

**THE RELATIONSHIP BETWEEN FINANCIAL MANAGEMENT  
REFORMS AND THE ECONOMIC PERFORMANCE OF PUBLIC  
SECTOR IN KENYA**

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## DECLARATION

This Research Project is my original work and has not been presented or published for the award of any degree in this or any other university

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## **DEDICATION**

To God, my divine inspiration, my family and friends.

## ABSTRACT

Financial Management Reforms are developments and changes overtime in the field of finance. They are important since they lead to prudent allocation of financial capital. Economic performance deals with the changes on the economic value for money, wealth, debt and investment. The study used the economic unit performance contracting results as the measure of performance. Despite increased reforms in public sector financial management approaches, the Kenyan economic performance has not been impressive leading to a situation referred to as “the paradox of plenty” i.e. plenty financial reforms without much impact in the economy. The study therefore sought to answer the question whether there was relationship between financial management reforms and the economic performance of the public sector in Kenya. The study’s main objective was to determine the relationship between financial management reforms and the economic performance of the public sector in Kenya. The study used descriptive survey design. The population was the 42 ministries and departments that were in existence during the period of the study. The study was carried in Nairobi. Data was collected from secondary and primary sources. Primary source was from senior managers from administration, finance, accounting, audit departments through the use of questionnaires. Information was obtained for five (5) years between financial years 2007/2008 – 2011/2012. Analysis was done using multiple regression and SPSS for quantitative analysis. The study established three types of financial reforms .They include budgetary, accounting and auditing reforms. It further established that there was notable increase in the number of financial reforms undertaken by the Ministries within the study period. The study also showed that majority of the financial reforms were part of the performance contracting targets. In addition, the study revealed that majority of the respondents agreed that the financial reforms achieved more than 50% of their intended objectives. The study indicated an improvement in the economic performance on the Ministries/departments over the five (5) years. The study further revealed that there was a strong positive correlation between financial management reforms undertaken and the economic performance of various Ministries and departments. There was therefore a demonstration that there should be an increase in the number of financial reforms for improved economic performance that are part of performance targets of the public sector and also see to it that the reforms meet their intended objectives through proper monitoring and evaluation of the reforms prior and after being undertaken. This would greatly improve the performance of the public sector which translates to better economic performance of the country.

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## **LIST OF ACRONYMS AND ABBREVIATIONS**

EFT	Electronic Funds Transfers
GDP	Gross Domestic Product
PFM	Public Financial Management
UK	United Kingdom
UNDP	United Nations Development Program
USA	United States of America

# CHAPTER ONE

## INTRODUCTION

### 1.1 Background of the Study

Financial reforms in the USA were necessitated by the failures that led to crisis and required bold action. These actions were necessary in order to restore responsibility and accountability in the financial system to give Americans confidence that there was a system in place that works for and protect them. There was a need to create a sound foundation to grow the economy and create jobs, the reforms were on improving the banking regulations, creating transparency and accountability for derivatives, hedging funds and on insurance (Dodd, 2010). President Obama while trying to deal with economic problems had to sign into law the financial reform bill 101. This targeted to overhaul the larger part of the financial system in USA.

Economic performance may be analyzed after performance has been measured. Mini and Garima (2010) held that “If you cannot measure, you cannot control, if you cannot control, you cannot manage, if you cannot manage, you cannot deliver”. He further held that performance measurement is the design, implementation and use of quantifiable indicators to judge success. It involves political, managerial and technical aspects of the organization. It is composed of inputs, processes, output, program outcome and policy outcome. Among the measurement tools include the public sector value model which is based on Mark Moore’s *Strategic Triangle* which holds that Government organizations are caught between competing pressures to increase outcomes, while reducing costs i.e. “Do more with less”. The triangle’s one aspect is on the pressure to increase outcomes a duty for the Ministers and politicians while the other aspect is on the public sector value

creation which is a duty for the citizens of the state and the third aspect is the pressure to reduce costs a responsibility for the treasury.

The overall performance of Kenya's economy since independence has remained “mixed.” Upon attainment of independence in 1963, the economic aims of the new government were carefully set out in Sessional Paper No. 10 of 1965 on African Socialism and its Application to Planning in Kenya. In the 1964-73, the economy grew steadily and rapidly at an average rate of 6.5 percent. However, in 1973 decade, the oil crisis slackened growth to 5 per cent per annum with little change in per capita incomes. The period 1976-86 witnessed the intensification of these problems, which culminated in the drawing up of Sessional Paper No. 1 of 1986 on Economic Management for Renewed Growth. This policy document set to renew the economic recovery and growth through a process of liberalization. The Sessional Paper proposed a number of fiscal and monetary policy reforms that were far reaching in terms of further opening up of the economy. It set off the process of undertaking far reaching institutional and structural reforms in the economy (Institute of economic affairs, 2002).

### **1.1.1 Financial Management Reforms**

Financial management reforms are defined as the developments and changes overtime in the field of finance. They explain that by the mid -1950s finance moved away from its descriptive and definitional nature and became more analytical. One of the major advances was the decision-oriented process of allocating financial capital (money) for the purchase of real capital (Long term plant and equipment).Modern financial management has focused on risk – return relationships and the maximization of return for a given level of return (Block, Hirt & Danielson, 1978).

Financial management reforms further means improvements or amendments on the management of spending, revenues, taxation, borrowing, debts, foreign reserves, foreign exchange system, level of liquidity in the economy and finance auditing in order to achieve some stated objectives by Institute of economic affairs (2002).

Financial management reforms are important in that they lead to prudent allocation of financial capital for the purchase of real capital. It further enables reorganization of financially troubled organizations. The reforms lead to optimal management of cash, inventory and development of appropriate dividends policies (Block et al. 1978).The reforms assist in dealing with fiscal crisis, public pressure, donor pressure, political change including post- conflict situations and the demands of regional affiliations .Strong Public Financial management systems are essential to improved service delivery, poverty reduction and to achievement of the Millennium Development Goals. Effective PFM systems maximize financial efficiency improve transparency and accountability, and in theory – will contribute to long-term economic success (Pretorius & Pretorius, 2008).

Financial management reforms are measured through various methods which includes measurement through budgetary reforms which help in risk management. Accounting reforms are also used as a measure they could entails moving from manual systems to the use of internets. Use of internet led to the internet craze of the 1990s that resulted to the “new economy’ (Block et al., 1978). Implementations of audit recommendations and paradigm shifts of the audit practices are a critical part of the financial reforms measurement. Auditing provides budget oversight and controls (Pretorius et al., 2008).In addition monitoring and evaluation has been used to measure the performance of these reforms coupled with observation and experience.

### **1.1.2 Economic Performance**

Economic performance is defined as changes in divisions of a country's population based upon the economic area in which that population is employed or Changes in an areas of the economy in which businesses share the same or a related product or service (Business Dictionary, 2003).

Many economists recognize the following five economic sectors; the primary sector which includes agriculture, mining and other natural resource industries; the secondary sector covering manufacturing, engineering and construction; a tertiary sector for the service industries, the quaternary sector for intellectual activities involving education and research and the quaternary sector reserved for high level decision makers in government and industry (Business Dictionary, 2003).

Economic Performance is important in that it deals with the changes on the economic value of money, wealth, debt, and investment. This may include issues such as economic productivity which deals with changes in economic activity and the expansion of overall wealth (Sustainable Development Indicator Group, 1996).

The economic sectors performance may be measured by the sectors composite scores on their performance targets as indicated by the performance evaluation results from performance contracts.

### **1.1.3 Relationship between Financial Management Reforms and Economic Performance**

There is a significant positive relationship existing between financial management reforms and economic development. Rostow stage theory (1960) held that economic

performance is affected by fiscal discipline and institution reforms. Under the progressive state theory, smith (1776) noted that prudent management of public finance as a progressive state of maintaining high standard of living for people and thus their economic conditions. Nwezeaku (2010) held that the persistent underdevelopment of the economies of sub-Saharan Africa can be explained by financial management failure.

Various studies have depicted both positive and negative relationships between financial management reforms and economic performance. McKinnon (1973), Chaudhry (2006), Mohsin and Semlali (2000) concluded in their studies that there is a significant positive relationship between financial management and economic performance. Bash & Taylor (1999) noted that a negative relationship between financial development and macro-economic fluctuations exists only in developed countries. Fitzgerald (2006) concluded that potential contribution of financial development to economic growth is considerable but cannot be taken for granted and it depend on the construction of appropriate institution structure.

#### **1.1.4 Public Sector in Kenya**

Kenyan public sector is made up of various economic sectors. These include agriculture, tourism, health, education, infrastructure, communication, water and sanitation, energy, among others more sectors are indicated in appendix II. The overall performance of Kenya's economy since independence has remained "mixed" (Institute of economic affairs, 2002).

Kenya is regional hub for trade in East Africa. The country has a market-based economy with a liberalized foreign trade policy. Over reliance on agricultural production and

tourism makes the economy vulnerable to international market highs and lows. Kenya's GDP has been inconsistent since its independence in 1963. During the initial years of independence, the country achieved high economic growth of 6%, which declined to below 4% in the following decades. In the 1990s, Kenya's GDP fell to below 1.5%. In 2000, the IMF and World Bank offered loans to the country to prevent a severe economic crisis with GDP growth falling to 0.2% (Economic watch, 2010).

Inflation is also a serious concern for the growth of the Kenyan economy. Since 2004, the inflation rate has consistently been above 9%. However, owing to the political instability and budget deficits, it reached 26.3% in 2009. Corruption is the biggest impediment to Kenya's economic growth. Following the 2005-06 foreign aid frauds, international agencies delayed fund advancements. The post-election violence in 2008 worsened the economic conditions. Thus, without the establishment of political stability, Kenya's economic growth will remain volatile (Economic watch, 2010).

## **1.2 Research Problem**

There is a significant relationship existing between public sector financial management reforms and economic development. The persistent underdevelopment of the economies of sub-Saharan Africa can be explained by public sector financial management failure (Nwezeaku, 2010). Public sector financial management involves planning and budgeting then budget execution i.e. procurements and accounting etc. then auditing. This is according to the framework on state public financial management reform, Government of South Sudan (2010).

In the recent past there have been attempts by the Kenyan public sector to improve its financial management's approaches. Some of the recently introduced public sector financial management approaches include public participation in budget making, establishment of various financial officers such as the controller of Budget, Auditor General and institutions such as The National Treasury (Constitution, 2010). These are quite recent and their effect may be experienced in future.

However there are other reforms that are a bit old and thus could have had effect on the economic sectors these include program based budgeting, Integrated Financial Management Information System (IFMIS) an internet based accounting system linking various Ministries/departments and counties to a central place at The National Treasury under a distinct department, Risk based Auditing, establishment of audit committees, use of information technology in carrying out audits among others.

Despite these increased reforms in public sector financial management approaches, the Kenyan economic sectors performance has not been impressive leading to a situation referred to as "the paradox of plenty" i.e. plenty financial reforms without much impact in the economy.

Previous related studies have not focused on public sector financial management reforms and the economic sectors performance. Ochieng (2009), for instance, conducted a study of the impact of foreign direct investments on the economic growth. Ileri (2009) conducted a study on the challenges of operational budgeting at the Ministry of Finance in Kenya. This study was therefore motivated by the knowledge gap. It therefore sought

to answer the question whether there was relationship between financial management reforms and the economic performance of the public sector in Kenya.

### **1.3 Objective of the study**

General Objective:

The study's aim was to determine the relationship between financial management reforms and the economic performance of the public sector in Kenya.

Specific Objectives were:

1. To determine the various public sector financial management reforms.
2. To assess the economic performance in Kenya.
3. To establish the relationship between financial management reforms and the economic performance of the public sector in Kenya.

### **1.4 Value of the Study**

This study provides critical reference on matters regarding the key financial reforms that would accelerate economic performance in the country. It would also highlight financial measures that need to be undertaken so as to facilitate economic sectors development. In addition, it will highlight which financial reforms would be given great emphasis by various stakeholders for the sake of the economy.

The study would be of much value to the policy makers within Government .They include the Cabinet Secretaries and Principal Secretaries/Accounting officers in the various Ministries and Departments since they each fall under a certain sector within the

economy. And may need to know how best they could improve their performance from the financial management perspective. In addition, this study will assist entrepreneurs especially consultants on the various reforms they should be researching on due to their contribution to the economy and would be bound to be consulted on by the various entities within the economic sectors.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

This chapter provided theoretical and empirical information from publications on topics related to the research problem and summary of the literature review. It also examined what various scholars and authors had written about financial management reforms and economic performance in the public sector.

#### **2.2 Theoretical Framework**

There are several theories that have been undertaken, they included:

##### **2.2.1 The Rostow Stage Theory**

This theory posits that it is possible to classify societies into five categories based on their level of economic development namely the traditional society, the preconditions for take-off, the take-off into self- sustaining growth, the drive to maturity and the age of high mass consumption. Here economic growth and development is assumed to be affected by policy formulation, policy planning, budgeting, fiscal discipline and institutional reforms all of which must be an integral part of public sector financial management (Rostow, 1960).

The implication of the above theory on the study was that the economic development was affected by fiscal discipline which was a critical component on the financial management reforms. In addition, it advocated for institutional reforms which may includes financial institutions.

### **2.2.2 The Musgrave Theory of Expenditure Growth**

Musgrave posits that changes in the income elasticity of demand for public services exist at three stages of per-capita income of the citizenry. At a low level of per-capita income (typical of pre-industrial societies in developing economies), demand for public services tend to be generally very low because nearly all incomes are devoted to satisfaction of primary needs. At this state, public expenditure is also at a low level. When per-capita income starts rising, a demand for public services supplied by the public sector such as health, education and transport services starts rising which engenders the need for government to increase expenditure on them. The last stage is at the higher levels of per-capita income typical of advanced economies. Here the rate of public sector growth tends to fall as the more basic needs are satisfied (Musgrave as cited in Gemmell, 1993).

The implication of this theory on the study was that it identified the level that the public sector needed more controls and structures due to demand of its services. The Kenyan public sector is at the second stage where per –capita income for its citizenry had been rising but had not reached an optimal level. While at these second stage Kenya as country was in great need for great fiscal measures that could only be implemented through financial reforms.

### **2.2.3 The Progressive State Theory**

Smith (1776) asserted that the progressive state is one which is in reality the cheerful and hearty state to all the different orders (groups) of the society or country. Smith saw prudent management of public finance as contributor to a progressive state for maintaining high standard of living for people and high per capita income over time.

The implication of this theory on the study was that it demonstrated that prudent financial management had potential to influence the economic wellbeing of the society .And therefore demonstrated a positive relationship between financial management and the performance of the economy.

#### **2.2.4 Wagner's Law of Expanding State Activity**

This law which Adolph Wagner formulated towards the end of the nineteenth century states that as the per-capita incomes, growth, urbanization and increased enlightenment on the part of the electorate increase, so will the relative share of public sector in national output. These increases which he argued resulted from inevitable centralization of economic functions and increasing complexities in legal relationships is a product of the quest for economic development, as well as the increased need for industrializing nations to spend on culture and welfare. Wagner also opined that public expenditure must increase as a result of the need to increase economic development in cases where there is evidence of market failure (Wagner as cited in Gemmell, 1993).

The implication of the study was that the per-capita incomes, growth, urbanization and increased enlightenment on the part of the electorate had been on an upward trend and so would the relative share of public sector in national output. These outputs required to be optimal and therefore required necessary changes in various sectors including financial sectors. Wagner also opined that public expenditure must increase as a result of the need to increase economic development in cases where there was evidence of market failure. Increases in expenditure required fiscal discipline through institutionalization and implementation of various financial reforms. While Kenyan market had not failed, it was prudent to hedge it from any possible failure.

## **2.3 Measures of Financial Management Reforms and Economic Sector Performance**

There were various measures of financial management reforms and economic performance, some were discussed below:

### **2.3.1 Financial Management Reforms**

Financial management reforms could be measured through changes that were undertaken in the budget and the budgetary process. It was important to ensure that organization had the resources needed to meet their objectives and budget enabled prediction of the funding needed (Budgeting & Financial management, 2013). Despite the critical importance of budget in financial management it was quite often abused and hardly achieved the targets.

Riedl (n.d) while stipulating the ten (10) elements of comprehensive budget process reform held that the current USA budget process had been subjected to 30 years of abuse from the law makers trying to exploit its structural flaws instead of providing an orderly roadmap for determining the nations annual spending and revenue priorities, the current budget process stifles debate, prevents cooperation, and frequently breaks down. The flaws in the budget process were numerous. No statutory spending caps existed that required law makers to set priorities and make trade-offs. Brian concluded by recommending for budgetary reforms that would strengthen budget rule enforcement by closing the plethora of loopholes that currently rendered most budget restraints meaningless on financial management.

Accounting reforms were critical building blocks for the financial management reforms. Accounting reforms were triggered by a number of factors such as paradigm shift due to evolving public financial management, need for reliable and real time information about government finances and the fact that accounting systems were being revisited the world over (Preeti, 2012).

Some of the accounting reforms initiative by the Government of India included establishment of Government accounting standards advisory board in 2002, Technical committee on accounting standards in 2006 and 2<sup>nd</sup> Administrative reforms commission 14<sup>th</sup> report, broadly endorsed accrual accounting in 2009 (Preeti, 2012). Some of the reforms that had taken place under accountancy included a shift from use of manual systems to internet based system known as Integrated Financial Management Information System (IFMIS) and a reduction of cash payments. Most payments were undertaken through electronic fund transfer (EFT) system.

Auditing reforms enhanced oversight over financial management in organizations. In 2002 in USA a bill known as Sarbanes –Oxley Act of 2002 was enacted as a reaction to a number of major corporate and accounting scandals including those affecting Enron, Tyco International, Adelphia, Peregrine systems and World com. It set new and enhanced standards for all USA public companies, boards, management and public accounting firms. Some of the various auditing reforms that had taken place in Kenya included shifting from pre-auditing to post auditing which began by systems auditing, then risk based auditing and government entities were then undertaking both risk based auditing together with value for money audit. In addition, the Government had started use of

Information Technology in undertaking audit assignments such as use of IDEA and TEAMMATE software.

### **2.3.2 Economic Performance**

The economic performance was measured through evaluation of the various performance composite scores rankings from the performance contracts of the various Ministries and Departments in the Government. Performance contracting was defined as freely negotiated performance agreement between the Government and the respective Ministry, Department or Agency (Office of the prime minister of Kenya, 2010).

In evaluation of the performance contracts, the parameters for performance evaluation were founded on performance criteria categories. For each cluster of public institution, the performance criteria categories and total sub – weight were preset. Under each criterion, a set of indicators were defined. In computing the performance score, the evaluators were expected to determine the level to which the performance of an institution was affected by exogenous factors. The evaluation of the performance of public agencies entailed the rating of actual achievements against performance targets negotiated and agreed upon at the beginning of the year. The resultant scores were computed into raw scores, weighted scores and ultimately denominated into composite scores. The performance contracting composite scores ranged from 1.00 to 5.00 (office of the Prime Minister of Kenya, 2010). In Kenya, the public sector was composed of government ministries and departments which were 42 in number during the period under review. (Appendix II).

## **2.4 Empirical Studies**

A study was conducted by UNDP whose objective was to establish the relationship between various macro- economic indicators of developed and less developed countries. The study used a comparative analysis of seven less developed countries, two developed ones and some of their economic development variables i.e. Labour force, Unemployment rate, Population below poverty line, inflation, GDP by sectors for year 2005. The countries include USA, UK, Nigeria, Ghana, Hong Kong, Singapore, India, Taiwan, and South Korea. The study found out that the Asian countries fared well in many of the economic development indices than the African countries as at 2005 development year. (UNDP, 2006).

Steven and Freinkman (2008) undertook a study with the objective of stocktaking the reforms in public financial management. The authors employed the global standards and the public expenditure and financial accountability (PEFA) framework to assess public sector financial management performance in Nigeria from 1999 to 2007. The study found that the PEFA diagnostics revealed a trend towards a system-wide upgrade in Nigeria's Public Sector Financial Management (PFM) system. However, Nigeria was found to have performed woefully in most of the 28 performance indicators. Some of their findings include, inter alia, overall rapid fiscal expansion which could not translate in improvements in the economic and social conditions. Excessive spending outside the annual budget with extra budgetary spending averaging 42% of the GDP within the preceding three years from 1999, and Poor quality of spending with persistent inefficiency and leakages in both current and capital budgets.

Abdul & Ying (2002) while undertaking a study on financial reforms and economic growth; comparison of china and Pakistan, held that literature suggests ambiguous linkage between financial development and macro-economic volatility .A major chunk of literature suggests that a negative relationship between financial development and macro – economic fluctuations exists only in development countries (Bash& Taylor, 1999).

Ogbonna & Bewel (2012) conducted a study whose objective was to investigate the relationship between tax reforms and economic growth in Nigeria. Time series data was used from 1994 – 2009. The Johansen co-integration test confirmed that a long run relationship exists between tax reforms and economic growth and the granger causality result also shows that tax granger causes economic growth. This goes to show that tax reforms have significantly altered the way the system and their agencies function resulting in improved impacts on economic growth.

McKinnon (1973) further did a study on financial depth – growth on country case studies. The study looked at the financial system and economic development in Argentina, Brazil, Chile, Germany, Indonesia, Korea and Taiwan in the post – world II period. He concludes that better functioning financial system supports faster growth. Gelbard and Pereira Leita (1999) examine the case of sub – Saharan Africa. They found that some progress has been achieved in terms of modernizing the financial sector since mid-1980s but conclude that much remains to be done. They also show some empirical evidence supporting the positive relationship between financial depth and growth for sub – Saharan Africa. The positive relationship and significant relationship between financial depth and growth has also been found in studies using pure time series.

Fitzgerald (2006) did a study whose objective was to determine the linkage between financial development and economic growth. He involved regress growth in 1960-89 for seventy Organization Economic Co-operation Developments and developing countries as a cross-section on previous financial depth in order to avoid endogeneity of the contemporary variable. The study concluded that the potential contribution of financial development to economic growth is considerable, but cannot be taken for granted and it depend on the construction of appropriate institution structure.

Chaudhry (2006) did a study to examine the impact of financial liberalization experienced in Pakistan on macro- economic performance and development. Time series tools of econometrics were used since the main idea behind this study was to measure the usefulness of financial sector liberalization indicators on macro- economic development of Pakistan by using available data. The findings of this study reveals the long – run and short – run relationship between the indicators of financial liberalization and economic growth and investment in Pakistan .This means that financial development improves economic growth in Pakistan.

Mohsin and Semlali (2000) while doing a study on relationship between financial development and economic growth and development in sub- Saharan Africa indicated a positive link between financial development and growth. They further concluded that financial development has a predictive power for future growth and interpret this finding as evidence for a causal relationship that runs from financial development to growth.

Wanjohi (2010) did a study on Kenya and South Africa whose main motivation was to check significance of the hypothesis “increase in financial development reduces the

macro – economic volatility”. The study used the standard deviation of real per capita consumption investment and financial development which includes the additional controls variables and the disturbance term. Real interest rates were also included in the study. It was concluded that higher financial development clearly reduce the macro – economic volatility in these countries. In addition, positively, the financial sector of both countries is doing a far better job after the reforms.

Ngugi & Kabubo (1998) undertook a study on challenges facing Kenyan financial sector. The study involved banking and non- banking institutions, the government and its entities. The study noted that as the Kenya’s general economic condition deteriorated in the early 1980s, the financial sector performance also went down. Despite having a diversified financial system, financial savings remained at a low level. The share of domestic savings held as assets financial with the financial sector averaged 30% in 1984 - 1987, similar to the levels in the 1970. Monetization of transactions fell from 34% to 30% and 29% in 1978 – 1980, 1980-1984 and 1984-1987. In allocation of credit, the government took a substantial and rising share of loanable funds to finance the budget deficit and fund Parastatals. The share of government net domestic credit rose from about 20% in 1978 to 38% in 1986. This led to various constraints on the financial sector and resulted in mounting of a financial sector reform programs.

## **2.5 Summary of literature**

From the literature review discussed above, majority of the economies were affected by the financial management activities. The studies had dealt on the relationships of macro-economic indicators, Reforms in the public financial management and challenges facing

financial sectors. It was therefore clear from all the studies that financial management activities are of great importance for any economic development to be realized.

There had been no known study that had focused on the relationship between financial management reforms and economic performance of public sector in Kenya. This was despite the fact that financial management in the public sector had had numerous reforms in the past. This research therefore sought to fill the gap of knowledge by establishing the relationship between financial management reforms and economic performance of public sector in Kenya.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction methodology**

This chapter describes the research methodology of the study. It describes the research design, target population, data collection procedures and data analysis.

#### **3.2 Research Design**

Research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure (Kothari, 2004).

The study used descriptive survey design. This design refers to a set of methods and procedures that describe variables. It involved gathering data that described events and then organized, tabulated, depicted, and described data. Descriptive studies portray the variables by answering who, what, and how questions (Babbie, 2002). A descriptive study is one concerned with specific predictions, with narration of facts and characteristics concerning individual, group or situation (Kothari, 2004).

#### **3.3 Population**

A population is a group of individual persons, objects or items from which samples are taken for measurements, it is the group the investigator wishes to make inferences from (Babbie, 2002).

The target population was the 42 Ministries and departments that made up the entire public sector, (Appendix IV) as at 31<sup>st</sup> December, 2012. In addition, this study was carried out in Nairobi since all Ministries had their headquarters in Nairobi and issue such as budget for the entire ministry was compiled at the headquarter .In addition, fiber optic cables had only been laid in Nairobi therefore systems such as IFMIS had not been introduced in areas outside Nairobi since it required use of internet connected fiber optic cables. In addition, this facilitated collection of adequate information on the research subject area. Census survey was done for Ministries and departments.

### **3.4 Data Collection**

The research used both primary data and secondary data. Primary data was collected from the respondents who were senior managers in various departments within the 42 Ministries. The respondents were from the following departments administration, planning, finance, accounting and internal audit. The data was collected on the extent of institutionalization of financial management reforms in the various Ministries and departments. Secondary data was collected on the performance contract composite scores for the last five (5) years for each Ministry/Department. This was used to measure the economic performance.

Kothari (2004) noted that there are several methods of collecting primary data, particularly in survey and descriptive researches. Important ones are (1) Observation method (11) Interview methods (111) through questionnaires. In this case, the study used questionnaires. Questionnaires were the most commonly used methods when respondents could be reached and were willing to co-operate. This method could reach a large number of subjects who were able to read and write independently.

### 3.5 Data Analysis

The data was analyzed using a multiple regression equation:

$$y = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \ell$$

Where  $y$  was the ministry /department annual performance contracting composite score evaluation results for five (5) years.  $\beta_0, \beta_1, \beta_2, \beta_3$  were constant and  $x$  was the financial management reforms and  $e$  is the error term. Financial management reforms were measured using three data points;  $x_1$  for budgetary reforms. These reforms included the various key budgetary reforms undertaken by the Ministry/Department within five years.

$x_2$  was for accounting reforms .The reforms included the various key accounting reforms undertaken by the Ministry/Department within five (5) years.  $x_3$  was for auditing reforms. The reforms were on the various key auditing reforms undertaken by the Ministry/Department within five (5) year.

Dummy variables 1 and 0 were used to denote presence or absence respectively of each of the three data points. Statistical package for social sciences (SPSS v 17) would be used to aid in quantitative data analysis in this study. The results will be presented in charts graphs & tables.

### 3.6 Validity and Reliability

Validity as noted by Robinson (2002) was the degree to which results obtained from analysis of the data actually represents the phenomenon under study. Validity was ensured by having objective questions included in the questionnaire.

Reliability on the other hand referred to a measure of the degree to which research instruments yield consistent results (Mugenda & Mugenda, 2003). In this study, reliability was ensured by pre – testing the questionnaire with a selected sample of three middle level managers from the public sector. The managers involved in the pilot study were excluded from the main study to avoid possibility of bias in the study.

## **CHAPTER FOUR**

### **DATA ANALYSIS, RESULTS AND DISCUSSION**

#### **4.1 Introduction**

This chapter reports on the main results obtained by analysis of data and presentation of results of the questionnaire data. The findings/results are to establish the relationship and the impact of financial management reforms on the economic performance of the public sector in Kenya. The focus was to establish the various public sector financial management reforms mainly budgetary reforms, Accounting reforms and Auditing reforms. The findings were to assess the economic performance of the public sectors after the said reforms were done. Data generated from this research was both qualitative and quantitative. Quantitative data was presented in form of frequencies, means, modes and percentages. Qualitative data was presented by way of narration. Presentation was done using tables, charts and graphs for easy yet effective communication.

##### **4.1.1 Response Rate**

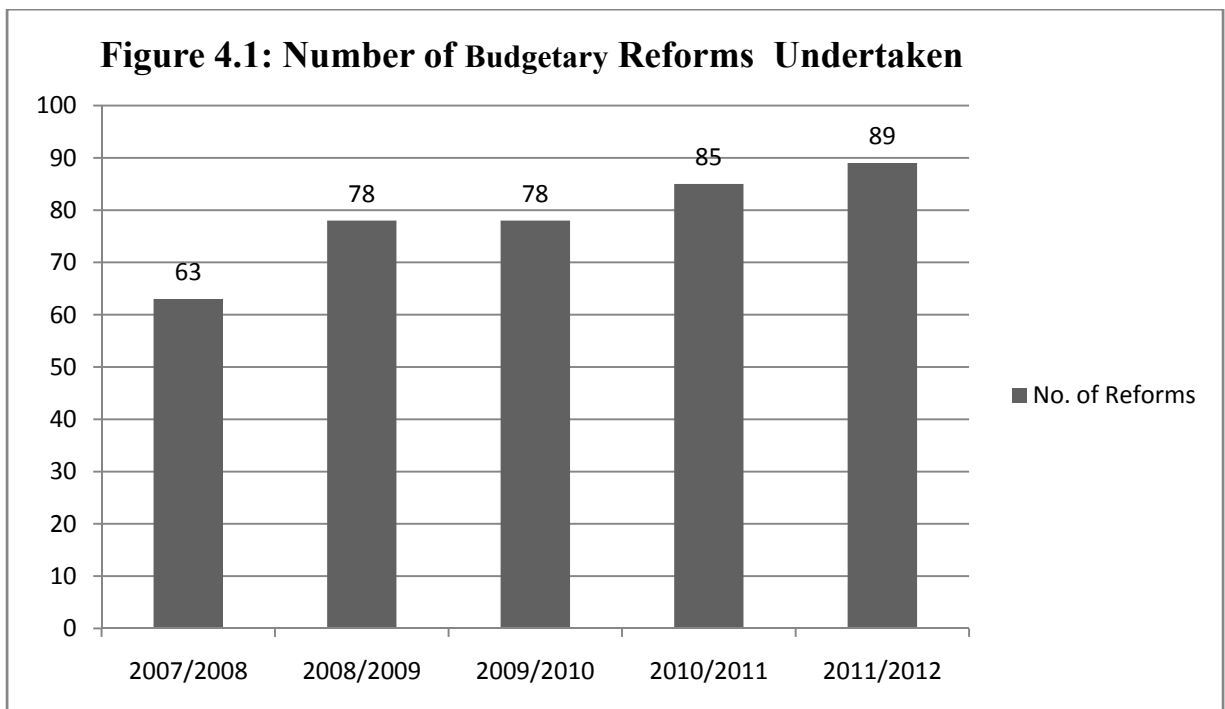
The researcher distributed 42 self-administered questionnaires to the sampled respondents out of the total population of 42 Ministries and Departments. The respondents were from the departments of administration, planning, finance, accounting and internal audit of which the study is based on. Only 30 questionnaires were returned. Thus 30 questionnaires were subject to analysis. This represents a 71% response rate which the researcher found sufficient to proceed with data analysis. The high response

rate is attributed to the fact that the researcher personally administered the questionnaires to the respondents at the various Ministries and/or Departments within Ministries.

## 4.2 Budgetary Reforms

### 4.2.1 Number of Budgetary Reforms Undertaken

The respondents were requested to indicate the number of budgetary reforms undertaken by their Ministries within the financial years 2007/2008 to 2011/2012. The findings are shown in the figure 4.1 below.



**Source: Research Questionnaires**

The study findings in figure 4.1 above indicate a significant increase in the number of budgetary reforms undertaken by the Ministries. In the Financial year 2007/2008, 63 budgetary reforms were undertaken; this figure increased to 89 during the Financial Year

2011/2012. This shows that there was an appetite for budgetary reforms within the public sector.

#### 4.2.2 Number of Budgetary Reforms Undertaken Against Performance

The research sought to establish the relationship between the number of budgetary reforms that were undertaken by the various departments/Ministries and the average performance of the Ministries/departments after the reforms. The relationships are indicated in the tables 4.1 below.

<b>Table 4.1: Number of Budgetary Reforms Undertaken Against Performance</b>			
	Mean	Std. Deviation	N
Budget reforms aggregate (composite performance)	2.6777	.39991	30
2007/2008	2.10	.803	30
2008/2009	2.60	1.133	30
2009/2010	2.60	.968	30
2010/2011	2.83	1.262	30
2011/2012	2.97	.928	30

**Source : Researcher (2013)**

From Table 4.1 above, the average number of budgetary reforms undertaken was 2.10, 2.60, 2.60, 2.83 and 2.97 for the five financial years from 2007/2008 to 2011/2012 respectively. This shows that there is an increase in the number of reforms done after

every financial year. The mean budget reforms aggregate within the last five years is 2.667 showing that reforms were good and had a positive impact to performance.

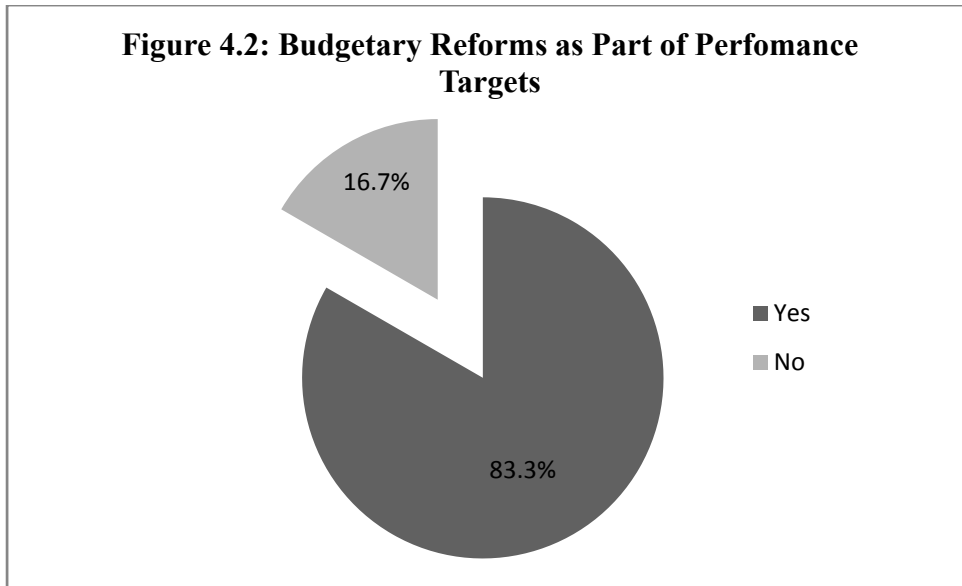
<b>Table 4.2 Budgetary Reforms Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.681 <sup>a</sup>	.464	.352	.32190

**Source: Researcher (2013)**

From Table 4.2 above, there is a strong positive correlation of 0.681 between the number of budgetary reforms undertaken and the performance of Ministries and departments. This implies that the more number of budgetary reforms were done, the better the performance of the department/Ministry.

#### **4.2.3 Budgetary Reforms as Part of Performance Targets**

The research sought to establish whether budgetary reforms were part of the performance targets. The responses are indicated in the figure 4.2 below.

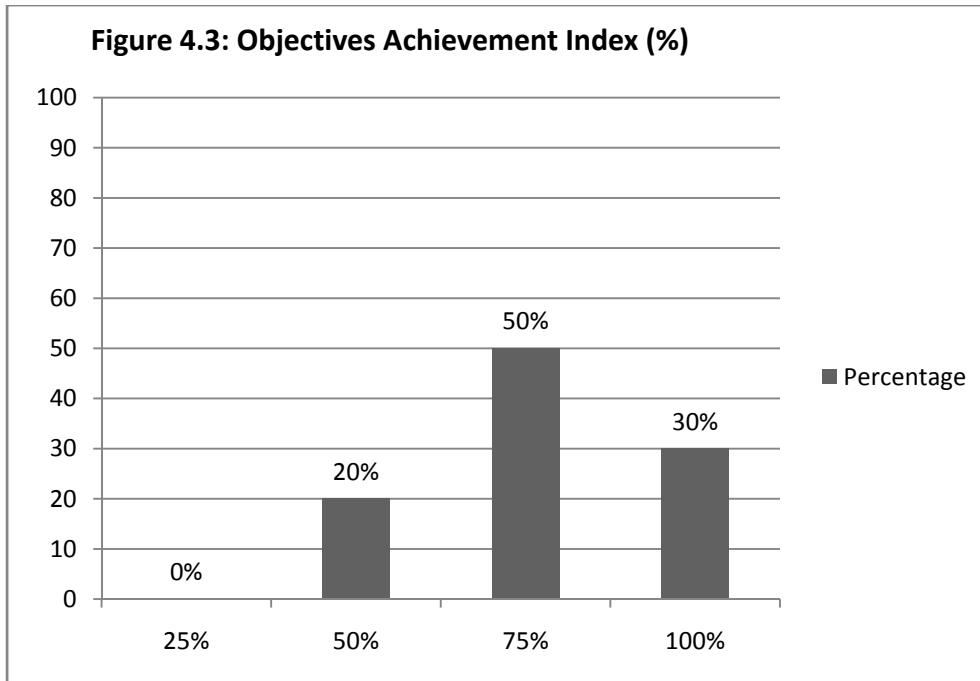


**Source: Research Questionnaires**

From the figure 4.2 above, 83.3% of the respondents indicated that the budgetary reforms were part of the performance targets. 16.7% of the respondents however indicated that the budgetary reforms were not part of the performance targets. This therefore means that budgetary reforms had a significant impact on the outcome of the performance contract results.

#### **4.2.4 Budgetary Reforms Achievement of their Intended Objectives**

The research further sought to establish to what extent did the budgetary reforms achieve their intended objectives. The responses are indicated in figure 4.3 below.



**Source: Research Questionnaires**

From the figure 4.3 above, all the respondents indicated that the budgetary reforms achieved more than 25% of intended objectives. 20% of the respondents however agreed that the budgetary reforms achieved 50% of the intended objectives. 50% of the respondents indicated that the budgetary reforms achieved 75% of the intended objectives. Of the total population, 30% indicated that the budgetary reforms achieved 100% of the intended objectives.

#### **4.2.5 Nature of Budgetary Reforms**

The research sought to establish the nature of the budgetary reforms that were undertaken in various Departments and Ministries. The responses are summarized in the table 4.3 below.

<b>Table 4.3: Nature of Budgetary Reforms</b>							
		V1	Process oriented	Budget content	Budget structure	Internally Initiated	Externally Initiated
N	Missing	30	30	30	30	30	30
	Valid	0	0	0	0	0	0
Mean		15.50	1.30	2.33	2.57	3.87	1.60
Std. Deviation		8.803	.466	1.061	1.104	.819	.814
Minimum		1	1	1	1	1	1
Maximum		30	2	4	4	5	5

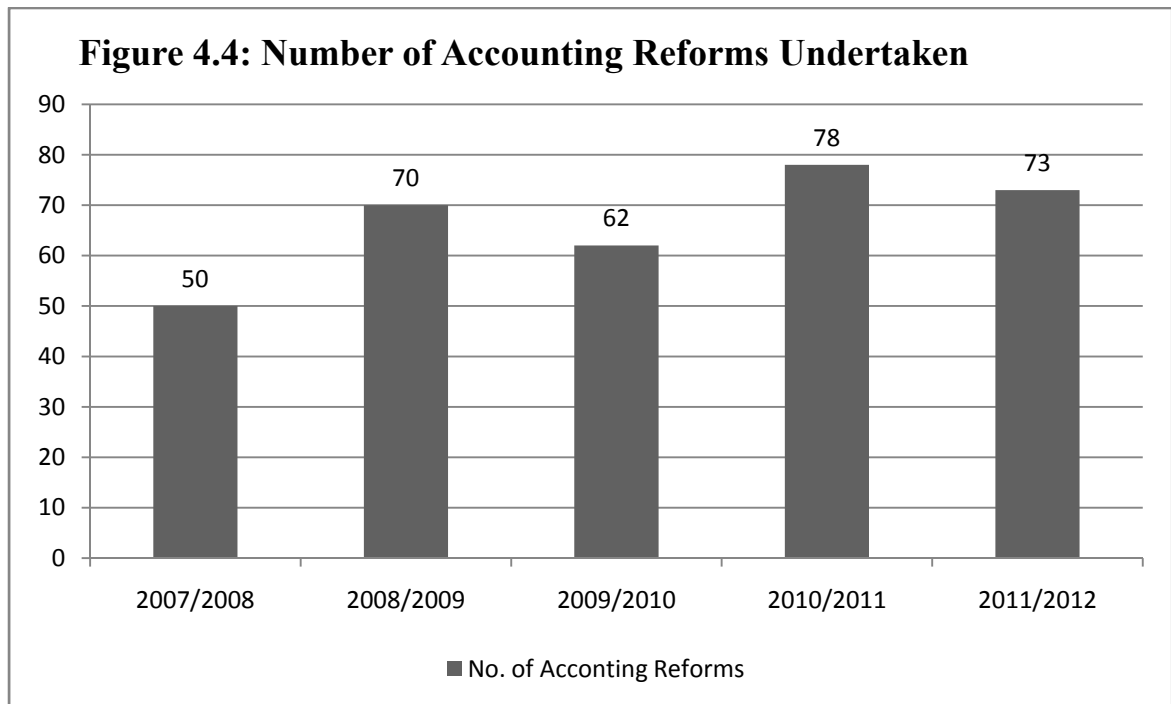
**Source: Researcher (2013)**

The table 4.3 above shows a summary of mean and standard deviations of respondents' indications on the budgetary reforms that were undertaken in their departments/Ministries. Most of the respondents strongly agreed that the budgetary reforms were Process oriented reforms; this is reflected by a mean of 1.30. In addition, most of the respondents agreed to some extent that the budgetary reforms undertaken affected the budget contents and budget structures with a mean of 2.33 and 2.57 respectively. Most respondents disagreed to some extent that the budgetary reforms undertaken were internally initiated by the Ministries/Departments having a mean of 3.87, hence strongly agreed that the reforms were externally initiated. This is reflected by a mean of 1.60.

### 4.3 Accounting Reforms

#### 4.3.1 Number of Accounting Reforms Undertaken

The research sought to establish the number of accounting reforms that were undertaken by the ministries within five (5) Financial Years i.e financial years 2007/2008 to 2011/2012. The responses are recorded in the figure 4.4 below.



**Source: Research Questionnaires**

From the figure 4.4 above, there is a notable increase in the number of accounting reforms undertaken by various Ministries/Departments in the public sector. In the financial year 2007/2008, 50 accounting reforms were undertaken while in the financial year 2011/2012, 73 reforms were undertaken. However the increase was not constant with some slowdown in financial years 2009 /2010 and 2011/2012.

### 4.3.2 Number of Accounting reforms Undertaken Against Performance

The research sought to establish the relationship between the number of accounting reforms that were undertaken by the various departments/Ministries and the average performance of the departments/Ministries after the reforms. The relationships are indicated in the table 4.4 below.

<b>Table 4.4: Accounting Reforms Undertaken Against Performance</b>			
	Mean	Std. Deviation	N
Accounts reforms aggregate (composite performance)	2.45	.379	30
2007/2008	1.67	1.028	30
2008/2009	2.33	1.028	30
2009/2010	2.07	.944	30
2010/2011	2.60	1.003	30
2011/2012	2.43	.935	30

**Source: Researcher (2013)**

From the table 4.4 above, the average number of accounting reforms undertaken for the past five financial years from 2007/2008 to 2011/2012 was 1.67, 2.33, 2.07, 2.60 and 2.43 respectively. This shows that there is a gradual increase in the number of reforms

done after every financial year but the increase was not consistent all through dropping in 2009/2010 and 2011/2012 financial years. However, the mean accounting reforms aggregate (composite performance) within the five (5) years was 2.45 showing that the reforms were good and had a positive impact to performance.

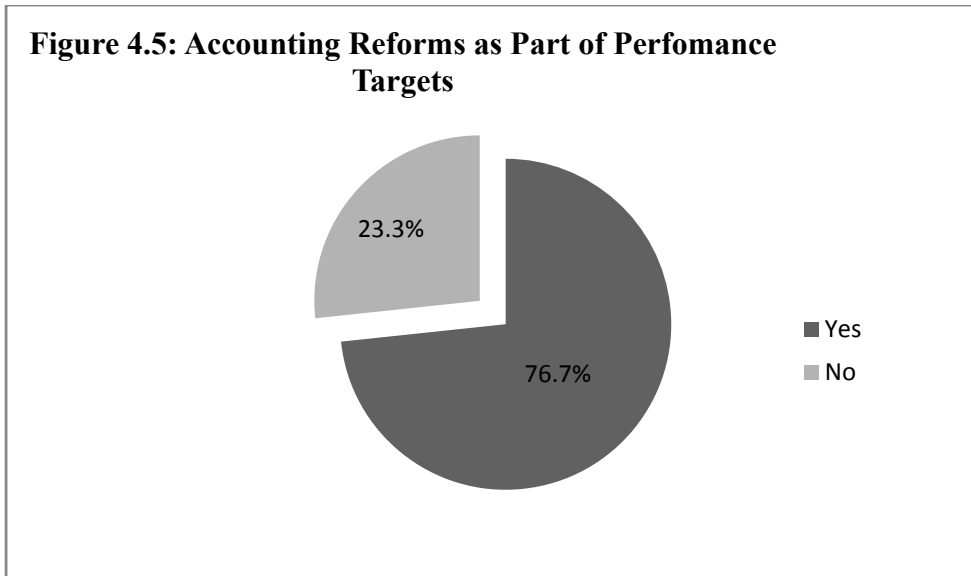
<b>Table 4.5: Accounting Reforms Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.470 <sup>a</sup>	.221	.059	.367

**Source: Researcher (2013)**

From accounting reforms model summary table 4.5 above, there is a moderate positive correlation of 0.470 between the number of accounting reforms undertaken and the performance of the Ministries/departments. This implies that the more number of accounting reforms were done, the better the performance of the department or the Ministry.

### **4.3.3 Accounting Reforms as Part of Performance Targets**

The research sought to establish whether the Accounting reforms undertaken were part of the performance targets. The responses are indicated in the figure 4.5 below.

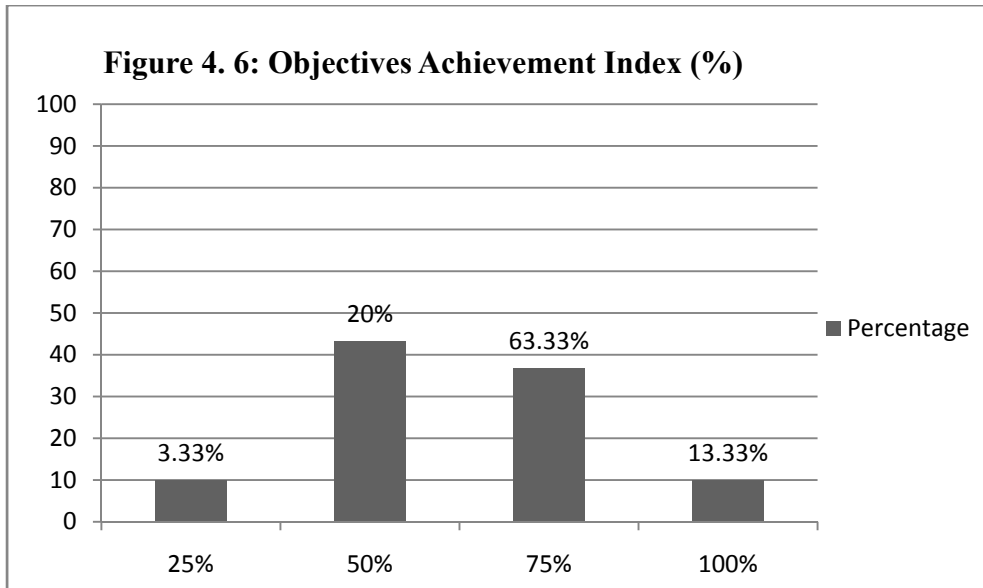


**Source: Research Questionnaires.**

From the figure 4.5 above, 76.7% of the respondents indicated that the accounting reforms were part of the performance targets. 23.3% of the respondents however indicated that the accounting reforms were not part of their performance targets. This implies that accounting reforms had a significant impact on the performance of the departments or ministries.

#### **4.3.4 Accounting Reforms Achievement of their Objectives**

The research sought to find out by what percentage the accounting reforms undertaken achieved their intended objectives in Ministries and Departments during the financial years 2007/2008 to 2011/2012. The responses are indicated in the figure 4.6 below.



**Source: Research Questionnaires**

From the figure 4.6 above, 3.3% of the respondents indicated that the accounting reforms achieved 25% of intended objectives. 20% of the respondents however agreed that the Accounting reforms achieved 50% of the intended objectives. 63.3% of the respondents indicated that the Accounting reforms achieved 75% of objectives intended. 30% of the respondents believed that the Accounting reforms achieved 100% of their intended objectives.

#### 4.3.5 Nature of Accounting Reforms

<b>Table 4.6: Nature of Accounting Reforms</b>							
		V1	Process oriented	Accounting reports content	Accounting reports structure	Internally Initiated	Externally Initiated
N	Valid	30	30	30	30	30	30
	Missing	0	0	0	0	0	0
Mean		15.50	1.13	2.77	2.50	3.67	1.27
Std Dev		8.803	.434	1.194	1.106	.994	.785
Minimum		1	1	1	1	1	1
Maximum		30	3	5	5	5	5

**Source: Researcher (2013)**

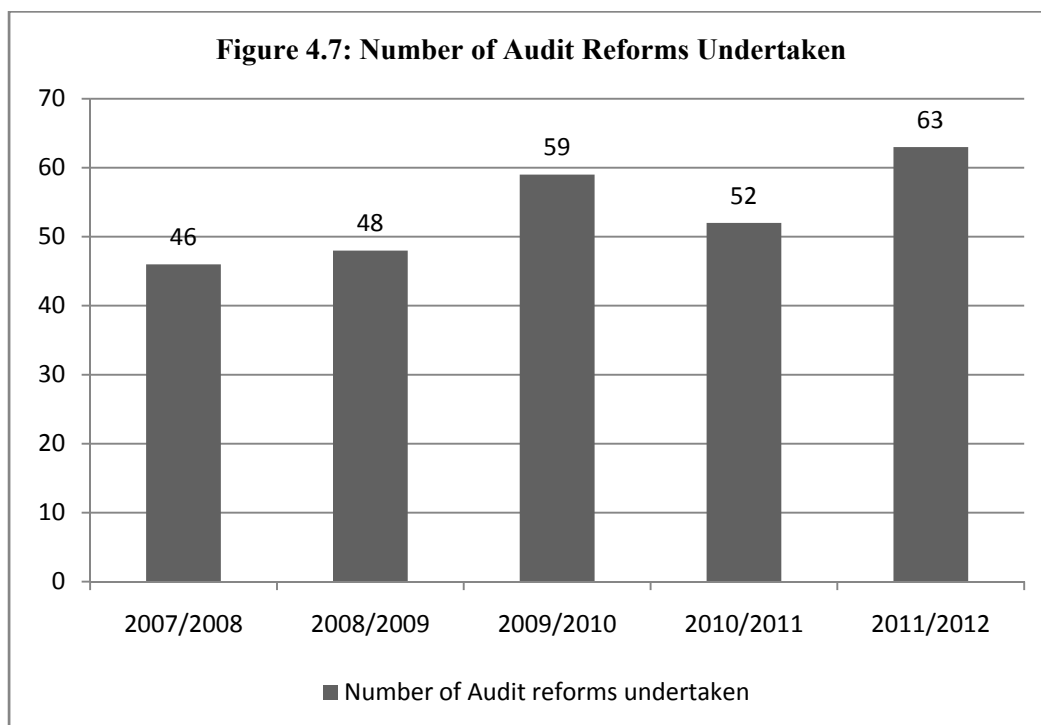
The table 4.6 above shows a summary of mean and standard deviations of respondents' indications on the nature of accounting reforms that were undertaken in their departments /Ministries. From the table, most of the respondents strongly agreed that the accounting reforms were Process oriented reforms, this is reflected by a mean of 1.13. Most of the respondents neither agreed nor disagreed that the accounting reforms undertaken affected the accounting reports contents having a mean of 2.77. The respondents agreed to some extent that the accounting reforms affected the accounting reports structure having a mean of 2.5. Most respondents disagreed to some extent that the accounting reforms undertaken were internally initiated by the ministry having a mean of 3.67, hence

strongly agreed that the reforms were eternally initiated. This is reflected by a mean of 1.27. The table 4.6 above also shows that the responses vary with very small margin to the true mean with standard deviation in the range between 1.2 and 0.3.

## 4.4 Auditing Reforms

### 4.4.1 Number of Auditing Reforms Undertaken

The research sought to establish the number of auditing reforms that were undertaken by the ministries within the five financial years period between financial years 2007/2008 and 2011/2012. The responses are recorded in the figure 4.7 below.



**Source: Research Questionnaires**

From the figure 4.7 above, there is a notable increase in the number of Audit reforms undertaken by various Ministries/departments. In the financial year 2007/2008, 46 auditing reforms were undertaken while in the financial year 2011/2012, 63 auditing

reforms were undertaken. This indicates 58.7% increase in the number of reforms between these two periods. There is a slowdown in the number of reforms increase during the financial year 2010/2011.

#### 4.4.2 Number of Auditing Reforms Undertaken Against Performance

The research sought to establish the relationship between the number of Auditing reforms that were undertaken by the various departments/Ministries and the average performance of the departments/Ministries after the reforms. The relationships are indicated in the table 4.7 below.

	Mean	Std. Deviation	N
Audit reforms aggregate (composite performance)	2.2876	.29436	30
2007/2008	1.53	.819	30
2008/2009	1.60	.894	30
2009/2010	1.97	.928	30
2010/2011	1.73	.980	30
2011/2012	2.10	1.094	30

**Source: Researcher (2013)**

From the table 4.7 above, the average number of auditing reforms undertaken for the five financial years from 2007/2008 to 2011/2012 was 1.53, 1.60, 1.97, 1.73 and 2.10

respectively. This indicates that in all the departments/Ministries there were at least 1 or 2 audit reforms undertaken. The table also shows that there was a small increase in the number of reforms done after every financial year but dropped in 2010/2011 financial year. However the mean Composite performance score within the five years was 2.2876 showing that despite having a small number of reforms, the economic performance was very good.

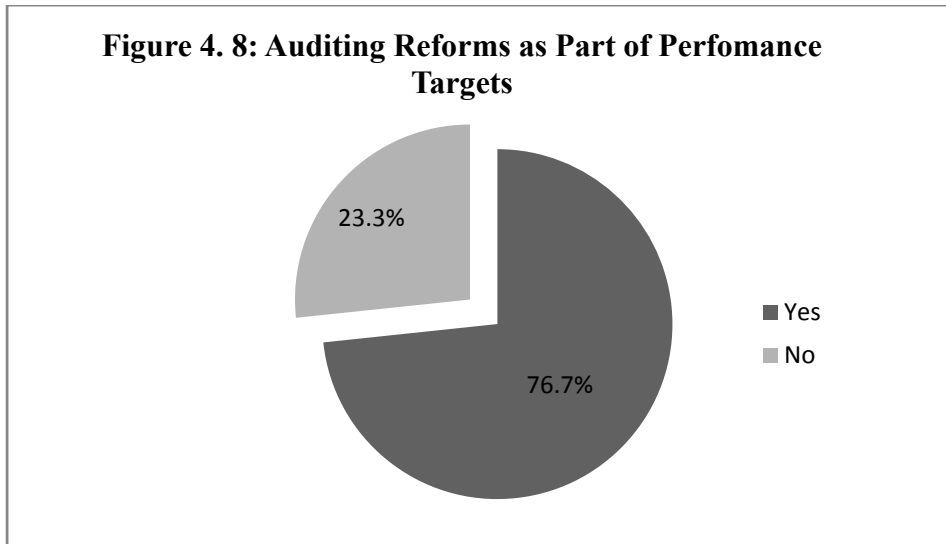
<b>Table 4.8: Audit Reforms Model Summary</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.387 <sup>a</sup>	.150	-.027	.32144

**Source: Researcher (2013)**

From audit reforms model summary table 4.8 above, there is a slight positive correlation of 0.387 between the number of auditing reforms undertaken and the performance of the Ministries and departments. This indicates that the performance of the Ministries / departments improved slightly despite the numerous reforms done. Thus the performance of the Ministries/departments does not entirely rely on the number of auditing reforms undertaken.

#### **4.4.3 Auditing Reforms as Part of Performance Targets**

The researcher sought to establish if the Auditing reforms undertaken were part of the performance targets of the sampled Ministries. The responses are indicated in the figure 4.8 below.

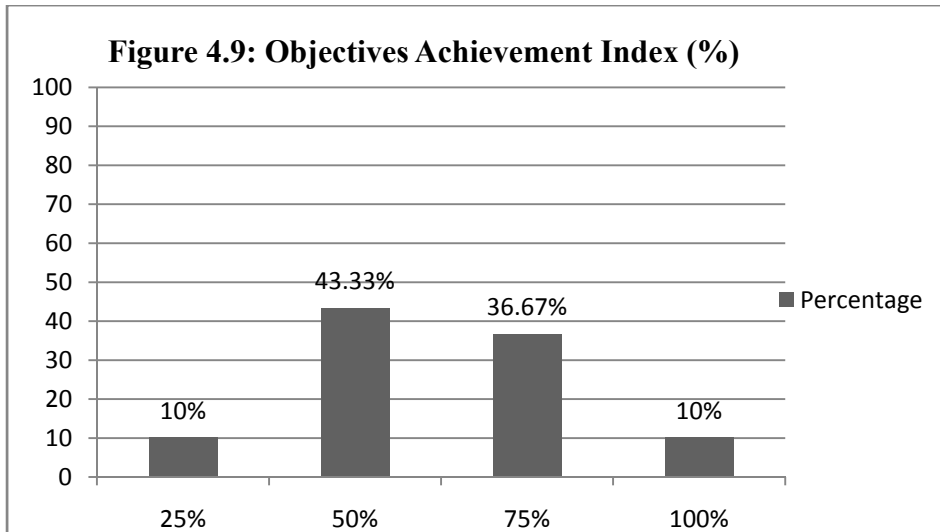


**Source: Research Questionnaires**

From the figure 4.8 above, 76.7% of the respondents indicated that the auditing reforms were part of the performance targets. However 23.3% of the respondents indicated that the auditing reforms were not part of the performance targets. This means that auditing reforms played an important role in influencing the results of the performance contract for the departments/Ministries.

#### **4.4.4 Auditing Reforms Achievement of Objectives**

The research sought to find out by what percentage the auditing reforms achieved their intended objectives in Ministries and Departments during the five financial years of the study. The responses are indicated in the figure 4.9 below.



**Source: Research Questionnaires**

From the figure 4.9 above, 10% of the respondents indicated that the Auditing reforms achieved 25% of intended objectives. 43.3% of the respondents concluded that the Auditing reforms achieved 50% of their intended objectives. 36.7% of the respondents indicated that the Auditing reforms achieved 75% of objectives intended. Of the total population, 10% believed that the Auditing reforms achieved 100% of the intended objectives.

#### **4.4.5 Nature of Auditing Reforms**

The research further sought to establish the nature of most of the Auditing reforms that were undertaken in various Departments / Ministries. The responses are indicated in the table 4.9 below.

<b>Table 4.9: Nature of Auditing Reforms</b>							
		V1	Process oriented	Audit reports content	Audit reports structure	Internally Initiated	Externally Initiated
N	Valid	30	30	30	30	30	30
	Missing	0	0	0	0	0	0
Mean		15.50	1.33	2.30	2.40	3.93	1.60
Std. Deviation		8.803	.547	1.119	1.102	.907	.932
Minimum		1	1	1	1	1	1
Maximum		30	3	5	4	5	5

**Source: Researcher (2013)**

The table 4.9 above shows a summary of mean and standard deviations of respondents' indications on the audit reforms that were undertaken in their departments/Ministries. From the table, most of the respondents strongly agreed that the audit reforms were Process oriented reforms this is reflected by a mean of 1.33. In addition, most of the respondents agreed to some extent that the audit reforms undertaken affected the audit reports contents and audit reports structure having a mean of 2.3 and 2.4 respectively. Most respondents disagreed to some extent that the audit reforms undertaken were internally initiated by the ministry hence strongly agreed that the reforms were externally initiated. This is reflected by a mean of 1.60. The table above also shows that the responses vary with very small margin to the true mean with standard deviation in the range between 1.2 and 0.0.

## 4.5 Economic Performance in Kenya

An analysis of the report on evaluation of the performance of public agencies prepared by the performance contracting department indicates that there was a relative improvement on the economic performance of Ministries / Departments as indicated by the average performance scores in Appendix III attached. The average performance scores are 2.67743, 2.448367, 2.459833, 2.363527, and 2.28757. Where, 5 is very poor and 1 is very good as per Performance Contracting Department in Kenya (2010).

## 4.6 Multiple Regression Analysis

A multivariate regression model was applied to determine the relationship between three (3) financial reforms that were undertaken by various Ministries and departments and their economic performance during the study period.

The regression model was as follow:

$$y = \beta_0 + \beta_1x_1 + \beta_2x_2 + \beta_3x_3 + \ell$$

**Where:**

$y$  = Economic Performance

$\beta_0$  = Constant Term

$\beta_1$  = Beta coefficients

$x_1$  = Budgetary reforms

$x_2$  = Accounting reforms

$x_3$  = Auditing reforms

**Table 4.10: Financial Reforms Coefficients Results**

**Coefficients**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1 Constant	2.998	.169		17.729	.000	2.650	3.346
Budgetary	-.165	.055	-.521	-2.985	.006	-.279	-.051
Accounting	-.057	.055	-.181	-1.039	.038	-.169	.056
Auditing	-.039	.040	-.145	-.983	.335	-.121	.043

**Source: Researcher (2013)**

Predictors: (Constant), Budgetary, accounting and auditing reforms.

The regression Coefficient table 4.10 indicates that the three key financial reforms that were undertaken had different impact on performance. From the table, budgetary reforms and Accounting reforms had the highest impact on performance compared to auditing reforms. This is indicated by the P-value (Sig). P-value is statistically significant at a level of 0.05 or less which suggests a linear relationship among the financial reforms and performance. Statistical significance at a .05 level means there is a 95% chance that the relationship among the financial reforms and performance is not due to chance. Having the null hypothesis as” there is a relationship between financial reforms and

performance”, the statistical significant correlation is 0.006, 0.038 and 0.335 for budgetary, accounting and Auditing respectively.

This implies that budgetary and accounting reforms had the highest impact on performance compared to the auditing reforms. Thus to enhance performance of the public sector more emphasis should be put on increasing the number of budgetary and accounting reforms undertaken.

<b>Table: 4.11 Model Summary for Economic Performance</b>				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.661 <sup>a</sup>	.437	.372	.23320

**Source: Research (2013)**

Predictors: (Constant), Budgetary, accounting and auditing reforms.

From the model summary in the table 4.11 above, there is a strong positive correlation of 0.661 between the number of financial management reforms undertaken and the economic performance of the Ministries and departments. This shows that the increase in number of financial reforms undertaken resulted to improved and better economic performance of the public sector. This can be attributed to the reforms meeting the intended objectives and them being part of performance targets of the public sector entities.

#### **4.7 Discussion of Results**

The research sought to find out the relationship between financial management reforms and the economic performance of the public sector. Economic performance was considered to be the dependent variable while budgetary, accounting and auditing

reforms as the independent variables. Financial management is among the critical activity of any organization and therefore draws a lot of attention. Any adverse or negative activity on financial management may lead to the collapse of an organization.

The study shows that there is a positive relationship between public sector financial management reforms and economic performance. Out of the three financial reforms it established that both budgetary and accounting reforms contribute greatly to the economic performance while the contribution of audit reforms is minimal. The study further shows that all of the financial reforms were part of the performance contracts. In addition, budgetary and accounting reforms achieved satisfactorily their intended objectives. This could be attributed to the fact that most of these reforms were obligatory and had strict monitoring mechanism. However auditing reforms did not achieve most of their intended objectives since most of the reforms were not implemented promptly and the monitoring mechanism for these reforms were not strict.

## **CHAPTER FIVE**

### **SUMMARY, CONCLUSION AND RECOMMENDATIONS**

#### **5.1 Introduction**

This chapter presents a summary of the results of the study and the conclusions made from them. It also presents the recommendations made by the researcher. This was done in respect to the stipulated objectives in a bid to answer the research questions.

#### **5.2 Summary of the Findings**

The following is the summary of the study findings.

The study identified various public sector financial management reforms. They include budgetary, accounting and auditing reforms. The findings indicated that all the financial reforms had a notable increase in the number of reforms undertaken by various Ministries /departments within the study period.

The findings of the study indicated that 83.3% of the respondents indicated that the budgetary reforms were part of the performance targets. In addition, 76.7% of the respondents indicated that the accounting reforms were part of the performance targets. Further, 73.3% of the respondents indicated that the auditing reforms were part of the performance targets. This findings shows that the reforms had some influence on the outcome of the performance results.

The study indicated that 50% of the respondents indicated that the budgetary reforms achieved 75% of objectives intended. In addition 63.3% of the respondents indicated that the Accounting reforms achieved 75% of objectives intended. Further, 36.7% of the

respondents indicated that the Auditing reforms achieved 75% of objectives intended. The study further revealed that most respondents disagreed to some extent that the budgetary reforms undertaken were internally initiated by the ministry having a mean of 3.87. The findings also indicated that most respondents disagreed to some extent that the accounting reforms undertaken were internally initiated by the ministry having a mean of 3.67. In addition, most respondents disagreed to some extent that the audit reforms undertaken were internally initiated by the ministry hence strongly agreed that the reforms were externally initiated. This is reflected by a mean of 1.60

Analysis of Performance Contracting department's report on the evaluation of public agencies indicated relative improvement in the economic performance of Ministries and Departments

The study aimed to establish the relationship between the three financial reforms and economic performance, the research established that there is a strong positive correlation of 0.661 between the number of financial management reforms undertaken and the performance of the Ministries and departments as indicated by table 4.11 model summary for economic performance.

### **5.3 Conclusion**

The objective of this study is to establish the relationship between financial management reforms and the economic performance of the public sector.

Arising from the findings above, it is clear that there is a positive relationship between financial reforms and economic performance. This positive relationship is necessitated by the inclusion of financial reforms as part of the performance targets for the departments

and Ministries. In addition, financial reforms that achieve their intended objectives tend to contribute a lot towards economic performance.

Therefore departments and Ministries in the public sector should include financial reforms as part of their performance contracts target and should ensure that they implement the reforms to their logical conclusion in order to achieve the reforms intended objectives and consequently their performance. Reforms culture should be inculcated amongst the staff in order to ensure creativity and avoid resistance to reforms and therefore lead to internally initiated reforms which were noted by the study to be minimal.

On the problem of “paradox of plenty” i.e. plenty financial reforms without much impact in the economy , investigations should be instituted to find out what are the other causes of poor economic performance since from this study it is evident that the more financial reforms the higher the economic performance.

## **5.4 Recommendations**

In light of the above findings, the researcher made the following recommendation:

The study recommends that there should be an increase in the number of financial and other forms of reforms that are part of performance targets of the public sector and also see to it that the reforms meet their intended objectives through proper monitoring and evaluation of the reforms prior and after being undertaken. This will greatly improve the performance of the public sector which translates to better economic performance of the Country.

Measures should be put in place to find out why auditing reforms are not contributing greatly into the economic performance of the public entities despite the very important roles they play such as oversight and risk management. Appropriate actions should therefore be taken to ensure audit reforms play their intended purpose. The study further recommends that public entities should be encouraged to internally generate their reforms instead of waiting for external parties such as the National Treasury and the Office of the President to initiate Reforms on their behalf. Essentially public entities should be pro – active on reforms. Internally generated reforms are easily accepted by the staff unlike externally initiated reforms.

A pre-determine reforms plan should be put in plan to enable progressive increase of reforms from one financial year to another. This would allow proper planning of resources and a constant economic performance growth in the public sector. This reforms plan would reduce instances where there is a slowdown in reforms as noted from the research findings. A slowdown reduces the staff momentum in their reform processes.

Processes controls should be put in place as reforms are undertaken since as noted in the study most of the financial management reforms are process oriented. Therefore, to ensure the correct output from the process is achieved effective controls should be put in place in the departments/ Ministries operations. Moreover, training on externally initiated reforms should be given priority to ensure that there is no resistance to the reforms

## **5.5 Study limitations**

The study encountered a number of limitations. One of the major limitatins was access to information. Many of the target respondents were cautious not to give information they consider sensitive. However, the researcher managed to overcome this limitation through

convincing the respondents that the information sought was for academic purpose only. An introduction letter from the university was also helpful towards convincing these respondents.

Another major limitation was the time allocated for the study. A number of respondents were left with the questionnaires since they could not respond to them on time. However the researcher was able to get sufficient information that necessitated data analysis. The response rate of all issued questionnaires was 71% which the researcher found to be good enough.

The study only used one measure of economic performance, the performance contracting composite scores. Other measures like contribution to Gross Domestic Product (GDP) by the individual departments and Ministries was not used due to lack of sufficient information.

## **5.6 Suggestions for Further Studies**

The study was carried out in Government departments and Ministries in Nairobi. Future research should be carried out on other Government departments outside Nairobi. In addition future research should cover the parastatals and other semi autonomous Government Agencies. This would provide a broader picture of the relationship between financial reforms and economic performance in the entire public sector.

More studies should be carried on the strategies and mechanisms that should be adopted to increase economic performance of the public sectors through other reforms such as procurement reforms.

Data collection was based on questionnaires, Further studies could be carried by involving the respondents on discussions so as to get their views on financial reforms that they think can sustain the economic performance of public sectors entities. The research targeted only senior managers in departments / Ministries within the public sector, Further research should target both senior staff and junior staff since junior staff play a critical role in the implimentation of reforms and may be having vital information.

The study used performance contracting results as the measure for economic performance. Further studies should be done using other measurements of economic performance such as the departments/Ministries contribution to Gross Domestic Product (GDP) against the the variuos financial reforms undertaken to ascertain whether there is any relationship between those two variables.

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# APPENDIX I: LETTER OF INTRODUCTION



**UNIVERSITY OF NAIROBI**  
**SCHOOL OF BUSINESS**  
**MBA PROGRAMME**

Telephone: 020-2059162  
Telegrams: "Varsity", Nairobi  
Telex: 22095 Varsity

P.O. Box 30197  
Nairobi, Kenya

DATE 20/08/2013

**TO WHOM IT MAY CONCERN**

The bearer of this letter ANTHONY NJORGE NJENGA

Registration No. D61/7633/2012

is a bona fide continuing student in the Master of Business Administration (MBA) degree program in this University.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate your assistance to enable him/her collect data in your organization.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.



**PATRICK NYABUTO**  
**MBA ADMINISTRATOR**  
**SCHOOL OF BUSINESS**

## APPENDIX II: QUESTIONNAIRE

### Section I: Ministry/Department Information

1. Name of your Ministry /Department

.....  
 .....

### Section II: Budgetary reforms/Changes

2. How many key budgetary reforms that were undertaken by the Ministry within the last Five (5) years i.e. the financial years 2007/2008 to 2011/2012?

Financial Year	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
No of Reforms					

3. Were the above reforms parts of the Ministries/ department performance targets?

*Tick appropriately*

YES ( )

NO ( )

4. By what percentage did the reforms achieve their intended objectives?

- 25% ( )
- 50% ( )
- 75% ( )
- 100% ( )

5. The following was the nature of most of the key budgetary reforms

No	Nature	Strongly disagree (5)	Disagree to some extent (4)	Neither agree nor Disagree (3)	Agree to some extent (2)	Strongly agree (1)
1	Process oriented					
2	Budget content oriented					
3	Budget structure oriented					
4	Internally initiated by the Ministry					
5	Externally initiated					

### Section III: Accounting reforms

6. How many key Accounting reforms that were undertaken by the Ministry within the last Five (5) years i.e. the financial years 2007/2008 to 2011/2012?

Financial Year	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
No of Reforms					

7. Were the above reforms parts of the Ministries/ department performance targets?

*Tick appropriately*

YES ( )

NO ( )

8. By what percentage did the reforms achieve their intended objectives?

25% ( )

50% ( )

75% ( )

100% ( )

9. The following was the nature of most of the key Accounting reforms

No	Nature	Strongly disagree (5)	Disagree to some extent (4)	Neither agree nor disagree (3)	Agree to some extent (2)	Strongly agree (1)
1	Process oriented					
2	Accounting report content oriented					
3	Accounting report structure oriented					
4	Internally initiated by the Ministry					
5	Externally initiated					

**Section IV: Auditing reforms**

10. How many key auditing reforms were undertaken within the last five (5) years i.e. the financial years 2007/2008 to 2011/2012?

Financial Year	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
No of Reforms					

11. Were the above reforms parts of the Ministries/department performance targets?

*Tick appropriately*

YES ( )

NO ( )

12. By what percentage did the above reforms achieve their intended objectives?

25% ( )

50% ( )

75% ( )

100% ( )

13. The following was the nature of most of the key auditing reforms

No	Nature	Strongly disagree (5)	Disagree to some extent (4)	Neither agree nor disagree (3)	Agree to some extent (2)	Strongly agree (1)
1	Process oriented					
2	Audit report contents oriented					
3	Audit report structure oriented					
4	Internally initiated by the Ministry					
5	Externally initiated					

### APPENDIX III

#### PERFORMANCE CONTRACTING COMPOSITE SCORES

No	Ministry/Department	2007/2008	2008/2009	2009/2010	2010/2011	2011/2012
1	Ministry of State for Provincial Administration.	2.8611	2.5675	2.2701	2.1145	2.0134
2	Ministry of Foreign Affairs	3.1345	2.3465	2.2906	2.1342	2.6434
3	Ministry of Special Programmes	2.6456	1.9343	2.1434	2.111	2.5678
4	Ministry of Regional Development	3.1163	2.3115	2.4532	1.9345	2.3434
5	Ministry of Education	2.5611	2.4561	2.7074	2.7968	1.9892
6	Ministry of Public Service	2.4541	2.1165	2.2113	2.5911	2.634
7	Ministry of Energy	2.1341	2.3434	1.9509	2.1143	1.9341
8	Ministry of Fisheries Development	2.3461	2.6613	2.7581	2.5613	2.2463
9	Ministry of Labour	2.1124	2.6112	2.8467	1.9341	2.1243
10	Ministry of Medical Services	2.1611	2.3781	2.2718	1.9441	2.1211
11	Ministry of Water and Irrigation	2.9511	2.6346	2.439	2.5134	2.5117
12	Ministry of State for Immigration	2.3434	2.4115	2.4858	3.101	2.6789
13	Ministry of Finance	2.5616	2.7891	2.4555	1.9434	2.1434
14	Ministry of Planning	2.1434	2.1343	1.9382	1.6342	1.7934
15	Ministry of Environment	2.1129	2.4311	2.4834	1.9434	2.567
16	Ministry of Information and Communication	2.8434	2.9634	2.1655	3.1241	2.5624
17	Ministry of Public Works	2.6711	1.9342	2.5118	2.6781	2.112
18	Ministry of Lands	2.5612	1.6241	1.972	1.8124	2.3431
19	Office of the Vice President & Min. of Home Affairs	2.994	2.3411	2.3388	1.9443	2.2241
20	Ministry of Co-operative Development	3.5131	2.9612	2.4693	3.5494	2.3431
21	Ministry of East African community	3.3346	2.7913	2.649	2.143	2.2124
22	Ministry of Local Govt	2.5116	1.9511	2.8277	2.5612	1.8121
23	Ministry of Roads	2.5711	3.2145	3.4407	3.0461	2.4967
24	Ministry of Housing	3.5134	2.3412	1.4265	2.111	2.3434
25	Ministry of Tourism	2.5612	1.9314	2.4659	2.2243	3.123
26	Ministry of Agriculture	2.5431	2.3431	2.2192	2.6112	2.3616
27	Ministry of Youth & Sports	2.3411	2.5431	2.8608	2.6315	2.2211
28	Ministry of Industrialization	2.9342	2.5311	2.4109	2.3614	2.1243
29	Ministry of Transport	3.0113	3.242	2.8087	2.4311	1.923
30	Ministry of Forestry and Wildlife	2.7891	2.6112	2.5228	2.3145	2.1134
	<b>Average Composite Scores</b>	<b>2.6777433</b>	<b>2.4483667</b>	<b>2.4598333</b>	<b>2.3635267</b>	<b>2.28757</b>

Source: Performance Contracting Department, Evaluation of Performance of Public Sector.

## APPENDIX IV: MINISTRIES AND DEPARTMENTS

No.	Ministries /Departments
1	Ministry of Agriculture
2	Ministry of livestock development
3	Ministry of Co-operative Development & Marketing
4	Ministry of Fisheries Development
5	Ministry of Lands
6	Ministry of Youth and Sports
7	Ministry of Industrialization
8	Ministry of Trade
9	Ministry of East African Community
10	Ministry of Tourism
11	Ministry of National Heritage and Culture
12	Ministry of Nairobi Metropolitan
13	Ministry of Housing
14	Ministry of Local Government
15	Ministry of Roads
16	Ministry of Transport
17	Ministry of Public Works
18	Ministry of Higher Education and Technology
19	Ministry of Information and communication
20	Ministry of labour.
21	Ministry of Regional Development Authorities
22	Ministry of Gender, Children and Social Development.
23	Ministry of Special Programmes
24	Ministry of Development of Northern Kenya & Other Arid Lands.
25	Ministry of Foreign Affairs
26	Ministry of Planning, National Development & Vision 2030
27	Ministry of State for Public Service
28	Ministry of Finance
29	Office of the Prime Minister
30	Ministry of State for Provincial Administration and Internal Security
31	Ministry of Justice, National Cohesion and Constitutional Affairs.
32	Ministry of State for Immigration and Registration of Persons.
33	Ministry of state for Defense
34	Ministry of Forestry & Wildlife
35	Ministry of Water and Irrigation
36	Ministry of Public Health & Sanitation
37	Ministry of Medical Services
39	Ministry of Labour
40	Office of vice president & Ministry of Home Affairs.
41	Ministry of Energy
42	Ministry of Environment & Natural Resources.