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INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES

The Impact of Foreign Aid in East Africa: Case Study of Kenya, 2000-2016

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(R47/8908/2017)

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A Research Project submitted in partial fulfillment of Post Graduate Diploma in

Strategic Studies

October 2018

DECLARATION

I, Yator Joseph, hereby declare that this research project is my original work and has not been presented for a degree in any other University.

Signed..... Date.....

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

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DEDICATION

I dedicate this project paper to my dear wife Dinah Jematia Yator and my lovely children Christine Jeruto, Jane Jesang, Dennis Mutungwo and Allan Mutungwo for the moral support and the constant encouragement they gave me throughout the period of study.

ACKNOWLEDGEMENT

I sincerely acknowledge the academic support, guidance and the sacrifice that my supervisor Dr. Winnie W. Wairimu portrayed to me during the time I was compiling this research work. Further I acknowledge with gratitude the contribution of the Commandant Defence Staff College (DSC), the entire directing staff body and not forgetting the college support staff all of whom were extremely instrumental physically and morally to my success during the duration of time I spent at the DSC as a student.

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Abbreviations

AIDS	Acquired Immune Deficiency Syndrome
DRC	Democratic Republic of Congo
GDP	Gross Domestic Product
GNP	Gross National Product
HIV	Human Immunodeficiency Virus
LDCs	Least Developed Countries
MDGs	Millennium Development Goals
MNC	Multinational Corporations
MSF	Medecins Sans Frontieres
NGOs	Non Governmental Organisations
ODA	Official Development Assistance
SAPs	Structural Adjustment Programmes
TSCTP	Trans-Sahara Counter-Terrorism Partnership
UN	United Nations
UNDP	United Nations Development Programme

Abstract

Foreign aid continues to support economic development in developing nations. In East Africa, Kenya has continued to receive foreign aid. The main objective of this study was to assess the impact of foreign aid on Kenya's economic development. The study specifically investigated the types, intended purpose and major trends in foreign aid received in Kenya between 2001 and 2016. The study also examined the state and performance of Kenya with foreign aid between 2001 and 2016. In addition, the study assessed the major challenges and controversies associated with aid administration in Kenya. The study used both qualitative and quantitative data collection, data processing and presentation techniques. The findings revealed that Kenya has recorded increase in foreign aid in various forms for different for economic growth, social and political system improvement. The study also established that donor funds have been on the upward trend. The increased donor funds in many sectors in Kenya have improved many outcomes including positive economic growth, good governance systems, improved health care indicators, increased enrollment and learning outcomes in education as well as sound environmental management practices. Moreover, the study established that that foreign aid in Kenya is managed by both government and non-governmental institutions that have continued to register successes and failures in the management of foreign aid. This chapter has also demonstrated that while there have been significant successes of foreign aid, challenges related to foreign aid limit the success registered. The challenges of foreign aid are both institutional and systemic. Also, the challenges of foreign aid are not only local but also international. In this regard, attempts of managing the challenges have been put in place but it seems that more time is required to address all the challenges. In view of the findings, the study concludes that foreign aid is necessary to Kenya's development yet the challenges resulting from the utilization of the aid are significant with adverse effects on the purpose of the aid. The study recommends that alternative means of improving revenues and management of should be explored to reduce dependence on foreign aid.

CHAPTER ONE

INTRODUCTION

1.0 Introduction and Background to the Study

Foreign Aid has become one of the tools used mostly by developed countries to improve economic, social and political systems in less developed countries. Foreign Aid refers to the transfer of foreign currency and other resources from one country to another especially when the foreign currency is above the recipient country's balance of payment (imports more than exports). It is also known as a form of neo-Colonialism involving transfer of money, goods, or expertise from developed to developing countries. This implies that developing countries receive foreign aid more than developed countries. Donors give foreign aid as financial, commodity, food, technical, foreign direct investment and double tied aid.

Global reports indicate that many countries are recipients of foreign aid depending on their needs. For instance, Pakistan receives project assistance, commodity assistance, food aid from USA as well as technical assistance. In Haiti, foreign aid is taken in form of humanitarian assistance. In Africa, foreign aid is received in terms of grants, humanitarian and technical support. Countries such as Rwanda, Mozambique and Ethiopia use foreign aid for boosting economic growth and standards of living. Conflict torn countries such as DRC, Sudan, Chad among others receive humanitarian aid. Some aid in Africa is meant for political purposes as in the case of foreign aid sent to Zimbabwe which was meant for Tvasangirai to defeat President Mugabe in the 2008 elections. This shows that many countries in Africa receive foreign aid for different purposes.

However, since there are capital inflows in such economies, foreign aid has impact on many aspects of the economies or countries. In Kenya, impact of foreign aid in specific sectors is

known yet contribution to national social, political and economic systems is not established. Humanitarian organizations and other Non-Governmental Organisations (NGOs) have been receiving a share of foreign aid yet the contribution made to national's social, political and economic systems has not been documented conclusively. NGOs and independent Ministries, the entities have been receiving grants, humanitarian assistance for refugee camps, military assistance for protecting its borders, technical support and direct foreign investments. The summation of such contribution of foreign to the larger nation is not established hence this study.

This study therefore sought to examine the contribution of foreign aid in Kenya as one of the East Africa's member states. In this section, description on the background of the study was provided. Focus was placed on state of foreign aid at global, continental and regional level. With focus on Kenya, general impacts of foreign aid in individual organizations were discussed with a view of finding general gaps in the context of Kenya's national outlook.

1.1 Statement of the Research Problem

Foreign aid is intended to address some existing gaps in the social, economic and political systems of a country. It therefore follows that the extent to which such foreign aid is used is important in determining the impact of the foreign aid. This can be known when intended results are achieved or not. However, while recipients especially organisations in East Africa have documentation of the impact of foreign aid, the cumulative impact of foreign aid in each of the countries especially Kenya is not clearly documented.

It therefore remains unclear whether or not foreign aid in the Kenya promotes social, economic and political development. In this situation, it becomes impossible to identify the role of foreign aid as an intervention in social, economic and political systems. As Kenya is striving towards becoming one common functional market and bloc, foreign aid is one the important

input into realizing dream of the region yet lack of data on foreign aid is likely to slow the achievement of the dread. As a mitigation measures, this is study attempted to provide findings on the impact of foreign aid in Kenya.

1.2 Objectives of the Study

The main objective of this study was to assess the impact of foreign aid on Kenya's economic development. This study attempted to address the following specific objectives:

1. To investigate the types, intended purpose and major trends in foreign aid received in Kenya between 2001 and 2016.
2. To examine the state and performance of Kenya with foreign aid between 2001 and 2016.
3. To assess the major challenges and controversies associated with aid administration in Kenya.

1.3 Research Questions

This study sought to answer the following questions:

1. What are the main types and trends in foreign aid, including their intended purpose between 2001 and 2016?
2. What is the state and performance of Kenya without foreign aid between 2001 and 2016?
3. What are the major challenges and controversies associated with aid administration in Kenya?

1.4 Significance of the Study

This study is significant to policy makers and scholars.

1.4.1 Policy Justification

This study was intended to describe short term and long-term outcomes of foreign aid in economic development in Kenya in respect to performance of the economy without foreign aid. It is expected to provide critical analysis on merits and demerits of foreign aid in Kenya. This study came at time when Kenya is experiencing huge external debts and this provides opportunity of determining the extent to which foreign aid can support economic stability. In addition, the duration between 2001 and 2016 is critical in finding out the trends in Kenya's foreign aid in the wake of increasing pressure for accountability through good governance. In particular, the study sought to identify the relationship between foreign aid and rapid economic development evident in Kenya. It is from such basis that this study provided situational analysis needed in policy development on economic planning.

1.4.2 Academic Justification

The findings of this study will support in further validation of theories in economic development. This study will also add knowledge in the assessments or evaluations aimed at determining the extent to which intended goals have been achieved or whether proposed interventions have resulted into long term changes.

1.5 Literature Review

In this section review of literature on foreign aid was done in the context of types of foreign aid, purpose of foreign aid, uses and outcomes of foreign aid.

1.5.1 Purpose of Foreign Aid

The concept of aid also known as Official Development Assistance (ODA) has its historical root in the Charter of the United Nations of 1945 where member states declared their

initiatives for promotion of social and general living standards as well as human freedom through use of international machinery. This was aimed at rebuilding countries destroyed by World War through support from other countries as well as foster international relations aimed at promoting economic, social and political development. In this case, the first aid was provided by United States of America to its allied European countries as described in the Marshall Plan. This indicates that foreign aid is linked to common ideologies shared between countries. The Marshall

Plan provided conditions for giving foreign aid. The Marshall Plan created prospects of helping poor countries on conditions of non-market mechanisms characterized by absence of high transaction costs, high risk projects, and imperfect information. Foreign aid is considered as a powerful tool to cope with failure of market mechanism. For example, it is noted that foreign aid is a market tool for augmenting productive investment and technical knowledge which is a basis of boosting economic growth. In this case, foreign aid has two main features.

The first feature of foreign is that it promotes economic growth under relevant policies. For example, with right economic and political conditions, foreign aid supports social and economic progress. This implies that with unfavorable economic and political environment, foreign aid will not achieve its intended purpose hence wasted away. The second feature is that foreign aid does not promote transfer of suitable policies through ex ante conditionalities. In this case, foreign aid lacks credibility as it is time inconsistent. This explains why donors re-strategize donor provisions and conditions through reviews of contracts.

From this perspective, it can be noted that goals and objectives of foreign aid are not static but change with existing situations. In this case, reliance on such aid for long term development is inconvenient as some foreign support is inconsistent with long term plans of an economy. It therefore provides caution to developing countries not to rely on foreign aid that

does not fully incorporate economic agenda of a country. This implies that foreign aid should not be integrated in the long-term economic development of a developing country. How this is applied in East Africa is not clearly established hence the need for this study to determine the extent to which foreign aid Kenya is significant in the long-term economic plans such as Vision 2030.

Based on the purpose of foreign aid, it can be argued that countries receiving foreign aid are categorized as least developed. In recent times, LDCs are increasingly taking foreign aid, even under strict conditions. In some cases, it is noted that a primary motive for receiving aid is political as foreign aid provides advantage for maintaining power as a tool of suppressing the opposition. This shows that foreign aid is politicized and this diverts its initial purpose of economic growth.

Studies done between 2001 and 2012 have revealed that Kenya received \$751.4 million from USA compared to \$25,000 for Guinea-Bissau, \$660.5 million for Nigeria, (\$608.3 million for Ethiopia, \$571.9 million for Tanzania, (\$561.9 million for South Africa, (\$527.8 million for Uganda) and \$518.3 million for Sudan. Other countries in the pack include Mozambique with \$424.6 million, Zambia with \$400.8 million and the Democratic Republic of Congo (DRC) with \$261.9 million. This indicates that Kenya received the highest ODA from USA than other countries. However, in the period between 2012 and 2016 Kenya received ODA yet its purpose is to be known. This study therefore seeks to determine the purpose of ODA in the period between 2012 and 2016 out of which ODA trends between 2001 and 2016 will be determined.

Another major reason is economically driven. This has been demonstrated where LDCs are integrating foreign aid into their annual budgets. For example, this has been observed in Israel, Taiwan and South Korea. In East Africa, the period between 2011 and 2016 is considered

different especially after the countries emerged from economic conditions of the 1990s that were defined by structural adjustment programmes. In this context, this study assessed the extent to which Kenya's development programmes have been redefined by purpose of foreign aid.

1.5.2 Types of Foreign Aid

Foreign aid comes in different forms and it is classified based on relationship between countries; either bilateral or multilateral. In either bilateral or multilateral, foreign aid takes forms such as grants, loans or grants with grants preferred as they increase GDP. Loans from international financial bodies such as World Bank and IMF have lower interests compared to recipient's markets. Loans given at a concessionary rate under long durations such as 40 or 50 years are agreed under commercial terms. In this case, repayment is done while the recipient country also accrues benefits from the services and development.

In some other case, foreign aid may be tied or untied. Tied aid has restrictions while untied aid does not have restrictions on its use. Donors provide tied aid to the condition recipients should use the grants or loans in the donor nation, or in other specified countries. Such conditions ensure that the country receiving the donation does not get the requisite value for money for their investments. Tied aid increases the total cost of the investment as items may be of low quality, increased cost of equipment, while the lack of control by the recipient countries may lead to stifled development.

Furthermore, numerous unwarranted costs could cause projects to suffer from inadequate liquidity and numerous operational challenges. In the end, the main incentive to the donor is securing economic gain. Restricting the use of aid to particular projects, as well, to a country's goods amounts to double tying which might be costly. Based on this description of foreign aid, this study sought to identify the types of foreign aid in East Africa especially Kenya.

1.5.3 Uses of Foreign Aid

Many countries are recipients of foreign aid depending on their needs. For instance, Pakistan receives project assistance, commodity assistance, food aid from USA as well as technical assistance. In Haiti, foreign aid is taken in form of humanitarian assistance. In Africa, foreign aid is received in terms of grants, humanitarian and technical support. Countries such as Rwanda, Mozambique and Ethiopia used aid for boosting economic growth and standards of living. Conflict torn countries such as DRC, Sudan, Chad among others receive humanitarian aid. Some aid in Africa is meant for political purposes as Kanyi notes that foreign aid sent to Zimbabwe was meant for Tvasangirai to defeat Mugabe in 2008. This shows that many countries in Africa receive foreign aid for different purposes.

In view of the purpose of foreign aid, Eroglu and Yavuz observed that foreign aid supplements budget deficits. It is also provides a basis for rapid economic growth. This made Todaro conclude that naturally, developing countries require more grants with minimum strings attached. This explains why some countries receive high ODA than other countries. How this is evident in East Africa especially Kenya had not been deeply articulated hence this study.

Studies indicate that by 2012, countries in East Africa faced many security challenges. It is for this reason that the countries received foreign aid to improve security. By 2012, Kenya with other countries such as Sudan, Somalia and Mozambique receive largest share foreign aid to promote security. These countries are members of the Trans-Sahara Counter-Terrorism Partnership (TSCTP) which allocated at least \$16.3 million in the year 2012. However, the countries continued to receive foreign aid yet the extent to which the foreign aid was used to improve security between 2012 and 2016 is not clearly known. This study therefore sought to

determine the uses of foreign aid between 2001 and 2016 by adding the trends in the period between 2012 and 2016.

Moreover, level of governance and democracy also offered a yardstick for disbursement of foreign aid. This is facilitated through the Governing Justly and Democratically (GJD) in which by 2011, Kenya received +42.3% compared to Tanzania (+202%), Ghana (+150%), Mali (+82%), and Mozambique (+57%), which the Administration has identified as priority countries for democracy support. This implies that foreign aid is also dependent on the existing political and social conditions in each country. However, how this progressed after 2011 had not been explored despite the countries in East Africa recording significant progress in democracy.

It has also been noted that LDCs divert foreign aid into unintended uses. This process is referred to as fungibility of aid. In most cases, foreign aid is used to support recurrent expenditure instead of intended purpose such as infrastructure development or purchase of drugs for the health sector. This limits the achievement of intended goals of the foreign aid. How this was applicable in Kenya had not been explored hence forming the basis for this study to investigate the impact of foreign aid on fiscal policies that define economic development.

1.5.4 Outcomes of Foreign Aid

Generally, foreign aid is intended to stimulate economic growth in LDC's. For example, since 1990s China has been using foreign aid to strengthen bilateral ties with African countries endowed with valuable resources such as mineral and oil. Mwega opines that countries such as South Africa, Angola, Nigeria, Sudan and Zimbabwe are greatest beneficiaries of foreign aid that accounts more than 80 percent of the total Chinese aid to Africa. These countries have diamonds (South Africa and Zimbabwe), oil (Nigeria, Sudan and Angola) among others. However, Kenya

has strategic business hub as it acts as a gateway to Eastern and Central Africa that is rich in natural resources.

As an accelerator of economic growth, foreign aid is expected to support receiving countries to a point of self-sustenance. However, the use of foreign aid in many developing countries remains controversial. Some studies indicate that many countries have benefited from foreign aid while other studies indicate otherwise. For example in 1990s, countries such as Egypt, Gambia, Israel, Nepal, Jordan, Syria and Senegal, Zambia used foreign aid to improve their per capita growth. Foreign resources have played an important role in the economic development of many economically high-income group countries of today like Taiwan, South Korea, Singapore. This implies that the increased income, saving and investment which aid indirectly and directly make possible will shorten the time it takes to achieve self-sustaining growth. Thus, the overall aim of development aid is not to equalise incomes in different countries, but to provide every country with an opportunity to achieve steady growth.

In a more contemporary approach, studies show role and impact of foreign aid in developing countries. For example, a study conducted by McGillivray demonstrates how aid to African countries not only increases growth but also reduces poverty. In the study, it is pointed out that growing poverty, mainly in sub-Saharan African countries, compromises the Millennium Development Goals (MDGs) main target of dropping the percentage of people living in extreme poverty to half the 1990 level by 2015. From this perspective, it is concluded that economic variables such as economic policies, price and monetary value inflation and trade structures determine the amount of aid received.

In other cases, there are three main outcomes related to impact of foreign aid on government spending in Senegal. First, there is a large portion of aid flows, approximately 41%,

are used to finance Senegal's debt and 20% of the government's resources are devoted to debt servicing. Second, that the impact of aid flows on domestic expenditures is statistically insignificant, and third that debt servicing has a significant negative effect on domestic expenditure. This has not yet been known in Kenya. However, debt reduction could become a more successful policy tool than obtaining additional loans for African countries including Kenya. This indicates that foreign aid is used in servicing debts implying that it is quantitatively important but not qualitatively.

For countries such as Guinea Bissau, Gabon and Zimbabwe foreign aid has been reducing and this casts doubts on fight against poverty. This is unlike Kenya where foreign aid has been increasing yet poverty levels are still high as it is ranked 148 by UNDP in the global index. This implies that foreign aid is significant in poverty reduction. Furthermore, foreign aid positively impacts public sector aggregates, contributing to increased public spending and reduced internal borrowing. Nevertheless, it is apparent that the MDGs cannot be achieved with development aid alone, but other innovative sources of development finance need to be explored as well." This shows foreign aid has great role to play in poverty reduction through integrating with other measures as well.

Moreover, by correlating foreign aid and GDP there is an effect of foreign aid on economic growth is positive, permanent, and statistically significant. More specifically, it was observed that a permanent increase in foreign aid by \$20 per person results in a permanent increase in the growth rate of real GDP per capita by 0.16 percent as seen in Rwanda. However, it can be noted that the results are obtained without considering the effects of policies which could have some effect on final outcome as seen in Kenya during the SAPs. This forms the basis at which this study will first assess the performance of the country between 2001 and 2016 to

provide baseline information needed to determine the extent to which foreign aid is necessary or not.

Similarly, Gomane, Girma, and Morrissay found that between 1970 and 1997, foreign aid had a significant positive effect on economic growth in Sub Sahara Africa. In their analysis, investments were identified as the most significant transmission mechanism where it was recorded that on average, each one percentage point increase in the aid/GNP ratio contributes one-quarter of one percentage point to the growth rate. This shows that Africa's poor growth is not correlated to ineffective aid. How this was evident in Kenya was not clearly established hence this study sought to investigate the extent to which foreign aid impacts on economic indicators especially Gross National Product.

Analysis of impact of foreign aid in Ghana indicates that there is relatively effective use of foreign aid compared to other countries such as Kenya that is burdened with external debts. This indicated that the government needs to work on reducing its debt burden, so it would not use its aid inflows to service its debt. In this case, effective foreign aid requires formulating better policies intended to alleviate poverty hence increasing economic growth.

1.5.5 Gaps in Reviewed Literature

From the reviewed literature, it has been argued that as the dependence on aid varies from country to country, aid operates differently in different administrative, infra-structural and policy environments. However, information analysed does not show baselines as to the country's initial per capita before injection of aid. Thus, this study will analyse Kenya's performance without foreign aid.

In another attempt reviewed literature indicates that impact of foreign aid has been measured between 2001 and 2012 but studies between 2012 and 2016 are missing. In order to

determine the trends of foreign after SAPs, the period between 2012 and 2016 is important. This study will therefore investigate the impact of foreign aid between 2001 and 2016 by focusing on the period between 2012 and 2016. Full trends were therefore analysed between 2001 and 2016 where Kenya's case was used to present response of the economy to inflows of foreign aid as comparison to other countries.

1.6 Theoretical Framework

This study adopted two theories: dependency theory and theory of political economy.

1.6.1 Dependency Theory

This study adopted the dependency theory which stipulates that foreign aid increases overreliance on capital inflows and this reduces self-reliance hence underdevelopment in developing countries. Dependency theory proponents such as Theotonio Dos Santos, point out that foreign aid has is a form of capitalism in which the developed world condition the development of other developing economies. In a more optimistic approach about foreign aid, M'manja and Morrissey consider foreign aid as part of determinants to a country's economic growth.

This comes about as a result of the role of endogenous factors in economic growth as exhibited in endogenous models which include internal savings and investment as core variables in economic growth. Savings translates to investment whereby private investments are considered as drivers of economic growth while public investment provide infrastructure for economic development. In this case, M'manja and Morrissey show that there is an inseparable link between public and private investment where any imbalance prompts entrance of other determinants to compensate for the imbalance in the economy.

For instance, it is noted that public investment may develop infrastructure for private investments or not. This situation brings in more players to compensate for any loss of input from either public or private investments. This creates a situation for foreign aid to come as last resort thereby improving productivity of either public or private investment. However, in most cases failure of public investment has led to injection of foreign aid into the economy to support private investment. In this regard, this theory has been found to be effective in explaining the root cause for entrance of foreign aid in most developing countries where internal savings are insufficient to promote economic growth through infrastructure development. In this case, Daniel M'manja and Oliver Morrissey posit that there are savings constraints that can be ameliorated by foreign aid.

However, many critics argue that in as much as most developing countries require foreign aid to boost their economic growth, knowledge gap is to blame for overreliance. M'manja and Morrissey support the work of Chenery and Strout (1966) who posited that developing countries should take technical assistance as foreign aid rather than rely on foreign capital injections such as monetary assistance and other capital goods. In their argument, technical assistance would relax the constraint in public investment thereby improving productivity. From these arguments, this study found it beneficial to carry out critical analysis on the role of foreign aid in Kenya with close reference to impact of foreign aid between 2001 and 2016.

1.6.2 Theory of Political Economy

This study also adopted the theory of political economy by Stanely Jevons (1965). The theory of political economy states that whoever has the elements of political economy is in possession of knowledge of whole science of controlling the relationship between political units. This theory lays a basis for understanding the relationships between individuals and society and

between markets and the state. The elements of political economy in are utility, wealth, value, commodity, labour, land and capital. Jevons explains that differences in political economies are brought as a result of the knowledge that brings into perspective the mix in elements of political economy.

This indicates that the differences affect economic and political outcomes. Political economy is defined as interaction between trade and government in terms of taxation and tariffs within a given jurisdiction that is politically recognised. In this context, countries and states are considered as political economies which vary with other political economies. The political economies are managed by politicians who often attempt to influence operations of executive, judiciary and legislature as well as the implementation of public policy through bureaucratic approaches. This political influence and interaction tends to bring in more players such as churches, NGOs and other civil society bodies.

The approach of political theory provides an explanation on trade policy by focusing on interest groups. Attempts on explaining extent to which countries continuously adapt to global economic changes indicate that while policies of governments are important, there are preferences on application of such policies. This explains the reason of governments focusing on special areas of interest. In this regard, the selective approach gives some groups of people special rights than others. This is pure political as interests define the extent to which resources can be allocated or shared.

In addition, this theory provided understanding on the frameworks in which the governments and interest groups interact. A good example is that the debt crisis of 1980s led to selective approach of applying the structural adjustment programmes to selected groups of people. This approach made some groups to be spared while others were affected by the austerity

measures. This explains the reason as to why retrenchment and pay cuts is intended for the low tier level of employees or economic participants than are the middle and upper tiers (rich or politically correct). This theoretical explanation further reveals that persons who are politically correct tend to benefit from economic crimes or unfair policies.

As countries which are distinct political economies seek to partner with other countries in terms of trade and investments, the interaction is defined by compatibility in political ideologies, tariffs and other political and economic agreements. In the context of globalization, some political economies are wealthier than others and the interaction results in flow of some of the elements of political economy. This now brings into perspective matters on foreign aid. Foreign aid flow is first considered as a political decision that allows for elements of political economy to be transferred from a wealthier political economy to a poor political economy. This indicates that political leaders facilitate trade agreements as well as foreign aid agreements that allow transfer of utility, wealth, value, commodity, labour, land and capital in form of foreign aid to another political economy.

This theory was relevant to this study as it helped in exploring the relationship between political economies and the extent to which some economies receive foreign aid. It is assumed that governments are intended to serve interests of special groups. It is on the basis of rational choice that the groups emerge and the policies formulated to support their needs. Furthermore, rational choice explains the conditions in which the groups interact. This explains that politicians draw positive (improve legacy) and negative (corruption) benefits from foreign aid. Thus, the theory also helped in exploring the elements of political economy that are transferred from one political economy to other. The theory also helped in understanding the needs of the political

economy that receives foreign aid as well as the challenges encountered in such economies from perspective of administration.

1.7 Hypotheses

This study tested the following hypotheses:

1. Foreign aid significantly impacts on economic development in Kenya.
2. The impact of foreign aid in Kenya is diminished by diversion of aid and Corruption.

1.8 Scope and Limitations of the Study

This study intended to focus on types, intended purpose and major trends in foreign aid received in Kenya between 2001 and 2016. The study also focused on the state and performance of Kenya with foreign aid between 2001 and 2016. The study also assessed the major challenges and controversies associated with aid administration in Kenya. The study therefore did not entirely rely on the period before 2001. The study also relied on Kenya as a source of information with limited reference to East Africa countries. In this regard, findings in Kenya were used to represent the impact of foreign aid in other East Africa countries.

1.9 Methodology

The data collection method employed in this study included desktop reviews of data from secondary sources such as books, research papers, journals and reports on the impact of foreign aid in East Africa, as well as interviews with various government officials and experts. Both quantitative and qualitative data were collected from secondary sources about: state and performance of Kenya without foreign aid between 2001 and 2016; types and intended purpose of foreign aid received in Kenya between 2001 and 2016; and use and outcomes of foreign aid received in Kenya between 2001 and 2016.

Collected data was analysed both quantitatively and qualitatively. For quantitative data, descriptive statistics such as percentages were used to represent numeric data. For qualitative data, content analysis of state and performance of Kenya without foreign aid; types and intended purpose of foreign aid received in Kenya; and use and outcomes of foreign aid received in Kenya will be done.

The analysed data was presented quantitatively and qualitatively. For analysed quantitative data, it was presented in tables. For qualitative data, it was presented based on thematic areas: state and performance of Kenya without foreign aid; types and intended purpose of foreign aid received in Kenya; and use and outcomes of foreign aid received in Kenya.

1.10 Chapter Outline

This study comprised of five chapters. Chapter One was Background and Introduction while Chapter Two was types, intended purpose and major trends in foreign aid in Kenya. Chapter Three was state and performance of Kenya with foreign aid while Chapter Four was major challenges and controversies associated with foreign aid in Kenya. Chapter Five was Summary, Conclusion and Recommendations.

CHAPTER TWO

TYPES, INTENDED PURPOSE AND MAJOR TRENDS IN FOREIGN AID IN KENYA

2.1 Introduction

Kenya has continued to receive foreign aid for many years. The assistance is in form of technical aid, transfer of capital, as well as offering training regarding military and civilian aspects. The assistance provided to the recipient country contains specific conditions involving the terms of payment. Other details in the terms include the nature of the financial aid, and whether as a loan or grant. The countries benefiting from such aid, including Kenya, devote the financial aid infrastructural development, healthcare, strengthen democratic institutions, promote economic growth, enhance trade and investment institutions, as well as improve security apparatus.

Kenya began receiving foreign aid in the late 1960s after gaining independence. The additional assistance was important in resettling the majority indigenous citizens in the previously minority-occupied land. The financial aid was also crucial in curbing any post-independence recession. The financial aid provided a cushion for development as it ensured a stable growth rate, with a figure as high as 6.5 percent recorded during the late 1960s. The high growth rate is attributable to the constant amount of financial and technical aid provided by foreign governments to the country. Kenya continued receiving aid through the years until a

significant reduction in the late 1990s and early 2000s as foreign governments withdrew their support because of endemic corruption.

The years after the Moi regime saw an uptake in the inflow of financial aid as donors took advantage of the regime change arising in 2002, as well as the new government's commitment to the donor's conditions to reform. Kenya's economy has benefited from the various forms of financial aid, which will be the focus of this study, specifically in the periods between 2000 and 2016. Additionally, the study will also analyze the intended purpose as well as the trends witnessed in foreign aid in the same time frame (2000-2016).

In view of this, this chapter outlines a discussion on types of foreign aid in Kenya. The chapter also describes intended purpose of foreign aid in Kenya. The chapter also examines the major general trends of foreign aid in Kenya.

2.2 Types of Foreign Aid

There are many classifications of foreign aid. Types of foreign aid include: bilateral aid, multilateral aid, tied aid, project aid, military aid and voluntary aid. Foreign aid can also be classified as direct or indirect aid. Foreign aid can also be in form of loans or grants as well as technical assistance. The classifications of foreign aid indicate that aid is categorized based on many parameters that include use, recipients, donors and period of issue.

2.2.1 Multinational Companies (MNCs) vs. Transnational Companies (TNCs)

There are various types of corporations providing foreign aid in Kenya, differentiated by their business structure, the services provided, as well as the form of investments offered. Transnational companies and multinational companies two of the forms through which they operate, delivering their services characterized as business entities working in different countries. Both of these entities operate in a specific headquarters based in their home country based, with

other operations in other host nations. The enterprises play a crucial role in promoting Kenya's economic well-being as they provide financial as well as physical capital by plugging any capital shortcomings. Multinational companies have more foreign operations than transnational companies, with their main focus on adapting their services to each country.

Furthermore, Multinational companies also help Kenya in the modernization process in their industries and the general economy as they share technology, skills, and technical ability, as well as providing contact with export markets. Such companies also provide goods and services considerably better than of local companies, thus providing requisite competition.

Transnational companies are more complex than multinational companies are. Their role in Kenya includes the development of the economy, providing research and development assistance, and marketing opportunities for the Kenyan market. A majority of transnational companies in Kenya come from the Petroleum, Information Technology, pharmaceutical, and financial consulting firms.

2.2.2 Loans and Grants

There is a debate whether foreign aid to countries such as Kenya should be in the form of grants and loans. A country's fiscal conditions depend on the form of aid they receive due to the impact of tax revenues, which in countries such as Kenya varies. Grants are a form of foreign aid that does not require repayment. Therefore, governments can utilize these on expenditure, reduction of revenues, reduction of domestic borrowing or a combination of the three. The benefits of such grants move to the Kenyan private sector, thus improving the business environment. The sources of grants in Kenya are limited to specific friendly countries, and they have a specific purpose attached to their use. Additionally, most grants are refundable if Kenya does not utilize or meet certain conditions.

Foreign aid loans are in the form of money borrowed by Kenya from international financial institutions such as the World Bank and the IMF, while China is currently the biggest bilateral lender. Such loans are payable with interest after a particular term expires. The interest rates on such loans vary depending on the period of maturity. Additionally, Kenya has various sources for such loans, which provides the government with a chance to diversify as well as ease of availability. Currently, Kenya holds loans totaling over 4.6 trillion: an increase of 22 percent from 2016. The loans are from International development banks, Eurobond issue in 2014, as well as syndicated loans. The Kenyan debt situation is currently in crisis as the government embarks on excessive expansionary budget aimed at spurring growth. A subsequent reduction in tax revenues has caused to a growing budget deficit.

2.2.3 Program vs. Project Aid

Donors provide aid to Kenya for various purposes, including project aid and program aid. Financial aid in the form of project aid comes in the form of loans and grants directed towards the development of specific projects or infrastructure. Project aid provides Kenya's donors with opportunities to maintain control and persuasion over which infrastructural projects the country should invest. Such projects have specific durations, as well as defined objectives. Project aid is advantageous to the donors as they are highly visible and straightforward as they mainly involve transplanting technology already available in the financier country. Additionally, the role of the recipient country is minimal as they create autonomous project authorities, for instance, Japan International Cooperation Agency. Projects involved include both small-scale and large-scale industrial investments, rural development projects, projects for women and health projects.

Conversely, program aid entails the provision of general sustenance in the specific sectors, which the Kenyan government and donors are collaborating. The partnerships could be

in the agricultural, education, or technological sectors. Additionally, the aid could be in the form of balance of payments backing, or used in general budget support, as well as other non-specific project activities. The goods and services purchased with the funds from the transfer are not part of the negotiations. The focus of program aid in Kenya could be improving the overall capacity of resources in the economy as well as improving the effectiveness of the resources. Program aid also requires agreements on macroeconomic reform plans in coordination with international finance organization.

2.2.4 Tied Aid

Donors provide tied aid to the condition recipients should use the grants or loans in the donor nation, or in other specified countries. Such conditions ensure that the country receiving the donation does not get the requisite value for money for their investments. Tied aid increases the total cost of the investment as items may be of low quality, increased cost of equipment, while the lack of control by the recipient countries may lead to stifled development. Furthermore, numerous unwarranted costs could cause projects to suffer from inadequate liquidity and numerous operational challenges. In the end, the main incentive to the donor is securing economic gain.

In Kenya, projects such as Nzoia Sugar Company in the early 1990s faced problems occurring from French assisted aid. A majority of the equipment in the company including machinery had overpriced costs, with the outsourcing transnational, the French Buyers Credit requiring exorbitant amounts for parts replacement. The high charges were catastrophic as they took up over half of the revenues. Other projects including the newly installed standard gauge railway include reports that a China-based investor coerced Kenya into choosing a Chinese firm to operate the rail, without a competitive process. The investor provided the condition before

agreeing to the funding. Through the Chinese Communications Construction Company, Kenya signed the tied aid, which essentially secured profit for the financier.

2.3 Purpose of Foreign Aid

Kenya has received foreign aid for various purposes. The purposes include: development, commercial and political.

2.3.1 Developmental

One of the major aims of receiving foreign aid includes enhancing high growth rates in countries such as Kenya. The result is the generation of extra domestic savings as well as spurring investments. The success of the foreign aid to Kenya is still under review due to the conflicting results, in regards to the direct financial investments. A major disadvantage cited from foreign aid is the negative relationship between the donor and the recipient countries, in the case of tied aid.

Notwithstanding the issues highlighted, foreign aid serves as a spur for economic growth due to its effect on supplementing the country's investments. Foreign investments are beneficial in cases where the recipient countries invest the aid received consistently. Additionally, it is vital for countries such as Kenya to maintain a level of advantage during bargains for aid. In such cases, recipients can ensure the relationship between aid and growth remain productive and in their favor.

The positive relationship between foreign aid and growth varies between each country, but in Kenya, results are visible, through infrastructure projects, better administrative additions as well as other sectors. Furthermore, the impact of foreign aid on the prices of commodities is visible as foreign aid subsidizes the costs of doing business in various sectors. The subsidies

occur through government investments in specific sectors. There should be an efficient trade, financial, and fiscal policies to ensure a positive impact of foreign aid on a country.

2.3.2 Commercial

Various countries including Kenya take part in the foreign aid process in various capacities, as recipients, financiers, and both. Countries use donor funds as a way of following implementing their foreign policy plans. Donor countries sometimes withdraw their financial aid as a way of maintaining their bargaining power. In addition, they also use foreign aid to generate economic adversity for an unfriendly country, while contrariwise they also use foreign aid to remunerate a friendly nation.

In this aspect, donors' have a primary reason for allocating aid to bolster their foreign policy strategies. The commercial benefits of providing aid include being the driving force during any donor programs. Bilateral financing is an incentive for accountability, as well as an avenue to pursue specific interests. Tying aid also represents a commercial purpose of foreign aid. When the donor provides conditions for grants, which include the purchase of goods and services from their market, the benefit is to their economy. The aim is creating more market opportunities for their own products as well as business interests. Recipient countries are unable to purchase high-quality commodities, hence tilting the value towards the donor nation.

2.3.3 Political

The role played by donors in the political scene of a country is evident in situations where they provide political pressure either for reforms or by influencing decisions using aid as a bargaining chip. Foreign aid and politics have a connection in that it affects the political stability of the recipient nations. Donor nations take advantage of instability in countries such as Kenya as they provide resources based on their strategic resources.

Furthermore, a majority of former colonialists act as substantial financiers in their colonies as they use their colonial influence. Former colonial powers exert their political influence as a means of reinforcing useful alliances. For instance, the aid provided by Britain in Kenya is an example of a colonizer maintaining their relationships with a colony. Packages from Britain have become important as is witnessed by the 10-year drought package provided by Britain in 2004. The UK provided over €140 million set to end in 2024, to assist in northern Kenya to feed malnourished people during severe droughts. Additionally, the UK uses its colonial ties to maintain its position in the top five exporters to Kenya. Aid to from the ex-colonizer provided Kenya with opportunities to become one of the fastest growing economies in eastern Africa.

Moreover, Britain has played a crucial role in shaping the political scene, as they promote democracy through funding of elections to the tune of € 30 million. Other programmes promote family planning in Kenya, accountability, as well as providing clean energy to remote areas. Using the UK Aid Match, the country maintains a say in how the funds are spent.

2.4 Trends of Foreign Aid

Kenya's ability to absorb foreign aid has resulted into trends. The trends have been developed on the basis of type of aid and comparative utilization as illustrated in Table 1.

Table 1: Flow of Foreign Aid in Kenya

Year	ODA at 2010 prices, US\$ Million	ODA at current prices, US\$ Million	Kenya's share of developing countries ODA, %	Kenya's share of Africa's ODA, %	ODA as share of GDP, %	Bilateral as share of total ODA, %	Central Government expenditure as a share of total ODA, %
1992	1221.76	883.14	1.5	3.5	11.0	57.3	68.0
1993	1290.09	914.39	1.6	4.0	16.0	45.1	109.0
1994	913.61	676.63	1.1	2.7	9.0	57.5	62.0
1995	870.80	731.85	1.2	3.0	8.0	60.4	54.0

1996	754.70	595.02	1.0	2.9	5.0	57.5	33.0
1997	620.75	448.62	0.9	2.4	3.0	66.6	22.0
1998	580.20	415.21	0.8	2.3	3.0	65.7	18.0
1999	417.67	310.47	0.6	1.8	2.0	81.8	15.0
2000	730.85	512.72	1.0	3.1	4.0	57.2	27.0
2001	724.22	471.23	0.9	2.7	4.0	57.3	22.0
2002	556.85	392.81	0.6	1.7	3.0	73.6	18.0
2003	655.39	523.00	0.7	1.9	4.0	61.4	19.0
2004	766.81	660.24	0.8	2.2	4.0	70.6	23.0
2005	855.51	759.20	0.7	2.1	4.0	68.3	23.0
2006	1041.47	946.70	0.9	2.1	4.0	81.6	25.0
2007	1354.60	1326.78	1.2	3.3	5.0	62.0	29.0
2008	1332.95	1365.96	1.1	3.1	4.0	70.2	37.0
2009	1789.52	1776.20	1.4	3.7	6.0	69.2	21.0
2010	1628.57	1628.57	1.2	3.4	5.1	71.5	27.8
2011	2341.90	2474.23	1.8	4.9	5.0	63.9	22.6
2012*		2685					

* missing values

Source: OECD/DAC March 2013

2.4.1 Bilateral Versus Multilateral Aid

A majority of donors face demands to justify their grants or loans to the developing countries. More countries are witnessing a variation in their foreign aid budget plateau as they position themselves in positions where they gain from such aid. Their investments in sectors such as global health and food security are a long-term solution to the international problems, which provide a chance for a future advantage. Countries turn limited aid grants, which provides an opportunity to ensure they incentivize the scarce aid resources. Countries such as Britain invest in Kenyan projects, which involve a long-term return, for instance, military aid. Kenyan soldiers take part in missions in collaboration with their UK counterparts where they benefit from training as well as equipment.

Bilateral aid comes to Kenya in the form of official development assistance, which ensures the promotion of economic development. The donors, on the other hand, benefit from

investments by their companies in the country as part of the terms and conditions for loans and grants. The cooperation between governments provides a chance to limit charity type aid, while further ensuring that both countries benefit. Countries such as Japan provide aid to Kenya while maintaining the comparative advantage while ensuring that the recipient maintains their self-help efforts. Cooperation between countries also utilizes Kenya's position as a regional powerhouse, thus creating a spillover effect to neighboring countries.

Through the USAID, Kenya and the US maintain their partnership as they provide assistance in various sectors such as education, healthcare, agriculture, as well as devolution. Bilateral aid also provides donors and recipients to renegotiate programs for instance; countries such as the Netherlands have reassessed their positions in Kenya to ensure they turn into trade partners, in comparison to the previous donor and recipient relationship.

Various governments provide aid collected through agencies and multilateral organizations such as the United Nations, and the World Bank. Multilateral aid is a less political way of funding a country and promoting international cooperation. Such aid reduces the chance of strategic and commercial interests of financiers. Additionally, multilateral aid the pooling of resources by the agencies ensures funding for large programs, in cases where one donor may not have the capacity. The harmonized efforts also reduce the burden for a single donor. Kenya receives multilateral aid totaling over \$1 billion each year from the World Bank. The donations go to specific sectors such as devolution, public sector, and infrastructure. Through the private lending divisions of the World Bank, Kenya also receives advisory services on the funds provided to ensure maximum utilization.

2.4.2 From West to Looking East: Emerging Players Such as the Chinese

In the last 15 years, the Kenyan government has moved to seek more cooperation with Asian donors, moving away from the previously dominant donations from countries such as the US and Europe. Countries such as China and India are taking positions as majority donors in Africa, including Kenya. Countries in the East including China are increasingly utilizing foreign aid to attain broader and long-term objectives. By enhancing their ties with African countries such as Kenya, countries such as China continue taking advantage of the resource-rich African countries in which they invest. Over the past 15 years, the Chinese government has changed their strategy from grants to low-cost loans, and investments in infrastructure in exchange for raw materials. A lack of human rights conditionality for the loans provides an easy option for the Kenyan governments, as they do not condemn any activities. The standard gauge railway and the Lamu port are one example of Chinese government investments. Additionally, they also invest in resources such as oil, gas, and coffee. The new relationship between the Kenyan government and China has come under scrutiny, but the economic advantages to Kenya arising from the varying donors are also a highlight.

2.4.3 The Magnitude of International Aid in Relation to the Local Economy

Actual figures between the relationship between the number of foreign donations Kenya receives and the resultant economic growth are minimal. A majority of estimates are only political based on the fact a majority of donors want instant results. Recipient governments tout economic reforms and better policies when arguing the case for more foreign assistance. Long-term economic growth is essential to the foreign aid policy in Kenya, and the government should provide analysis on whether the growth results from the aid or by other internal factors insignificant to the aid. Exogenous variables are the independent factors including the

geographical, socio-cultural, political, and institutional factors. Conversely, endogenous factors are those that governments can manipulate to promote economic growth. Endogenous factors including investments, human capital, research and development, and policy decisions ensure the continued self-maintained economic development.

In Kenya, a combination of the above factors affects the overall growth. Over the last 15 years, Kenya has taken up huge amounts of aid in the form of loans and grants. An assessment of factors since the Kibaki administration shows that long-term effects of aid include capital formation as well as better economic welfare for the country. Foreign direct investment in endogenous factors in Kenya including human capital through training aid, promotes long-term growth, while stronger policies for institutions support the development.

Additionally, better capital formation and economic welfare from rent-seeking activities promote the collection of taxes, which in turn benefits the country. Despite the apparent growth, blatant corruption, foreign transfers, or unnecessary incentives may reduce the impact of foreign aid on specific sectors. Moreover, the heavy debt accrued in some cases reduces the impact of economic development, as the payment reduce any significant benefits to the country, with Kenya's debt hitting over 4.5 trillion shillings. The macroeconomic instability from the high foreign debt-to-GDP ratio is evident with the rising inflation and volatile currency.

2.4.4 Domination of Large-scale Infrastructure Projects

Recently the Kenyan government is investing in Public-Private Partnerships in the creation of large projects that are in contrast to commencing numerous projects, which would later stagnate. One of the most important projects includes opening up of highways in the capital, as well as the northern corridor and bypasses. These projects act as a catalyst to economic zones as they accelerate unification of markets.

Flagship projects implemented by recent administrations in Kenya support various sectors such as steel mills and integrated iron manufactures, which directly create a demand for machines and equipment. Foreign institutions with foreign exchange balance sheets dominate a majority of these projects, while they also have the ability to provide high-level of infrastructure. Kenya's vision 2030, which is a successor to the Economic Recovery Strategy, implemented in 2003 focus on strengthening specific pillars of the economy through large-scale infrastructure in specific sectors. Although Kenya has suffered poor productivity and development, investments and academic training have influenced overall productivity positively.

2.5 Chapter Summary

The Kenyan economy has progressed from receiving financial aid in the early 1960s and 1970s to creating bilateral and multilateral ties with various parties in the past decade. Countries such as China and India are replacing the UK and the US as the majority donors in Kenya, as the country switches its allegiance to the East. Although a majority of the tied aid received by Kenya may be detrimental, the economic gains from such investments will benefit the country in the long run.

There are various benefits for partnering in foreign for both the donor and the recipient, and they include better international relations, development for both countries albeit disproportionately, political mileage for the donors, as well as a sure market for goods and services. Newer trends in the giving of aid ensure that Kenya has a say in how they invest the funds, while the conditions are also analyzed to ensure they favor the country.

In view of the purpose of foreign aid, it emerged that countries receiving foreign aid are categorized as least developed. So, what makes them received foreign aid? It is well known that

LDCs, at least until recently, have been very eager to accept foreign aid, even under strict conditions. This shows that it has been given much attention to receiving foreign aid. In some cases, it is noted that a primary motive for receiving aid is political as foreign aid provides advantage for maintaining power as a tool of suppressing the opposition. This shows that foreign aid is politicized and this diverts its initial purpose of economic growth.

CHAPTER THREE

STATE AND PERFORMANCE OF KENYA IN FOREIGN AID

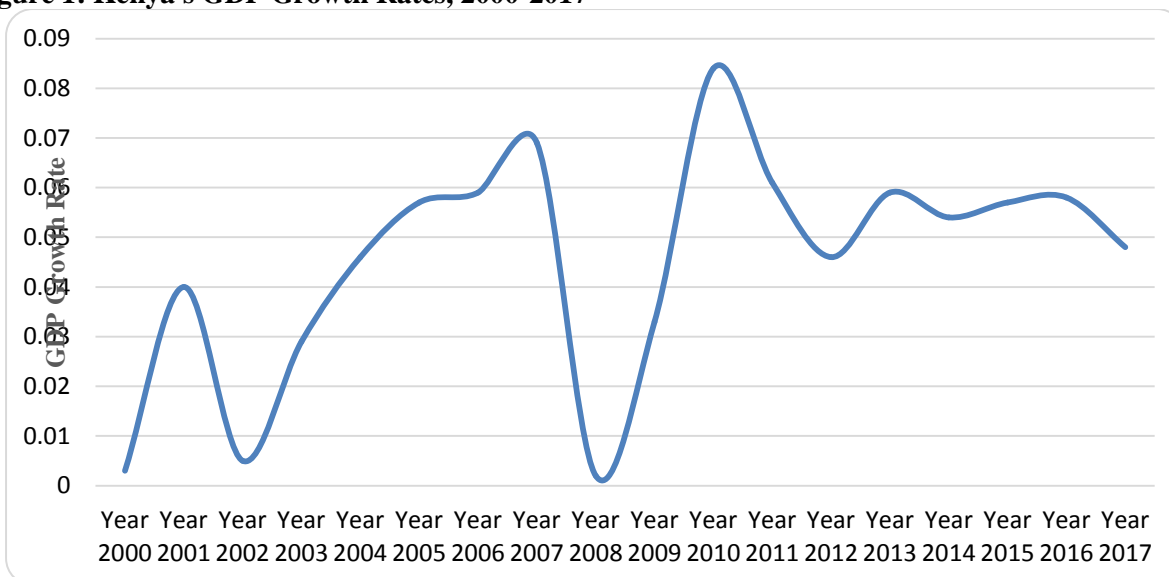
3.1 Introduction

This chapter describes the state and performance of Kenya with foreign aid. The chapter focuses on Kenya's economy, governance systems, health and environment with foreign aid.

3.2 Role of Foreign Aid on Kenya's Economy

Foreign aid in Kenya in the period 2000 and 2017 has significantly supported economic growth. In his findings, Ojiambo observed that with a 01 per cent increase in foreign aid would result in a 0.16 per cent increase in economic growth in the long-run. This indicates that there is correlation between foreign aid and economic growth. It is estimated the Kenya's economy has been growing at average rate of 1.32% between 2005 and 2017. Also, World Bank and IMF statistics reveal that Kenya's GDP has been growing at a rate of 4.50% between 2000 and 2017 as illustrated in Figure 1. Despite the variation in the growth rates, there is consensus that the growth rate has been fluctuating with 2009 recording highest growth rate.

Figure 1: Kenya's GDP Growth Rates, 2000-2017

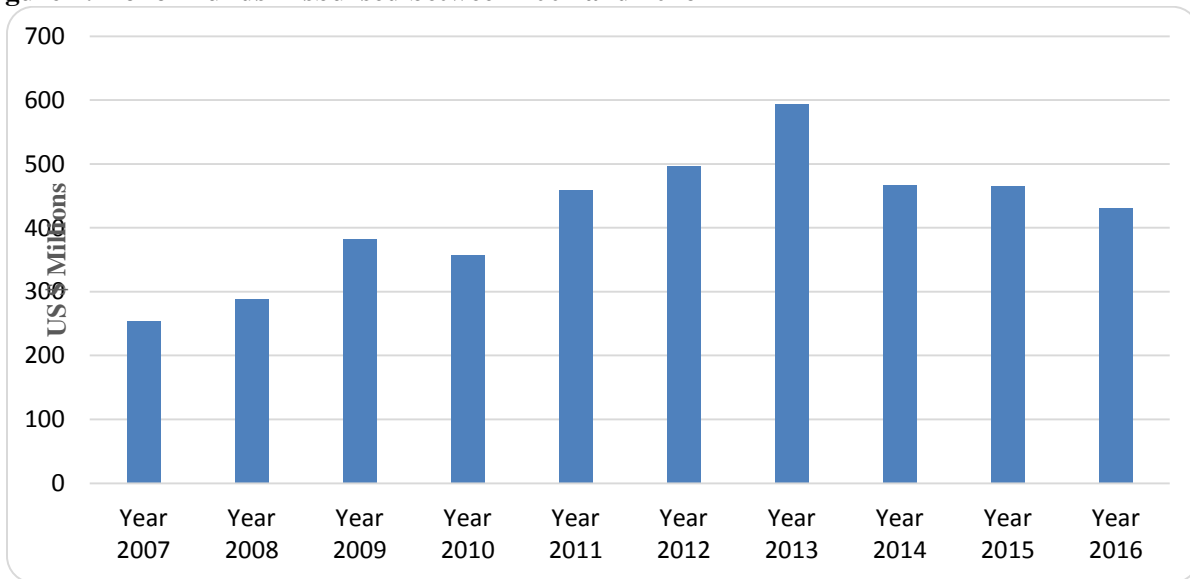


Source: IMF, World Bank, 2018

The findings Figure 1 indicate that Kenya's economy increased from 0.2% in 2000 to 4.8% in 2017 after a series of fluctuations with years 2007 and 2010 recording highest growth rates of 6.9% and 8.4% respectively. In the same duration of 2000 and 2017, donor funds have been pumped into the country. For example, in the period 2007 and 2016, it is estimated that Kenya received more than US \$135 million as donor funds out of which 31% were intended for economic growth. This is illustrated in Figure 2 where year 2013 recorded highest amount of donor funds to support economic growth.

The impact of increased donor funds is that the funds have continued to stimulate the economy in several ways. The funds have assisted in revival of collapsed industries. For example, research in agricultural sector is largely funded by donor funds. The purpose is to increase agricultural production by identifying suitable varieties that match needs of the economy and population at large. Another sector is the infrastructure where donor funds have supported building of roads. This is expected to increase access to markets for agricultural produce hence improving welfare of farmers.

Figure 2: Donor Funds Disbursed between 2007 and 2016



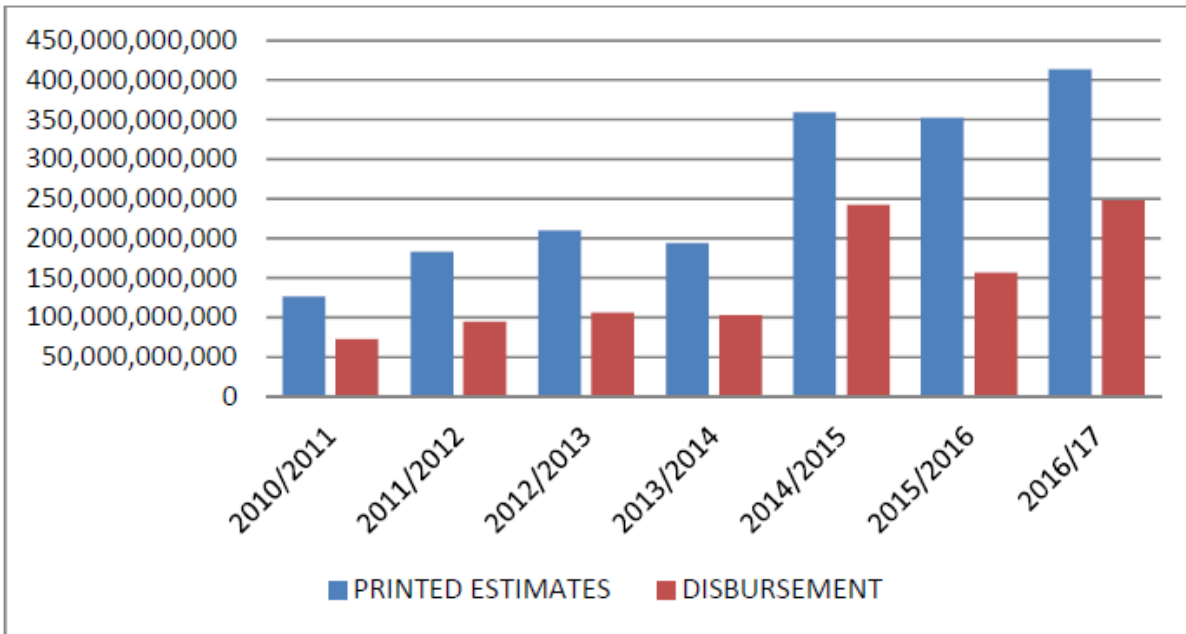
Source: OECD-DAC, 2018

In view of the findings by Ojiambo, this study has established significant role of foreign aid on economic growth. For example, in the period between 2003 and 2013, Kenya built many infrastructure projects championed by leadership of former President Kibaki. Many projects aimed at improving economic growth were planned and successfully finished. Projects in transport, water, energy, manufacturing and commerce were initiated. By 2007, the political will for infrastructure development had enabled many donors to commit funds in development of road infrastructure. This partly explains the growth rate of 6.90% in 2007 before country plunged into political crisis that reduced donor commitment hence lowest economic growth of 0.20% in 2008.

Also, in the period between 2010 and 2017, donor funds were used to promote economic growth have been increasing significantly. Much of the funds were disbursed to support infrastructure development as well as other macro-economic indicators. It is estimated that European Commission allocates 100 million Euros for infrastructure projects in Kenya every

year. Figure 3 illustrates the donor funds disbursed by European Commission between 2010 and 2017.

Figure 3: European Commission Donor Funding between 2010 and 2017



Source: National Treasury, 2018

In the period between 2008 and 2013, the European Commission committed and disbursed €383 million to support key infrastructure development. Targeted were transport, agricultural development in rural areas under the Kenya Rural Development Programme. The focus on transport infrastructure was to promote economic integration in the East Africa region. The rural development projects were intended to reduce poverty levels from 42% of Kenyans to 34% in the same period.

In the period between 2015 and 2020, Department For International Development (DFID) budget indicates that part of £6,295,450 (45%) should be spent on programmes aimed at supporting business environment especially increasing competitive advantage of local suppliers in the mining and gas industry. This was informed by the increased exploration and investment in Kenya. Also, in the period between 2016 and 2020, Danish government has committed to

improving business environment in Kenya. This is through supporting programmes such as Value Chain Greening and Financing Programme with a donor budget of DKK 70 million. The programme has improved wealth creation by offering women and youth job opportunities as well as improved business relationships.

Key projects supported by donors are infrastructure. In the period 2000 and 2007, 10 major donors contributed US \$762.2 towards improvement of road networks in Kenya. In the same period, Kenya's economy was growing at an average rate of 3.5% but highest average economic growth (5.20%) was recorded between 2003 and 2007. This was attributed to increased donor funding on infrastructure projects as illustrated in Table 1.

Table 1: Development Partners supporting road improvement by 2007

Development Partner	Commitment (Million US \$)
European Union	171.50
World Bank	160.0
African Development Bank Group	159.90
BADEA/OPEC	65.85
Agence Francaise Development	56.06
KfW (Germany)	52.78
China	26.11
Korea	25.00
JICA (Japan)	25.00
SIDA	20.00
Total	762.2

Source: African Development Fund, 2007

Key projects include the construction of Thika Superhighway with value of Kshs. 30 billion out of which the government of Kenya funded 30% of the cost while 70% was funded by donor funds in form of loan. After successful completion of this project, economic growth of Nairobi, Thika, Kiambu and beyond especially in Mount Kenya region has improved significantly. Millions of shillings have been saved through ease of traffic jams. Also, many shopping malls have been built along the highway thereby increasing investments in the area.

With increased donor funds for infrastructure projects, Kenya's economic growth rate will increase. Many parts of the country will open for more trade hence wealth creation.

It is therefore expected that development of transport systems supported by donor funds will improve GDP of Kenya. The significant growth in GDP is likely to be realized in the long term especially by 2030. For example, with construction of Standard Gauge Railway, the return on investments will be realized after several years. In this regard, the economy will remain stable during full utilization of the infrastructure. It is also expected that the infrastructure in place will create employment for millions of Kenyans. The access to markets will provide Kenyans employed in different sectors with opportunities of creating and supplying many goods and services. This will be source of self-employment for farmers and traders.

The continued uptake of donor funds for infrastructure projects will also support the development of regions. With construction of Thika Superhighway and other key infrastructure such as Standard Gauge Railway (SGR), many towns have grown significantly. For example, Thika Superhighway has improved growth of Ruiru and Thika Towns while SGR has supported growth of towns such as Mariakani, Kibwezi, Emali, Voi and Athi River among others. The growth of these towns is resulting from the inter-County connectivity of the SGR. It is therefore expected that with extension of the SGR to Naivasha and beyond (Kisumu and Busia), many towns along the path will also grow significantly. The growth in towns is indicated by increase in population following employment opportunities that have been created. The growth in population then opens for other economic activities such as increase in commercial activities such as trading.

3.3 Role of Foreign Aid on Kenya's Governance Systems

Donor funds have supported governance systems in Kenya. The history of Kenya reveals cases of poor governance as observed by increased level of corruption, less accountability, low participation in decision making by the population among others. To change this narrative, strengthening governance systems has been a top agenda of many donors. The funds for governance have been intended to build capacity of institutions to guarantee accountability, transparency and people participation in decision making among others.

In the period 2000 and 2005, foreign aid to the “governance sector” supported a wide range of activities from ethics, integrity, and ant-corruption (6.5 percent); democracy, human rights and rule of law (44.6 percent); justice, law and order (10.9 percent); public safety and security (3.3 percent); constitutional development (1.1 percent); legal sector reform (7.6 percent); capacity for strategic leadership and change management (31.5 percent); and public sector reform (5.3 percent). This indicates that donor activities increased in both sectors.

In the period between 2015 and 2020, Department For International Development (DFID) budget indicates that part of £6,295,450 should be spent on programmes aimed at improving governance systems in the oil and gas sector. In particular, 55% of the donor funds should be spent on improving mineral mining policy as well as administrative management. The focus is on ensuring fair sharing and distribution of oil/mineral/gas revenues. Also, the purpose of the donor funds is to promote stakeholder participation in the oil industry especially people from the mining sites. This implies that local people in Turkana should benefit from the oil resources through involving them in decision making and development of the area.

In the period between 2014 and 2021, World Bank provided US\$ 50.00 million towards capacity building of Kenya Petroleum sector. The funds were expected to be implemented in the

Kenya Petroleum Technical Assistance Project (KEPTAP). The purpose of the funds is to support reforms and capacity building in the sector as well as boost revenue management. Also, in the period between 2016 and 2018, the Kenya National Commission on Human Rights received donor funds worth \$1,040 from Norwegian Embassy for supporting governance systems affecting business and human rights. The funds were specifically intended to implement the National Action Plan on business and human rights.

In the period 2016 to 2020, the government of Denmark committed to improving good governance in Kenya. The commitment involved a budget of DKK 30 million towards strengthening devolved governance at National and County government level. Since 2016, the programme contributed to good governance especially in County governments. Anecdotal evidence reveals that there has been enhanced performance in County governments regarding resource utilization. This indicates that governance systems in devolved governments improved due to donor funds.

In the 2015 report on devolution, it is narrated that devolution is at its infancy stage in post Kenya Constitution, 2010. Considered as one of the transformative changes in governance, devolution is expected to promote social and economic development as provided in Article 174 of the Kenya Constitution 2010. Since its inception, implementation of the devolution system has yielded many successes. The successes include enactment of devolution laws, operationalization of County Government structures, the transfer of functions and allocation of resources to County Governments. This demonstrates the achievements and relevance of the devolution.

Despite the achievements, the devolution is experiencing many challenges. These include: institutional, intergovernmental and resource related. Human resources management, tensions between the National and County government over resource allocation and conflicts

between various actors involved in the implementation of the devolved system of government are cited as examples of the challenges that require urgent attention. Attempts of addressing the challenges are continuously identified through policy formulation and institutional strengthening. This includes the National Capacity Building Framework (NCBF) which is a joint programme between the Government of Kenya and World Bank.

In view of the challenges, the World Bank offered to support the implementation of the NCBF programme by providing more than Kshs. 26 billion. Anecdotal evidence reveals that there has been significant increase in capacity aimed at mitigating fiscal risks of devolution. Reported also is significant strengthening of County Public Financial Management capacity, enhanced performance management in Counties and policy making through increased public participation.

In 2017, Danish government contributed funds towards the 2017 General elections. The election was estimated to cost Kshs. 45 billion out of Danish government contributed DKK 24.4 million. The purpose was to enhance electoral process in Kenya. The contribution improved participation of Kenyan citizens as long queues were reported in most areas of the republic. Support of general elections has also been done in 2002, 2007 and 2013. The support has been noticed in promoting civic education as a means of improving participation of people in decision making involving electing political leaders.

In view of these cases of donor funds towards improving governance systems, there is indication that donor funds are used to promote institution's capacity in terms of legal and policy development and adherence. Also, donor funds are used to promote accountability and transparency as well as involvement of people in decision making. In addition, donor funds are used to promote implementation of systems and programmes by supporting communication of

results to stakeholders. The impact of the donor funds in governance systems is that public officers will be committed to serving the public in a transparent manner. In this regard, service delivery will be of high standards hence satisfaction of the people in public institutions.

Also, Kenya is currently grappling with grand corruption. It is expected that donor funds channeled towards fighting the vice will yield tangible results. For example, donor funds aimed at educating Kenyans on matters corruption will increase awareness of the members of the public on their role in fight against corruption. In addition, donor funds aimed at strengthening institutions involved in fighting corruption will also enable the country to effectively fight corruption. Resolving corruption as a governance issue will therefore save the country loss of public resources. The public resources will therefore be used prudently hence improve the welfare of the people.

3.4 Role of Foreign on Kenya's Health Sector

Kenya's health sector is one of the major sectors that have continued to receive donor funds either through the government or NGOs. Kenya's health sector receives funding from various sources. The source of funding includes government, private firms, donors and households. In the period between 2000 and 2005, foreign aid accounted for 16% of financing in the health sector. This is illustrated in Table 2 where the amount increased from US \$91 million in 2000 to US \$486 million.

Table 2: Donor Contribution in Health Sector between 2000 and 2016

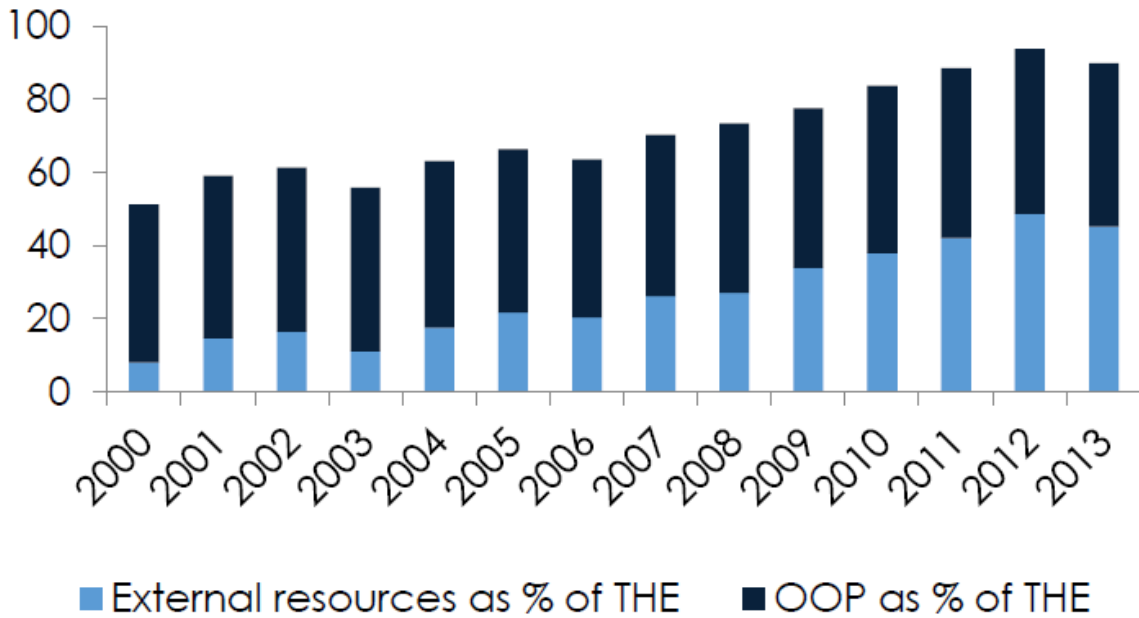
Year	Total Foreign Aid Committed (US \$ Million)	Total Foreign Committed for Health (US \$ Million)	Percentage share of Health Sector
2000	959.024687	91.410569	9.5
2001	471.892681	82.540297	17.5
2002	300.853923	16.968448	5.6
2003	728.57793	33.643855	4.6
2004	1430.719004	92.33648	6.5
2005	1101.656952	146.721788	13.3
2006	1560.51919	110.928831	7.1
2007	820.41	287.1435	35.0
2008	929.37	325.2795	
2009	1233.21	431.6235	
2010	1154.02	403.907	
2011	1482.7	518.945	
2012	1601.02	560.357	
2013	1914.13	669.9455	
2014	1503.9	526.365	
2015	1499.06	524.671	
2016	1388.67	486.0345	
2017	-	-	-

Source: OECD-DAC, 2018

Findings in Table 2 indicate that in the period between 2000 and 2006, the average growth of donor funds was below the average growth between 2007 and 2016. This implies that there were more donor supported activities in the period between 2007 and 2016. The finding could also imply that there were other compelling factors for the increase in donor funds in the health sector. Generally, Kenya received more donor funds to support health programmes especially in the wake of implementing Millennium Development Goal on universal health care as well as now the Sustainable Development Goal.

In the period between 2000 and 2013, the trend of increased donor fund was observed but this was partly intended to reduce out of pockets costs. Figure 4 shows the contribution of donor funds in the health sector between 2000 and 2013.

Figure 4: Donor Funds Received between 2000 and 2013



Source: WHO, 2015

Findings in Figure 4 indicate that donor funds have been increasing gradually which reduced the proportion of out of pocket cost on health care. This implies that the burden of health care cost was reduced significantly hence households made some savings. This demonstrates the role of donor funds in reducing health care burden in households.

In the 2014/2015 financial year, 57% of the budget for the health sector was supported donors and other partners. In the same period, it is further indicated that while the government supported many of the health programmes, donors supported all programmes as illustrated in Table 3.

Table 3: Donor Supported Programmes in 2014/2015 financial year

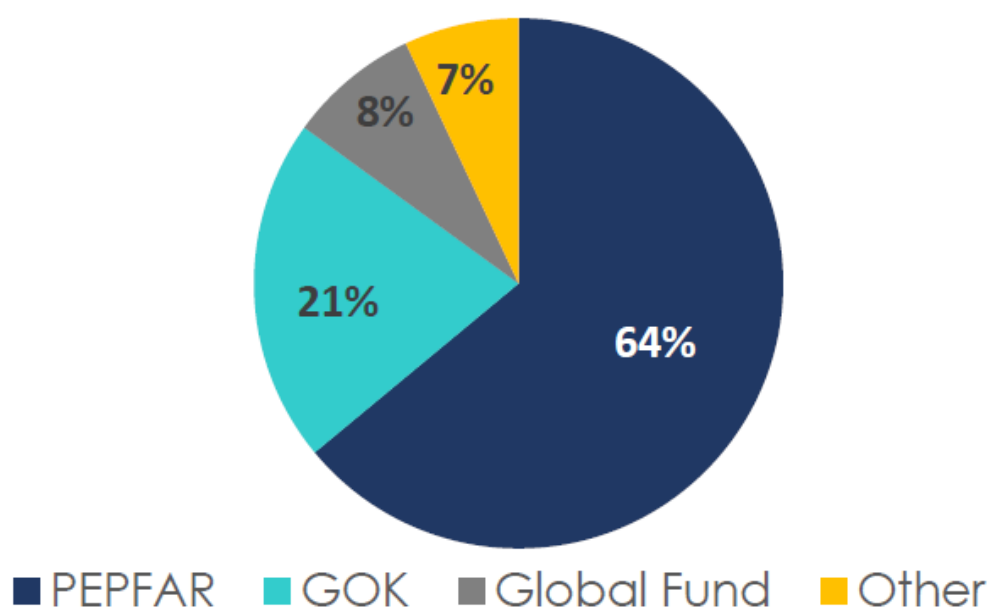
Health Programme	Budget Contribution (Percentage)	
	Government of Kenya	Donors
Free maternity health	19%	-
Hire of medical equipment	15.5%	-
Health systems management	-	12.2%
GFATM	-	11.5%
KEMSA	-	7.1%
Reproductive health	-	5.7%
Health Sector programme	-	5.5%
Kenya health sector support project	-	4.8%
Nutrition	-	3.0%
East Africa Public Laboratory Network Project	2.9%	-

Source: Ministry of Health, 2015

Findings in Table 3 indicate that donor funds supported most of the programmes in the health sector. In the financial year 2016/2017, donors contributed Kshs. 19.8 billion representing 63.4% of the health budget (30.7 billion). This was considered an increase in donor funding from Kshs. 19 billion in the 2015/2016 representing 62% of the health budget. The funds were intended for supporting health programmes mainly HIV/AIDS, immunization, reproductive health and health systems.

HIV/AIDS programme was largely funded by donors accounting for 51% of donor funds in the health sector. By 2013, 64% of the HIV/AIDS funds were contributed by PEPFAR while Government of Kenya only supported 21% as illustrated in 5.

Figure 5: Donor Contribution for HIV/AIDS



Source: PEPFAR, 2015.

In the period between 2000 and 2017, donor funds have been considered to have eased the national expenditure on health by a margin of 30-40%. It is also indicated that donor funds have resulted in the reduction of out of pockets expenditure by households on health. This implies that households increased savings and easily accessed health care. For instance, donor funds supported the free provision of reproductive health care services such as family planning contraceptives and free maternal health care.

In the period between 2005 and 2010, an estimated US \$1,800 million were disbursed to support Kenya's health sector. The funds were intended for improving family planning, reproductive health, sexually transmitted diseases, HIV/AIDS as well as research, data and policy analysis. Table 4 illustrates the donor assistance between 2005 and 2010.

Table 4: Donor Assistance between 2005 and 2010

Category	Donor Funds (US \$ Millions)					
	2005	2006	2007	2008	2009	2010
Family Planning	15.9	2.1	0.5	9.1	11.3	14.7
Reproductive health	17.1	11.1	17.5	16.1	27.1	29.1
STD/HIV/AIDS	133.8	155.1	220.8	322.2	379.5	394.3
Research, data and policy analysis	1.8	1.1	0.4	0.6	7.0	7.4
Total	168.5	169.4	239.2	348.0	424.7	445.5

Source: Sidze Estelle, Pradhan Jalandhar, Beekink Erik et. al., 2013

Findings in Table 4 indicate that foreign aid contributed to positive effects on health indicators. For example, in the period between 2000 and 2007, immunization improved from 59% to 71%. This was largely attributed to foreign aid in immunization programme championed by UNICEF. Also, in the same period, HIV prevalence declined from 6.7% to 5.1%. This was largely attributed to more than 50% of foreign aid in health sector used to curb HIV/AIDS. UNAIDS, Global Fund, PEFAR and other agencies supported HIV preventive programmes especially distribution of condoms and behavior change initiatives. In the same period, donor funds focusing on curative regimens helped reduce child mortality rates by a margin of 44%.

It is indicated that the donor funds were intended to support the implementation of the health financing strategy that required health fees in public dispensaries abolished. In this case, the gap created by abolishing out of pocket (OOP) expenditure for households that was a revenue to dispensaries was to be filled partly by donor funds. For example, in the financial years 2013-2015, the government of Kenya had committed to providing free maternity in public health facilities which required between US\$38 and US\$40 million. This implies that government only managed to fund 43% of this cost while 57% was donor supported. In view of the amount of donor funds have been disbursed to support health care, it is emerging that most of the health indicators have improved.

The increase in donor funds in Health Sector is an investment in health societies in Kenya. Good health among people means increase in productivity. Donor funds aimed at preventing diseases provide an opportunity for Kenyans to save money on health expenditures and channel such money into wealth creation. Healthy population is a guarantee of many people participating in economic activities which increases GDP. Healthy population especially the children is also a guarantee to continuity of generations. In this regard, Kenya's healthy population will provide assurance to the country's growth in social and economic activities.

3.5 Role of Foreign Aid on Kenya's Education Sector

Education sector in Kenya is one of the major sectors that have continued to receive donor attention and funding. In the period between 2003 and 2007, major reforms were undertaken in the education sector. This was attributed to new government of Kibaki being committed to implementing the Universal Declaration on Basic Education. In the declaration, it was resolved that no child was supposed to be left behind and therefore basic education was considered a human right. In this regard, governments were expected to fund primary education including provision of reading materials. This requirement was an uphill task especially for third world countries mainly from in Africa.

In the fiscal financial year of 2003/2004, the government increased budget on education by a margin of 17%. This increase in budget was ambitious and it attracted interests of donors. In this regard, the World Bank provided a grant of Kshs. 3.7 billion while DFID provided Kshs. 1.6 billion. In the period between 2000 and 2009, statistics indicate that there was sharp increase in donor funds ostensibly for supporting the implementation of Universal Primary Education. Table 5 illustrates the trends in public expenditure and aid on education.

Table 5: Comparison between Public Expenditure and Donor Funds in Education Sector

Year	Kshs., 'Millions								
	Overall Public Expenditure	Public expenditure on Education	Total ODA	ODA to education	ODA to primary education	Education expenditure (%) of total	ODA as percentage of public spending	ODA to education as percentage of public expenditure on education	ODA to Primary as percentage of ODA to Education
2000-01	335978.80	62417.09	60817.83	2788.88	1150.28	18.6	27.9	27.9	48.3
2002/03	379475.32	81561.29	35571.78	2474.03	395.92	21.5	9.4	3.0	16.0
2004/05	403691.60	90049.02	56198.97	4591.92	2531.55	22.3	13.9	5.1	55.1
2006/07	475196.91	102015.30	66219.37	3892.64	700.99	21.5	13.9	3.8	18.0
2008/09						19.6	15.4	5.7	42.6

Source: Colclough Christopher & Webb Andrew, 2010

Findings in Table 5 indicate that increase in expenditure in education corresponded with increase in donor disbursements. This implies that as education needs increased, so were donor funds. This is further illustrated in Table 6 where in the period between 2007 and 2016, an average of 6% of donor funds were committed to education.

Table 6: Proportion of Foreign Aid Committed towards Education

Year	Total Foreign Aid Committed (US \$ Million)	Total Foreign Committed for Education (US \$ Million)
2007	820.41	49.2246
2008	929.37	55.7622
2009	1233.21	73.9926
2010	1154.02	69.2412
2011	1482.7	88.962
2012	1601.02	96.0612
2013	1914.13	114.8478
2014	1503.9	90.234
2015	1499.06	89.9436
2016	1388.67	83.3202

Source: OECD-DAC database

On the role of the donor funds in education, it has been established that donor funds in the period 2000 and 2009 were used to support tuition for each learner amounting to Kshs., 1,300. The funds also supported training of teachers, purchase of teaching and learning materials,

construction of new classrooms and general capacity building. Donor funding partly contribute to the increased enrollment rate. It is estimated that gross enrollment increased from 92% in 2002 to 104% in 2003. In 2006, gross enrollment of pupils increased from 7.63 million from 7.59 in 2005. Other enrollment, the number of schools had increased to 26,667 by 2008 representing 17% increase from 2003. In addition, completion rate increased from 60% in 2008 to 70% in 2011. These significant changes were partly attributed to donor support.

Donor funds in education have several impacts. Donor funds have been intended to improve education outcomes. The outcomes include increased enrollment of learners in all levels of education. It is worth noting that since implementation of Free Primary Education, many learners have been enrolled. This has supported the literacy levels of many Kenyans. Another outcome is improvement of retention and completion rates. Previously, drop out cases were high due to lack of school fees. With donor funds reducing the burden of parents, many learners are retained in school and completion rates have improved significantly. It is therefore expected that many Kenyans will be highly productive as many will have adequate skills, knowledge and competencies required in steering economic growth.

3.6 Role of Foreign Aid on Kenya's Environmental Sector

Global issues on environment such as climate change have become national issues in Kenya as well. As environmental issues require global solution, donor funds have been of help in addressing the issues. In the period between 2000 and 2003, donor funds in the environment sector increased significantly. In the financial year 2000/2001, 15% of the total budget was contributed by donors and this increased to 52% in the 2001/2002 with further increase to 57% in the 2002/2003 financial year. The donor finance was intended for biodiversity conservation under the Biodiversity Conservation Programme (2000-2005).

The outcomes of this programme include successful repatriation of 18 mountain bongo antelopes from U.S. to Kenya. Also, cases of elephant poaching were noted by a margin of 4% while marine habitat for turtles in Malindi was improved through sensitization of the investors and developers as well as local people in Malindi against effects of destroying the breeding grounds of turtles.

In the period between 2002 and 2007, donor funds for environmental conservation increased from US\$ 5.84 million in 2002 to US\$ 21.79 million in 2007 as illustrated in Table 7.

Table 7: Donor Funds for Environment between 2002 and 2007

Sector	US \$ 'millions					
	2002	2003	2004	2005	2006	2007
General environmental protection	4.30	2.41	3.74	7.14	9.21	10.71
Forestry	0.36	1.58	1.36	1.52	1.26	0.74
Water and Sanitation	1.18	1.11	3.14	12.77	14.74	43.28

Source: OECD DAC International Development Statistics, 2018

In the period between 2010 and 2017, the United Nations High Commission for Refugees (UNHCR) in Kenya increased donor funds from USD 185.7 million to USD 230.1 million out of which 20% was allocated for environmental conservation. The need for environmental conservation targeting refugees was informed by the fact that refugees in Kakuma and Daadab depleted vegetation at high rate. The environmental conservation programme was intended to support adoption of sustainable use of firewood through energy saving cookstoves.

In the period 2016-2020, Danish government support various programmes including Private Sector Greening Programme (DKK 40.5 million) and Community resilience and rangeland management (DKK 40 million). Another programme is the access to and management of water resources in the arid and semi-arid lands (ASALs) (DKK 65 million) and Greening Kenya's development pathway (DKK 40 million). These programmes have improved environmental conservation in Kenya especially enhancing capacities of County governments to

undertake environmental management in forestry, water management, waste management and wildlife.

In 2017, Kenya received \$1,003 million from the United States of America courtesy of USAID to support wildlife conservation. The donor funds were channeled through the Ministry of Environment and Natural Resources. The specific activities targeted included anti-poaching and anti-logging. This was informed by the fact that Kenya is facing high levels of poaching and illegal logging, activities that have threatened wildlife. Also, in the period 2000-2017, the Global Environment Facility implemented more than 122 major projects accounting for grants worth \$640.14 million. The projects implemented include land degradation (\$4 million), climate change (\$4 million) and biodiversity (\$10 million). These projects are therefore dependent on donor funds hence increased outcomes characterized by sound environmental practices hence environmental sustainability.

As environmental issues are major concern not only in Kenya but the whole world, there is indication that donor funds will continue supporting Kenya in addressing the issues. The impact created is that Kenya will likely join other countries in reducing pollutants from water bodies, soils and air. In addition, Kenya will have a population that is free from environmental pollutants thereby reducing disease burden. Conservation efforts will improve food productivity as well as general wellbeing of the population in areas mostly affected by drought and other climate changes.

3.7 Conclusion

This chapter has established that donor funds are critical in Kenya's economic, health, governance, education and environmental systems. The chapter has also established that donor funds have been on the upward trend. The increased donor funds in many sectors in Kenya have

improved many outcomes including positive economic growth, good governance systems, improved health care indicators, increased enrollment and learning outcomes in education as well as sound environmental management practices.

CHAPTER FOUR

CHALLENGES OF FOREIGN AID IN KENYA

4.1 Introduction

Foreign aid is a necessary evil in many countries as it has several challenges that come with it. This chapter examines the management of foreign aid as well as the challenges related to the management of the foreign aid. The chapter also describes the management of the challenges related to foreign aid in Kenya.

4.2 Management of Aid in Kenya

Management of foreign aid is important in realizing the intended purpose. The management of foreign aid is done by both government and non-governmental institutions. The management of the foreign aid has also resulted into successes and failures.

4.2.1 Institutions Responsible for Management of Foreign Aid

Foreign in Kenya has many recipients tasked with the responsibility of managing the aid. In the period between 2000 and 2016, foreign aid has been received by the government (Central government including Ministries, Agencies and Parastatals and Counties), Civil society groups, NGOs and religious societies). The recipients of foreign aid in Kenya utilize aid in different ways hence need for proper management of the aid.

The Central government through Ministries, Agencies and Parastatal bodies receive foreign aid for various purposes. In this regard, the Central government is expected to manage the aid accordingly. Foreign aid received by Central government is managed by the Treasury. According to the National Treasury, one of its roles is to mobilise external resources which are in form of grants, concessionary loans and other forms of foreign aid for financing national and

county government budgetary requirements. In this regard, the National Treasury is expected to design frameworks, policies and guidelines to support use of foreign aid.

For example, under the Public Finance Management Act (2016) supplementary legislation, the National Government Affirmative Action Fund was established to ensure that grants and donations are properly managed. The management envisaged by the supplementary legislation includes fund payment in respect to proposed expenditures and approved budgets. Another aspect of proper financial management of the grants and donations is enhancement of access to the grants by target group (public).

The management of the grants as envisaged by the Fund is through a Board. The Board comprises of representatives from Ministry of Finance and Planning and grant recipient Ministries. The Board is therefore tasked with responsibility of ensuring that donor funds received are used for the intended purpose. In addition, the Board oversees implementation of the foreign aid supported projects as well as monitoring and evaluation of the donor funded projects. Moreover, the Board ensures that members of the public are made aware of the donor funded projects and the purpose of the projects.

For the NGOs and Civil Society groups, management of donor funds takes place in different ways. The management of the aid includes formation of NGO or Civil Society body registered by the government, involvement of the local people as well as carrying out financial and project audits. It is estimated that more than half of the foreign aid in Kenya is received by NGOs which are considered as local managers of foreign aid. This indicates that NGOs have high uptake and utilization of the foreign aid in Kenya. In this situation, management of foreign aid becomes important as the NGOs hold the foreign aid in trust.

The most important aspect of NGOs and civil society groups in respect to foreign aid is public trust. To build public trust, NGOs are expected to manage foreign aid through exercising good governance and accountability. In ensuring good governance, NGOs and civil society groups are expected to balance stakeholders. As much of the resources mobilized and controlled by NGOs are donor funded, the overriding question is about whom the NGO is accountable to. In answering this question, NGOs are expected to balance three key areas of accountability: value (public purpose or mission), support (political, legal, financial) and operational capacity (the ability to deliver program results.). This indicates that NGOs ensure prudent use of foreign aid through two major internal accountability and external stakeholder accountability.

Internal stakeholder accountability involves the satisfaction of obligations to internal stakeholders especially employee. It is worth noting that part of the foreign aid is aimed at paying salaries and other facilitations. In this case, there is need for NGOs to have proper member control, appointment of senior staff, compliance mechanisms and evaluation processes. This form of accountability is highly practiced in Kenya especially for NGOs utilizing foreign aid. In most cases, donors require NGOs to fulfill some minimum requirements such as ability to hire employees on merit and adhere to international and local labour laws. It is therefore incumbent upon NGOs to fulfil donor requirements hence managing foreign aid.

For external stakeholder accountability, the NGOs are expected to ensure external consultation, provide complain processing mechanisms, engage in corporate social responsibility and provide access to information. In Kenya, NGOs utilizing foreign aid have therefore been supporting external stakeholder accountability. In many cases, NGOs continue to seek collaboration and partnerships with government and communities. For example, the Red Cross that receives large amount of foreign aid implements its projects through partnerships and

collaboration with government and local communities in activities such as distribution of relief food. Managing this aid therefore requires sustainable institutional networks thereby fulfilling needs of several stakeholders.

NGOs also manage foreign aid through instituting governance structures. The NGO Act 1990 (revised 2012) of Kenya requires all NGOs to have Board Directors tasked with overseeing general operations of the NGO. In addition, the NGOs are expected to submit annual returns to the Board. This framework serves as a management support mechanism that ensures that all NGOs adhere to the needs and purpose of the NGOs including management of foreign aid. In the period between 2000 and 2016, NGOs have been managing foreign in accordance with provisions of the NGO Act. The NGOs have been submitting annual returns besides hiring more of local people and utilizing foreign aid for the intended purpose. According to the NGO Act, failure to adhere to regulations, the NGOs in question are deregistered. As a form of deterrence, the NGOs in Kenya have been ensuring that management of foreign aid meets expectations of both internal and external stakeholders.

4.2.2 Kenya's Successes of Foreign Aid

One of the major roles of foreign aid in Kenya is addressing the issue of poverty. It is estimated that more than 17 million Kenyans are poor and most foreign aid programmes are targeting this special group. In the period 2000-2015, addressing poverty was one of the major global goals. Given that Kenya had nearly half of its population comprising of poor people, the Millennium Development Goal on addressing poverty became a global initiative. In this case, foreign aid became one of the strategies aimed at reducing poverty. By 2015, Kenya's poverty index had reduced from 47 to 42. The reduction in poverty has been attributed to several factors

including absorption and utilization of foreign aid. It is estimated that foreign aid in Kenya supported wealth creation and improved standards of living.

The impact of increased donor funds is that the funds have continued to stimulate the economy in several ways. The funds have assisted in revival of collapsed industries. For example, research in agricultural sector is largely funded by donor funds. The purpose is to increase agricultural production by identifying suitable varieties that match needs of the economy and population at large. Another sector is the infrastructure where donor funds have supported building of roads. This is expected to increase access to markets for agricultural produce hence improving welfare of farmers.

In the period between 2008 and 2013 the European Commission committed and disbursed €383 million to support rural development where poverty levels were above 60% of the population. The rural development projects reduced poverty levels from 42% of Kenyans to 34% in the same period. Foreign aid in Kenya also improved employment opportunities by empowering youth and women. In the period 2000 and 2015, it is estimated that unemployment rates were above 30% and more than 75% of women were disempowered. To address this challenge, donor funds have been disbursed to women and youth groups. For example, in the period between 2016 and 2020, Danish government has committed to improving business environment in Kenya. This is through supporting programmes such as Value Chain Greening and Financing Programme with a donor budget of DKK 70 million. The programme has improved wealth creation by offering women and youth job opportunities as well as improved business relationships.

Foreign aid in Kenya has improved infrastructure development and accessibility across the country. In the period 2000-2016, Kenya significantly increased infrastructure value through

construction of new roads, refurbished airports and upgraded many roads. For example, in the period between 2003 and 2013, Kenya built many infrastructure projects championed by leadership of former President Kibaki. Many projects aimed at improving economic growth were planned and successfully finished. Projects in transport, water, energy, manufacturing and commerce were initiated. By 2007, the political will for infrastructure development had enabled many donors to commit funds in development of road infrastructure that supported the growth rate of 6.90% in 2007.

Also, in the period 2007 and 2016, key infrastructure projects such as Standard Gauge Railway and several by-passes were initiated through support of foreign aid from China and Japan. The investment in infrastructure have significantly improved access and investment. For example, successful completion of Thika Superhighway, economic growth of Nairobi, Thika, Kiambu and beyond especially in Mount Kenya region has improved significantly. Millions of shillings have been saved through ease of traffic jams. Also, many shopping malls have been built along the highway thereby increasing investments in the area.

Foreign aid in Kenya has significantly improved universal health coverage and care. In the period between 2000 and 2017, donor funds have been considered to have eased the national expenditure on health by a margin of 30-40%. It is also indicated that donor funds have resulted in the reduction of out of pockets expenditure by households on health. This implies that households increased savings and easily accessed health care. For instance, donor funds supported the free provision of reproductive health care services such as family planning contraceptives and free maternal health care.

In the period between 2005 and 2010, an estimated US \$1,800 million were disbursed to support Kenya's health sector. The funds were intended for improving family planning,

reproductive health, sexually transmitted diseases, HIV/AIDS as well as research, data and policy analysis. In the period between 2000 and 2007, immunization improved from 59% to 71%. This was largely attributed to foreign aid in immunization programme championed by UNICEF. Also, in the same period, HIV prevalence declined from 6.7% to 5.1%. This was largely attributed to more than 50% of foreign aid in health sector used to curb HIV/AIDS.

In education, donor funds have several impacts. Donor funds have been intended to improve education outcomes. The outcomes include increased enrollment of learners in all levels of education. It is worth noting that since implementation of Free Primary Education, many learners have been enrolled. This has supported the literacy levels of many Kenyans. Another outcome is improvement of retention and completion rates. Previously, drop out cases were high due to lack of school fees. With donor funds reducing the burden of parents, many learners are retained in school and completion rates have improved significantly. It is therefore expected that many Kenyans will be highly productive as many will have adequate skills, knowledge and competencies required in steering economic growth.

In environmental conservation, donor funds supported environmental management and conservation. In the period 2000-2005, donor funds supported biodiversity conservation under the Biodiversity Conservation Programme. The outcomes of this programme include successful repatriation of 18 mountain bongo antelopes from U.S. to Kenya. Also, cases of elephant poaching were noted by a margin of 4% while marine habitat for turtles in Malindi was improved through sensitization of the investors and developers as well as local people in Malindi against effects of destroying the breeding grounds of turtles.

In the period 2016-2020, Danish government support various programmes including Private Sector Greening Programme (DKK 40.5 million) and Community resilience and

rangeland management (DKK 40 million). Another programme is the access to and management of water resources in the arid and semi-arid lands (ASALs) (DKK 65 million) and Greening Kenya's development pathway (DKK 40 million). These programmes have improved environmental conservation in Kenya especially enhancing capacities of County governments to undertake environmental management in forestry, water management, waste management and wildlife.

4.2.3 Kenya's Failures in Foreign Aid

Despite the successes of foreign aid in Kenya, there are several failures of foreign aid evident in the period 2000-2016. Aid ineffectiveness has been observed in several programmes. For example, while foreign aid was intended to empower youth, evaluation of the *Kazi Kwa Vijana* programme that was funded by the World Bank revealed that the target group never benefited. According to Fengler, the programme funds were misappropriated due to several reasons that include low capacity of the government to absorb donor funds aimed at addressing systemic and structural challenges such as high youth unemployment rates. The low capacity of the government is attributed to three major factors.

The first factor is tendency of Kenya to rely on foreign aid to fund its budget, yet the country should not be donor reliant. The second factor is that Kenya's financial systems are not strong enough to allow direct budget support hence need for donors to utilize direct project financing pathway. This indicates that Kenya is missing out on direct funding through budgets which is suitable since it supports government agenda and planning. The major reason Kenya misses out is due to poor governance systems where corruption limits direct budget funding. The second factor supports the third factor which is referred to as 'ring-fencing'. Ring-fencing is considered by donors a suitable measure that ensures success of projects but limits fulfillment of

government agenda on special projects. In this regard, donors make choice on the type of a project which could not be government's priority. The three factors have continued to limit success of foreign aid in Kenya by fragmenting aid.

4.3 Challenges of Foreign Aid in Kenya

Kenya has encountered several challenges related to management of foreign aid. The challenges include foreign conditionalities, ineffective utilization and coordination of foreign aid. Kenya has also encountered dependence on foreign aid as well as corruption and fungibility.

4.3.1 Foreign Aid Conditionalities

Foreign aid conditionalities in Kenya have been in existence since the 1980s and this extended to the period beyond 2000 even after a new government led by Kibaki came into power. The conditionalities in aid were aimed at restructuring Kenya's economic and governance systems. The World Bank, IMF and other donor funding institutions compelled Kenya to undertake drastic measures aimed at reducing government spending on salaries and other less significant economic drivers.

Foreign aid in Kenya was only guaranteed when the government demonstrated that foreign aid provided will only be used on economic drivers. For example, the Structural Adjustment Programme (SAPs) of 1980s and 1990s were extended to early 2000s before the regime of President Moi exited. In the period between 2000 and 2002, some of the donors had even frozen foreign aid to Kenya until the government restored democracy and good governance. In this case, the need for Kenya to conform to the donor requirements became a condition to be fulfilled before foreign aid was disbursed. The challenge related to the conditionality is that it was difficult to restore democracy owing to the political differences demonstrated by many

political parties formed on ethnic background. However, the opposition parties later formed a coalition that was used to end the Kanu regime.

The need for restoring democracy was partly contributed by foreign aid conditionalities. In this case, restoration of democracy was considered a condition that warranted donors to provide aid to Kenya. This implies that foreign aid is not always guaranteed unless some conditions are fulfilled. The challenge is that some conditions are difficult to implement yet, a country could need aid. Another challenge is that some conditions result into imbalances in social, economic and political systems.

For example, in the period between 2002 and 2013, foreign aid from China was increased on condition that aid from the West is reduced. It is argued that aid in form of loans and grants from China is relatively cheaper compared to grants and loans from the West. This situation is considered as foreign aid condition as China provides such loans for infrastructure development and compels Kenya to accept China's construction companies to implement the projects under the terms of build and operate. For example, China provided loans through Exim Bank while China Wu Yi Construction company built the Standard Gauge Railway (SGR) and the Chinese are still operating the Railway until the proceeds accumulated offset the loan before handing to Kenya.

The case of SGR demonstrates the challenges related to foreign aid conditions. In this case, the challenge is about the ownership of the projects funded by foreign aid. Ownership of the project is observed when Kenyans can take control of the foreign aid through participating in designing and implementing the projects. In addition, the case of SGR indicates that involvement of Kenyans in the project through employment and management is limited yet most Kenyans qualify. The case of SGR epitomizes the imbalance between Kenya's interests and China's

interests in economic development. China seemingly provides foreign aid under the condition of accruing more benefits than the recipient. This condition therefore limits the overall net effect of foreign aid.

4.3.2 Ineffective Utilization and Coordination of Foreign Aid

Utilization and coordination of foreign aid remains a challenge in Kenya. Kenya continues to receive foreign aid yet the benefits of the aid are not fully realized. This situation is attributed to inefficiency in use of foreign aid. Under normal cases, planning for foreign aid occurs and it involves identifying the needs for the foreign aid. Assessment of needs demonstrates the extent to which problems are identified in form of persons affected and how such problems can be solved. The planning also provides a basis at which a foreign aid implementation or utilization framework is designed. The framework describes the resources required including people who will implement the donor funded project or programme.

Ordinarily, donors have been carrying out capacity assessment of institutions expected to implement donor funded projects. Capacity assessment is intended to determine the extent to which an institution (Government entity or NGO) can absorb and utilize foreign aid. In addition due diligence is conducted to determine the existence of the capacity. Moreover, donors envisage timely reporting about the progress of the projects supported by donor resources. In this regard, it is expected that elements of monitoring and evaluation are integrated in the implementation cycle of the project supported by donor funds.

With all these measures against inefficiencies put in place, there have been challenges related to utilization and coordination of foreign aid. In the period between 2000 and 2016, there are reports that foreign aid is not properly utilized. For example, in the Health sector targets have not been achieved due to poor utilization of foreign aid. It is estimated that at least half of the

donor funds are misappropriated. This is a concern that was observed in the period between 2000 and 2010 before a change in strategy was adopted. Before 2010, the Ministry of Health used to receive more than 60% of the donor funds to support health activities. However, the strategy of disbursing donor funds through Ministry of Health was revised. In the period between 2010 and 2016, most of the foreign aid was disbursed through NGOs and implementing partners. In this case, the Ministry of Health was considered ineffective due to several reasons.

The poor utilization of foreign aid at the Ministry of Health was attributed to misallocation of the donor funds. It is reported that some donor funds were used unintended areas. For example, while most of the donor funds were intended to curb HIV/AIDS in areas with high prevalence such as Nairobi, Nyanza and Coast, audit reports revealed that some of the funds were used in areas with low prevalence. Also, most of the funds were used in workshops and seminars with little impact recorded from such events. In addition, most of the donor funds in Ministry of Health were used on allowances for the staff involved in such projects.

The misallocation of the funds explains the extent to which inefficiencies exist. For example, while the performance of donor supported projects in the Health sector is measured by changes in health indicators such as prevalence rates, the achievement of various targets remained a challenge. The donor funds were planned to achieve some targets yet such funds were misallocated thereby contributing to gaps in the achievements of the health indicators.

Other than ineffective utilization of the donor funds, the Ministry of Health was considered to have poor coordination of foreign aid. In the period between 2000 and 2010, the Ministry of Health received large amount of foreign aid for various health activities most of which were addressing same problem. Different donors (Global Fund, UNAIDS, USAID) provided donor funds to support the fight against HIV/AIDS. However, the Ministry of Health

registered difficulties related to coordinating the donor funds in view of the different management aspects of HIV/AIDS. For example, determining the amount of donor resources towards prevention or treatment of HIV/AIDS became difficult especially when all donors are providing the funds for all aspects in the management of HIV/AIDS. This situation can be managed when the donors provide the funds for particular action, either prevention or treatment.

Challenges in the ineffective utilization and coordination of foreign aid were not only observed in the Ministry of Health but also in the other Ministries as well as NGOs. However, the occurrence of such challenges is continuously addressed as donors are improving as observed in the period 2010 and 2016. The donors have revised the disbursement strategies as well as continuously monitoring the utilization and coordination of the foreign aid.

4.3.3 Foreign Aid Dependence

When a country factors foreign debt in its budget, it implies that it relies on external support for realizing its activities. In its budget cycle, the government indicates the capacity to finance its budget up to point a certain point but its full operations are funded up to an improved level. The difference between the level at which it has the capacity to finance its activities and the level at which its full operations should be financed is the volume of Aid. In this case, when Aid stops, the government will have to collapse its operations to the level of its capacity. Practical example shows that Kenya became highly dependent on foreign aid, face huge foreign debts and cry out for debt relief-and more aid. Thus halting of foreign aid government is potentially detrimental where significant sectors of the country adversely affected.

Increased aid flows since 2002 are because of increased government borrowing to finance development projects on infrastructure as well as increased inflows of grants to support government efforts in social sectors and humanitarian responses to droughts. This shows a trend

in which the government was not fully internally sustainable. With limited self-sustainability, dependence on foreign aid between 2000 and 2012 perpetuated delays in infrastructure projects where the government lost some US\$366 million as savings, which could have made a big difference in the budget. Rationally, self-sustenance would have promoted use of savings to initiate other projects. However, as part of austerity measures, the government has been ordering for budgetary cuts on operations and maintenance across the board. This affected all spending agents including the strategic departments like the police, health, judiciary and department of defence, which were previously spared the usual budget cuts.

In the period between 2013 and 2016, Kenya has demonstrated high level of dependence on external sources of funding for its huge capital investment in infrastructure projects. For example, the construction of SGR and Northern Corridor project (LAPSET) as well as expansion of roads such as Ngong road, Waiyaki Way have compelled the National Treasury to seek alternative means of funding. Donor funding has been considered suitable for the large capital investment hence the dependence on foreign aid from China. The case of large capital investment in infrastructure projects explains the extent to which the government is unable to mobilise internal sources of funding to support the projects. It therefore follows that Kenya is highly dependent on foreign aid to support key infrastructure projects. The challenge in this case is securing large amount of foreign aid to support large investment projects.

4.3.4 Corruption and Fungibility of Aid

Foreign aid is guaranteed in situations where there is limited corruption and potential for fungibility. Corruption and fungibility of aid are challenges that limit achievement of the purpose of the foreign aid. In Kenya, corruption and fungibility of aid still persist and tends to increase. For example, in the period 2000-2013, cases of corruption were not as much as high as in the

period 2013 and 2016. There has been increase in corruption levels in Uhuru government than Kibaki government. It is estimated that more than 30% of Kenya's budget is wasted through corruption yet significant proportion (at least 10%) of the budget is donor supported. This indicates that at least 30% of the donor funds are also misappropriated through corruption.

Corruption cases affecting foreign aid supported projects were reported in the Health Sector in 2013-2016. It is estimated that more than USD 10 million were unaccounted for in the Ministry of Health out of which more than 30% were donor funds. For example, there was no economic value in the purchase of mobile clinics from China with an exaggerated cost of more than 200%. Also, more than USD 10,000 were unaccounted for in the purchase of HIV/AIDS management drugs by the Ministry of Health. These cases explain the extent to which corruption affected donor projects in the Ministry of Health.

The tendency to misappropriate foreign aid resources results from fungibility of foreign aid. In most cases, foreign aid is disbursed as money which is highly fungible. The ease with which foreign aid in form of money can be used for other unintended purposes is always high. For example, the cases of corruption in the Ministry of Health demonstrate that part of the foreign aid money was used by Ministry of Health officials to organize workshops in high end Hotels that were not necessary. Also, the money was used to advance allowances (travel, per diems) to officers who instead of reaching to the targeted people (HIV/AIDS patients). In addition, one of the former senior officials at the Ministry of Health is alleged to have constructed a house worth USD 10,000 obtained from the Ministry of Health part of which were proceeds of foreign aid.

Government officials have also been misappropriating donor funds meant to address major issues in Kenya. For example, the World Bank supported the Youth Fund known as *Kazi*

kwa Vijana program in 2010-2012 period. The Youth Fund was meant to support youth create employment opportunities especially in slums. The program was designed to support youth engage in cleaning of slums and other civic duties thereafter paid accordingly. However, it was reported that the money was misappropriated by corrupt government officials in what was referred to as “kazi kwa vijana, pesa kwa wazee”. The corrupt government officials never paid the youths who had offered services and instead money meant for their compensation was misappropriated.

The cases of corruption and fungibility demonstrate the extent to which fungibility and corruption remain a challenge in the effective utilization of donor funds. In the health sector, while more than half of its budget is supported by donor funds, corruption and fungibility lower the quality of the services offered. In the case of mobile clinics that were never supplied, expectant mothers in marginalised Counties continue to undergo maternal health challenges including maternal and child mortalities. An IMF study on effect of corruption on provision of health care services revealed that corruption contributes to high levels of child mortality. This indicates that some of the health indicators have not been fully achieved due to increase in corruption cases involving donor funds.

Corruption and fungibility of donor funds are considered high in procurement systems for health supplies. In the case of Kenya Medical Supplies Agency (KEMSA), it has been revealed that unaccountability is endemic in procurement of medical supplies. This situation has continued to make donor funds ineffective as there is overpricing of medical supplies which makes donors to pay for more than market rates. This is a form of corruption that has resulted into donors such as Global Fund to improve procurement systems of KEMSA by installing more controls.

Donor funds intended to improve health care have been rendered ineffective due to cases of corruption. For example, in the fight against HIV/AIDS, Global Fund and other donors have continued to provide funds for procurement of quality drugs. However, sub-standard drugs have continued to be procured at lower costs thereby providing opportunity for corrupt officers to pocket 'saved' money. In another situation, some corrupt officers have engaged in other corruption forms such as hoarding of the drugs paid for by donors.

In view of the cases of corruption and fungibility of aid, it has emerged that donor aid is rendered ineffective and intended impact is not realized. In the case of health sector, the health indicators are not fully addressed yet donors play critical role in Kenya's blue prints such as Vision 2030. Investing in people's health is considered as one of the major aspects of the social pillar in Vision 2030. The need for investment was informed by many gaps in the health sector. The gaps include lack of adequate resources to support preventive and curative health care programmes. Also, lack of access to universally accepted health care and lack of awareness of people on good health care practices have continued to be major causes of poor health care in Kenya. It is on such basis that donor funds were intended to reduce disease burden in Kenya. However, with increase in corruption, Vision 2030 and other Universal Health Care programmes will not be achieved.

In the case of Youth Fund, the loss of donor funds indicates that the burgeoning cases of unemployed youths will not be addressed effectively. As rate of unemployment remains high in Kenya, participation of donors in addressing this issue might be limited especially when donor funds are channeled through government. If government programmes for youths are not fully supported by donors, the achievement of indicators such as number of empowered youths will be difficult. The impact of unsupported youth programmes is likely to be dire especially cases of

drug abuse and crime unless donors seek alternatives. Corruption and fungibility of donor funds therefore limit achievement of the intended purpose of the foreign aid.

4.4 Management of Foreign Aid Challenges

Managing the challenges resulting from utilization, coordination and disbursement of foreign aid is paramount in achieving the intended purpose of foreign aid. Several measures are implemented and include self-economic sustenance measures as well as bilateral and multilateral interdependence. Others include result-based approach, donor monitoring, accountability and transparency frameworks.

4.4.1 Self-economic Sustenance Measures

In the strategic plan of 2013/2014-2017/2018, the government of Kenya identifies reliance on foreign aid as one of the challenges impeding self-economic sustenance. In the strategic plan, the government proposes to reduce overreliance on foreign aid by building self-sufficiency revenue generation systems. This implies that donor funds will not form part of the revenues for government budget. Under this proposal, the government began phasing out the donor funds in its budget. While this may take a long period of time, the donor funds will not form part of the government budget hence making Kenya self-reliant.

However, to achieve this there is need for the government to utilize current donor funds in its budget by closing gaps in its budget. For example, while transport, health and education sectors consume large amount of donor funds, the government has begun increasing its tax base as a means of increasing its revenue sources. Also, the government is focusing on large infrastructure development as a multiplier in the economic growth hence increasing revenues in the future that would limit reliance on foreign aid.

4.4.2 Bilateral and Multilateral Mutual Interdependence

There is wide acceptance that addressing the challenge related to overreliance of foreign aid is through bilateral and multilateral mutual interdependence. In the case of Kenya relying on China for its large capital investments, mutual interdependence is considered suitable in addressing balance of payments deficits as well as budget deficits. The government has embarked on increasing trade with China aimed at increasing revenues that will support sustenance of budget. For example, in the period between 2013 and 2016 Kenya increased export value to China by more than USD 30,000 while China had exported goods worth USD 80,000 to Kenya which represented 6% increase in net trade compared to 2000-2013 period. The increase in net trade is associated with increased partnership between Kenya and China.

The bilateral interdependence between Kenya and China is meant to secure partnerships that are crucial in fostering trade where the returns made by China are then forwarded back to the Kenya as foreign aid aimed at influencing policy and fostering friendship for continued trade. This explains the increased influence of China in Kenya's trade policies where China is favoured over Western countries. In view of the mutual interdependence, there is commitment by each country to benefit the trade relationship thereby reducing limitations to acquisition of foreign aid by a partner in need of the aid.

4.4.3 Result Based Management Approach

Result Based Management (RBM) approach is one of the approaches in managing projects and programmes initiated and supported by donors. RBM approach focuses on the results of the project or programme. The approach seeks to focus management functions on the results or intended purpose. In donor funded projects, RBM is increasingly applied especially in highly risk situations characterized by corruption and fungibility. This approach ensures that all

inputs and processes yield intended results. To achieve this, donor supported projects and programmes are designed in a way that results should be achieved at certain periods and stage before approval is given for continuation. Satisfaction of the donors at one stage supports an approval of the project to continue to another stage.

In Kenya, RBM is increasingly applied in all sectors receiving foreign aid. For example, in Ministry of Education, achievement of some results such as enrolment rates has supported the increased funding of other items such as textbooks. In this approach, it is difficult to justify the number of textbooks required without providing corresponding number of learners that emanates from enrollment rates. In this case, one activity's results are supportive evidence or justification for another activity. Considering the Free Primary Education in totality, the donor funded programme therefore has several components (enrollment, teaching and learning resources and fixed resources for learning such as classrooms). Each of the component relies on the other hence the need to demonstrate results in one of the components before funding is provided for the other component.

RBM approach is also linked to performance contracts where persons involved are expected to focus on agreed targets before payment is done. In this regard, donor aid is only made available upon confirmation of results. This approach limits cases of misappropriation of donor funds. The RBM approach therefore suitable in NGOs hence the preference of disbursement of foreign aid through NGOs over government where performance contract is limited to enforce.

4.4.4 Donor Continuous Monitoring

Continuous monitoring is an integral activity and process in the management of foreign aid. This process involves continuous acquisition of data about progress of the donor supported

project. Continuous monitoring of donor projects provides crucial linkage between implementation and design of the project. Ordinarily, donor funded projects have monitoring and evaluation framework that describes the objectives of the project together with targets and indicators. From this relationship, measurement of the performance of the project is obtained from the comparison of the actual performance against the targets or intended outcomes.

The information obtained from continuous monitoring supports managers of donor funded projects to track achievements make timely decisions. This ensures accountability, and provides the basis for evaluation and learning. In Kenya, continuous monitoring of donor funded projects has been enhanced in the period 2000-2016. The adoption and utilization of UNDP and USAID monitoring and evaluation frameworks (logical framework) in all donor projects has improved accountability. This was intended at addressing challenges such as unrealistic projects, corruption, ineffective utilization of donor funds as well as fungibility in donor funded projects.

Continuous monitoring has the expectation of reporting the progress of the project. In this case, managers of donor funded projects are expected to provide periodical reports about milestones achieved against intended timelines. Given that most donor funded projects are public, it is incumbent upon government and NGOs to give timely updates to the public about the progress of the project. For example, in 2016 the government of Kenya opened a web portal for reporting performance of projects including donor funded projects. This move was aimed at informing the public on the progress of each project. NGOs are expected to file annual project returns to the NGO council as part of their accountability obligation. In these scenarios, donors are therefore provided with continuous data about the progress hence increasing confidence in the projects.

4.4.5 Accountability and Transparency

Accountability and transparency are two principles that are inseparable from foreign aid supported projects. Before donor aid is disbursed, the receiving entities are assessed against accountability and transparency. In addition, the entities receiving donor aid are also expected to declare the extent to which accountability and transparency will be safeguarded. The need for accountability and transparency is intended to provide sense of comfort to donors that funds and other donor resources will be utilized effectively.

In Kenya, accountability and transparency in donor funded projects is intended to safeguard against corruption and fungibility. The emphasis on accountability and transparency is also intended at promoting effective coordination and utilization of donor funds. For example, in the period between 2003 and 2013, the government compelled Cabinet Ministers to regularly present reports to the National Assembly about the implementation of government projects. The reports presented provided information on financing mix of the project (proportion of government funding and donors), activities and amount of money spent, activities and amount of money remaining.

In the period between 2013 and 2016 the government was initiated measures that would promote accountability and transparency. The measures initiated included declaration of beneficiaries of the project as well as roles of each player and the performance achieved. Through its web portal, the government provided crucial information to the public as part of the its obligation on supporting the right to information. These cases of accountability and transparency demonstrate the extent to which foreign aid projects are managed.

4.5 Conclusion

This chapter has demonstrated that foreign aid in Kenya is managed by both government and non-governmental institutions that have continued to register successes and failures in the management of foreign aid. This chapter has also demonstrated that while there have been significant successes of foreign aid, challenges related to foreign aid limit the success registered. The challenges of foreign aid are both institutional and systemic. Also, the challenges of foreign aid are not only local but also international. In this regard, attempts of managing the challenges have been put in place but it seems that more time is required to address all the challenges.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

The main objective of this study was to assess the impact of foreign aid on Kenya's economic development. The study specifically investigated the types, intended purpose and major trends in foreign aid received in Kenya between 2001 and 2016. The study also examined the state and performance of Kenya with foreign aid between 2001 and 2016. In addition, the study assessed the major challenges and controversies associated with aid administration in Kenya.

5.1.1 Types, Intended Purpose and Major Trends in Foreign Aid

On types, intended purpose and major trends in foreign aid received in Kenya between 2001 and 2016, the study established several types, purposes and trends in foreign aid. The Kenyan economy has progressed from receiving financial aid in the early 1960s and 1970s to creating bilateral and multilateral ties with various parties in the past decade. Countries such as China and India are replacing the UK and the US as the majority donors in Kenya, as the country switches its allegiance to the East. Although a majority of the tied aid received by Kenya may be detrimental, the economic gains from such investments will benefit the country in the long run. For example, the large investment in infrastructure projects such as SGR obtained through foreign aid will support Kenya's economic growth and development after its completion. It is estimated that more than half of the cargo from Mombasa Port will be transported through SGR internal dry port or container depots in Nairobi and Naivasha. While the SGR has not fully achieved its return on investment, the completion to Busia and eventually Uganda will therefore be a game changer in commercial activities in East Africa. Transport and storage of merchandise, finished and raw materials will therefore be easier hence low costs of business.

Currently, Kenya is receiving foreign aid that is aimed at improving sustainability in growth and development. The aid is compound as it is provided by several parties including MNCs and TNCs engaged in petroleum and telecommunication services. The aid is also compound as it includes grants and loans from international financial institutions such as IMF and World Bank. Aid is also received from bilateral countries such as China, UK, Japan and US. The aid is also provided in Kenya strictly as program or project-based aid as well as tied. In view of these forms of aid, it is emerging that Kenya has transformed into obtaining bilateral aid from China that is tied and program or project based.

The study also established that there are various benefits for partnering in foreign for both the donor and the recipient, and they include better international relations, development for both countries albeit disproportionately, political mileage for the donors, as well as a sure market for goods and services. Newer trends in the giving of aid ensure that Kenya has a say in how they invest the funds, while the conditions are also analyzed to ensure they favor the country. Currently, Kenya is considered a suitable destination for foreign investments in East Africa region. This situation therefore provides opportunity for foreign investors to support Kenya in attaining a favourable business status in the region. The achievement of this status relies much on foreign aid channeled to business support initiatives such as infrastructure development. Foreign aid in Kenya is therefore a strategic factor that will place Kenya on the international business map.

The study also established that Kenya continues to receive foreign aid for development, commercial and political purposes. In this kind of arrangement, political purpose is the major determinant as the decision to acquire commercial or development aid from China more than the West is political. The political decisions made by Kibaki and Uhuru have shown tendency of

preferring China over UK, US and other Western countries. This situation supports the political economy theory where Stanely Jevons (1965) opines that whoever has the elements of political economy is in possession of knowledge of whole science of controlling the relationship between political units. In this regard, political leaders make choices on when and where development aid or commercial aid will be obtained. This explains the reason of Kenya government focusing on special areas of interest in infrastructure development supported by China. This selective approach gives China special rights than the West. This is pure political as interests define the extent to which resources can be allocated or shared.

5.1.2 State and Performance of Kenya with Foreign Aid

On state and performance of Kenya with foreign aid, it was established that that donor funds are critical in Kenya's economic, health, governance, education and environmental systems. It was also established that donor funds have been on the upward trend. The increased donor funds in many sectors in Kenya have improved many outcomes including positive economic growth, good governance systems, improved health care indicators, increased enrollment and learning outcomes in education as well as sound environmental management practices.

Based on the trends of foreign aid observed, there are two major distinct aspects. The first aspect is that foreign aid is solicited to support infrastructure development. This explains that the government's interest is placed in infrastructure development hence the need for seeking foreign aid to support this sector from China. The second perspective is that Kenya receives unsolicited aid to support health, education, governance and environmental aid. This comes mostly from West. The solicited aid therefore supports the political economy theory where political interests

are pursued to ensure that China becomes the strategic partner in development and commercial aid.

In another situation, the unsolicited aid supports the dependency theory which states that foreign aid is obtained when there are imbalances in the economy. Since Kenya's needs in health, education, governance and environmental are high, the available resources are insufficient which attracts the interest of the West to fill that gap. In this scenario, Kenya becomes dependent on the West to support social and environmental systems. However, while Kenya's political interests are favouring commercial and development aid, the unsolicited aid remains significant hence Kenya's continued dependency on the West for social and environmental aid.

5.1.3 Challenges of Foreign Aid

On major challenges and controversies associated with aid administration in Kenya, it was established that foreign aid in Kenya is managed by both government and non-governmental institutions that have continued to register successes and failures in the management of foreign aid. This chapter has also demonstrated that while there have been significant successes of foreign aid, challenges related to foreign aid limit the success registered. The challenges of foreign aid are both institutional and systemic. Also, the challenges of foreign aid require not only local solutions but also international. In this regard, attempts of managing the challenges have been put in place but it seems that more time is required to address all the challenges.

The governance structures exhibited at National and County governments as well as legal frameworks seem insufficient to address aid challenges such as corruption. Currently, the existence of Central government including Ministries, Agencies and Parastatals and Counties, Civil society groups, NGOs and religious societies seem overwhelmed by the challenges related

to misappropriation and foreign aid. The Public Finance Management Act (2016) supplementary legislation, the National Government Affirmative Action Fund has not fully realized the intended purpose of proper management of grants and donations. In addition, The NGO Act 1990 (revised 2012) of Kenya has also not supported full achievement of the donor goals in managing aid in NGOs.

The ineffectiveness of the governance systems in managing aid are attributed to donor-based factors as well as recipient-based factors. Donor based factors include aid conditionalities that require the recipient to conform to conditions such as revising social, economic and political systems to suit the needs of the donor. The conditions have been difficult to implement especially together with foreign utilization. This situation contributes to one of the major challenges of managing foreign aid by recipients. In this context, Kenya's ability to manage conditionalities has been a challenge hence aid ineffectiveness.

Recipient factors also contribute to challenges of managing foreign aid. Factors such as low capacity in coordination of aid, dependency as well as corruption and fungibility are endemic to Kenya's ability to manage foreign aid. The factors are systemic and institutional hence need for overhaul of the systems and institutions expected to manage foreign aid. However, while there have been attempts in addressing the challenges, donor-based initiatives such as continuous monitoring seem to add more restrictions in the utilization of foreign aid. To Kenya, donor instituted measures in managing aid are extended conditionalities.

5.2 Testing the Hypothesis

This study sought to test whether foreign aid significantly impacts on economic development in Kenya or not. The study also sought to test whether the impact of foreign aid in Kenya is diminished by diversion of aid and corruption or not. This study has established that there is enough evidence indicating that foreign aid significantly impacts on economic development in Kenya. The successes of foreign aid in Kenya explain that donor funds are critical in Kenya's economic, health, governance, education and environmental systems. Donor funds have been on the upward trend and have improved many outcomes including positive economic growth, good governance systems, improved health care indicators, increased enrollment and learning outcomes in education as well as sound environmental management practices. The study therefore accepts the first hypothesis that foreign aid significantly impacts on economic development in Kenya.

On the second hypothesis, the study has also established that corruption is significant in Kenya and this has affected several sectors largely funded by donors. However, while there are cases of corruption and other challenges related to management of foreign aid, the challenges have not significantly diminished the successes of aid. The attempts of managing the challenges have significantly countered the challenges. In this regard, Kenya continues to thrive on foreign aid despite a few challenges. Therefore, there is insufficient evidence indicating that impact of foreign aid in Kenya is diminished by diversion of aid and corruption. This study therefore rejects the second hypothesis that the impact of foreign aid in Kenya is diminished by diversion of aid and corruption.

5.3 Conclusion

In view of the findings of the study, this study concludes that foreign aid in Kenya is a necessary evil as it is beneficial to many sectors of the economy despite the challenges encountered in the management of the aid. The country will therefore continue to depend on foreign aid unless her internal economic drivers are improved to generate more revenue to be used in developmental projects. The study also concludes that due to systemic and institutional challenges, it will take more time to manage all challenges related to foreign aid. The situation in Kenya on foreign aid therefore represents similar case in East Africa countries that are undergoing economic development dependent on foreign aid.

5.4 Recommendations

This study recommends:

1. To enhance the positive effects of foreign aid on economic growth, development partners and the Government of Kenya should work towards aid that supports economic ventures where profits accrued should be used to repay donor loans. These initiatives could develop the trade-related skills and infrastructure needed to implement and benefit from trade agreements and to expand their trade. In this case, projects supported by donors will be sustainable and used to support other projects.
2. The Government of Kenya should strike a balance between her efforts towards sustainable debt management and the growing public investment needs particularly in the infrastructure sector. Alternative financing mechanisms for public investment such as infrastructure bonds could be explored. In another case, internal borrowing supported through public private partnerships for mega projects should be explored to promote ventures where profits proceeds will be used to repay internal debts. In the public private

partnerships, one possible way could be through risk sharing initiatives such as loans and guarantees. This enhances cooperation with the private sector to support large capital investments.

3. The government of Kenya with support from donors should continue improving governance systems to reduce cases of corruption, fungibility of aid as well as ineffective utilization and coordination of foreign aid. Measures such as severe punishment for persons engaged in corruption should be explored.

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