



THE INFLUENCE OF ADMINISTRATIVE CONDITIONS ON DONOR FUNDS UTILIZATION IN THE HEALTH SECTOR IN NYANZA REGION, KENYA

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ABSTRACT:Development Aid consists of a considerable share of the total government budget. In most Sub-Saharan African countries, internally generated resources are not adequate to fully cater for huge capital investment needs. A number of studies done on absorption of donor funds have, however, found that the actual annual absorption of these funds in many countries has been below fifty percent and this despite donor conditions among them administrative conditions. Moreover, most of the donor assisted development programs are expected to be sustainable in the long run meaning that they need to be capable of going on even after the withdrawal of the donor. Therefore, doubts are emerging on the effectiveness of the donor conditions on the on effective utilization of donor funds. Therefore, the general objective of the study was to establish the influence of donor imposed administrative conditions on effective utilization of donor funds focusing on the health sector in Counties of Nyanza Region. The study was guided by the Administrative Management Theory. The study used descriptive survey research design and targeted 4 donor organizations with projects in Kisii, Kisumu and Homa Bay Counties all in Nyanza Region. The study used a sample size of 84 persons comprising fund management team members, accountants, auditors, and fund evaluation team members from the area obtained using stratified random sampling. Pre-tested questionnaires were used for data collection. Both descriptive and inferential statistics were used for analysis. The findings revealed that the donors often imposed strict administrative conditions on their projects and they were particularly keen on establishing a sound managerial base for their funded projects so as to improve the levels of financial controls and accountability without compromising the levels of service delivery. The study, therefore, recommends that donor agencies need to agree on a long term template for administration with their implementing partners so as to ease the burden of future recruitments to fit administrative requirements.

KEY WORDS: *Administrative Conditions; Effective Donor Funds Utilization; Health Sector*

I. INTRODUCTION

In many developing countries including those in the Sub-Saharan African region, Development Aid consists of a considerable share of the total government budget. In most of those countries, internally generated resources are not adequate to fully cater for huge capital investment needs. As a result, the financing of capital investment projects from domestic resources in form of tax revenues, user fees, and domestic borrowing is often supplemented with external resources in the form of bi-lateral and multi-lateral loans and grants. There are four types of Development Aid which are extended to support development projects in

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

A number of studies done on absorption of donor funds have, however, found that the actual annual absorption of these funds in many countries has been below fifty percent. If resources in donor-funded projects are not utilized as planned thereby resulting in low absorption, the following are the likely implications: Opportunity cost is lost, hence slower development of economy than planned; there is still payment of commitment fees to Development Partners; and cost over-runs of projects occurs. The World Bank concluded that even though the rate of compliance with the World Bank conditions was only 50%, the release rate of loans was nearly 100% (World Bank, 2009). This, therefore, puts into question the effectiveness of the donor conditions on the effective utilization of donor funds. According to Lundsgaarde, Breunig and Prakash (2010) countries tend to trade with and give aid to the same partners most likely because they know how to align their goals to the donor requirements. Strict donor procedures have been among the most glaring arguments and reforms initiated through them are necessary when to achieve democratic objectives of empowering the people to effectively govern themselves in an efficient way. In many ways the donor coaching through imposition of conditions builds capacity for future bilateral relations.

However, even after more 50 years of development aid assistance, the impact of foreign on social and economic development remains very small compared to the annual donations of over \$80 billion (Abuzeid, 2009). This has been attributed to among other things, lack of proper supervision on the donor funds (Svenson, 2000; Alesina, and Weder, 2002) and the use of donations to implement political agendas among others (Alesina and Dollar, 1998). As such, with increasing levels of donor interest and funding, the implementing organizations need to be more accountable and improve in their financial management practices so as to make them more flexible, less bureaucratic and more responsive and closer to the people (Page, 2007). Financial control practices such as budgeting and accurate reporting is essential in not only meeting the donor objectives but also building their confidence. It is also imperative to have a local administration unit configured to the donor specifications that not only coordinates that programs but also liaises with the donor.

Donors do impose administrative conditions on some of the programs they fund so as to be able to monitor the local coordination of the programs. For example, Kepher et al., (2017) study on Donor Driven Approach (DDA) to planning in Donor Fund Organizations within Kisumu County, Nyanza Region, Kenya established that the DDA allowed donors to exert much influence over the Donor Fund Organizations projects to the extent of controlling their performance substantially. Donor demand beyond organization capacity was found to significantly influence the performance of the donor funded organizations individually. Keng'ara (2014) found that donors sometimes provide technical experts to the project, mostly foreigners at the expense of locals as an administrative imperative. Monaheng (2007) argued that donors find expatriate technical staff as helpful in sensitive aspects of project management and control of budgets and are also knowledgeable about home office reporting requirements even when locals can competently handle the same tasks. However, the influence of administrative conditions on effective utilization of donor funds has not been widely investigated from an empirical perspective. The views above, therefore, this led the present study to test the hypotheses:

H₀: Administrative conditions do not significantly influence effective donor funds utilization in the health sector in Nyanza Region, Kenya

H₁: Administrative conditions significantly influence effective donor funds utilization in the health sector in Nyanza Region, Kenya

II. LITERATURE REVIEW

2.1 Administrative Conditions

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

In World Bank funded projects before expenditure is incurred a no objection has to be sought from the World Bank office and this delays the process and may lead to collapse of the process especially when it is not approved. This therefore means there is no flexibility on the side of the recipient of the aid as well as lack of confidence by the donor on the proper use of the funds. As stated in the World Bank consultancy guideline revised July 2014, when, under time based contracts, the services are of a routine nature or do not require an innovative approach, the recipient may, subject to the Bank's no objection, require the consultants to include in their proposal the same level of experts' time inputs as indicated in the Request for Proposal (RFP). Failure to do so will result in their financial proposal being adjusted for the purpose of comparison of proposals and decision for award (World Bank, 2014). Other conditionalities that must be met by the requisitioning implementing agency before any approvals include, but not restricted to: provision of counterparts funds by respective government, establishment of Project Implementation Units (P.I.U.s) to run the project and opening of offshore account where funds are channeled in hard currency (Keng'ara, 2014).

A study by Adelman (2000) found that regularly imposing conditions to the aid offered is not totally bad idea, it all matters on the type of conditions imposed, as all are not having the same effects. He described the four different aid tying and are given as follows: Official Development Assistance (ODA) loans are provided on the premise that the recipient country returns the money with interest according to the financial terms stipulated in the loan agreement: ODA grants and loans can be tied to procurement in the donor country or, in case of partial tying, in the donor country as well as a certain number of specified developing countries; ODA grants and loans may be tied for specific development projects under supervision of the donor; and in the case of program aid the money is committed and disbursed in accordance with the recipient country's compliance with an agreed set of policies vis-à-vis the domestic economy (Adelman, 2000).

Ouma (2012) did a study on factors affecting the effective implementation of donor funded projects in Kenya. The findings revealed that lack of/or inadequate human resource capacity (Knowledge and skills); lack of accountability (overstatement of prices and use of substandard materials); insecurity; disagreements among beneficiaries; and social-cultural obstacles. Keng'ara (2014) in his study of Disbursement Performance in Kenya recommends that to reduce the delay between signing the funding agreement and first disbursement, the

program implementing unit PIU must be constituted. Nkamlue, Tourino and Edwin (2011), also supports that approval of project at later stage of the procurement process including adequate capacity assessment before board approval of the loan would help reduce delays in loan effectiveness. This implies that precedent loan conditions will be fulfilled at much earlier stage before approval or signing of the project loan thus eliminating unnecessary delays in loan effectiveness

2.2 Administrative Management Theory

The administrative theory owes its origins to the works of Henri Fayol (1841-1925) who developed 14 administrative principles for organizational structure and management. The theory was advanced by James D. Mooney (1884-1957) through his book the *Onward Industry!* and Luther H. Gulick (1892-1993) who applied administrative management theory principles to government. Administrative management theory attempts to find a rational way to design an organization as a whole. The theory generally calls for a formalized administrative structure, a clear division of labor, and delegation of power and authority to administrators relevant to their areas of responsibilities (Page, 2007). The administrative management theory was developed concomitantly with the scientific management theory.

The administrative theory emphasized management functions and attempted to generate broad administrative principles that would serve as guidelines for the rationalization of organizational activities (McCandless & Guy, 2013). The principles are; the *Scalar Principle* which recommends and emphasizes the hierarchical, pyramidal structure of control relations; the *Exception Principle* which recommends that all routine matters be handled by subordinates leaving superiors free to deal with exceptional issues where existing rules are inapplicable, and; the *Span of Control Principle* which specifies that superior should have no more subordinates than they can effectively oversee. Other principles include the *Unity-of-Command Principle* that emphasizes that no subordinates should receive orders from more than one superior, and the *Departmentalization Principle* which requires that activities should be grouped to combine related activities in the same administrative unit. Related activities could be based on similarity of purpose, process, clientele, or place. Finally, there is the *Line-Staff Principle* which recommends that all activities directly related to organizational goals are line functions-all others are staff functions that advise, service, or support. Staff units are segregated from line functions and are ultimately subordinate to them (Fox & Miller, 1995).

The Administrative Management Theory is applicable to the current study as donor agencies aim at having the maximum possible impact on the societies in which they institute intervention programs. However, they can effectively achieve this when their PIUs conform to principles of administration in order to reduce role ambiguity, conflict and increase efficiency. Such conflicts and ambiguities lead to wastage of time and funds and can have a considerable impact on the program performance.

III. RESEARCH METHODOLOGY

The study used descriptive survey research design (Orodho, 2005) which was deemed appropriate since the study sought to obtain descriptive and self-reported information on the influence of donor imposed administrative conditions on effective utilization of donor funds focusing on the health sector in Nyanza Region. The target population for the study comprised active donor organizations in three Counties in Nyanza Region given by various organizations in the health sector. From these a sample size of 84 comprising fund management team members, accountants, auditors and fund evaluation team members were drawn as respondents for the study using stratified random sampling.

The study used pre-tested questionnaires as data collecting instruments. Both closed and open ended items were used in the questionnaire. The selection of these tools was guided by the nature of data to be collected, time available and the objectives of the study. It has quite a number of advantages which include: confidentiality; time saving; and reduced interviewer bias. Questionnaires also have the advantages of low cost, easy access, physical touch to widely dispersed samples (Fowler, 1993) and also the fact that the results are quantifiable.

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

IV. RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter presents the results of data analysis and discussions of the findings. The findings are presented using tabular summaries to provide a comprehensive picture of the basic features of the data and its trends. The study sought to examine the influence of donor stipulated administrative conditions on effective donor funds utilization in the health sector in Nyanza Region, Kenya. Out of the 99 respondents sampled from the various donor organizations operating in the area, 84 responded by completing the questionnaires thereby giving a response rate of 85%, which was considered good enough for the study. A presentation and discussion of the results follows.

4.2 Donor Imposed Administrative Conditions on Funds Utilization

The study first sought to determine the nature of donor stipulated administrative conditions on funds utilization in the health sector in Nyanza Region, Kenya. The results are presented in Table 1.

Table 1: Donor Imposed Administrative Conditions on Funds Utilization

Statement	Mean	Std. Deviation
The Donor agency imposes strict conditions on the managerial quality	4.10	0.456
The Donor agency ensures there is the requisite human resource capacity to manage and implement the project	3.82	0.824
Donor agencies require that officers in the donor fund projects have formal training in foreign aid management.	3.88	0.629
Our donors require that financial management systems are clearly defined, well managed, internally audited and verified by independent agents	4.18	0.738
Donor agencies require that officers in the donor fund projects have knowledge on budgeting and financial control	3.96	0.752
The Donor agency requires that all staff often undergo capacity building workshops	3.75	0.834
Poor understanding of the donor expenditure protocols by administrators results in ineligible expenditures and rejection	3.64	0.859
The Donor agency usually requires the implementing partner to establish a	3.61	0.761

Project Implementation Unit

Aggregate Score	3.868	0.732
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It is evident from the results in Table 4.4 that based on the aggregate score (Mean = 3.868), most donors were keen on the administrative requirements for implementing agencies carrying out their projects in the area as suggested by the respondents. Particularly, there were strong indications that most of the donor agencies imposed strict conditions on the managerial quality in the implementation of their projects (Mean = 4.10). As a consequence, the donor agencies sought to ensure there was the requisite human resource capacity to manage and implement the projects (Mean = 3.82). In addition, most donor agencies required that officers in the donor fund projects have formal training in foreign aid management. (Mean = 3.88). The donors also required that financial management systems be clearly defined, well managed, internally audited and verified by independent agents (Mean = 4.18). They also required that officers in their fund projects possess knowledge on budgeting and financial control (Mean = 3.96). Other findings indicate that most donors demanded that all staff regularly undergo capacity building workshops (Mean = 3.75) as poor understanding of the donor expenditure protocols by administrators results in ineligible expenditures and rejection (Mean = 3.64). Some implementing partners were also required to establish Project Implementation Units by their donors (Mean = 3.61).

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

4.3 Effective Donor Funds Utilization

The study sought to determine the status of donor funds utilization in health projects in Nyanza Region. The results on this are presented in Table 2.

Table 2: Effective Donor Funds Utilization

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

It can be deduced from the results in Table 2 indicate that the aggregate scores (Mean = 3.44; SD = 0.821) suggest that most of the donor project implementing agencies were performing well within the limits prescribed by the donor agencies. This implies that in most cases the funds were well absorbed and utilized as a result of the conditions imposed by the donors. This is evidenced further by the finding that most respondents were of the view that their implementing organizations did not experience high budget variances in the last reporting period (Mean = 2.3). Moreover, according to the organizations, their performance was good based on the last audit report (Mean = 3.62). Most of their planned projects were completed in good time (Mean = 3.68). The findings also indicate that most of the implementing organizations were able to work within the budget limits (Mean = 3.65) as all of their funds were often allocated adequately as per the votes (mean = 3.49). Other findings indicate that most implementing agencies had accrued very minimal debts in the last 3 years (Mean = 3.52) and they seldom requested for extra funding for their projects (mean = 3.79). These findings disagree with the findings of previous studies, such as, Ndaruhutse and Brannelley (2006) and Svenson (200) that suggested that program implementing units tended to have low absorption capacity of existing funds resulting in slower than predicted disbursement.

4.3 Correlation Analysis

A correlation analysis was done to determine the influence of financing conditions on effective donor funds utilization in the health sector in Nyanza Region. These results are summarized in Table 3

Table 4.8: Summary of Correlations

		Administrative Conditions	Effective Utilization of Donor Funds
Administrative Conditions	Pearson Correlation	1	.218*
	Sig. (2-tailed)		.017
	N	84	84

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

The correlation analysis results in Table 3 suggests that a significant relationship existed ($r = 0.218$, $p < 0.05$) between the two variables. The degree of the association of the two variables was weak but positive suggesting that administrative conditions was not a strong influencing factor in the effective donor funds utilization in the health sector. This could be due to the fact that the donors were careful to vet their implementing partners especially their track record prior to agreeing to work with them.

4.4 Regression Analysis

The regression model summary is given in Table 4.

Table 4: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.318	.101	.089	2.71340

a. Predictors: (Constant), Administrative Conditions

The results of the regression analysis in Table 4 suggest that the model could explain approximately 9% of the variations in the effective utilization of funds in donor funded projects in the health sector in Nyanza Region on the basis of the administrative conditions stipulated by the donors. The findings also shows that the model could improve when more

variables are incorporated in analyzing the influence of donor conditions on effective utilization of donor funds focusing on the health sector in the study area.

The results of the ANOVA performed on the independent and dependent variables are summarized in Table 5.

Table 5: Summary of ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	50.023	1	50.023	6.794	0.001
Residual	603.727	82	7.363		
Total	633.750	83			

a. Dependent Variable: Effective Utilization of Donor Funds

b. Predictors: (Constant), Administrative Conditions

The results of Table 4.10 indicate that there is a significant difference between means of donor stipulated administrative conditions and effective utilization of donor funds in health projects in Nyanza Region ($F_o = 6.794 > F_c = 4$; $\alpha < 0.05$; $df = 1, 782$; $p = 0.001$). This finding confirms that the model predicted by Table 4 is indeed significant.

To determine the resultant regression model, the beta value was used and the results are given in Table 6.

Table 6: Linear Regression Summary

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	17.522	3.591		4.879	.000
Administrative Conditions	.308	.103	.318	2.019	.001

a. Dependent Variable: Effective Utilization of Donor Funds

The findings in Table 6 were used to test the null hypothesis;

H₀₂: Administrative conditions have no significant effect on effective donor funds utilization in the health sector in Nyanza Region.

The beta value from the multiple regression results in Table 6 indicate that there was a significant relationship between the two variables ($\beta = 0.181$, $p < 0.05$). Consequently, we fail to accept the null hypothesis and this implies that administrative conditions had a significant influence on effective donor funds utilization in the health sector in Nyanza Region albeit the fact that the variable had a weak influence in the model. Therefore, the resulting linear regression model holds under;

$$\text{Effective Utilization of Donor Funds} = 17.522 + 0.177 \text{Administrative Conditions}$$

The model constant 17.522 implies that other factors not included in the model could explain effective utilization of donor funds in the health sector projects in the area even when administrative conditions were overlooked.

V. CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Based on the results of the study, it was evident that the donors were particularly keen on establishing a sound managerial base for their funded projects so as to improve the levels

of financial controls and accountability without compromising the levels of service delivery. This translated to objective utilization of funds and evidenced by the high absorption rates reported. In essence, the administrative conditions reduced the levels of principal agent conflict a characteristic of such projects that often resulted in misappropriation of funds. Thus, it can be concluded that the imposition of strict administrative conditions by donors was important in effective fund utilization in donor assisted projects in the area.

5.2 Recommendations

The study recommends that donor agencies need to agree on a long term template for administration with their implementing partners so as to ease the burden of future recruitments to fit administrative requirements. This will go a long way in ensuring the continuity of the projects team and reduce costs associated with delays in assembling project management teams.

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