Financial Planning Practices and Performance of the Constituency Development Fund; a Case of Borabu Constituency, Nyamira County, Kenya

Robert Okari Maosa¹, Patrick Nyatete Kenyanya²
¹Jomo Kenyatta University of Agriculture and Technology, Kenya
²Department of Accounting and Finance, Maseno University, Kenya
Corresponding Author: Patrick Nyatete Kenyanya

ABSTRACT: The Constituency Development Fund (CDF) was implemented in 2003 to address development challenges of unbalanced development in Kenya. However, studies indicate that up to 40% of projects funded by the Fund have failed, with up to 54% failure in Borabu Constituency alone. Whilst financial planning practices have previously been shown to influence performance, the relationship between cash budgeting, cash flow projection and capital budgeting practices and the performance of Borabu CDF is unknown. The main purpose of this study was to establish the relationship between financial planning practices and performance of Borabu CDF, and specifically to: establish the role of cash budgeting process in the management of CDF-funded projects in Borabu Constituency; determine the relationship between cash flow projection and the performance of CDF-funded projects in Borabu Constituency; and to evaluate the influence of capital budgeting on the management of CDF-funded projects in Borabu Constituency. A correlational research design was used for the study. The target population was the 270 Project Management Committee (PMC) members of the 45 on-going projects in the constituency. Random sampling technique was used to select a sample of 162 PMC members while questionnaires were used to collect data. Test-retest coefficient of 0.8 on five CDF funded projects in the adjacent North Mugirango constituency and content validity index (CVI) of 0.72 were used to measure reliability and validity of the questionnaire respectively. Multiple regression analyses were used to analyse the data. The study reveals a positive significant correlation ($R = 0.532$, $p = 0.00$) between financial planning practices and performance of the Fund implying that a unit increase in financial planning practices leads to a corresponding increase of 0.532 in performance of CDF. It was also revealed that a unit increase in cash budgeting leads to a 39.4% significant increase in performance of CDF ($β = 0.394$, $p = 0.047$); a unit increase in cash flow projection leads to a 33.8% significant increase in performance of CDF ($β = 0.338$, $p = 0.01$); and a unit increase in capital budgeting leads to a 41.2% increase in performance of CDF ($β = 0.412$, $p = 0.000$). It is concluded that financial planning practices are significant in influencing performance of CDF funded projects.

KEYWORDS: CDF, Constituency, Financial Planning Practices, Performance, Kenya

Date of Submission: 22-06-2018
Date of acceptance: 07-07-2018

1. INTRODUCTION

The Constituency Development Fund (CDF) was established in Kenya through the CDF Act 2003 (Mwangi, 2013). The main purpose of establishing the Fund was to use it as a key strategic driver of social-economic development in Kenya. Its development initiative targeted the constituencies by devolving resources to meet socio-economic objectives, which were previously not being effectively met by the central government. According to the Act, the main objectives of the Fund are to fund projects that have immediate social and economic impact on the lives of the people, alleviate poverty and in particular, to fight against poverty at the constituencies. A report by the Kenya Institute of Public Policy and Research (KIPPPRA) (2016) indicates that the CDF has transferred over 115 billion Kenya shillings to over 48,000 projects in the rural and urban areas through constituency-based development projects. The impact of these projects was experienced in the key sectors funded by CDF such as education with about 38% of the allocations, health 11% and water 8%.

According to Paul and Anantharaman (2003), financial planning practices are important because they supplement prudential regulation and they can be a good guide for prudent behavior. According to them, the financial planning practices however can only go so far since their utility may be limited by the fact that adherence to a set of performance standards may be difficult to achieve without an external disciplining body. For instance, project fund performance through an efficient capital budgeting process is a measure of how well a project can plan for acquisition and allocation of assets from its primary mode of business. According to Pandey...
Financial Planning Practices and Performance of the Constituency Development Fund: a Case of Borabu Constituency

(2004), financial planning involves three main processes; cash budgeting, capital budgeting and cash flow projection.

Wanyama (2009) notes that the cash budgeting process is one of the financial planning practices used as a general measure of a project's overall financial health over a given period, and has been used to compare similar projects. It is further noted that although measuring financial performance by using efficiency of the cash budgeting process is considered a simple task, it has its specific complications such as estimation of future cash flows. A number of empirical studies have been conducted on the role of cash budgeting on the success of projects. Mwangi (2013) found that cash budgeting has no significant relationship with the performance of projects while studying the effect of fund management practices on the financial performance of CDF funded water projects in Molo constituency. The study used a cross-sectional survey research design. Kibebe and Mwirigi (2013), on the other hand found that there was a significant relationship between managerial factors, and social factors and implementation of CDF projects in Kimilili Constituency using survey design. One of the managerial factors studied was cash budgeting. Hossain (2008) in a study on factors influencing participatory development in areas such as cash budgeting on 25 community-based projects in Bangladesh revealed that cash budgeting has a negative significant relationship with performance of community-based projects since the local people are not involved in the cash budgeting process. The study was mainly descriptive. Auya and Oino (2012) while studying the role of CDF in rural development in Kenya using a survey research design found that the success of CDF as a rural poverty alleviation strategy is not only associated with availability of funds, but also with a myriad of factors, which include beneficiary participation and involvement and consultative decision making among all parties involved, prioritizing needs by the locals through processes such as cash budgeting, good leadership and coherent and transparent phase-out plans. The study generally found that cash budgeting has a positive significant relationship with the performance of projects. Khan (2009) established that cash budgeting has no significant relationship with the success of project implementation.

The existences of efficient financial planning practices make a substantial difference between the success and failure of a project (Kimani, 2013). It is of particular importance to the managers of Constituency Development Fund (CDF) funded projects, who take the aspects of project finance management. As established by Padachi (2006), who studied trends in working capital management and its effect on firm performance using 53 Mauritian small manufacturing firms, efficient fund management practices are vital for the success and survival of enterprises, which needs to be embraced to enhance performance and contribution to economic growth. Studies on cash flow projection have also revealed that researchers have not agreed on the role of cash flow projection on the completion of community-based projects. A study on the effect of cash planning by Kwame (2007) in Ghana using survey research design established cash budgeting is significantly useful in planning for shortage and surplus of cash which has a positive effect on the financial performance of the firms. Kebenei (2012) using a descriptive research design studied the perceived effect of leadership on the performance of CDF with particular reference to the leaders’ knowledge on financial matters. Among the variables of financial leadership that the research considered was leadership in financial planning using cash flow projection. It was established that leadership in financial planning matters was significantly related to the performance of CDF committees. In a study by Kariuki (2013) on the influence of strategy implementation on performance of CDF funded projects in Gachoka Constituency using descriptive research design, cash flow projection as a strategy was found to have a negative significant effect on performance of the projects. Ochieng and Tubey (2013) found that there is no relationship between cash flow projection and performance of CDF funded projects in Ainamoi Constituency in a study on factors that influence management of CDF using a descriptive research design.

Capital budgeting basically relates to the selection of the projects that are to be carried out (Pandey 2004). Empirical studies on cash budgeting have also elicited differing findings on the relationship between capital budgeting and performance of CDF funded projects. Gitobu (2011) carried out a research using descriptive research design on factors affecting implementation of CDF projects indicates that the relationship is positive while Wanyama (2009) using a descriptive research design found that there is no relationship between the two variables. Orero (2013) found that the relationship is negative and significant. The review of studies therefore indicates that the role of financial planning of performance of CDF in Borabu Constituency has not been studied.

Borabu Constituency is one of the four constituencies in Nyamira County. The National Taxpayer’s Association reports that during the financial years 2013/2014 and 2014/2015, a total of KES 230 million had been allocated to projects in the constituency (NTA, 2015). The report further found out that during the financial year 2009/2010, out of a total 83 projects initiated, only 17 were well-done and completed, representing only 20% of the initial projects. The rest (80%) represented projects that were either badly done, or well-done but incomplete or even yet, unaccounted for projects. In the same period, the total money unaccounted for from the CDF fund was 17% of the allocation for that year. At present, there are 45 projects that are ongoing in the constituency. Generally, reports indicate that the success rate of CDF in Borabu Constituency is 54%. The main
objective of this study was therefore to establish the role of financial planning practices on performance of Constituency Development Fund in Borabu constituency.

The study specifically sought to:

(i) Determine the effect of cash budgeting on the performance of CDF-funded projects in Borabu Constituency,

(ii) Establish the role of cash flow projection on performance of CDF-funded projects in Borabu Constituency.

(iii) Evaluate the influence of capital budgeting in the completion of CDF-funded projects in Borabu Constituency.

II. RESEARCH METHODOLOGY

The study employed a correlational research design. According to Cooper and Schindler (2006), a correlational research design attempts to establish the relationship between research variables or their interaction. The research design is therefore suitable in this study since it helped in establishing the relationship between the financial planning practices and the performance of CDF in Borabu constituency. This research targeted all the project committee members of the projects that were initiated in the financial years 2015/2016 and 2016/2017. Each Project Management Committee (PMC) has on average six members. Accordingly, there are 270 Project Management Committee members (PMCs) who were targeted by this research since there are 45 projects which were initiated in the targeted financial years.

Random sampling was used select the specific respondents for this study. The study applied the formula suggested by Yamane (1967) as quoted by Cooper and Schindler (2006) to determine the sample size. The formula is:

\[
n = \frac{N}{1 + N(e)^2}
\]

Where:

- \(n\) = the desired sample size
- \(N\) = is the population, 270 for the present study.
- \(e\) = is the level of precision set at 0.05

Applying the above formula gives the sample population of 162 project committee members. Random sampling was used to select the respondents.

Questionnaires were the main method of data collection. Both primary and secondary data were collected to achieve the objectives of the study. Primary data were collected from the Project Committee Members by using questionnaires with five-point Likert Scale. Available relevant secondary data from books, journals and from the internet sources was used to supplement the primary data. The questionnaires were tested to ensure reliability and validity. A research instrument is reliable when it has the consistency of measurement Mugenda and Mugenda, (2003). Reliability gives the internal consistency of data collected. Creswell, (2009) notes that reliability means the findings would be consistently the same if the study were done over again by ensuring that the degree of consistency or stability is high. To achieve this, a pilot study was done in five projects that are on-going in the neighbouring North Mugirango Constituency which has the same characteristics in terms of non-completion of projects. The test-retest coefficient was 0.8 against a threshold of 1.0 which indicated that the data collection instrument was reliable. Validity of the questionnaires was tested by using the Content Valid Index (CVI). To achieve this, the relevant items in relation to the research objectives in the questionnaire were divided by the total number of items (Fisher, 2004). For a research instrument to be valid, the CVI should be more than 0.7 against threshold of 1.0. The CVI for the present study was found to be 0.72.

Data was analyzed using descriptive and inferential statistics. Descriptively, proportions and percentages were computed. Inferentially, raw data was put into SPSS spreadsheet after which a regression was run to determine the relationship between the independent and the dependent variable. The regression equation that was used was adopted from the study by Hossain (2008). In the study by Hossain (2008), the independent variables were financial planning practices while the dependent variable was participatory development. The model was modified to fit the present study as follows:

\[
PERF_i = \beta_0 + \beta_1(CABD_i) + \beta_2(CAFP_i) + \beta_3(CAPB_i) + \epsilon
\]

Where:

- \(PERF_i\) is Performance of project \(i\) measured by the ratio of the number of well completed projects to those not completed.
- \(\beta_0\) is the constant term
- \(\beta_1\) is the slope for Cash budgeting (CABD) for project \(i\)
- \(\beta_2\) is the slope for Cash flow projection (CAFP) \(i\)
- \(\beta_3\) is the slope for Capital budgeting (CAPB) for project \(i\) and
- \(\epsilon\) is the error term which is assumed to be normally distributed.

www.ijbmi.org | 45 | Page
III. RESULTS AND DISCUSSION

To evaluate the respondents’ knowledge of financial planning, the respondents were asked to indicate the level of their knowledge of the three financial planning practices on a Likert scale of: 1, Does not know, 2 Knows a little, 3 Knows moderately, 4 Knows well and 5 Knows Excellently. The results are presented in Table 1 below.

Table 1 Extent of Knowledge of Financial Planning

<table>
<thead>
<tr>
<th>Practice</th>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(4)</th>
<th>(5)</th>
<th>Σfi</th>
<th>Σwi</th>
<th>Σwi/Σfi</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Budgeting</td>
<td>46</td>
<td>49</td>
<td>31</td>
<td>32</td>
<td>18</td>
<td>162</td>
<td>455</td>
<td>2.81</td>
</tr>
<tr>
<td>Cash Flow Projection</td>
<td>67</td>
<td>23</td>
<td>17</td>
<td>59</td>
<td>10</td>
<td>162</td>
<td>450</td>
<td>2.78</td>
</tr>
<tr>
<td>Capital budgeting</td>
<td>83</td>
<td>28</td>
<td>47</td>
<td>9</td>
<td>9</td>
<td>162</td>
<td>361</td>
<td>2.23</td>
</tr>
<tr>
<td>Average</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2.61</td>
</tr>
</tbody>
</table>

Results in Table 1 confirm that most PMC members have a limited knowledge of financial planning practices as found by Kibebe and Mwirigi (2013). The study found that of the three elements of financial planning, cash budgeting was the one known widely (mean of 2.81), while capital budgeting was the least known (mean of 2.23). The average mean of 2.4 indicates that on average, PMC members to a moderate extent know about financial planning practices.

The first objective of the study was to determining the effect of cash budgeting on performance of CDF-funded projects in Borabu Constituency. To fulfill the objective it was important to first establish the extent of use of the cash budget, cash flow projection and capital budgeting in project management in the constituency. Results for this analysis are presented in Table 2.

Table 2 Extent of use of Financial Planning Practices in CDF Projects

<table>
<thead>
<tr>
<th>Practice</th>
<th>Mean</th>
<th>SD</th>
<th>N</th>
<th>Std. Error of Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>CABD 2.3037</td>
<td>0.6076</td>
<td>162</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAFB 2.4836</td>
<td>1.0195</td>
<td>162</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAPB 1.9788</td>
<td>0.9781</td>
<td>162</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Results in Table 2 above confirm that the extent of use of financial planning practices is generally low. This is indicated by the low means and standard deviations for the three financial planning practices. Of the three practices, cash flow projection was the most widely used although the extent of use was low as evidenced by the low mean of 2.4836. Capital budgeting was found to be the least used at a mean of 1.9788. The standard deviation of responses for each measure of financial planning from their mean responses were 0.60761, 1.0195, and .9781 for cash budgeting, cash flow projection and capital budgeting respectively. Since the deviations were more than the threshold of 0.5, it then implies that there were major deviations of the individual views from their mean responses. These results confirm those of Kebenei (2012) and Wanyama (2009) who found that most CDF funded projects failed because the extent of use of financial planning practices was low.

The general objective of the present study was to establish the relationship between financial planning practices and performance of CDF in Borabu constituency. To achieve this objective, a regression was run with performance (PERF) being regressed against the three measures of financial planning of cash budgeting (CABD), cash flow projection (CAFP) and capital budgeting (CAPB). The relationship between CDF performance and financial planning practices was measured using the multiple linear regression equation specified by (1) with the PMC’s performance being the dependent variable and financial planning practices being the independent variable. The F-test was performed at 95% to establish the significance of the model. The test was based on the null hypothesis that financial planning practices have no effect on performance of CDF projects. The decision rule was to reject $H_0$ if the $p$-value was less than 0.05. The results are as shown in Table 3, 4 and 5 below.

Table 3: Summary of the Regression Model

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.532*</td>
<td>.283</td>
<td>.271</td>
<td>.404</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), CABD, CAFP, CAPB
Table 3 reveals that there is a moderate positive correlation between the dependent variable of performance and financial planning as indicated by the correlation coefficient of 0.532. This shows that the predicted model is a good predictor of CDF performance. This implies that with an increase of 0.532 in application of financial planning practices, there is likely to be an improved performance of 0.532 in the performance of CDF as measured by completion of projects. The R square value of 0.283 indicates that the model can significantly predict 28.3 percent of CDF performance when financial planning practices are input into it. This implies that the model is a fairly good predictor of performance of CDF funded projects.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>56,425</td>
<td>3</td>
<td>18.808</td>
<td>115.270</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>10,443</td>
<td>159</td>
<td>0.163</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>66,868</td>
<td>162</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), CAPD, CAFP, CAPB  
b. Dependent Variable: PERF

Table 4 ANOVA Results on the Regression Model

From the model regression relationship in Table 4 above, it can be inferred that the general relationship between the variables is strong. The p-value of 0.00 leads us to reject the null hypothesis and accept the alternative hypothesis. Since the null hypothesis was that there financial planning has no effect on performance of CDF funded projects in Borabu constituency, we accept the alternative hypothesis and conclude that there is a significant relationship between financial planning and the performance of CDF funded projects in Borabu constituency.

Table 5 Relationship between Financial Literacy and Borrowing Behavior

Findings in the regression coefficients Table 5 indicate that the constant in the model is 0.569. This is the level of performance that would be there without the input of the financial planning practices. The coefficient for cash budgeting is found to be 0.394 (p = 0.047) indicating that we reject the null hypothesis that cash budgeting has no effect on performance of CDF projects. The coefficient is positive implying that cash budgeting has a positive significant effect on performance of projects. This means that a unit increase in cash budgeting results to an increase of 39.4 percent increase in performance of the CDF. These results support those of Kibebe and Mwiirigi (2013) and Auya and Oino (2012) who found that cash budgeting has a positive significant effect on performance of projects, and contradict with those of Mwangi (2003) and Khan (2009) who found no relationship between cash budgeting and performance of projects, and Hossain (2008) who found a negative relationship between the variables. The interpretation of these findings is that there is a high failure in CDF funded projects in Borabu constituency since cash budgeting is rarely used as a financial planning practice.

Cash flow projection was found to have no significant relationship with performance of CDF (β = 0.306, p = 0.001) indicating that we reject the null hypothesis of there being no relationship between cash flow projection and performance of CDF funded projects in Borabu constituency. It is therefore concluded that there is a significant relationship between cash flow projection and performance of CDF funded projects in Borabu constituency. This contradicts what Ochieng and Tubey (2013) found in their study on the role of cash flow projection on the performance of public funded projects. On the contrary, the findings agree with those of Kwame (2002) and Kebenei (2012) who found a significant positive relationship between cash flow projection and performance of projects in the public sector. Kariuki (2013) found a negative relationship. The results generally show that the use of cash flow projection in planning for public projects may not produce desirable results. This is consistent with the way the government funds it projects; it is not possible sometimes to plan for the funds since their timing is not certain.

Capital budgeting was also found to have a positive significant effect on performance of CDF funded projects (β = 0.412, p = 0.000) leading us to reject the null hypothesis of there being no significant relationship between capital budgeting and performance of CDF funded projects in Borabu constituency. This implies that a
IV. CONCLUSIONS AND RECOMMENDATIONS

Based on the findings of the study outlined above, the study has the following conclusions. The PMC members in Borabu Constituency were found to have a limited knowledge of financial planning practices. This is interpreted as the reason why there are many failures of CDF funded projects in Borabu constituency since knowledge of financial planning has been found to increase performance. Furthermore, the extent of use of the financial planning practices was low indicating that most PMCs don’t apply them when planning for the project implementation. This could be another reason for the failure in most of the projects. The finding that there is a significant positive relationship between cash budgeting and performance of CDF projects implies that cash budgeting should be applied more in CDF funded projects. This variable was found to have a positive significance implying that there is likely to be more completion of CDF funded projects when cash budgeting is mainly used as a cash planning practice.

The finding that cash flow projection was found to have a positive significant effect on performance of CDF implies that cash flow projection may have a positive influence on the performance of CDF projects. This may be due to the fact that it may be problematic to predict cash flows from the government because of the way funds are channeled from the treasury to the constituencies to finance the projects. Therefore cash flow projection should sparingly be used as a financial planning practice in the implementation of CDF funded projects. Capital budgeting should be used more as a financial planning practice in the implementation of CDF funded projects. This is the conclusion based on findings from the third objective. The findings indicated that cash budgeting has a significant relationship with CDF funded projects.

Based on the findings and conclusions above, the study makes several recommendations. First, the PMC members should be sensitized on the need to embrace financial planning practices by going for trainings. This is because knowledge on financial planning was found to be low among the PMC members. Of the three financial planning practices, the trainings should be more focused on cash budgeting since it is the one that the PMC members know most, although the knowledge is low. Second, the PMCs should apply financial planning practices more intensely in the implementation of CDF funded projects. This is due to the finding that the financial planning practices contribute a great percentage of the project completion in the projects. Furthermore, the extent of use of the practices was low which may contribute to high project failure. The concerned parties should therefore embrace financial planning practices.

REFERENCES