

Financial Management Reforms and the Economic Performance of Public Sector in Kenya

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ABSTRACT

The research aimed at determining the impact of financial management reforms on the economic performance of public sector entities in Kenya. The study used the economic unit performance contracting results as the measure of performance. 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 out at the Ministry's headquarters based in Nairobi. Data was collected from secondary and primary sources for five years between financial years 2007/2008 – 2011/2012.Analysis was done using ordinary least squares (OLS) method. Three types of financial reforms were targeted; budgetary reforms, accounting reforms and auditing reforms. The findings of the study revealed that financial reforms achieved more than half of the intended performance targets over the period under investigation. The results show that budgetary reforms had the strongest explanatory power on performance indicators at 0.681, followed by accounting reforms at 0.47 and audit reforms at 0.387. We therefore conclude that audit reform does not aid in improving performance of public sector entities while budgetary and accounting reforms are the most effective tools. The reason for this misnomer could be that civil servants could have developed a negative attitude against audit and see it as slowing down delivery of services or that audit is a conduit for corruption. More financial and budgetary reforms should therefore be undertaken for improved results. Audit reforms need to be closely reevaluated and new approaches employed to yield better results and economic performance.

Keywords: Financial reforms, Budgeting, Accounting, Auditing, public sector

1.0 Introduction

Financial Management in the Public sector is an essential part of the development process of any given country. Financial Management Reforms are developments and changes overtime in the field of finance. 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 crises, public pressure, donor pressure, political change including post-conflict situations and the demands of regional affiliations .Strong public financial reforms 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 reforms in the USA were necessitated by the failures that led to crises and required bold action. The reforms were needed 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). Rostow's stage theory (1960) held that economic performance is affected by fiscal discipline and institutional reforms. Under the progressive state theory, smith (1776) noted that prudent management of public finance is a progressive state of maintaining high standard of living for people and thus their economic conditions. Nwezeaku (2010) argued 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 and 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 depends on the construction of appropriate institutional structures.

The 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 the 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 2005-2006 foreign aid frauds, international agencies delayed funds and grants advancements. The post-election violence of 2007/2008 worsened the economic conditions. Thus, without the establishment of political stability, Kenya's economic growth will remain volatile (Economic watch, 2010).

2.0 Formulation of Research Problem

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 an effect on the performance of 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 server 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. This has led to a situation referred to as “the paradox of plenty”. That is, there are 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 on the impact of foreign direct investments on the economic growth. Ireri (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 created due to lack of a related research in the said area. We investigate the existence or nonexistence of a relationship between the much touted financial management reforms and the economic performance of the entities targeted by such reforms.

2.0 LITERATURE REVIEW

This paper was informed by 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 is that economic development is affected by fiscal discipline which is a critical component of the financial management reforms. In addition, it advocates for institutional reforms which may include financial institutions. Further, Wagner's Law of Expending State Activity which was formulated towards the end of the 19thcentury 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 is that the per-capita incomes, growth, urbanization and increased enlightenment on the part of the electorate have been on an upward trend and so would the relative share of public sector in national output. These outputs are required to be optimal and therefore require 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 is prudent to hedge against any possible failure now or in the future.

2.1 Empirical Studies

Ogbonna and 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 showed 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.

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.

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.

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 depends 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 the 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.

Abdul and 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).

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.

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 War II period. He concluded 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.

Ngugi and 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.

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 and contribute to knowledge by establishing the relationship between financial management reforms and economic performance of public sector entities in Kenya.

2.2 Hypothesis

The following hypotheses are formulated to be tested;
$H_{O:}$ *There is no significant relationship between budgetary reform, accounting reform, audit reforms and economic performance*

$H_{2:}$ There is a significant relationship between budgetary reform, accounting reform audit reform and economic performance

3.0 RESEARCH METHODOLOGY

The study used census and correlation research design. A correlation research study allows the researcher to describe in quantitative terms the degree to which two or more variables are related (Martens, 2009).The target population was the 42 Ministries and departments that made up the entire public sector, (Appendix IV) as at 31st December, 2012.In addition, this facilitated collection of adequate information on the research subject area. Census survey was done for Ministries and departments. The research used both primary data and secondary data. Primary data was collected from the respondents who were senior managers in the various departments within the 42 Ministries. Secondary data was collected on the performance contract composite scores for the five (5) years under investigation for each Ministry/Department. This was used to measure the economic performance**.**

3.1 Measurement of variables

Financial management reforms could be measured through changes that were undertaken in the budgetary, accounting and auditing process for the last five (5) years for each. 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).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 I)

3.2 MODEL SPECIFICATION

The econometric model is specified as shown and the data was analyzed using the specified model;

$$y = ?\,\mathbf{2_0} + ?\,\mathbf{2_1}x_1 + ?\,\mathbf{2_2}x_2 + ?\,\mathbf{2_3}x_3 + \ell$$

Where **y** was the ministry /department annual performance contracting composite score evaluation results for five (5) years.β_0, β_1,β_2,β_3 are constants andX_1, X_2, X_3 are the financial management reforms and ℓ is the error term.

Financial management reforms were measured using three data points; X1 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 audit reforms undertaken by the Ministry/Department within five (5) year including value for money audit.

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) was used to aid in quantitative data analysis for the study. The results were presented in charts, graphs and tables.

4.0 RESULTS AND DISCUSSIONS

This section reports on the main results obtained by analysis of data and presentation of results of the questionnaire data. From the results in table 5, the econometric model above becomes;

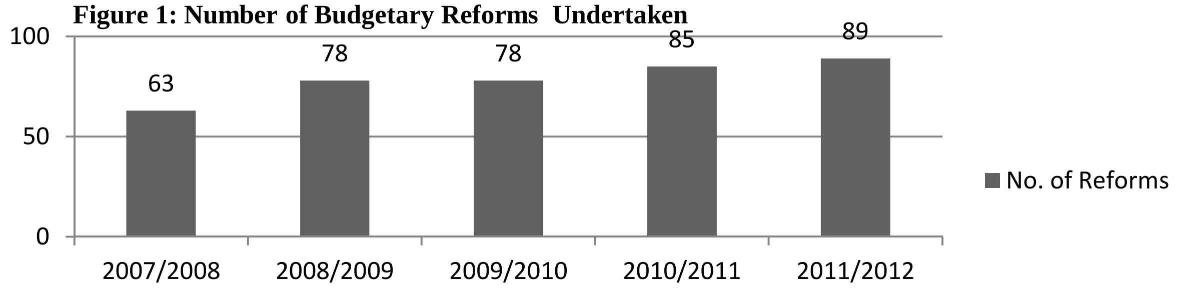
$Y = 2.998 – 0.165 X_1 – 0.057 X_2 – 0.0389 X_3$

The coefficients indicate that a unit change in the budgetary reforms results in 16.5% change in economic performance of a public sector entity, while the same is true for accounting reforms at 5.7% and audit reforms at 3.89%. Budgetary reform is therefore a more strong predictor variable.

4.1 Number of Budgetary Reforms Undertaken

The number of budgetary reforms undertaken by the Ministries within the financial years 2007/2008 to 2011/2012 is shown in figure1 below. The findings indicate a significant increase in the number of budgetary reforms undertaken by the Ministries over the period under investigation. 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.

Figure 1: Number of Budgetary Reforms Undertaken



4.1.1 Number of Budgetary Reforms Undertaken Against Performance

The findings in table 1 below indicate 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 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.

Table 1 : Number of Budgetary Reforms Undertaken Against Performance

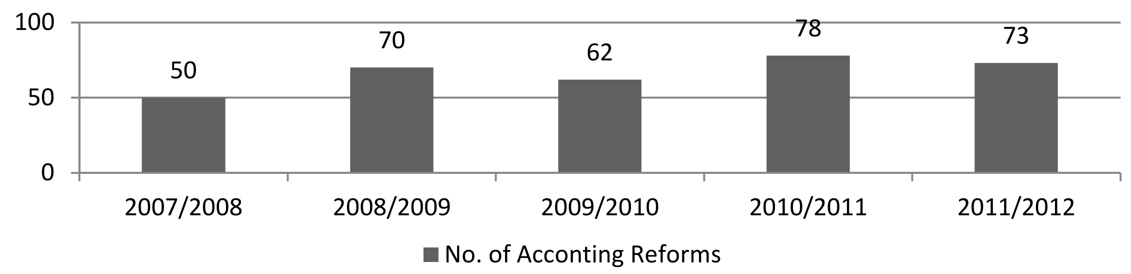
	Mean	Std. Deviation	N
Budget reforms aggregate (composite performance)	2.6777	.39991	30
2007/2008	2.10	.803	30
2008/2009	2.60	1.133	30
2009/2010	2.60	.968	30
2010/2011	2.83	1.262	30
2011/2012	2.97	.928	30

Source : Researcher (2013)

4.2 Number of Accounting Reforms Undertaken

Findings in figure 2 below indicate the number of accounting reforms that were undertaken by the ministries within five (5) Financial Years that is, financial years 2007/2008 to 2011/2012. The findings indicate that, 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.

Figure 2: Number of Accounting Reforms Undertaken



Source: Research Questionnaires

4.2.1 Number of Accounting reforms Undertaken against Performance

Findings in table 2 below indicate number of accounting reforms that were undertaken by the various departments/Ministries and the average performance of the departments/Ministries after the reforms. The findings show the average number of accounting reforms undertaken for the past five financial years from 2007/2008 to 2011/2012 to be 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.

Table 2: Accounting Reforms Undertaken Against Performance

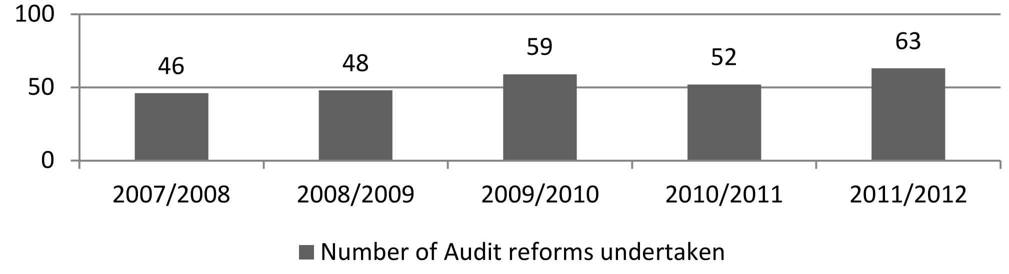
	Mean	Std. Deviation	N
Accounts reforms aggregate (composite performance)	2.45	.379	30
2007/2008	1.67	1.028	30
2008/2009	2.33	1.028	30
2009/2010	2.07	.944	30
2010/2011	2.60	1.003	30
2011/2012	2.43	.935	30

Source: Researcher (2013)

4.3 Number of Auditing Reforms Undertaken

The number of auditing reforms that were undertaken by the ministries within the five financial years period between financial years 2007/2008 and 2011/2012is indicated in figure 3 below. From the information, 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.

Figure 3Number of Audit Reforms Undertaken



4.3.1 Number of Auditing Reforms Undertaken Against Performance

Results in table 3 below shows the number of Auditing reforms that were undertaken by the various departments/Ministries and the average performance of the departments/Ministries after the reforms. Clearly, 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 was2.2876 showing that despite having a small number of reforms, the economic performance was very good.

Table 3 Auditing Reforms Undertaken Against Performance

	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)

4.4 Economic Performance in Kenya

An analysis of the report on evaluation of the performance of public agencies prepared by the performance contracting department indicated that there was a relative improvement on the economic performance of Ministries / Departments as indicated by the average performance scores in Appendix III. 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).

5.0 Testing of hypothesis

From Table 4 below, the partial regression results show that 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. 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 and finally, there is a weak 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. The null hypothesis is therefore rejected.

Table 4 Partial Regression Results

	Budgetary Reforms Model Summary	Accounting Reforms Model Summary	Audit Reforms Model Summary
R	0.681	0.47	0.387
R Square	0.464	0.221	0.15
Adjusted R Square	0.352	0.059	-0.027
Std. Error of the Estimate	0.3219	0.367	0.32144

5.1 Multiple Regression Results

The regression Coefficients in table 5 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 0.05 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 no 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. From the model summary in the table 5below, there is a strong positive correlation of 0.437 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.

Table 5 Multiple Regression Results

	Unstandardized Coefficients		Standardized Coefficients			95.0% Confidence Interval for B	
	B	Std. Error	Beta	t	Sig.	Lower Bound	Upper Bound
Constant	2.998	0.169		17.729	0	2.65	3.346
Budgetary	-0.165	0.055	-0.521	-2.985	0.006	-0.279	-0.051
Accounting	-0.057	0.055	-0.181	-1.039	0.038	-0.169	0.056
Auditing	-0.039	0.04	-0.145	-0.983	0.335	-0.121	0.043
R Square	0.437						
Adjusted R Square	0.372						

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

5.2 Conclusion and recommendation

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. Thus, 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-determined 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

5.3 Suggestions for Further research

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 providen 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
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 Government	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
	Average Composite Scores	**2.6777433**	**2.4483667**	**2.4598333**	**2.3635267**	**2.28757**