explanatory variables captured in the model are significant, and these findings are informative, as they intrigue significant questions regarding the effects of public financial management practices on budgetary absorption. The regression output showed R-square value of 75.434%. This implies that there could be other factors that contribute to the remaining 24.566% in explaining the variation in budgetary absorption among government departments.

These findings have enhanced the theory of Peacock and Wiseman's Theory of expenditure which proposes that the time pattern of public expenditures and how to best use public financial management practices to enhance budgetary absorption. The current study enhanced the thinking in the Ernest Engel's Theory of public expenditure whereby individual expenditure pattern is thus compared to nation expenditure and Engel finding is referred to as the declining portion of outlays on foods. This theory enhanced this study in that relavant ministries were required to increase or decrease budgetary absorption through effective public financial management practices depending on the requirements of the departments. According to the current study it clear that Wagner Law of increasing state activities contributed most to understanding the study. From the study findings the factors, which contribute to the tendency of increasing public expenditure, relate to a growing role of the state in ever-increasing socio-economic complexities of modern society which was the case with the ministries in Kenya.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter covered the summary of the findings, the conclusion of the research and the study limitations. The chapter also reviewed the recommendations and areas of further studies.

5.2 Summary of Findings

The results indicate that most of the respondents had the opinion that financial administration had an impact of budgerary absorption represented by 85.71% as opposed to 14.29% of the respondents who felt this was not the case. Most of the respondents with a standard deviation of .867 indicated that procurement procedures had the greatest effect followed by solid financial management of the operations with a standard deviation of .938. These findings are in line with those of Fagerberg (2000) who argued that financial management practices are likely to have a marked effect on the financial performance of a corporate enterprise. Therefore, sound financial decisions/practices can contribute towards meeting the desired objective of having profitable operations. These findings have enhanced the theory of Peacock and Wiseman's Theory of expenditure which proposes that the time pattern of public expenditures and how to best use public financial management practices to enhance budgetary absorption.

The study results show that majority of the respondents at 83.77% indicated that financial controls had an effect on budgetary absorption. The study findings show that majority of the respondents stated that management strength had the greatest effect in relation to the financial control factors on budgetary absorption with a standard deviation of .950. These findings concur with Horvat (2008) who argues that there is a bigger problem at the Local Government level, where lack of resources for the supervision of private contractors has been a problem. It is also evident that whereas development funds have been provided and school and health facilities constructed, a number of these are non-functional because there are no matching recurrent funds to recruit health personnel and teachers and other requisite consumables.

This study results show that most of the respondents felt that budget management had an impact on budgetary absorption representing 84.42% as opposed to 15.58% who indicated that budget management did not have an impact on budgetary absorption. From the study findings it is clear that most of the respondents with a standard deviation of 1.03 who felt that establishing a clear budgeting process that includes business and stakeholders and links to strategic priorities and business needs had the greatest effect among the factors considered in relation to budget management. The current study supports the findings of Alesina, Hausmann, Hommes, and Stein (1996), who looked at the index of budget. They concluded that budget procedures-formulation, approval and implementation of the budget strongly influence fiscal outcomes. These findings have a contribution on theory of Wagner Law of increasing state activities which contribute to the tendency of increasing public expenditure, relate to a growing role of the state in ever-increasing socio-economic complexities of modern society.

From the study results it was indicated by most of the respondents at 89.47% that they thought fiscal accountability affected budgetary absorption. On the other hand 10.53% of the respondents stated that fiscal accountability did not affect budgetary absorption. The findings show that most of the respondents with a standard deviation of .989 stated that they felt conducting fiscal reviews had the greatest effect among the fiscal accountability on budgetary absorption. This is as supported by Andrews (2008) observes commonalities among the contextual variables for each distinct performance league. His findings suggest several factors, working in combination, are likely to facilitate PFM reform in a country and consequently to boost PFM performance and this can be achieved if there is fiscal accountability. These factors are: a high economic growth rate; social and political stability; a ‘fiscal state’ reliant on domestic tax revenues; sustained government policy commitments; and non-Francophone heritage.

5.3 Conclusion

In conclusion for governments to achieve high budgetary absorption then reforming central bureaucracies, financial administration and enhancing public financial management should be primarily a problem of political will and government capacity to effectively use persuasive and manipulative forms of power. An increase in financial administration affects budgetary absorption. Financial management practices are likely to have a marked effect on the financial performance of a corporate enterprise. Therefore, sound financial decisions/practices can contribute towards meeting the desired objective of having profitable operations.

In summary effective public service delivery requires an appropriate mix of inputs in relation to financial control. Insufficient recurrent budget undermines the implementation of development projects. A unit change in financial control positively affects budgetary absorption. There is a bigger problem at the Local Government level, where lack of resources for the supervision of private contractors has been a problem. It is also evident that whereas development funds have been provided and school and health facilities constructed, a number of these are non-functional because there are no matching recurrent funds to recruit health personnel and teachers and other requisite consumables.

In conclusion budget rules have an effect on budgetary absorption and regulations are in three kinds: procedural rules; rules on transparency, and numerical targets such as balanced budget laws and thus budget procedures formulation, approval and implementation of the budget strongly influence fiscal outcomes. A unit change in budget management increases budgetary absorption. Budget procedures formulation, approval and implementation of the budget strongly influence fiscal outcomes.

In summary strong returns to the emphasis on institutional change in the case of revenue administration reforms. Administrative structure, management style, staff retraining and organisational culture are given equal priority to reforms of technical processes and systems. From the study findings it is clear that fiscal accountability positively influences budgetary absorption. Commonalities among the contextual variables for each distinct performance league. His findings suggest several factors, working in combination, are likely to facilitate PFM reform in a country and consequently to boost PFM performance and this can be achieved if there is fiscal accountability . These factors are: a high economic growth rate; social and political stability; a 'fiscal state' reliant on domestic tax revenues; sustained government policy commitments; and non-Francophone heritage.

5.4 Research Limitations

The study covered a large population and cost has been foreseen among the major constraints. To overcome this constraint, the researcher had to narrow down the study to limited but representative selected number of government employees.

The respondents were unwilling or unable to supply the required information in the questionnaire. As such the researcher had to develop structured questionnaire with very simple and easily understood questions.

The time availed for the study was not enough for the researcher to get response from all the respondents. The researcher therefore had to communicate clearly to respondents about the time lines and also did a thorough follow up of the questionnaires.

5.5 Recommendations

To policy and decesion makers in the country there is need to ensure there are working and uniform systems. Therefore the study recommends that greater effort is required to enforce uniform accounting standards as one of the financial control. Creative accounting practices in financial controls will allow formal rules such as those governing the use of unspent funds to be bypassed. Strong commitment to enforce balanced budgets and compliance with the accepted accounting standards is required as part of the financial controls.

In regards to practice it is important to note that financial administration performance information needs to be used systematically in the resource allocation and financial administration process. Informal processes play too great a role in the allocation and administration of resources. To help ensure access to public resources and effective financial administration at all level of government relevant government departments need to ensure users of performance information are able to access the same in a more systematic manner across all the departments and with ease.

It is recommended that financial managers of relevant departments need to work as a unit in ensuring fiscal accountability is achieved. The delays in the implementation of the budget from the schedule made leads to the accumulation of available budget. Moreover, the human resources in a working unit who understand financial management are limited. Work units do not understand the mechanism of the disbursement of government department budget through budget implementation document. Working unit’s knowledge of the activity program in department budget is insufficient. It leads to the hampered implementation of budget, and causes the accumulation of budget absorption. All this will be a thing of the past if there is an effective fiscal accountability framework.

In theory the current study recommends that the preparation of the development and recurrent budgets should be better integrated. A mismatch between available recurrent and development funds often undermines absorption, but many spending units are not yet ready for greater flexibility in this area. The appropriateness of the current input mix should be evaluated and formal communication, coordination and planning mechanisms strengthened.

5.6 Areas of Further Studies

Owing to the limitations that the research encountered further studies are recommended on the following topics: the effect of public financial management reforms in the effective management of public funds in Kenya, to establish the role of budgeting on performance of organizations and to determine a performance measurement approach to improve financial management in government departments. In addition a study is recommended to establish the effect of reforms in budgeting, enhanced revenue collection, revision of procurement laws, and IFMIS reform in the management of public funds among government departments.

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APPENDIX I: QUESTIONNAIRE

SECTION A: PERSONAL DATA

Kindly answer the questions in this section by ticking in the boxes provided.

1 Department/section ___________________________________
2 Gender (tick)

Male ☐

Female ☐

3 Age (tick)

Below 21 years ☐

21 – 30 years ☐

31 – 40 years ☐

41 – 50 years ☐

Over 50 years ☐

4 Educational qualifications (tick)

Certificate ☐

Diploma ☐

Degree ☐

Masters ☐

Others (specify) ☐

5 Experience in the organization (tick)

Less than one year ☐

1 – 4 years ☐

5 – 9 years ☐

10 – 14 years ☐

Above 15 years ☐

SECTION B: EFFECTS OF PUBLIC FINANCIAL MANAGEMENT PRACTICES ON BUDGETARY ABSORPTION

This section requires you to give your knowledge according to how you understand the variables given.

1. Financial Administration

a) Does financial administration have an impact on budgetary absorption in government departments? (Tick)

Yes ( ) No ( )

b) Using the scale 1-5 as shown below what is the extent of effect of financial administration on budgetary absorption. (Tick)

1	2	3	4	5
No Effect	Least effect	great effect	greater effect	greatest effect

Factor	**1**	**2**	**3**	**4**	**5**
Financial standards					
Procurement procedures					
Reliable financial reporting					
Solid financial management of the operations					
Financial controls are being monitored regularly					
Others(Specify)					

2. Financial Controls

a) In the experience of Ministry, does financial controls have an effect on budgetary absorption within government departments?(Tick)

Yes ( )

No ( )

b)Using the scale 1-5 as shown below what is the extent of effect of the following financial controls on budgetary absorption within government departments. (Tick)

1	2	3	4	5
No Effect	Least effect	great effect	greater effect	greatest effect

Factor	1	2	3	4	5
Competence of employees					
Management strength					
Segregation of duties					
Expenditure and Purchasing Controls					
Others(Specify)					

3. Budget Management

a) Do you know whether budget management has an impact on budgetary absorption within government departments?(Tick)

Yes ( )

No ( )

b) Using the scale 1-5 as shown below what is the extent of effect of the following budget management factors on budgetary absorption within government departments. (Tick)

1	2	3	4	5
No Effect	Least effect	great effect	greater effect	greatest effect

Factor	1	2	3	4	5
Revenue received					
Expected revenue spending					
Remain within budget parameters					
Establish a clear budgeting process that includes business and stakeholders					

and links to strategic priorities and business needs					
Variances are actively managed through well-defined processes that lead to a continuous focus on reducing cost and risk					
Others(Specify)					

4. Fiscal Accountability

a) In your working experience, does fiscal accountability affect budgetary absorption within government departments?(Tick)

Yes ( )

No ( )

b) In a scale of 1-5 as shown below what is the extent of effects of fiscal accountability on budgetary absorption within government departments. (Tick)

1	2	3	4	5
No Effect	Least effect	great effect	greater effect	greatest effect

Factor	**1**	**2**	**3**	**4**	**5**
Systems put in place					
Monitoring and supervision					
Conducting fiscal reviews					
Auditing of various programs					
Maintaining individual accountability in a financial process					
Others(Specify)					

5. Budgetary Absorption

a) In your understanding is budgetary absorption affected in any way within government departments?(Tick)

Yes ( )

No ( )

b) In a scale of 1-5 as shown below please tick the extent of effects of budgetary absorption factors within government departments.

1	2	3	4	5
No Effect	Least effect	great effect	greater effect	greatest effect

Factor	**1**	**2**	**3**	**4**	**5**
Unpredictability in the availability of and access to budgetary provisions					
Weaknesses in the macro-fiscal framework					
The continued bypassing of formal procedures governing the release of funds					
Allocative inefficiencies across sectors and inputs					
Weak supervision and accountability mechanisms					
Others(Specify)					

Thank you for participating in this study

God bless you

APPENDIX II: LIST OF GOVERNMENT MINISTRIES

1. Ministry of Interior and Coordination of National Government
2. Ministry of Devolution and Planning
3. The National Treasury
4. Ministry of Defence
5. Ministry of Foreign Affairs & International Trade
6. Ministry of Education
7. Ministry of Health
8. Ministry of Transport and Infrastructure
9. Ministry of Information, Communications and Technology
10. Ministry of Environment, Water and Natural Resource
11. Ministry of Land, Housing and Urban Development
12. Ministry of Sports, Culture and the Arts
13. Ministry of Labour, Social Security and Services
14. Ministry of Energy and Petroleum
15. Ministry of Agriculture, Livestock and Fisheries
16. Ministry of Industrialization and Enterprise Development
17. Ministry of Commerce, Tourism and East Africa Region
18. Ministry of Mining