International Journal of
Finance and Accounting
(IJFA)

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International Journal of Finance and Accounting
ISSN 2518-4113 (online)
Vol.9 Issue 4, No.5. pp. 67 - 87, 2024
www.iprjb.org

Factors Influencing Absorption of Budgeted Funds in the Kenyan Public Sector

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Article History

Received 17th July 2024

Received in Revised Form 22nd August 2024

Accepted 28th September 2024

How to cite in APA format:

Nakitare, T., Bunyasi, G., & Mwangi , B. (2024). Factors Influencing Absorption of Budgeted Funds in the Kenyan Public Sector. *International Journal of Finance and Accounting*, *9*(4), 67–87. https://doi.org/10.47604/ijfa.2968

Abstract

Purpose: The main objective of this study was to analyse factors influencing absorption of budgeted funds in the Kenyan ministries. Specific objectives were toestablish the influence of budgeting and planning processes influencing the absorption of budgeted funds, to establish the effect of the ministries staff capacity on the absorption ofbudgeted funds, to establish the influence of private sector capacity on absorption of budgeted funds and to establish the influence of donor funding on absorption of budgeted funds.

Methodology: Cross-sectional research design was used in this study. This research design was adopted since it leads to an in-depth survey reviews, allows for the integration of writing and also carrying out a pilot study within the data collection process. For the purpose of this study, the target population was the 21 government ministries which are funded. Purposive sampling was used to arrive at the sample size. The sample was selected for ministries which had published their relevant information is readily available and those who finance their projects. A sample size of 21 ministries was used as ranked on the performance contract scores published annually. Secondary data was used in this study. The secondary data was collected from questionnaires; printed estimates and corporations published statements from Treasury and Division of Performance Contracting and the Ministry of Devolution and Planning. The data collected was analysed using SPSS version 29. Descriptive and inferential statistical analysis were conducted using SPSS.The study employed tests of significance at 95% and t-tests. Findings of the analysis were presented using tables and graphs.

Findings: From the analysis of findings, strong and positive linear association was established between the independent variables (Budgeting process, staff capacity, private sector capacity, donor funding) and absorption of budgeted funds. An R-square value of 0.727 was established depicting that this relationship was very strong and the budgeting process, staff capacity, private sector capacity and donor funding accounted for 72.7% of the changes in the dependent variable i.e absorption of budgeted funds.

Unique Contribution to Theory, Practice and Policy: The study prescribes that the National Government of Kenya ought to decrease the sum for donor funding each year and result to other forms of subsidies to fund both development and recurrent expenditure. Government of Kenya ought to plan compelling arrangements for establishing better source of financing their development and recurrent expenditure. Theyought to receive cheaper sources of funds for their financing alternatives as they maintain a strategic distance from overreliance on donor financing. This study was grounded on agency, institutional and stewardship theories which supported each of the predictor and dependent variables.The government of Kenya should review anb re-design financing policies to ensure that the debt capital amount is reduced. They should be design effective mechanism to avoid the overutilization of the total debt financing. Government of Kenya should evaluate the available option and devise effective financing mechanisms.

Keywords: *Absorption of Budgeted Funds, Budgeting Process, Staff Capacity, Private Sector Capacity, Donor Funding*

JEL Code of Classification: *M41, G32,G38,G30*

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INTRODUCTION

A budget is a detailed financial plan that outlines expected expenditures for a given fiscal year and proposes methods for generating the necessary revenue (Rotich & Ngahu, 2015). A public budget has four dimensions, first it's a political tool that apportions limited funds amid the social and economic needs of an authority. Second, its professional and managerial instrument stipulates the methods and means of providing civic programs and services and sets out the disbursements and standards by which their activities are assessed in terms of efficiency and effectiveness. It is the budgeting process to ensure that all programs and activities in a jurisdiction are revised orappraised at least once in each year. Thirdly, a budget is a pecuniary instrument that can influence a nation's financial growth and expansion. Budgets are the primary instruments for assessing re allocation of income, stimulating financial progress and expansion. Fourth a budget is an accounting tool that clasps government administrators accountable for both the expenses and incomes of the programs over which theyexercise governorship.

In Kenya, the National budget is a script that once accepted by the parliament, approves the government to increase revenue, incur debts and expenditures to achieve certain goals (Keng'ara, 2014). The budget is therefore, an important tool in setting base for the implementation of a nation's strategy over a period. The implementation of the budget substantially contributes to the accomplishment of a country's vision. The budget implementation process commences with the disbursements of funds to the various government entities to finance their annual work plans and strategic plans. Funds disbursements to the government units are significant in ensuring effectiveproject implementation. It is only through release of funds to public entities that projectimplementation occurs which translates into measurable deliverable outputs that can beassessed at conclusion of a fiscal year (Lakin & Kinuthia, 2015. The various public institutions implement their mandates and jointly ensure that the government achieves its national's strategic plan and maximizes service delivery to its citizens.

Pay-out of resources is the most critical aspect of absorption of funds for effective implementation of public projects. Disbursement is a precarious aspect of financial management since development and recurrent expenditure are demonstrated on budgeting ideologies and as such, all pertinent cash flows linked to the responsibility must be determined with a fair degree of precision so that desired returns are accomplished within the set time periods (Marinas & Prioteasa, 2016). The successful implementation of budgets can only be attained when there are consistent cash flows and the funds are optimally utilized to achieve their intended objectives. Any shortcoming in disbursements or absorption of finances in the budgeted project translates into failed accomplishment of goals and ineffective service delivery.

Absorption of Budgeted Funds

Any budget whether national or institutional is a financial plan that allocates resources to various activities, projects and programmes to attain specific objectives. At the national level, budget implementation are essential drivers of economic growth, employment opportunities, improved food security, empowering producer firms and mitigating or reducing poverty conditions. One of the most substantial elements in budget implementation is the absorption of funds into projects. Absorption capacity refers to the ability of an entity to effectively and efficiently spend its budgeted funds expressed as a percentage of its allocation (Katsarova, 2013).

The amount disbursed to various departments in organizations is based on the approved annual budgets. It, therefore, follows that the funds disbursed guide the implementation of the annual work plans and associated development projects.

The absorption rate of budgeted funds has an effect on development and public service delivery. High absorption capacity does not necessarily mean delivery of economic growth, however, low absorption rates translates into unattained national growth strategies. As much as high absorption of budgeted funds is a valuable policy objective, it is important to assess whether the funds are utilized for the stated purposes on the budget and have successfully attained the objectives they were designed to accomplish (Curristine,Lonti & Joumard, 2007).

Globally, absorption capacity for various countries remains a key element underlying economic growth. The European Union for instance, seeks to transition into a more dynamic and competitive economy, however it is experiencing challenges of exiting the economic crisis due to low absorption rates of structural funds by the member countries. The European Union currently is implementing a Cohesion Policy 2014- 2020 to improve performance of structural funds to tackle the low spending capacity ofits member states (Katsarova, 2013). In Poland, the absorption capacity of budgeted funds is low and has been largely influenced by lack of adequate human capital in public administration to implement projects (Karbownik & Kula, 2015).

The success of budgeting is noted in various developed economies like Australia, New Zealand, Singapore, Netherlands, USA, Canada, Mauritius and Singapore (Rotich & Ngahu, 2015). In African, success in budget execution is highly noted in South Africa and Rwanda. While other nations have succeeded in implementing their budgets, countries like Poland, Romania, Sri Lanka and Thailand have failed as a result of low capacity to absorb resources in planned programs. In East Africa, Uganda has over the years registered low absorption rate of up to 23 per cent of its development budget with recent increase to 50 per cent (CSBAG, 2014). However, a substantial amount of the development budget still remains unutilized and thus government projects are not efficiently implemented. Due to the low spending of budgeted funds the Ugandan government has experienced increase in the cost ofacquiring debts. The Ugandan government pays high commitment charges for committed but undisbursed loans.

The Kenyan public sector is not an exception in facing challenges in budget execution. Amounts budgeted in every financial year are not fully utilized as a result, most programmes and projects whether recurrent or development are not fully implemented (Keng'ara, 2014). For example, during the financial year 2008/2009 and 2009/2010 a total of Ksh. 37,995,330,420 and Ksh. 54,584,282,594 representing 69.61% unutilized budget were surrendered back to the National Treasury in compliance to the Public Financial Management Act 2012. During the financial year 2011/2012 over Kshs.100 (54.58%) billion was surrendered back to the National Treasury as unutilized (Rotich & Ngahu, 2015). In 2012/2013 close Ksh.350 (28.57%) billion allocated to ministries and government departments were unutilized.

It is clear that the rate of underutilization of budgeted funds is on an upward trend in the Kenyan public sector. The low absorption rates for funds affect implementation of projects and eventually the attainment of underlying goals. The most affected vote is the development expenditure which has the highest amounts of unutilized funds at the close of the fiscal year.

The growth funds are vital in the initiation of capital expenditures which are the vital drivers for defensible commercial growth for any nation. The failure to efficiently utilize funds allocated for development slows down the growth of the economy and especially threatens the countries development agenda on achievement of Vision 2030.

Factors Influencing Absorption of Budgeted Funds

Kenyan's national agenda is prescribed in the country's Vision 2030, medium-term plans and the millennium development goals (MDGs). Every government agency is guided by the three documents in setting their strategic plans and budgets. To attain thenation's agenda the process of developing budgets is participative incorporating all stakeholders in decision making and along all the budgeting phases. The Kenyan Gazette Supplement No. 31 specifies the entities that fall under thenational government. They include national government entities which are state organs and those that are government enterprises operating on the basis of commercial principles.

The study focused on national government entities which are state organs specifically the ministries. The national government comprises twenty ministries whichcarry out their core mandate to achieve the national agenda. The ministries undertake trade-offs by making decisions that ensure public funds are focussed on the intended priorities to enhance delivery of public services and poverty reduction. The budgeting process in the ministries is guided by the mid-term expenditure framework over a three year period with the first year being the annual budget. The ministries are responsible for developing their strategic plans and budget proposals covering all agencies, departments and state corporations under them. The sector working groups (SWGs) formulate and give in the initial reports on ministerial public expenditure reviews (MPERs) to the National Treasury for harmonization of the expenditure estimates and prepare the final budget estimates for execution.

The budget execution phase for most ministries to date remains a challenge specificallyon absorption of development funds. For instance, the Ministry of Education, Science and Technology in the financial year 2013/2014 had unutilized development funds KES.19.1 billion from an allocation of KES.23 billion. The utilized resources represents 83 per cent of the budgeted funds. During the same financial year, the Ministry of Transport and Infrastructure did not absorb a total of 52 per cent of its allocation. Approximately during the 2013/2014 fiscal year the uptake of development funds was at 55 per cent which is still on the lower side if efficiencies in project implementation and achievement of the nation's strategic agenda are to be achieved. In2014/2015 the ministries of Energy, Infrastructure and ICT had the lowest absorption rates by spending below one third of their budget allocation during the fiscal year (Lakin & Kinuthia, 2016). Ministries, government departments and agencies are continually struggling to utilize their financial allocations making it paramount for evaluations on factors affecting absorption of funds to be analysed and guide future budgeting processes. These struggles in utilization of allocation is as a result of administrative inneficiences, delays in fund disbursements and lack of capacity by ministries to implement projects effectively.

Statement of the Problem

The budgetary process in Kenya has grown over the last 45 years on an incremental base with no fundamental revolutions. Nonetheless, the Country has steadily attempted to reorganize its schemes in line with vicissitudes and necessities for noble public finance management. All this leading to implementation of MTEF budgeting. The Kenyan Government has also been fronting the contests of providing augmented services to the citizens while accepting stakeholder participation, organizational culpability and efficiency as per the new constitutional and public finance acts requirement (Rotich & Ngahu, 2015). Marinas and Prioteasa (2016) studied the focus of factors influencing the absorptionrate of European Union funds in Romania and conclude that the supply side factors that relate to administrative capacity have the greatest influence on the nation's absorption rates. Curristine, Lonti and Jourmard (2007) studied improving public sector efficiencies by evaluating challenges and opportunities and observed that lack ofutilizing performance information in the budgeting process misinforms allocation of resources. In Uganda, the Civil Society Budget Advocacy Group (2014) conducted a study to identify constraints undermining budget absorption in the country. Theirfindings revealed that excess fund allocations to agencies, delayed release of funds, delayed implementation of public financial management reforms, reluctance to commit expenditures, legal framework, private sector capacity and staff capacity constrainedthe absorption of allocated funds.

The Kenyan government has not been an exception in experiencing challenges in budget execution. Numerous studies have been done locally to evaluate budget underutilization across various government departments and agencies. Keng'ara (2014)investigated the effect of fund disbursement procedures on implementation of donor projects in Homabay Kenya. He observed that the funds disbursement procedures for donors are very rigid and result to delay in flow of funds to the projects resulting to underutilization of budgets. Rotich and Ngahu (2015) studied factors affecting budget utilization in Kericho County and observed that the complexity of tax systems in the county affects economic development in the county. From the aforementioned, little has been done in evaluating the low absorption rates at the Kenyan ministries since devolution. The study therefore seeks to fill this gap and analyse the factors that affect the absorption of budgeted funds in the Kenyan ministries.

General Objective

The main objective of this study is to analyze factors influencing absorption of budgetedfunds in the Kenyan Public Sector.

Specific Objectives

i. To establish the influence of budgeting processes on the absorption of budgetedfunds in the Kenyan Public Sector.
ii. To establish the effect of the ministries staff capacity on the absorption ofbudgeted funds in the Kenyan Public Sector.
iii. To establish the influence of private sector capacity on absorption of budgetedfunds in the Kenyan Public Sector.
iv. To establish the influence of donor funding on absorption of budgeted funds in the Kenyan Public Sector.

LITERATURE REVIEW

Theoretical Review

The study was guided by agency theory, institutional theory and stewardship theories.

Agency Theory

Alchian and Demstez (1972) were the first writers of the agency theory which was further advanced by Jensen and Meckling (1976). According to the theorists, an agency association involves an agreement where one or more individual referred to as the principal engages another person (the agent) to perform a service on their behalf and delegates decision making authority to them. The agency theory therefore seeks to describe the contractual relationships between agents and their principals where the principals entrust the agents with the responsibility to conduct activities on their behalfto accomplish their interests. For the agents to work effectively, the principals provide them with power and authority to carry out activities and make decisions on their behalf (Keng'ara, 2014). The principal agent relationship has an element of information asymmetry where the agent is more knowledgeable about the operations, desired performance and hidden motivation which require the principal to set up monitoring mechanisms for the agent's activities (Gudban et al, 2017).The National Treasury provides regulations to guide the administration of the public funds by the implementing ministries. The Public Finance Management Act 2012, the accompanying Public Finance Management Act Regulations of 2015, the Public Procurement Assets and Disposal Act 2015, the Constitution and Code of Conduct and Ethics for Public Servants among other legislations guide the budget implementation process. Additionally, as a requirement for aid the supervision and monitoring of funds disbursed the ministries submit quarterly reports on budget implementation to the National Treasury. Further, the ministries are required to prepare financial statements at the end of a fiscal year. This theory supports the staff capacity and budgeting process variables in the study in that information asymmetry created by stakeholders can influence the absorption of budgeted funds.

Institutional Theory

The institutional theory has its history from Max Weber who is an economist andsocial theorists who focused on the proposition that institutions and bureaucracy are dominating the society exposing it to the rampant iron cage that came with Institutionalization (Rotich & Ngahu, 2015). Scott (1995) however brought a new perspective to institutionalization indicating its purpose of integrating an organization. He brings in a new concept that institutions provide constancy and give connotation to a firm's social behavior. The institutional theory places its focus on the resilient determinants of economic actions. The proposition looks into the establishment of processes, structures and cultures, which determine the norm and rules in an entity and how they become a guideline for social behavior. The theory tries to explain the relationships between various economic factors and how they influence behavior inan organization. The institutional theory in the context of budgeting provides a symbolic value when analyzing entities accounting processes, organization change, negotiating and bargaining for resources, concealing, mobilizing power and dealing with changes in the operating environment (Covaleski et al, 2003). This theory thefore supports the relationship between budgeting process, ministry staff capacity and private sector capacity and absorption of budgeted funds.

Stewardship Theory

The stewardship theory seeks to answer how an organization can flourish and support their development whereas upgrading the riches of its partners and meet the well-being ofthe community around them. The theory foundations are in psychology and sociologyand helps researchers examine situations where top management (agents) are motivatedto work in the interest of the principal. Stewardship theory development commences withthe review of market-based restructurings that have played a significant role in reshaping the public service across the world. As much as these reforms were considered necessary and resulted in positive outcomes, its foundational market theory propositions are not strong enough to accommodate governance and public interest, which are essentialtools of success in the public sector. The process of stewardship should not be viewed as an immediate technique or strategy to correct ailments or failures but a compass that provides direction on how activities should be done in a way that efficiencies are realized in an entity. Management extends past individual concerns and, more notably, offers the situations for long-term government stability; something that the market model does not do. In other words, managers provide a summary of the struggle between market efficacy and the arduous and inflated task of preserving stability critical for government systems of public interest (Armstrong, 1997).

Steward pioneers require the strength to lead their organization's way founded on their own morals and ethos, so as to apply an optimistic impact to the longer term and a more impactful result (Khan & Hildreth, 2002). As stewards are responsible for managing the assets of the owners, they are required to act responsibly in the course of their duty. A good steward is not self-interested but rather associate with the trade they run and are persuaded to maximize organizational performance (Cosin, Ong, & Coughlan, 2015). Stewardship is essential for the success of implementation of strategic plans in an organization. With a rich sense of reason, stewardship empowers companies to guarantee that their victory is feasible and underwrites to their future success as well as the well- being of society at huge.

Stewardship theory supports the link between effect of ministry staff capacity and private sector on absorption of budgeted funds. Stewardship theory promotes the appropriate use of public budget management strategies, which leads to increased provision of public goods and services, a rise in developmental projects, citizen happiness, fund utilization efficiency, and an improvement in economic development due to overall prices. Governments must implement budget management approaches to reduce obstacles that public officials face in carrying out their tasks under public funds appropriations, which leads to misappropriation of public funds, zero provision of public goods and services, and a lack of developmental initiatives.

Empirical Review

Budgeting Process

A budget is an essential tool that guides decision-making and coordinates the activities of departments within an organization. The process of budgeting engages the heads of departments to provide input on the needs of their units based on their planned activities. The budget therefore becomes an important tool in the organization to guide resource allocation across departments for them to realize their objectives for the year. Budgets also form a basis of setting goals and can actually be monitored and used to measure the performance of an institution.The budgeting and planning process determines resource allocation across various units in an organization.

In the public sector, allocation of funds is done across government agencies and departments. The credibility of resource allocations made in the budgeting process is very important because it determines the extent to which an entities annual work plans and goals are realized (Pasachoff, 2016). Resource allocations in the budgeting process therefore need to be determined by reliable and credible metrics to avoid over or under allocation of resources, which may hamper implementation of the mandate of an entity. It is possible to find that during the budgeting process some sectors and spending agencies have received funds that exceed their absorption capacity, while others have budget limits that are not in line with the mandates they should meet (CSBAG, 2014). If a departments or sectors work plan requires substantial amount of investment and less than the required funds are approved and actually released, the projects can hardly commence leaving the monies unspent. The delivery of effective public service requires an appropriate mix of inputs that are determined by analyzing the mandates of a government agency or department. After budgets have been approved, the implementation process is set to start.

Budget execution is triggered by the release of funds to the different agencies for spending. Any occasioned delays in disbursement of funds to the institutions significantly results in delayed implementation of projects and leaves an organization with unspent funds. In the public sector the National Treasury and the ministries, state departments and agencies both have a role in determining the release of funds. The National Treasury for instance releases budgeted funds based on submission of satisfactory work plans and progress reports by the spending agencies (Lakin & Kinuthia, 2015). Any delays insubmission of the required reports subsequently causes delay in release of finances.

Staff Capacity

Human resources can contribute to the success or failure of an organization. The skills, expertise and experience that employees possess are valuable assets for a firm. The implementation of budgets is done through people and it is therefore important that an entity have a staff capacity with the rights skills to lead the execution process (Bhagheri,2016). According to CSBAG (2014), inadequate number of staff with the right skills is a leading factor impeding the successful implementation of projects in the government leading to unutilized funds. When an entity is operating below the approved human resource structures, they are likely to experience challenges when executing their budgets. Lack of adequate staff exacerbates other absorption constraints like inability to meet reporting deadlines, supervise contractors work, and produce effective procurement plan and monitoring frontline public service delivery. In terms of management, the goals of the organization depend to a large extent on the conduct and assertiveness of its juniors to their responsibilities.

Presently, one of the key issues stalling the staffing structure is the lack of inspiration to have an optimistic attitude to solve problems and to provide a quality public service. (Borlovan et al., 2014). Capacity and ability of dominant, provincial and residential governments to prepare appropriate plans, programs and projects in due course, to decide on programs and projects, to coordinate coordination among the main partners, to meet administrative requirements and to present reports and to finance and supervise the implementation in an appropriate manner, avoiding irregularities as much as possibleis highly dependent on the human resource capacity of the institution (Marinas &Prioteasa, 2016).

To successfully implement budgets, government agencies need to invest in their staff through capacity building programs to develop their skills and abilities to effectively perform their duties. Having the adequate staffing levels in the organization will also go a long way in creating efficiencies in monitoring the implementation of projects in the public sector. Organizations should therefore focus on recruiting qualified and competent staff and motivating them in a manner will drive the organization towards attaining its mandate and enhance absorption of budgeted funds. Conferring to Gohou and Soumare (2009), for each $ 1 invested by benefactors in Africa,you get $ 2 more from benefactors or governments. An obstacle at the start of implementation can have a negative impact on its enactment in a number of ways, including the high closing fiscal costs due to the increase in unit prices of goods, particularly in the infrastructure sector. The IPU loses between 3 and 6 months due to the communication between the MOF, the sponsoring ministries and the IPU before accessing the funds. This is due to the information concerning the transfer of funds by governments and donors is not communicated to the IPU in time to start the request process and incomplete registrations in supply applications, as indicated by ADB. (2006). There is no overwhelming abuse of supply systems posing problems of governance and trust, a foundation for benefactors to suppress funds, as discovered by the procurement frameworks within the ventures are frail and lumbering due to bureaucracy and should be simplified to make it clear to all investors.

Furthermore, Mwega (2009) notes that boththe Korean government and the rules on donor procurement should be consistent to eradicate the scuffles that usually arise during implementation. ADB (1991) reported in his report Performance Evaluation Project Homa Bay – Rongo Strada that during the examination of the results of the prequalification race irregularity variation by UIP andthe inclusion of four companies from third countries and the irregular issuance of Orders of variation in famous works. The Korean government was also charged with the bankruptcy that prevented indigenous contractors from receiving payments in foreign currency. This led to the deferral of the disbursement of funds to the project, which compromised the speed of implementation and the project was blocked for 17 months.

Private Sector Capacity

The public sector does not operate in isolation but rather interacts with the private sector while implementing their mandates. The government may not always have all the required resources and capacities to implement its budgets especially development projects (Naomi, 2010). As a result, the public sector agencies look for firms in the private sector to carry out projects on their behalf. The private sector capacity to implement the given project therefore plays a crucial role in determining the effectivenessof service delivery to the public. Due to poor domestic capacity in most developing countries, large works are usually outsourced to foreign-owned companies. The private sector contractors like the government also tend to lack qualified engineers which results to delayed implementation of budgeted activities (CSBAG, 2014). In addition to the low capacity of individual contractors, governments may also experience inadequate number of competing firms making it difficult to implement multiple projects at the same time.As a result, some development projects which were budgeted for are not initiated leading to unspent funds. Cases emerge where an expansive portion of the project's funds are connected to the procurement. Odedukun (2003) contends that, among those who have vested interface in this angle of payment of funds are providers of products or administrations. As a consequence, the greater the percentage of aid linked to purchases, the greater the interest acquired and, therefore, the lower the translation of the supply commitment, i.e. a greater proportion between disbursements and commitments. Robust suppliers from developed countries effect benefactors in paying their shares, resulting in two levels. As a result, a high proportion of aid related to the acquisition involves a larger part of the volume of committed aid provided. Burnside and Dollar (1997) contend that if aids were only directed into settings that exercise a sound macroeconomic policy, they encourage growth and development. Conversely, there have been many circumstances where the conditionality of the aid has not been met, but the aid has been released. In most cases, donors apply the concept Carrot and stick in the sense that more aid is provided when the recipient country applies sound macroeconomic policies and the flow of aid to those who do not establish and promote healthy macroeconomic policies in their countries is reduced operations as notedby Kaufmann (2012).

Donor Funding

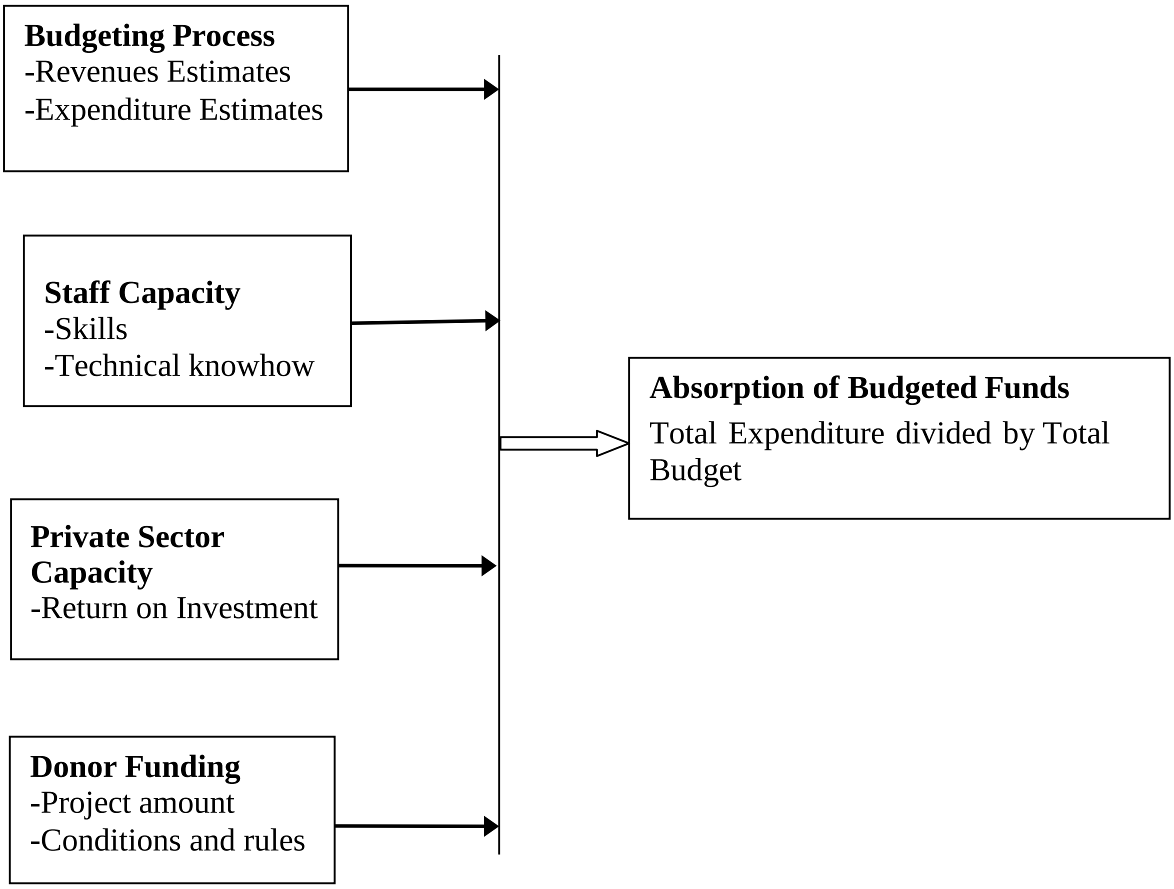
Donor aid Effectiveness remains top precedent for international advanced public. The development partners are able to provide the funds in the areas of interest and offer some expertise advice and backing economic growth. According to (McCormick,2017) growth aid is an assorted gift for the nations that get it. It gives much-required assets to construct framework, reinforce production, giving therapeutic help and instruction and empowering an entirety extend of monetary, dogmatic and societal forms. Within the best of cases, the associations between benefactors and beneficiaries advance joint learning and are in themselves an advantage. But development aid has the drawback where at times donors are considered to promote their own interests by establishing the conditions for the beneficiary's conditions to be imposed on recipients not available at theperiod of endorsing the contract, when both revelries recognize that it is only printed conditions whose result is resolute by the fact that both sides must preserve a normal maintain able affiliation and the flow of aid.

A case in point is the austerity measures introduced by the World Bank in the early 1990s, such as the structural adjustment programs (PSAs), which have admitted that they have failed and damaged African economies. In the end, aid flows did not help the development of Africa, nor did they contribute to the development of the policies to which they were intended to be conditioned. Musgrave (1989), in his scoreboard of fund expenditures, and Pradhan (1996), conducting an empirical study of a sample of 27 state-owned enterprises in Singapore, follow the belief that "the conformation of public expenditure must finance the combination of goods and services that capitalize on societal prosperity. However, the authors acknowledge that it is not feasible to fully apply this test of distributive efficacy in practice, and also recognize the importance of established preparations for managing public spending in pecuniary analysis.

of public expenditure allocations, in particular the role of official and casual rules Schick (1998) additionally cultivates this association by addressing allocative efficacy in terms of "government capacity to distribute resources based on the effectiveness of public programs to achieve its strategic objectives "in 62 state-owned companies in Morocco, its definition is unswerving with the focus of the World Bank's Public Spending Management Manual (1998) on strategic asset allocation, and Brumby (2007) summarizes it as "interventions consistent with the company's priorities, represented by decision makers".

International Journal of Finance and Accounting
ISSN 2518-4113 (online)
Vol.9 Issue 4, No.5. pp. 67 - 87, 2024
www.iprjb.org

Conceptual Framework



Independent Variables **Dependent Variable**

Figure 1: Conceptual Framework

Source: Researcher (2018)

The study was steered by a conceptual framework as portrayed in the figure above showing the independent and dependent variables;budgeting and planning process, staff capacity and private sector being independent variables and lastly absorption of budgeted funds being dependent. However, it often occurs that a set budget is not realized due to poor economic performance. In this case the following factors could give rise to the above variability. First Loan contract protocol which is the main supervisory document postulating the terms and conditions for issuing loan or grant funds. This is an arrangement between the donor and the borrower that specifies the roles and responsibilities of each party in relation to the approved funds.

These terms and conditions linger in effect until the loan funds are returned in full. Secondly disbursement request of funds which is an application by the recipient government entity. The requests are convoyed by a number of backup documents for the activities scheduled to be undertaken. Thirdly Government policies and circulars which are general statements that define the manner in which define the manner in which the expenditure is guided by stringent PFM Act of 2012 and Public Procurement and Disposal Act 2005.This affect public projects such as recruitment, gender promotion and borrowing levels. Government procedures regulate how and who to solicit from in addition to which sectors of the economy to prioritize funding.

Research Gap

In Kenya, despite the fact that the country has been financing some of its activities through donor funding, much has not been thought of these funds being channeled through state corporations. As such, few studies have been carried out in that areaespecially in the in relation to state corporations and donor funds. The study used a number of theories: theory of public choice, dependency theory, pecking order theory andagency theory. Theory of public choice looks at taxation and public spending, and posits that government action is necessary in reining in "market failures" such as monopolies.

However, voters lack incentives to monitor government effectively leading to government failures. Dependency theory maintains that there are a trivial number of recognized nations that are recurrently fed by developing nations, at the outlay of the developing nations' own health; conveying their affluence to the industrialized nations with trifling reimbursement (Vernengo, 2004). Pecking order theory looks at how business entities go about the process of making financial decisions with regards to prioritization of their financing sources (Myers &Majluf, 1984).

Agency theory looks at the misalignment of the interests of stockholders (public), the board of directors, and/or the management of an organization (state agencies), when these parties are in conflict an how to resolve such conflicts (Eisenhardt, 1989). The research, therefore, seeks to determine what the determinants for the absorption of the budgeted funds in the ministries of Kenya.

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Table 1: Summary of Literature Review and Research Gaps

Variable	Author Year	Focus of Research	Methodology	Findings	Addressing Research Gaps
Budget Processes	Rotich and Ngahu (2015)	Factors affecting budget utilization in KerichoCounty.	Random and Fixed effect regression models employed in this study.	Complexity of tax systems in the countyaffects economic development in the county.	focused on complexity of tax system, did not look at budget process, staff capacity, private-sector capacity or donor funding.
	Marinas & Proteasa (2016)	Factors influencing the absorption rate of European Union funds in Romania.	Desk Study Methodology interviews and consultations.	Supply side factors thatrelate to administrative capacity have the greatest influence onthe nation's absorption rates.	The study did not focus on effectof budget process, sector capacity.
Staff Capacity	Mwega (2009)	Supply Systems, Governance and Trusts.	interviews and consultations with key informants	The procurement systems are weak due to bureaucracy and should be simplified to make it clear to stakeholders.	The study did not focus on the effectof budget process ordonor funding variables.
	Bhagheri, (2016)	Human resources in the success and Failures of organizations	Random and Fixed effect regression models employed in this study.	The skills, expertise and experience that employees possess are valuable assets for a firm	The study focused on staff capacity butdid not look at the influence of donor funding, privatesector capacity on absorption of budgeted funds.
Private Sector Capacity	Naomi, (2010)	Private sector capacity and budget Absorption in the private sector	Random and Fixed effect regression models employed in this study.	The public sector agencies look for firms in the private sector to carry out projects on their behalf.	The study did not include the public sector in Kenya
Donor Funding	McCormick (2017)	Donor Funding in absorption of budgeted funds in Kenya.	Interviews with Key informants.	Donor funding gives much needed resources to build infrastructure, medical support and strengthens production.	Concentrated on Donor funding variable.

Source: Researcher (2018)

METHODOLOGY

Research Design

Cross-sectional study design was employed in this study. It was made up of making population's observation or sample's observation at a glance (Babbie, 2012). This type of design was imperative in deciding the highlights of observed occasions additionally in attempting to see at the relationships that existed between two or more occasions (Leedy, 2001). The significance of this type of research design was it leads to in-depth survey reviews, allowed for the integration of writing and also carrying out a pilot study within the data collection process.

Population of the Study

For the purpose of this study, the target populace were the 20 government services which are financed. According to Ngechu (2004), target populace in measurements is the particular populace from which data is wanted. Mugenda and Mugenda (2003) note that in the event that the target populace is less than 100 units, at that point a census ought to be carried out. In the event that the target populace is greater than 100 units, the test measure of at least 15% of the population is considered representative (Kothari, 2014). A census was thus conducted in this study.

Sampling and Sampling Technique

The target population was the 21 government ministries which are funded. Purposive sampling was used to arrive at the sample size. The sample was selected for ministries which had published their relevant information is readily available and those who finance their projects. A sample size of 21 ministries will be used as ranked on the performance contract scores published annually.

Data Collection Method

Primary data was collected through semi-structured questionnaires. Secondary data was obtained from printed estimates; corporations published statements Treasury and Division of Performance Contracting and the Ministry of Devolution and Planning. Data was collected for the period between the year 2011/12, 2013/14 and 2015/16 for comparative purposes.

Data Analysis

Quantitative data was analyzed using the SPSS version 29 program. The data was analyzed through different models in order to clearly show the determinants of the absorption of the budgeted funds. The results obtained from this model were presented in tables, graphs and pie charts to help in the analysis with which the inferential statistics were extracted. The following simple regression model was used to determine the relationship between the predictor and dependent variables with a significance test of the significance level of 0.05.

Analytical Model

The test was done at 0.5 level of significance. The descriptive statistics was include; mean value, standard deviation, simple percentages and frequency counts while inferential statistics was carried out to establish the linear relationships between the explanatory variables using the correlation matrix and a linear regression. Pearson correlation coefficient was used to test the absorption of Budgeted Funds. Theseinferential tests were conducted at 95% confidence level. The result obtained were tested for correlation co-efficient the higher the correlation co-

International Journal of Finance and Accounting
ISSN 2518-4113 (online)
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efficient the test retest reliable. (Z) Pearson's product moment correlation co-efficient formula was used to test the reliability of the questionnaire.

The study sought to establish the factors influencing absorption of Budgeted funds.

The following linear regression model was adopted:-

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

Y= Percentage Absorption of budgeted funds (Total Income divided by the average absorbed budgeted funds)

α = represent the model Constant (intercept)

ε = Error term.

$\beta_1 \ldots \beta_4$ = regression coefficient which measures unit changes included in Y for each unit change in X variables

X_1 = Budgeting Processes

X_2 = Staff Capacity

X_3 = Private sector Capacity

X_4 = Donor fundingε = Error term.

Test of Significance

The test of significance for the regression model was determined using ANOVA. The coefficient of determination, (r2) is the square of the sample correlation coefficientbetween outcomes and predicted values. As such it explained the extent to which changes in the dependent variable (Percentage Absorption of budgeted funds) were explained by the change in the independent variables (Budget process, Staff Capacity, Private Sector Capacity and Donor Funding) or the percentage of variation in the dependent variablethat is explained by all the independent variables.

RESULTS AND DISCUSSIONS

Regression Analysis

The study conducted multiple regression analysis of:

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

$\boldsymbol{\beta_0}$ is the regression model constant; $\boldsymbol{\beta_1}$ - $\boldsymbol{\beta_4}$ are the regression coefficients. Y is the percentage absorption of budgeted funds. X_1 is the budget processes, X_2 is staff capacity;

X_3 is private sector capacity; X_4 is donor funding, and $\boldsymbol{\varepsilon}$ is the error term obtained from theF-significance from ANOVA.

Table 2: Model Goodness of Fit

R	R^2	Adjusted R^2	Std Error of Estimates	Durbin W
0.8530	0.7270	0.7010	0.00455	1.9890

a. Predictor Variables: budget process, staff capacity, private sector capacity, donor funding
b. Dependent Variable: Percentage Absorption of budgeted funds

International Journal of Finance and Accounting
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- Table 2 above presents the regression model goodness of fit to establish if regression analysis is suited for the data. Pearson Correlation value of 0.853 was established depicting that the independent variables (budget process, staff capacity, private sector capacity, donor funding) had a very good linear relationship with the dependent variable (Percentage Absorption of budgeted funds).
- An R-square value of 0.727 was established depicting that this relationship was very strong and the budget process, staff capacity, private sector capacity and donor funding account for 72.7 % of the percentage absorption of budgeted funds in the public sector.
- A Durbin Watson test for autocorrelation value of 1.989 was established depicting no (serial) autocorrelation withinthe regression model residuals. Thus, the random (non-stationary) data was used in the regression analysis.

Table 3: Analysis of Variance (ANOVA)

	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.368	4	0.592	2.385	0.000
Residual	0.009	15	0.135		
Total	**2.377**	**19**			

Source: Researcher (2018)

ANOVA analysis was conducted to determine the significance of the regression model. An F-significance value of 0.000 was established depicting that the regression model had very high significance (confidence level) (p<0.05).

Table 4: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	Betas	Std. Error	Betas		
(Constant)	4.946	1.355		1.500	0.574
Budget process	0.456	0.209	1.634	8.901	0.002
Staff Capacity	0.842	0.062	0.927	33.335	0.000
Private-Sector Capacity	0.873	0.149	1.388	3.566	0.005
Donor Funding	0.345	0.058	0.992	2.994	0.012

Source : Rsearcher (2018)

The study established the following regression model:-

- Percentage Absorption of budgeted Funds= 2.032 + 0.456 * Budget Process + 0.146 StaffCapacity+ 0.374* Private Sector Capacity + 0.127 Donor Funding
- The study established that when budget process, staff capacity, private sector capacity and donor funding are zero, the percentage absorption of budgeted funds would be 2.032.
- The study also established that holding other factors constant, a unit increase in the budget process would lead to a 0.456 unit increase in the absorption of budgeted funds; a unit increase in staff capacity would yield a 0.146 unit increase in the percentage absorption of budgeted funds; a unit increase in the private sector capacity would result

ina 0.374 increase in the absorption of budgeted funds while a unit increase in donor funding would yield a 0.127 increase in the percentage absorption of budgeted funds.

- From the coefficients, it was established that each of the variables; budget process, staff capacity, private sector capacity and donor funding was significant in explaining percentage absorption of budgeted funds in the public sector.

Summary

Budget Processes

From the findings in the SPSS analysis, the statement, some sectors and spending agencies received funds that exceed their absorption capacity. The study established that Delivery of effective public service requires an appropriate mix of inputs. This was supported by the mean value. A significant number of the respondents also conceded that staff capacity had a significant influence on absorption of budgeted funds, this was inferred from the mean value calculated in the analysis.

The standard deviation calculatedin the SPSS indicated little variation in the responses of the respondents. From the inferential statistics, a strong positive correlation (r=.818) was establishedbetween budget processes and the percentage absorption of budgeted funds in the public sector. A unit increase in was seen to have a .062 unit increase in the overall percentage absorption of budgeted funds. Budget processes were thus seen to have a significant influence in the absorption of budgeted funds.

Staff Capacity

Based on the responses from the respondents, it was clear that most respondents saw that staff capacity had a significant influence on absorption of budgeted funds. This inference was realized by responses of statements relating to staff capacity and absorption of budgeted funds. It was established from the analysis that most respondents strongly agreed on the statement; Donor procurement should be harmonized to eliminate the conflicts. It was also established that Staff with the right skills are a leading factor impeding the successful implementation of projects.

From the correlation analysis, a strong positive correlation was established between staff capacity and the percentage absorption of budgeted funds in the public sector. A unit increase in staff capacity was seen to have a .062 unit increase in the overall percentage absorption of budgeted funds. It was conclusive from the findings that staff capacity has asignificant and positive effect on the absorption of budgeted funds.

Private Sector Capacity

From the analysis of the descriptive statistics, it was clear that most respondents conceded that the government may not have the required resources and capacities to implement its budgets Public sector agencies look for firms in the private sector to carry out projects on their behalf. This was noted from the response from the analysis of findings. It was established from the analysis that most respondents strongly agreed on the statement; the government may not have the required resources and capacities to implement its budgets. This was established by the high mean value calculated. It was evident from the findings that private sector capacity had a significant influence on absorption of budgeted funds in the public sector.

From the inferential statistics, a strong positive correlation (r=.672) was establishedbetween staff capacity and the percentage absorption of budgeted funds in the public sector. A unit

International Journal of Finance and Accounting
ISSN 2518-4113 (online)
Vol.9 Issue 4, No.5. pp. 67 - 87, 2024

increase in staff capacity was seen to have a .062 unit increase in the overall percentage absorption of budgeted funds.

Donor Funding

From the analysis of the descriptive statistics, it was clear that most respondents agreed that donor funding had a significant influence on absorption of budgeted funds. This was noted from the response from the analysis of findings. For instance, it was noted that that development partners are able to provide the funds in the areas of interest. This was notedtrue by the mean calculated from the findings. . Generally, it was noted that donor funding, budget process, staff capacity and private sector capacity had a significant influence on the absorption of budgeted funds in the public sector.The study used correlation analysis to establish the association between donor and percentage absorption of budgeted funds. It was established that there was strong positivecorrelation between donor funding (r=.336) and percentage absorption of budgeted funds. The study also showed lack of multicollinearity among independent variables.

From the Model's goodness fit, An R-square value of 0.727 was established depictingthat this relationship was very strong and budget process, staff capacity, private sector capacity and donor funding accounted for 72.7% of changes in percentage absorption of budgeted funds. A Durbin Watson test for autocorrelation value of 1.989 was established depicting no (serial) autocorrelation within the regression model residuals. An F- significance value of 0.000 was established depicting that the regression model had high significance. From the regression analysis, each of the predictor variables had a significant influence on the absorption of budgeted funds in the public sector.

Conclusion

The study concluded that Decreases in income per capita also have a negative effect on aid; they estimate that the current financial crises will depress aid budgets by 20 to 30 % over the next decade. They also find evidence that other measures of economic health, including employment, have an effect on aid budgets, but they do not pursue these findings in depth. The study also concludes that that some variant of 'programme-based budgeting' or 'performance budgeting', where budget processes aim to explicitly link budget allocations to outputs and outcomes delivered, offers the best chance for increasing efficiency of allocation. Through such an explicit link, it is easier for budget decision makers to judge relative efficiency of spending (i.e. the relationship between budgetary inputs and service outputs) both between spending areas and over time in the same area.

The study found that the ability of capacity-constrained governments to manage such complex processes is not clear. In the case studies recently reviewed by the World Bank, it was found that programme-based budgeting, along with other more complex reforms such as medium-term expenditure frameworks (MTEFs), did not achieve great impact (World Bank, 2012). As a result, given the focus of this discussion on capacity- constrained contexts, reforms aimed at delivering sophisticated tools such as programme-based budgeting or its variants do not seem an appropriate ambition.

Recommendations and Policy Implications

The study prescribes that the National Government of Kenya ought to decrease the sum for donor funding each year and result to other forms of subsidies to fund both development and recurrent expenditure. GoK ought to plan compelling arrangements for establishing better source of financing their development and recurrent expenditure. They ought to receive cheaper sources of funds for their financing alternatives as they maintain a strategic distance from overreliance on donor financing.

The government of Kenya should review/design financing policies to ensure that the debt capital amount is reduced. They should be design effective mechanism to avoid the overutilization of the total debt financing. GoK should evaluate the available option and devise effective financing mechanisms.

Suggestion for Further Research

The study sought to give an analysis of the factors influencing absorption of budgeted funds in the public sector. There is need to a conduct a study on the evaluation of performance evaluation approaches used to establish their effectiveness and efficiency. The study found that 72.70% variation of performance score was caused by budgeting process, staff capacity, private sector capacity and donor funding which means that there are other factors accounting for the remaining 27.30%. Since the present study did not account for the 27.30%. There is need to carry out a study to establish other factors that would affect the absorption of the budgeting funds. The study also recommends that further studies should be done on the effect of donor funding, performance score and public service delivery.

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