

EFFECT OF FUND MANAGEMENT PRACTICES ON THE FINANCIAL
PERFORMANCE OF CDF FUNDED WATER PROJECTS IN KENYA:
A CASE OF MOLO CONSTITUENCY, NAKURU COUNTY, KENYA.

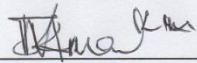
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The dissertation is my original work and has not been presented in any university for award of any degree.


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APPROVAL

The dissertation submitted for examination with our approval as the university supervisors.

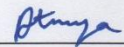
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ABSTRACT

Kenya's CDF was a concept implemented in 2003 through the Act of parliament, whose aim was to address the challenges at grassroots level through the provision of funds to empowerment of community-based projects in all constituencies of Kenya. The initiative targeted development projects at the constituency level aimed at alleviating poverty and addressing imbalances in regional development based on decentralization of public resources. The principle behind devolution appears to have been widely accepted throughout Kenya today. Increasingly however, was the issues on Management of fund accrued from CDF funded projects. The study used cross-sectional survey design, which emphasized on the measurement and analysis of relationships between the variables. The study used mostly primary sources of data. The CDF funded project managers interviewed to obtain primary data. Data was analyzed using SPSS software (SPSS version 19.0) with components, descriptive statistics: mean median, tables, and standard deviation. Correlation and regression analysis measured the nature of the relationship between financial performance and the practices of fund management. The study findings were that, there was a strong positive relationship between the fund management practices. The variability of financial performance attributed to changes in efficiency of RM, IM, and CM practices was 80.6%. This has a general implication that efficient fund management practices have a positive effect on the financial performance of CDF funded projects in Kenya and therefore FMP should be embraced as a policy recommendation.

Key words: fund management practices, financial performance, and CDF funded projects.

ABBREVIATIONS

CDF- constituency development fund
CDC- Constituency Development Committee
CM- cash management practices
DSO- daily sales outstanding
ECM- Efficiency in Cash Management
EIM- Efficiency in Inventory Management
EOQ – economic order quantity
ERM- Efficiency in Receivables Management
FP- Financial Performance Indicator
IEA- Institute of Economic Affairs
IEBC – Independent Electoral and Boundaries Commission
IM – Inventory Management practices
NARC – National Alliance Rainbow Coalition
NGO- Non -government organization
MPs – Members of the National Assembly of Kenya (parliament)
PFM – Practices of fund management
RM- receivable Management practices
Std dev – standard deviation
(VIF's) - Variance inflation factors
P-P plot – probability – probability plot
TISA- Tax Incentivized Savings Association
KIPPRA- Kenya institute for private policy Research and Analysis
CEDGG -Centre for Enhancing Democracy and Good Governance

DEFINITION OF TERMS

Constituency: is district that elects its own representative to parliament and it is operation in this research is a geographical area represented by an elected member of parliament.

County: it is an area with its own government or a geographical region governed by a governor and represented by a senator.

CDF funded project: Investment initiated by constituents but funded through devolved funds from the central government of Kenya. CDF Act (2003)

Efficiency: is performing or functioning in the best possible manner with least waste of time and effort according to (Atrill 2006). For the research, efficiency is how time or effort used for the intended task or purpose.

Finance: is a branch of economics concerned with resource allocation as well as management, acquisition and investment under condition of certainty and uncertainty (Frazer 2005)

Harambee: is a Kenyan tradition of community self- help event example fund raising or development activities.

Inventory: it the list of Stock of securities/commodities/goods in the store or factory

Project financial performance: A general measure of a project's overall financial health over a given period (Frazer, 2005).

Homoscedasticity – a situation, where the variance of a dependent variable is the same for all the data (McClendon & McKee, 2007).

Buttresses- special support of an argument with solid facts or financial portfolio with safe investments (Pike and Neal, 2006).

Fund management practice- is a managerial accounting strategy focusing on maintaining efficient levels of both components of fund, current assets and current liabilities, in respect to each other

CHAPTER ONE

INTRODUCTION

Introduction

This chapter captures the background information of the study, statement of problem, objectives, hypothesis, Significance, scope, limitations and delimitations of the study.

1.0 Back ground information.

The constituency development fund was established in Kenya through the CDF act 2003 the Kenya Gazette supplement No 107 Of 9th January 2004 (act No 11). The CDF act (2003) has been amended twice in 2007 and 2013. CDF has been viewed as a key strategic driver of social-economic development within Kenya. Its development initiative targeted the constituencies by devolving resources to meet social – economic objectives, which was previously managed by the central government. While there are, several rules that govern the management of CDF funds to ensure transparency and accountability, decisions over of the fund management are primarily by constituents. This has led to discrepancies on fund management and the development amongst the constituencies, thus in some constituencies, the funds have been managed efficiently while others have not.

CDF scheme is regarded as the most effective way of equitable distribution of national resources throughout the country from the consolidated fund based on the ministry of finance report (2010). The CDF replaced the district focus for rural development and the harambee projects. In effect, CDF funding is part of a wider approach in building social- economy in Kenya, by taking off from a holistic understanding of what human development is all about and by suggesting a comprehensive, innovative, institutional and legal framework for socially-inclusive local economic and community development (Gituto, 2007).

The CDF scheme that the Kenyan government conceived in 2003 has transferred billions of Kenya shillings to the Rural and urban areas of its constituency based development projects. By 2009, more than 35,000 CDF projects were established in various parts of the Kenya (TISA, 2009). 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 % (KIPPRA, 2010). Through the CDF programme, a total disbursement of Sh. 70.8 billion to the 210 constituencies

since its inception in 2003 to 2011. This requires scrutiny of the extent to which the funds allocated are managed to achieve the desired result (Empirical literature European Scientific (2012)

(Wanjiru, 2008; Manasseh, 2007) suggest public audits as the ideal strategy of monitoring allocation, use and sustainability of funds allocated through the devolved funds. Such audits should aim at ensuring compliance with the International Public Sector Accounting principles, safeguard public assets and provide assurance to the stakeholders who include government agencies, public, policy makers, donors and scholars (Manasseh, 2007).

CDF aimed at redistributing national resources to the community to improve rural economy, alleviate poverty, create employment, and raise the standard of living of Kenyans. It seeks to bring services and facilities closer to the people. CDF intention was to compliment other existing funds directed to the community, which include the Local Authorities' Transfer Fund (LATF), Bursary Fund, Fuel Levy Funds and Roads Maintenance Fund, among others according to CDF act (2003).

In Kenya, constituencies themselves under the leadership of CDF management committees are required to manage the fund for the benefit of constituents. These committees write proposals suggesting projects that will benefit the constituents' accompanied by the budget estimates. The projects proposals and budget estimates are analyzed. The money allocated was based on the priority of the project to the community (CDF act 2003). The projects started vary with constituency needs and when completed it is handed over to the community for maintenance and sustenance. Through this process, the central government has shifted the onus of the regional development to the locals themselves. The government established the CDF with the various objectives such as finance the development projects in all constituencies, distribute equally among constituents funds allocated to those projects, ensure these funds are equally distributed, monitor the management of funds allocated, and focus on the project performance to the constituents'

CDF funded projects have not achieved the intended objectives in some constituencies due to various concerns. Many organizations and institutions at the local, regional and international level have done various studies on CDF. Interrogated aspects on CDF include CDF administration and management, its effectiveness in poverty reduction, gender budgeting and CDF, CDF vis-à-vis employment and wealth creation, gender dimensions in CDF allocation and distribution, efficiency of CDF structures and organs in CDF implementation and delivery, gender perspectives in accessing CDF resources, transparency and accountability in CDF processes, Kaimenyi (2005). Because of these researches, some constituencies do well in terms of fund management, which has been significant in changing people's lives. Other constituencies have performed poorly in managing the CDF fund sometimes leading to freezing by the National Management Committee, which has had far-reaching implications on the constituents' well being according to Collaborative Centre for Gender and Development (2009) and CDF Website. The research study assessed the effect of fund management practices on the financial performance of CDF funded projects in Kenya. Fund management Practice is a managerial accounting strategy focusing on maintaining efficient levels of both components of fund, current assets and current liabilities, in respect to each other.

The model hypothesizes that efficiency in fund management practices as measured by efficiency in cash, receivables and inventory management has an influence on the projects' trend on sales and surplus of CDF funded project. Project fund management aim at maintaining an optimal balance between each of the project fund components, which are cash, receivables, inventory, and payables, which is a fundamental part of the overall corporate strategy to create value. It is an important source of competitive advantage in project management (Deloof, 2003). In practice, it has become one of the most important issues in organizations with many financial executives struggling to identify the basic project fund drivers and the appropriate level of fund to hold so as to minimize risk, effectively prepare for uncertainty and improve the overall performance of their projects (Lamberson, 2005).

The existences of efficient fund management practices make a substantial difference between the success and failure of a project. It is of particular importance to the managers of CDF funded projects, who take the aspects of project finance management, (Kwame, 2007). As established by Padachi (2006), 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. As observed by Atrill (2006), there is evidence that many enterprises are not very good at managing their funds despite their high investments in current assets in proportion to their total assets and this has been a major cause of their failure rates. According to Atrill, majority of the projects operate without credit control department implying that both the expertise and the information required to make sound judgments concerning terms of sales may not be available. They also lack proper debt collection procedures, hence, they tend to experience increased risks of late payment and default by debtors who tend to increase where there is an exclusive concern for growth; in this case, projects may not be too willing to extend credit to customers who have poor credit risks. In a recent study by Bowen (2009), debt collection was identified by 55% of respondents to be among the top five major challenges facing businesses.

The International Labour Organization (2010) estimated that two-thirds of the projects were generating income equal to or below the minimum wage, a finding that must temper one's enthusiasm for the growth of projects as a solution to the country's poverty and employment problems. Despite significance of the projects, the increased efforts by the government of Kenya and other stakeholders to ensure the success of CDF funded projects, the statistics indicate that 40% of the water projects failing by the second year and at least 60% closing their doors by the fourth year(Kenya National Bureau of Statistics (2010).

As observed by Mead (2004), the health of the economy as a whole has a strong relationship with the health and water sector given their importance to a nation's social- economic growth, the role that they play in poverty reduction. The understanding of the problems negatively affecting CDF funded projects in Kenya was a vital first step in managing and avoiding the massive failure of these projects. The literature on fund management practices identified efficiency of cash management, efficiency of receivables management and efficiency of inventory management as determinants of financial performance model. Financial performance could be improved if efficiency levels of cash, receivables and inventory management practices are increased. Based on this background, the study was designed to assess the effect of fund management practices on the financial performance of CDF funded projects in Molo constituency, Nakuru County, Kenya.

1.1 Statement of the problem

The government has invested heavily in the CDF funded projects and this encouraged the investment for economic and social development in the constituencies. CDF funded project is a key pillar for economic investment as outlined in Kenya's Vision 2030. According to the CDF act (2003), the amended CDF act (2007) and (2013), normally, the completed CDF funded projects are handed over to the local community to manage, operationalise and sustain. There has been a public outcry on the management of the accrued fund from projects leading to halting while others are operating normally (Ministry of planning report, 2009) and National Anti corruption campaign steering committee report (2010). Some water projects halt due to various concerns such as failure of water pumps, electricity disconnection and failure to meet financial obligations during operation. Many organizations and researchers have done various studies on CDF but scanty information is available on the causes of failure of the long-term projects to meet the intended objectives in various constituencies. It was not clear why some of the projects fail to achieve the intended objectives in various constituencies of Kenya. In this regard, the study assessed the effect of fund management practices on the financial performance of CDF funded water projects in Kenya to fill this knowledge gap.

1.2 Objectives of the study

1.2: 0 General objective of the study

The general objective of this study was to assess the effect of fund management practices on the financial performance of CDF funded water projects in Kenya.

The following specific objectives guided the research study:

1. Determine the effect of cash management on financial performance of CDF funded water projects in Molo constituency.
2. Establish the relationship between efficient receivable management and financial performance of CDF funded water projects Molo constituency.
3. Determine the effect of inventory management level on financial performance of CDF funded water projects in Molo constituency.

1.3 Hypothesis

In the research, the following hypotheses were tested:

Hypothesis 1

H₀: There is no significant effect of cash management practices on financial performance of CDF funded water projects in Molo constituency.

Hypothesis 2

H₀: Efficient receivable management practices have no relationship with financial performance of CDF funded water projects in Molo constituency.

Hypothesis 3

H₀: There is no significant effect of efficient inventory management practices level on financial performance of CDF funded water projects in Molo constituency.

1.4 Significance of the study.

The intended beneficiary of this study is the central government particularly the ministries of planning and devolution, water and irrigation and health in determining whether the CDF funded project have helped in the development of the ordinary Kenyan in the infrastructural development and provision of services in health and water provision. The study acts as a benchmark to help in establishing whether the national resources were efficiently managed through decentralization to the county, constituency, village levels or when centralized at the national level. It is also a benefit to the county government, CDF national management committee and the constituents in finding out whether the CDF project funds are sufficient in meeting the needs of the set projects in the constituency. It is also of benefit to the constituents in making the right choice of the CDF funded projects according to their priorities and funds available from central government. The research is of benefit in helping the project managers in the practices of fund management. It is also of importance to other researchers in that it will provide them with the prerequisite knowledge of their research activities

1.5 Scope of the study

The scope of the study was Molo constituency in Njoro/Molo districts of Nakuru County.

The study targeted CDF funded water projects carried out between 2007/2008 to 2011/ 2012 financial years. The study target operational CDF funded water projects in the constituency, project manager at constituency level and the project managers of various water projects in the constituency. The CDF funded water projects were sampled because they require financial management and maintenance for long- term sustenance. Molo constituency was sampled because of its previous national ratings of 68 Out of 210 constituencies on performance index, its poverty index of 42.26%, vast geographical area (2,371.9.km²), population density of 229 according to Ministry of planning records (2009) census, heterogeneous communities and ethnic diversity.

1.6 Limitations of the study

The limitation of the study was that a few of the respondents were not willing to answer questions due to fear of unknown.

Three of the respondents failed to submit the questionnaires due to various reasons that could not be explained.

Some managers also hampered data collection due to fear of the unknown on the funds management practices and victimization.

1.7 Delimitation

The researcher was able to overcome the limitation of respondents' unwillingness by assuring them of the confidentiality of information gathered.

To overcome the second limitation, the researcher visited the operation centre of the managers frequently but in vain

To overcome the third limitation the concerned were convinced to consider the historical data of the aspect on practices of fund management and the data was for academic purpose only.

CHAPTER TWO: LITERATURE REVIEW

Introduction

The chapter focuses on pertinent literature related to the research hypothesis, practices of funds management, financial performance and the relationship between the two variables. The chapter concludes with conceptual framework.

2.1 Fund management Practices

Fund management Practice is a managerial accounting strategy focusing on maintaining efficient levels of both components of fund, current assets and current liabilities, in respect to each other. Fund management ensures a project has sufficient cash flow in order to meet its short-term debt obligations and operating expenses.

Fund management is a very important component of corporate finance because it directly affects the liquidity, profitability and growth of a business. It is important to the financial health of businesses of all sizes as the amounts invested in working capital are often high in proportion to the total assets employed (Atrill, 2006). It involves the planning and controlling of current assets and liabilities in a manner that eliminates the risk of inability to meet short-term obligations and avoid excessive investments in these assets (Lamberson, 2005). This management of short-term assets is as important as the management of long-term financial assets, since it directly contributes to the maximization of projects' profitability, liquidity and total financial performance. Consequently, projects can minimize risk and improve the overall financial performance by understanding the role and drivers of funds, Lamberson (2005). In addition, as established by several researchers (Peel and Wilson 2000, Padachi, 2006, Kotut, 2003) efficient management of capital is pivotal to the health and performance of firms hence their view that firms should employ the use of efficient practices of fund management as a strategy of improving their value. The literature on working capital management practices identifies efficiency of cash management, efficiency of receivables management and efficiency of inventory management as determinants of financial performance model. Financial performance can be improved if efficiency levels of cash, receivables and inventory management practices are increased. The investigation on fund management practices was focused on cash management practices, receivables management practices and inventory management practices.

2.1.1 Cash Management Practices.

Cash management is the process of planning and controlling cash flows into and out of the business, cash flows within the business, and cash balances held by a business at a point in time (Pandey, 2004). Efficient cash management involves the determination of the optimal cash to hold by considering the trade-off between the opportunity cost of holding too much cash and the trading cost of holding too little (Ross ,2008). In addition, as stressed by (Atrill ,2006), there is need for careful planning and monitoring of cash flows over time to determine the optimal cash to hold. A study by (Kwame, 2007) established that the setting up of a cash balance policy ensures prudent cash budgeting and investment of surplus cash. This finding agree with the findings by Kotut (2003) who established that cash budgeting is useful in planning for shortage and surplus of cash which has a positive effect on the financial performance of the firms. By reducing, the time cash is tied up in the operating cycle improves a projects' profitability and market value furthers the significance of efficient cash management practices in improving business performance (Ross, 2008).

2.1.2 Receivables management practices

Receivables Management means planning, organizing, directing and controlling of receivables. It deals with a shortened creditor's collection period, low levels of bad debts and a sound credit policy often improves the businesses' ability to attract new customers and accordingly increase financial performance hence there is need for a sound credit policy that will ensure that CDF funded projects' value is optimized (Ross, 2008). Costs of cash discounts, losses of bad debts and costs of managing credit and credit collections constitute the carrying costs associated with granting a credit which increase when the amount of receivables granted are increased. Lost sales resulting from not granting credit constitute the opportunity cost, which decrease when the amounts of receivables are increased. Provision of trade credit was normally used by businesses as a marketing strategy to expand or maintain sales (Pandey, 2004). Firms that are efficient in receivables management determine their optimal credit, which minimizes the total costs of granting credit (Ross 2008). As observed by (Michalski 2007) an increase in the level of accounts receivables in a firm increases both the fund and the costs of holding and managing accounts receivables and both lead to a decrease in the value of the firm. A study by Lazaridis and Dimitrios (2005) found that firms who pursue increase in accounts receivables to an optimal

level increase their profitability. A study by Juan & Martinez (2002) emphasized that firms can create value by reducing their number of days of accounts receivable, thus confirmed the finding of Deloof (2003) who established that the length of receivables collection period has a negative effect on a firm's performance. A study by Sushma & Bhupesh (2007) also affirmed that, putting in place a sound credit policy ensures proper debt collection procedures and is pivotal in improving efficiency in receivables management hence the performance of firms.

2.1.3 Inventory management practices

Inventory management practices are activities employed in maintaining the optimum number or amount of each inventory item. The objective of inventory management is to provide uninterrupted production, sales, and/or customer-service levels at the minimum cost. Since for many companies inventory is the largest item in the current assets category, inventory problems can and do contribute to losses. Inventory management practices answered the questions: how much is ordered and when it is ordered. The questions relate to the problem of determining the economic order quantity can be solved by the analyzing the costs of maintaining certain levels of inventory. There are costs involved in holding too much stock and in holding too little, hence the need to put in place an effective stock management system to ensure reliable sales forecasts for in stock ordering purposes (Atrill, 2006). As Ross (2008) observed the Economic Order Quantity model as one of the approaches of determining the optimal inventory level takes into account the inventory carrying costs, inventory shortage costs and total costs helps in the determination of the appropriate inventory levels to hold.

Maintaining optimal inventory levels reduces the cost of possible interruptions or of loss of business due to the scarcity of products, reduces supply costs and protects against price fluctuations. The inventory conversion period has a negative effect on a business's performance. For instance, shortening the inventory conversion period could increase stock out costs of inventory, which results in losing sales opportunities and leads to poor performance Deloof (2003). Managers of firms should therefore keep their inventory to an optimum level since mismanagement of inventory will lead to tying up excess capital at the expense of profitable operations Lazaridis and Dimitrios (2005).

2.2 Project Measures of financial performance

Project Financial performance is a subjective measure of how well a project can use assets from its primary mode of business and generate revenues. Project measure of performance was used as a general measure of a project's overall financial health over a given period, and has been used to compare similar projects as stated by Michael (2001). Although measuring financial performance was considered a simple task, it had its specific complications. There was little consensus about which measurement instrument to apply but many researchers use market measures according to, Sliwka (2002) & Panday (2004), while others put forth accounting measures as stated by Cochran and Wood (2004). Some adopt both of these measures according to Sundgren & Schneeweis (2004). The two measures, which represent different perspectives of how to evaluate a project's financial performance, have different theoretical implications according to Peel & Wilson (2001) and each is subject to particular biases as stated by Maher & lanen (2005). The use of different measures complicates the comparison of the results of different studies. Accounting measures capture only historical aspects of firm performance as stated by Schneeweis & Hill (2005). This is subject to bias from managerial manipulation and differences in accounting procedures according to Brillhoff (2004).

Market measures are forward looking and focus on market performance. The measures are less susceptible to different accounting procedures and represent the investor's with additional details on the performance of the project and evaluation of the ability of a project to generate future economic earnings as stated by Sundgren and Schneeweis (2004). The stock-market-based measures of performance also yield obstacles according to Bushman, Indjejikian and Smith (2000). According to Brillhoff (2004), the use of market measures suggests that an investor's valuation of firm's performance is a proper performance measure. According to Sundgren & Schneeweis (2004), these market based measures of financial performance can be classified as growth of total assets, growth of profit, growth of market share and growth of sales. The market financial performance measure was used in this research.

2.3 CDF policy

Kaimenyi (2005) in his paper on efficacy and efficiency of Kenya's constituency development fund, theory and evidence discussed on issues related to the allocation efficiency, highlights some of the constituency characteristics that influence the efficiency and efficacy of CDF and some political economy. Kaimenyi concludes that CDF has some negative outcomes because of fiscal illusions and reduced local fiscal effort. Kaimenyi recommends an in-depth analysis of constituency character and analyses the transition plan for CDF projects. Gatanga constituency has been in the limelight in utilization of CDF allocated amount of money through accountability, transparency and viable projects but little information is available on the financial performance of water and hydropower projects after completion. In most of the constituency that are ranked top in the utilization of amount allocated, scanty information is available on financial performance of completed projects (CDF monitoring committee 2011)

Half of projects planned under Constituency Development Fund (CDF) in Nakuru County have not been implemented because of fund mismanagement. According to a research conducted by the Centre for Enhancing Democracy and Good Governance (CEDGG), most projects in six constituencies within the county (Naivasha, Nakuru Town, Subukia, Rongai, Molo and Kuresoi) have not been implemented due to mismanagement of resources by MPs who served as patrons of CDF in their respective constituencies. The report states that most CDF committee members were appointed by MPs who exercised an oversight role. Some MPs used funds allocated for specific projects to fulfill promises they made to voters during campaigns. Politicians promise voters projects during campaign period that are hard to achieve financially and when elected, they are bound to use CDF money in implementing such projects. The delay in implementation was attributed to lack of public participation in determining order of priority of intended projects. Public participation is very important while determining projects because locals know better the challenges they face. The report also noted that the standard of the projects was compromised due to lack of technical expertise. People contracted to run projects were not on merit but rather relatives. A total annual constituency allocation for the six constituencies during 2003/4 to 2012/2013 financial years is Sh3,067,245,565 that accounted for four per cent of the total national disbursement. In Molo constituency there is a pending court case on the utilization and allocation of CDF funds hence it is a special constituency in Nakuru County. There are various

related fields researched on the CDF but the focus of this research was to assess the effect of practices of fund management on the financial performance of CDF funded projects in Kenya.

The literature on fund management practices identifies efficiency of CM, RM and IM as determinant of financial performance model. The model variables interrelationship was conceptualized as shown in Figure 2.1. The model hypothesizes that efficiency in practices of funds management as measured by efficiency in cash management, efficiency in receivables management and efficiency in inventory management has an influence on the growth rate of projects' sales and surplus.

2.4 Conceptual framework for the research

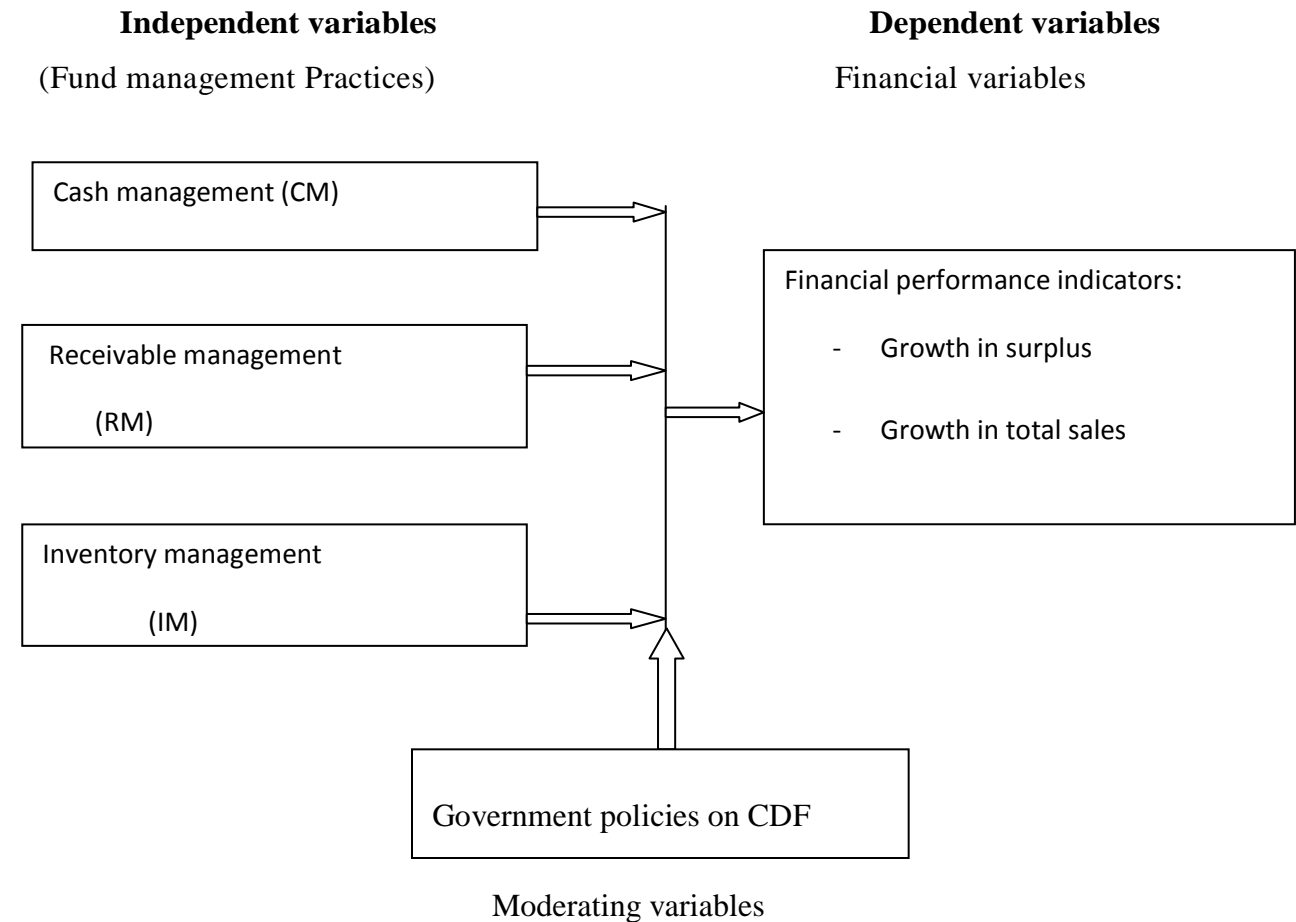


Figure 2.1: Conceptual framework

Cash management practices involved cash flows and the optimal cash held with regard the opportunity cost of holding too little or too much.

Receivable management practices involved sale on credit, levels of bad debts and provision for bad debts while inventory management involves inventory levels and stock replacement order.

Surplus involved the difference between the costs incurred in the operation and the amount of revenue realized from the sales. Sales are the amount of revenue realized from the operation of the project.

The government policies on CDF as guided by the CDF Act (2003), procurement Act (2006) and public asset requirement policies.

CHAPTER THREE

RESEARCH METHODOLOGY

Introduction

In this chapter, the research outlines the methodology *used* in the study, categorized into various sections that are research design, target population, sample and sampling techniques, instruments and Reliability of the Instrument for the study, data collection and data analysis model.

3.0 Research design

The study adopted a cross-sectional survey research design. The research design was preferred for the study since it provided a quick, efficient and accurate means of accessing information about the population and it was more appropriate where there was lack of secondary data. In this case, secondary data on practices of fund management on CDF funded water projects in Molo constituency was not available thus conducting a survey to gain such information was necessary (Oso and Onen 2005).

3.1 Area of study

The study area was Molo constituency. It is in Nakuru County in Kenya along the latitude 0.5° north and longitude 36° east. It has a geographical area of $2,371.9 \text{ km}^2$. The poverty index was 42.26% and its ranked 4th in the province and 63rd in the national ranking. Molo constituency was characterized by huge wealth gap between the poor and the rich according the ministry of planning survey (2011) on the level of poverty. Molo constituency was severely affected by the ethnic clashes since early 1990s according to ethnic clashes commission of inquiry report (1996) and most recently post election violence of 2008 according to Waki commission of inquiry (2008). This made it a unique constituency of Kenya.

3.2 Target Population

Welman, Kruger and Mitchell (2005), define population as the total collection of elements about which the researcher wish to refer. The target population of this study was 55 CDF funded projects in Molo constituency.

3.3 Sample and sampling procedures

The target population of the study was 55 project managers operating within Molo constituency. The research study took a census. A self-administered structured questionnaire was used to collect Primary quantitative data. The questionnaire consisted of three sections: business profile, practices of fund management and financial performance. A perceptual response was captured in a five – point Likert scale.

3.4 Reliability of the Instrument and data collection method

The face validity was determined by administering the questionnaires to 10 CDF funded projects in the Nakuru town west constituency. The Crobach’s coefficient alphas were obtained from the SPSS to determine the internal consistency of the questionnaire in measuring efficiency in cash management, receivables management, inventory management and financial performance. The obtained crobach’s alphas for CM, RM, IM and FP were as listed in Table 3.1. The alpha values are acceptable as they exceeded the 0.7 threshold as recommended by Gliem and Gliem (2003)

Table 3.1 Reliability statistics

Variables	FP	CM	RM	IM
Crobach’s coefficient alphas	0.967	0.973	0.964	0.972
Number of items	2	5	5	3

During the pilot study, the researcher noted that the respondents had a difficulty in answering question 1 of section A. To correct this, the word experiences replaced with the word perform to give a unique solution. Question 4 was restructured to introduce the terms annually, semi-annually, quarterly and monthly instead of the previously indicated. In addition, Question 8, a row on members’ contribution that is a source of deficit budget was introduced. The researcher went on and conducted a full research after making the necessary adjustments. The experts and supervisors’ determined the content validity of the instrument through their advice.

3.6 Data analysis model

Data was analyzed using SPSS version 19 in descriptive statistics: weighted averages mean and Standard deviation. Correlation and regression analysis was used to measure the nature of the relationship between financial performance and the practices of fund management. The financial performance model adopted for this study is as summarized below:

$$FP = \beta_0 + \beta_1 CM + \beta_2 RM + \beta_3 IM + e \quad (1)$$

Where: β_0 , β_1 , β_2 and β_3 are coefficients;

CM-Efficiency in Cash Management;

IM- Efficiency in Inventory Management;

RM -Efficiency in Receivables Management;

FP-Financial Performance indicator and

e- Error term that was assumed to be random and $e \sim$.

**CHAPTER FOUR:
DATA ANALYSIS, PRESENTATION AND DISCUSSIONS**

Introduction

This chapter presents the research findings, analysis, interpretation and discussion on the extent of fund management practices and its effect on financial performance.

4.1 General information of the respondents

Table4.1: (Age bracket of the managers)

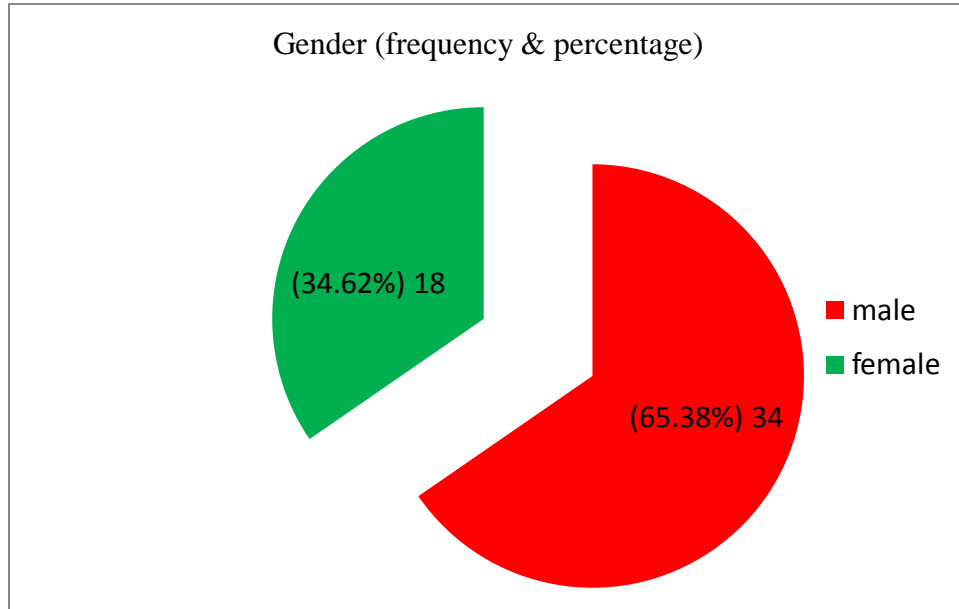
years	20-29	30-39	40-49	50-59	60 and above
frequency	3	10	21	13	5
percentage	5.77	19.23	40.38	25.00	9.62

Source: Survey data (2013).

As shown in Table 4.1, twenty-one managers representing 40.38% of all the CDF funded water projects in Molo constituency are in the age between 40 and 49 years. Ten of the project managers representing 19.23% are in the age between 30 and 39 years. Three project managers representing 5.77% are in the between 20 and 29 years. Thirteen managers representing 25% of the CDF funded projects between the age of 50 and 59 years, five of the managers representing 9.62% of the CDF projects are above sixty years. The general implication is that most of the project operators are in the active age both physically and mentally.

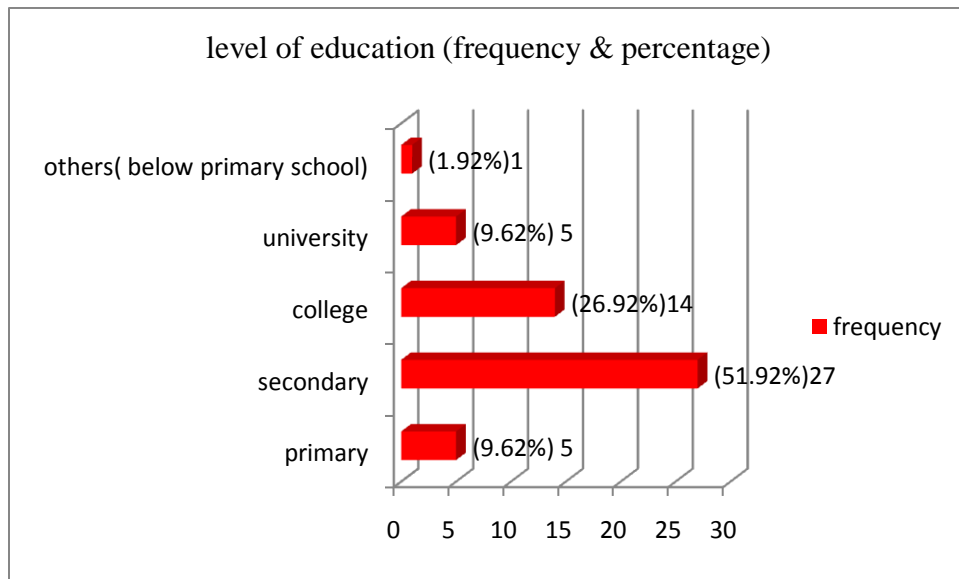
There are 34 males managing the CDF funded water projects, which represent 65.38% of all the projects and 18 females representing 34.62% as shown in figure 4.1. This implies that the males dominate the management of CDF funded water projects but this fulfils the constitution requirement threshold of a third.

Figure 4.1: Distribution of respondents' by gender



Source: Survey data (2013).

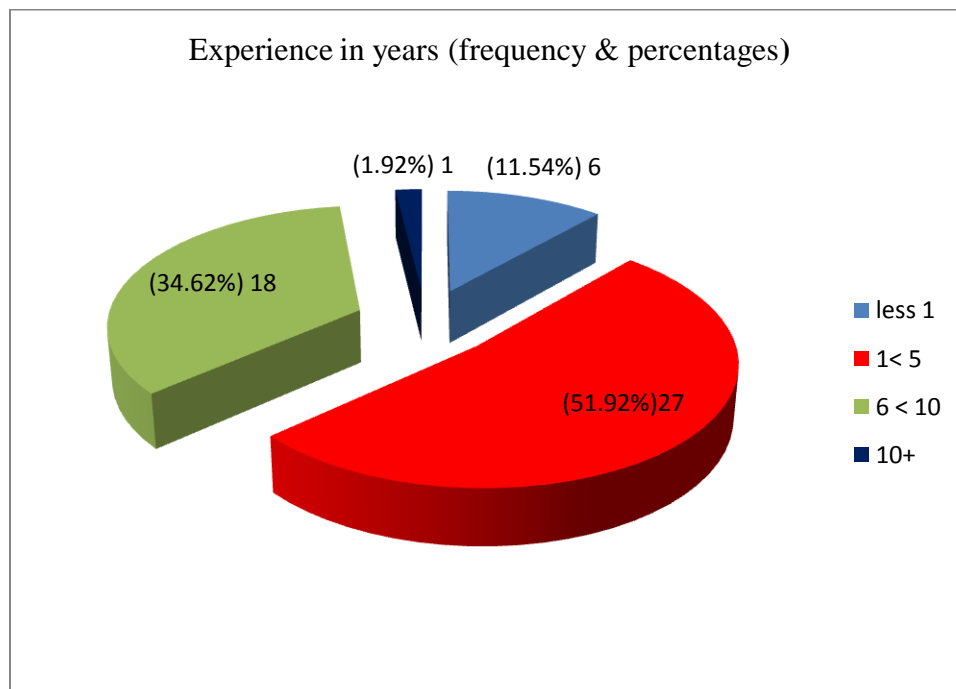
Figure 4.2: Highest level of education of the respondents



Source: Survey data (2013)

In Figure 4.2, Twenty-seven of the managers representing 51.92% of the CDF funded water projects have secondary school certificate and only 9.62% have primary school certificate, which implies that most of the managers do not have sufficient financial management skills. Fourteen of the managers representing 26.92% of the CDF funded projects have a college certificate and five of the managers representing 9.62% had university education level implying that they might have the relevant managerial skills to manage the CDF funded projects. A proportion of 1.92% of the operators was below primary level certificates. The general implication is that most of CDF funded water projects’ operators are unskilled in the operation of the projects.

Figure 4.3: (Number of years experience in project management)



Source: Survey data (2013).

Twenty- seven of the managers representing 51.92% of all the CDF funded water projects’ managers in Molo constituency have an experience between 1 and 5 years. Eighteen of the managers representing 34.62% of the CDF funded water projects have an experience between 6 and 10 years in the Management of projects as shown in Figure 4.3. This may have an implication that the CDF funded projects in Molo constituency have experienced projects’ management hence the need to train the CDF projects managers in financial management.

4.2.0 Fund management Practices

The components of fund management practices was defined to constitute cash management practices, receivables management practices and inventory management practices of CDF funded projects.

4.2.1 Cash management practices

Examination on cash management practices focused on the frequency of cash budgeting, target cash balance determination, occurrence of cash surplus, deficit and investment of cash surpluses. On the frequency of preparation of cash budgets, the results as shown in Table 4.2 indicates that on the average, project managers rarely prepared cash budgets, Fifteen CDF funded project managers representing 28.8% never prepared cash budgets while a similar number rarely prepared the cash budget. Majority of the respondents (30 respondents representing 57.6%) seldom prepared cash budgets (score 1 and 2 on the scale), ($\chi^2(4)=7.62$, $P= 0.03$). Only 14 CDF projects managers representing 26.9% of all projects often-prepared cash budgets (scores 4 and 5 on the scale). The p-value for the preparation of cash budget test indicates that the sample distribution is not significantly different at an alpha level of 0.05, since $p=0.106$, than the assumed population distribution of 28.8% in the group that Never followed by 28.8% for rarely, 19.2% for sometimes, 17.3% often and 9.6% for very often. The finding shows that projects managers in Molo constituency did not embrace cash budgeting as a tool to plan and control cash flows.

Table 4.2 Frequency of occurrence of the cash management practices

Management practices	1.never	2.rarely	3.sometimes	4.often	5.Very often	χ^2	Pr > χ^2
Preparation of cash budget	15 (28.8%)	15 (28.8%)	8 (19.2%)	9 (17.3%)	5 (9.6%)	7.62	0.106
Determination of target cash balance.	11 (21.2%)	18 (34.6%)	9 (17.3%)	10 (19.2%)	4 (7.7%)	11.27	0.024
Preparation of cash flow statements	10 (19.2%)	13 (25%)	16 (30.8%)	10 (19.2%)	3 (5.8%)	8.96	0.062
Occurrence of cash deficit	14 (26.9%)	16 (30.8%)	10 (19.2%)	8 (15.4%)	4 (7.7%)	8.77	0.067
Occurrence of cash surplus	8 (15.4%)	6 (11.5%)	9 (17.3%)	16 (30.8%)	13 (25%)	9.54	0.049

Source: Survey data (2013).

On the frequency of determination on target cash balances, the results of the study indicate that 14 CDF funded projects managers representing 26.9% often determine target cash balances (score 4 and 5 on the scale) as compared to 11 CDF project managers representing 21.2% who never determined target cash balance. Eighteen of the CDF funded project managers representing 34.6% rarely determined target cash balance. The general implication is that 55.8% hardly determined the appropriate amount of cash to hold. The p-value for the determination of target cash balance test indicates that the sample distribution is significantly different at an alpha level of 0.05, since $p=0.0237$, in the assumed population distribution of 21.2% in the Never group followed by 34.6% for rarely, 17.3% for sometimes, 19.2% often and 7.7% for very often. The pronouncement is consistent with findings by Kwame (2007) who established that small firms rarely pay attention to setting up a cash balance policy but simply consider cash-balance as the result of differences in cash inflows and outflows without any guidelines. However, the finding is at variance with the finding by Waweru (2003) who established that most small firms studied had set minimum cash balance level, which guarded them against running out of cash.

On how often the CDF funded project prepare cash flow statement, only 13 CDF funded projects which represent 25% prepare cash flow statements, while 10 managers representing 19.2%

never prepare cash flow statements and 13 managers representing 25% rarely prepared cash flow statements. The p-value for the preparation of cash flow statement test indicates that the sample distribution is not significantly different at an alpha level of 0.05, since $p=0.0621$, in the assumed population distribution of 19.2% in the Never group followed by 25% for rarely, 30.8% for sometimes, 19.2% often and 5.8% for very often. The general implication was that most of CDF funded projects do not consider the importance of cash flow statement as a method of controlling cash flow in and outside the project.

On how regularly CDF funded projects experienced cash surplus as compared to cash shortages, Table 4.2 shows that on the average, CDF funded projects experienced cash surplus regularly and experienced cash shortages irregularly.. Majority of the projects (29 representing 55.8% of all the projects) regularly experienced cash surpluses, compared to only 14 representing 26.9% of all projects that indicated that they regularly experienced cash shortages. The p-value for the Occurrence of cash deficit test indicates that the sample distribution is not significantly different at an alpha level of 0.05, since $p=0.0671$, in the assumed population distribution of 26.9% in the Never group followed by 30.8% for rarely, 19.2% for sometimes, 15.4% often and 7.7% for very often. The finding buttresses the assertion by Scarborough and Zimmer (2003) that projects managers reserve cash and maintain relatively high current ratios to ensure that they do not run out of cash. The p-value for the Occurrence of cash surplus test indicates that the sample distribution is significantly different at an alpha level of 0.05, since $p=0.0490$, in the assumed population distribution of 15.4% in the Never group followed by 11.5% for rarely, 17.3% for sometimes, 30.8% often and 25% for very often. The research study concludes that the management of cash surpluses rather than cash shortages is a problem for the CDF funded projects.

Table 4.3: Investment on cash surplus

Cash surplus investment	1. bank deposit	2.financial markets	3. Project expansion	4. No cash surplus	5. nowhere
	21 (40.4%)	0	16 (30.8%)	10 (19.2%)	5 (9.6%)

Source: Survey data (2013).

The findings in Table 4.3 shows that 40.4% of the projects that experienced cash surpluses deposited the cash in bank accounts for interest and 9.6% had the cash lying idle in the business.

The general implication is that 40.4% did not invest temporary cash surpluses for profit. None of the project invested their cash surplus in financial markets. The finding supports the pronouncement by Waweru (2003), that majority of small firms do not invest their surplus cash in marketable securities. The findings confirmed by Scarborough and Zimmer (2003) decree that most firms have problems on how to invest temporary cash for profitable purposes.

4.2.2 Receivables management practices

On receivable management practices, respondents reported on whether they make credit sales, prepare credit guidelines for the customers, frequency of review of the levels of receivables and bad debts, and provision for bad debts.

Analysis of responses on how frequently CDF funded project managers sold their product on credit, 44 of the projects managers representing 84.6% of all the CDF funded projects often sold their products on credit and 33 CDF funded projects managers representing 63.5% of the CDF funded projects often set up credit guidelines for their credit customers. Only eight CDF funded project managers representing 15.4% rarely set up credit guideline for the customers. The finding was that selling products on credit was a practice often used by the CDF funded projects managers in Molo constituency as shown in Table 4.4. This concurs with findings by Kwame (2007) which showed that small firms always sold their products on credit.

Table 4.4 Frequency of occurrence of the receivables management practices.

Management practices	1.Never	2.Rarely	3.Sometimes	4.Often	5.Very often	Chi-Square	Pr > Chi Sq
Selling product/service on credits	-	-	8 (15.4%)	14 (26.9%)	30 (57.7%)	14.92	0.0006
Setting up of credit guidelines for customers	-	8 (15.4%)	11 (21.2%)	25 (48.1%)	8 (15.4%)	15.23	0.0016
Review levels of receivables	3 (5.8%)	6 (11.8%)	13 (25.0%)	17 (32.7%)	13 (25.0%)	12.62	0.0133
Review levels of bad debts	4 (7.7%)	5 (9.6%)	15 (28.8%)	22 (42.3%)	6 (11.8%)	23.5769	<.0001
Provision for bad debts	41 (78.8%)	6 (11.8%)	5 (9.6%)	-	-	48.50	<.0001

Source: Survey data (2013)

The high use of credit sales can be attributed to the sound credit policies since majority (33 managers representing 63.5%) of CDF funded projects operators set up credit guidelines for their credit customers. The p-value for the credit sale test indicates that the sample distribution is significantly different at an alpha level of 0.05, since $p=0.0006$, in the assumed population distribution of 15.4% for sometimes, 26.9% often and 57.7% for very often. As established by Laziridis and Dimitrios (2005) pursuing increased receivables account improves financial performance for firms hence the suggestion by Juan and Martinez (2002) that firms should keep an eye on the debtors' repayment period with a view to make it minimal. On the Setting up of credit guidelines for customers, the p-value test indicates that the sample distribution is significantly different at an alpha level of 0.05, since $p=0.0016$, in the assumed population distribution of 15.4% for rarely, 21.2% for sometimes, 48.1% often and 15.4% for very often.

On the frequency of review of the levels of receivables, a substantial number of projects (30 CDF funded projects that represents 57.7% of the projects) reviewed their levels of receivables often, three of the CDF funded projects managers representing 5.8% never reviewed the levels of

receivables and six managers representing 11.6% rarely reviewed the level of receivables. Twenty-eight CDF funded projects representing 54.1% reviewed the levels of bad debt often and 5 CDF funded project representing 17.3% managers never or rarely reviewed the levels of bad debts respectively. The p-value for the review of the levels of receivables test indicates that the sample distribution is significantly different at an alpha level of 0.05, since $p=0.0133$, in the assumed population distribution of 5.8% in the Never group followed by 11.8% for rarely, 25% for sometimes, 32.7% often and 25% for very often. On the frequency of review of bad debts, the p-value test indicates that the sample distribution is significantly different at an alpha level of 0.05, since $p=0.0001$, in the assumed population distribution of 7.7% in the Never group followed by 9.6% for rarely, 28.8% for sometimes, 42.3% often and 11.8% for very often. This finding is at variance with Padachi (2006), finding that most small businesses review their level of receivables and bad debts often. In provision for bad debts, most of the projects (47 CDF funded projects, which represent 90.6% of the projects) rarely or never provided for bad debt and hence treat bad debts as a loss in the project. The p-value for the provision for bad debts test indicates that the sample distribution is significantly different at an alpha level of 0.05, since $p=0.0001$, in the assumed population distribution of 78.8% in the Never group followed by 11.8% for rarely and 9.6% for sometimes.

4.2.3 Inventory management practices

On inventory management, respondents were asked on how frequently they prepared inventory budgets, reviewed their inventory levels, basis upon which they determined their inventory levels and their frequency of stock replacement.

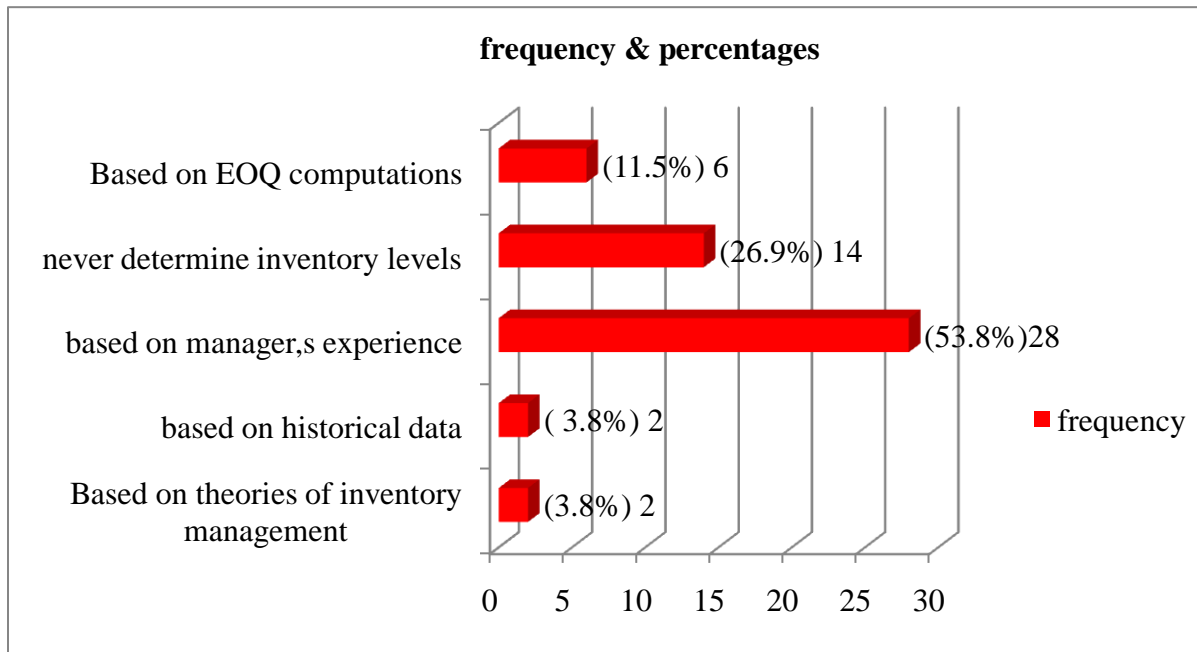
Table 4.5 (Frequency on inventory management practices).

Management practices.	1.Never	2.Rarely (Annually)	3.Sometime (semi-annually)	4.Often (Quarterly)	5.Very Often (monthly)	Chi-Square	Pr > Chi-Sq
Preparation of inventory budgets	1 (1.9%)	3 (5.8%)	8 (15.4%)	24 (46.2%)	16 (30.8%)	33.77	<.0001
Review of inventory levels	2 (3.8%)	4 7.7%	6 (5.8%)	10 (19.2%)	30 (57.7%)	49.54	<.0001

Source: Survey data (2013)

Table 4.5 shows that majority of the projects (40 projects representing 77.0% of the projects) often prepared inventory budgets and a similar number often reviewed their inventory levels (score 4 and 5 on the scale). These findings indicate that most of the CDF funded projects often prepared inventory budgets and often carry out review of inventory levels. The p-value for the Preparation of inventory budgets test indicates that the sample distribution is significantly different at an alpha level of 0.05, since $p=0.0001$, in the assumed population distribution of 1.9% in the Never group followed by 5.8% for rarely, 15.4% for sometimes, 46.2% often and 30.8% for very often. On the Review of inventory levels, the p-value test indicates that the sample distribution is significantly different at an alpha level of 0.05, since $p=0.0001$, in the assumed population distribution of 3.8% in the Never group followed by 7.7% for rarely, 5.8% for sometimes, 19.2% often and 57.7% for very often. This is in agreement with findings of Padachi (2006), which established that majority of small firms always review their inventory levels and prepare inventory budgets. Lazaridis and Dimitrios (2005), states that enhancing the management of inventory enabled firms to avoid tying up excess capital in idle stock at the expense of profitable ventures.

Figure 4.4 (Basis of determining inventory levels)



Source: Survey data (2013)

Although, the CDF funded project managers regularly reviewed inventory levels and prepared inventory budgets, the ability to apply theories of inventory management in inventory budgeting is very limited with a substantial number of CDF funded project managers (28 respondents representing 53.8% of the projects) indicating that they determined their inventory levels based on manager’s experience (Figure 4.4). A study by Scarborough and Zimmer (2003) established similar results that showed that up to 70% of small firms relied on manager’s experience in their management of fund. This implies that majority of the CDF funded projects determined their inventory levels based on managers’ experience could be true. Figure 4.2 on the level of education where 61.54% do not have formal financial management training and figure 4.3 on manager’s experience where Forty-five of the managers representing 86.54% of all the CDF funded projects’ managers in Molo constituency have an experience between 1 and 10 years in the Management of projects concurs with findings.

Table 4.6 Frequency of stock replacement orders

1.Very rarely (yearly)	2.Rarely (monthly)	3.Frequently (fort night)	4.Very frequently (weekly)	5.Most frequently (Daily)	Chi-Square	Pr > Chi-Sq
1(1.9%)	10 (19.2%)	25 (48.1%)	10 (19.2%)	6 (11.5%)	30.88	<.0001

Source: Survey data (2013)

Based on stock replacement order, 11.5% ordered the stock on daily basis, 19.2% order on weekly basis and 48.1% order after every two weeks. Ten CDF funded project manager order the stock monthly while only one CDF funded project manager ordered the stock annually. The p-value for the stock replacement order test indicates that the sample distribution is significantly different at an alpha level of 0.05, since $p=0.0001$, in the assumed population distribution of 1.9% in the Never group followed by 19.2% for rarely, 48.1% for sometimes, 19.2% often and 11.5% for very often. The findings implied that most of CDF funded project managers replenished the stock frequently, an indication that majority of the projects do not stock optimal quantities of stock and do not determine appropriate re-order points (Table 4.6)

3.2.4 Efficiency of fund management practices

The identified financial performance indicators of CDF funded projects in Molo constituency as growth in total sales and growth in surplus. Respondents were asked to rate their perceived extent of growth in their projects' total sales, and total surplus.

Table 4.7 Respondents' perception on the extent of growth of the FP Indicators

FP indicators	1.Not at all	2.Little extent	3.moderate	4.large extent	5. very large extent	Chi-Square	Pr > Chi-Sq
Growth in total sales	9 (17.3%)	15 (28.8%)	15 (28.8%)	10 (19.2%)	3 (5.8%)	9.545	0.049
Growth in surplus	6 (11.5%)	19 (36.5%)	11 (21.2%)	12 (23.1%)	4 (7.7%)	13.19	0.010

Source: Survey data (2013)

Table 4.7 indicates that on the average, the extent of growth of sales and surplus was moderate. A greater number of projects had a growth rate that considered average. Nine CDF funded

project managers representing 17.3% indicated that there was no growth in total sales and 28.8% of the CDF funded projects indicating that the growth in total sale was to a little extent as compared to the number of the projects whose growth rate could be considered high. The p-value for the perception on growth of total sales test indicates that the sample distribution is significantly different at an alpha level of 0.05, since $p=0.0490$, in the assumed population distribution of 17.3% in the never followed by 28.8% for rarely, 28.8% for sometimes, 19.2% often and 5.8% for very often. On the perception on the growth in surplus, the p-value test indicates that the sample distribution is significantly different at an alpha level of 0.05, since $p=0.0104$, in the assumed population distribution of 11.5% in the Never group followed by 36.5% for rarely, 21.2% for sometimes, 23.1% often and 7.7% for very often.

Table 4.8 Means and standard deviations for indexed efficient practices of fund management variables.

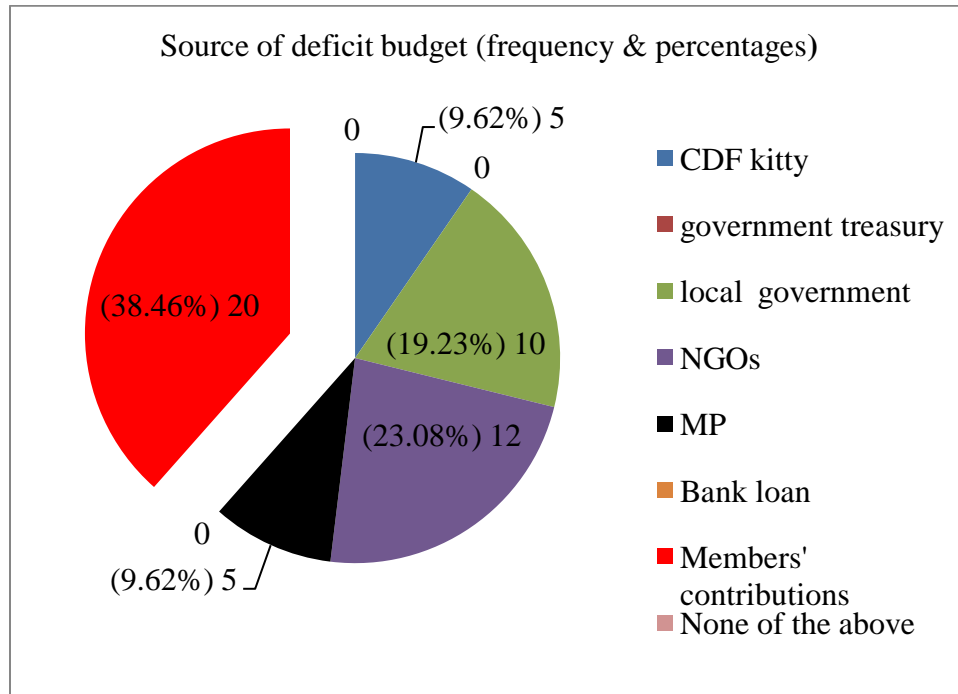
Variable	N	Mean	Std Dev
FP	52	2.96154	1.10190
RM	52	3.32692	1.39637
EIM	52	3.78846	1.09072
ECM	52	2.73077	1.34478

Source: Survey data (2013)

On the efficiency of fund management practices (FMP), the two ratings of the extent of growth of the financial indicator were consolidated to obtain a single financial performance index as indicated in Table 4.8. The implication was that efficiency in cash management rated lowest in average with a mean index of 2.73077 with responses deviating from this mean by a standard deviation margin of 1.34478. Receivables management with the mean of 3.32692 followed this, with standard deviation of 1.39637 and inventory management with a mean of 3.78846 and Standard Deviation of 1.09072 in that order. This ordering could be interpreted to mean that, CDF funded projects were more efficient in the management of inventory. Conversely, they were less efficient in the management of their cash. The efficiency levels are average thus indicating that a majority of the CDF funded projects have embraced and implemented efficient practices

of fund management in their projects operations. The existence of practices of fund management were evidenced in the CDF funded projects in Molo constituency

Figure 4.5 (Source deficit budget)



Source: Survey data (2013)

Figure 4.5 shows that 20 CDF funded projects, representing 38.46% sourced their deficit budget from the members' contributions while 12 project managers representing 23.08% sourced their deficit budget from the NGOs. The rest of the project managers sourced their deficit budget from CDF kitty (9.62%), local government (19.23%) and MPs (9.62%). This implies that most of the project managers (61.54%) depend on the external sources of funds to bridge the deficit.

4.3 The relationship between practices of fund management and financial performance

Pearson's correlation coefficients and multiple regression analysis techniques were used to address the relationship between fund management practices and financial performance. Before the correlation and regression procedures were carried out, the basic assumptions of multiple regression analysis were verified and they were satisfactorily met as follows: the concern for multicollinearity was tested by observing the variance inflation factors (VIF's) subject to the rule

of thumb that the number should be less than 10 (Thomas, 2008). Also Studenmund (2006) and Pan & Jackson (2008) used the rule of thumb of scale 5 as a test of multicollinearity. The VIF's entries for CM, RM and IM are 8.13424, 9.34270 and 7.81766 respectively as in Table 4.9, which are adequately low hence; the possibility of multicollinearity did not exist.

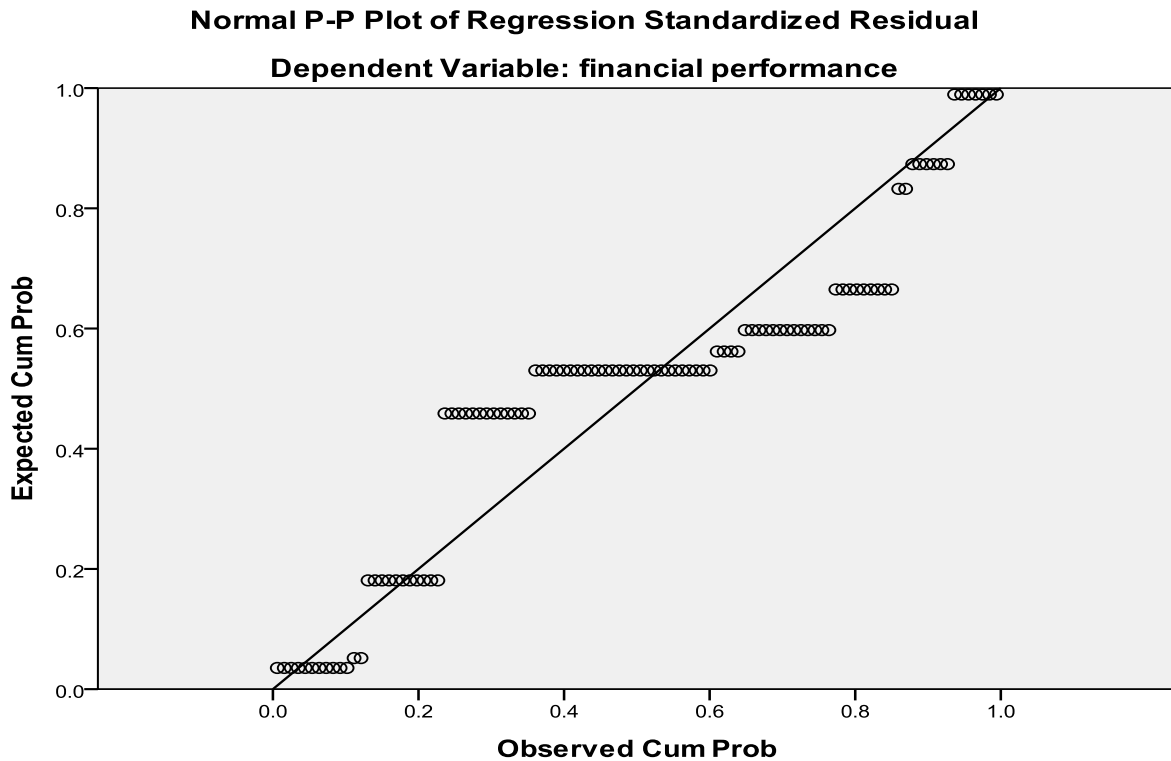
Table 4.9 Variance inflation factor

Variable	Variance Inflation factor
Intercept	0
RM	9.34270
IM	7.81766
CM	8.13424

Source: survey data 2013

The normality of the dependent variable tested by use of normal probability plots (histogram and normal P-P plot) which both indicated that the residuals were normally distributed.

Figure 4.6



Source: survey data 2013

The test for the linearity assumption was conducted by use of scatter plots and none of the plots demonstrated a nonlinear pattern. Constant variance (homoscedasticity) assumption was checked by visual examination of a plot of the standardized residuals (the errors) by the regression standardized predicted value as in table 4.10

Table 4.10 Residual statistics

	Minimum	Maximum	Mean	Std. Deviation
Predicted Value	0.92	3.88	2.64	0.976
Residual	-.880	1.120	0.000	0.480
Std. Predicted Value	-1.762	1.266	0.000	1.000
Std. Residual	-1.808	2.301	0.000	0.985

The residuals were randomly scattered around zero (the horizontal line) providing a relatively even distribution and hence no violations of homoscedasticity were detected.

4.3.1 Pearson's correlation coefficient results

Table 4.11 Correlation results (N=52)

PEARSON CORRELATION COEFFICIENTS, N = 52				
PROB > R UNDER H0: RHO=0				
	fp	RM	IM	CM
fp	1.00000			
RM	0.92586	1.00000		
p	<.0001			
IM	0.90671	0.92174	1.00000	
p	<.0001	<.0001		
CM	0.90590	0.92490	0.90953	1.00000
p	<.0001	<.0001	<.0001	

Source: Survey data (2013)

The correlation results as shown in Table 4.11 shows that there was a strong positive relationship between the fund management practices (Cash Management (0.90590), Receivable management (0.92586) and Inventory Management (0.90671) and financial performance of CDF funded projects' in Molo Constituency.

In addition, there is positive strong relationship between CM and RM (0.92490), IM (0.90953), RM and IM (0.92174), CM (0.92490) and also IM and RM (0.92174), CM (0.90953). This strong positive relationship between these independent variables implies that the variables are inter-dependent and their efficient management has a significant effect on the general performance of the CDF funded projects. It also implies that the three independent variables depends on each other in the operation of the CDF funded projects. The general implication is that each of the fund management practice has a significance effect on the other; hence, the need to incorporate the three fund management practices in all the CDF funded projects in Kenya.

FP and CM (R=0.90590, $p < 0.01$). A Strong positive relationship established between FP and CM and therefore an efficient cash management has a positive effect on the financial performance of the CDF funded projects in Molo constituency.

In addition, a very strong positive relationship was established between FP and RM (R=0.92586, $p < 0.01$), thus an efficient receivable management has a positive effect on the financial performance of the CDF funded projects in Molo constituency at the 0.01 levels.

On the other hand, strong positive relationship was established between FP and IM (R=0.90671, $p < 0.01$) implying that an efficient IM has a positive effect on the financial performance of CDF funded projects in Molo constituency.

Table 4.12 Coefficient of determination (N=52)

Root MSE	0.38829	R-Square	0.8831
Dependent Mean	2.96154	Adjusted R ²	0.8758
Coefficient of Variation	13.111		

Also in table 4.12 on the regression model, $R^2 = 0.8831$ shows that 88.31% of the variability of financial performance could be attributed to changes in efficiency of receivable management, efficiency of inventory management and efficiency of cash management practices. Comparing the value of R^2 and adjusted R^2 gives a difference of 0.0073, which is too small. This shows that the validity of the model is very good since its shrinkage is less than the 0.5 threshold as suggested by (Field, 2011).

This has a general implication that efficient fund management practices have a positive effect on the financial performance of CDF funded projects in Kenya. Generally most researchers have shown that businesses' performance is correlated positively to the fund management practices (Padachi, 2006; Benjamin and Kamalavali, 2006; Kotut, 2003; Sushma and Bhupesh, 2007) and are therefore supported by this research findings.

4.3.2 Multiple regression analysis

Multiple regression analysis used to deduce a model that could be used to test the effect of fund management practices on financial performance. The assessment on the effect of each independent variable on the financial performance limited by the high values of correlation coefficients, which were almost the equal but VIF was not exceeding 10 (Thomas, 2008).

Table 4.13 (Regression coefficients and collinearity statistics (N=52)).

Variable	DF	Parameter Estimate	Standard Error	t -Value	Pr > t	Variance Inflation
Intercept	1	0.2049	0.24926	0.82	0.4151NS	0
RM	1	0.36434	0.11902	3.06	0.0016**	9.3427
IM	1	0.26664	0.13938	1.91	0.0017**	7.81766
CM	1	0.36434	0.11531	1.7	0.0062**	8.13424

**Significance at the P= 0.01; NS- not significantly different at P>0.05

Source: Survey data (2013)

Table 4.13 the model shows the contribution of three variables in explaining the financial performance as shown by parameter estimate values, which assess the in receivable contribution of each variable towards the prediction of the dependent variable. Efficiency management and cash management had the greatest effect on financial performance. A unit change in the RM holding CM and IM constant, resulting to a 0.36434 increase in financial performance, whereas efficiency in cash management had the same effect with a unit change in CM holding RM and IM constant, resulting to a 0.36434 increase in financial performance while IM had a unit change of 0.26664. The overall equation as suggested in the conceptual framework can be represented by use of unstandardized coefficients as follows:

$$FP = 0.20490 + 0.36434CM + 0.36434RM + 0.26664IM. \quad (2)$$

This means that even without the three variables under study, financial performance was expected to be 0.20490.

As in table 4.13, the values of t and p used to test the hypothesis.

Hypotheses 1

The null hypothesis is rejected and therefore at $p = 0.01$ level of significance, there was enough evidence to conclude that the slope of cash management variable is not zero and, hence, that cash management practice has statistically significant effect on the financial performance of CDF projects in Molo constituency.

Hypotheses 2

The null hypothesis is rejected and therefore conclude that at $p = 0.01$ level of significance, there exists enough evidence to conclude that the slope of RM variable is not zero and, hence, that receivable management practices has statistically significant effect on the financial performance of CDF funded projects in Molo constituency.

Hypotheses 3

The null hypothesis rejected and therefore conclude that at the $p = 0.01$ level of significance, there exists enough evidence to conclude that the slope of IM variable is not zero and, hence, that inventory management practices have statistically significant effect on the financial performance of CDF funded projects in Molo constituency.

Based on the findings of the study, the central role of fund management practices to the success of CDF funded projects demonstrated by the empirical data from CDF funded projects in Molo constituency. Managing the fund elements had higher financial performances; hence, emphasizing the pronouncement that, efficient fund management practices are an indispensable component for the success of CDF funded projects. The finding by Waweru (2003) which showed that there is no relationship between financial performances and how firms managed their cash contradicts the study finding that showed that, a 36.4% increase in financial performance could result for every unit change in efficiency of cash management as shown in Table 4.13 standard coefficient beta. The findings reinforce the establishment by (Deloof, 2003)

which showed that, fund management has a significant effect on the overall performance of businesses.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Introduction

The purpose of this study was to Assess the effect of fund management practices on the financial performance of CDF funded projects in Kenya. A case of Molo Constituency in Nakuru County. This chapter presents the summary of the study, conclusions drawn from the findings of the study and recommendations to improve the practices of fund management in Molo Constituency. The chapter also contains suggestions for further research.

5.1 Summary of findings

The study established that majority of the CDF funded projects managed the fund moderately since they fairly embraced and implemented efficient fund management practices in the operations. Efficiency in cash management rated lowest with a mean index of 2.73077 and the responses deviating from the mean by a standard margin of 1.34478. Receivables management with the mean of 3.32692 followed this, with standard deviation of 1.39637 and inventory management (mean =3.78846, Standard Deviation of 1.09072 in that order. The ordering could be interpreted to mean that, CDF funded projects were more efficient in the management of inventory. Conversely, they were less efficient in the management of the cash.

The contribution of each variable in explaining the financial performance towards the prediction of the dependent variable based on the parameter estimate. Efficiency in receivable and cash management had the greatest effect on financial performance. A unit change in the RM holding CM and IM constant, resulted to 0.36434 increase in financial performance, whereas efficiency in cash management had a similar effect with a unit change in CM holding RM and IM constant, resulting to a 0.36434 increase in financial performance while IM had a unit change of 0.26664. The study found that efficient fund management practices have a significant effect on the financial performance of CDF funded projects.

On the regression model, $R^2 = 0.8831$ shows that 88.3% of the variability of financial performance could be attributed to changes in efficiency of receivable management, efficiency of inventory management and efficiency of cash management practices.

5.2 Conclusions

The efficiency levels on Fund management practices were average thus indicating that CDF funded projects embraced and implemented efficient fund management practices in projects operations hence the survival of CDF funded projects was eminent.

The general implication is that each of the fund management practice has a significance effect on the other; hence, the need to incorporate the three fund management practices in all the CDF funded projects in Kenya. This has a general implication that efficient fund management practices have a significant effect on the financial performance of CDF funded projects in Kenya since it attribute to 88.3% of financial performance using model .

The study concludes that CDF funded projects should pay more attention to the management of receivables and cash since it has a larger effect on their financial performance in comparison to inventory management.

5.3 Recommendations

The study recommends that CDF funded projects should embrace efficient fund management practices as a strategy to improve their financial performance and gaining competitive advantage over other private water and health projects.

CDF funded projects management should pay more attention to receivables and cash management since it has a greater effect on the financial performance in comparison to inventory management.

The CDF funded project managers should adhere to the Inventory management practices as a policy regulation to enhance the effect on the project financial performance.

5.4 Suggestions for further research

Conduct a study in all the remaining 289 constituencies in Kenya in order to get an accurate description of the practices of fund management and the financial performance indicators.

Conduct a study on county level and national level.

Conduct a research in the large projects on constituency, county and national levels.

Conduct a research to discover the number and percentage of financial management skilled staff employed per project in the CDF funded projects to know the financial management wide skill base.

Research on factors hindering financial performance of CDF funded projects. The research could focus on factors such as the economic viability of the CDF funded projects, management skills and the priority of the projects to the local community.

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Appendix A: Introduction Letter

To whom it may concern

Through,
The academic registrar,
Kabarak University,
Kabarak.

Dear Sir/Madam,

RE: AUTHORITY TO CONDUCT RESEARCH

I am a student in the above named University undertaking Master of Business Administration (finance option).As part of the course requirement; I am supposed to conduct a research on an assessment of the effect of fund management practices on the financial performance of CDF funded projects in Molo constituency of Njoro/Molo District in Nakuru County.

I humbly request you and your members of staff to fill the attached questionnaires as honestly as possible.

The information obtained shall be treated in strict confidence and be used for academic research only.

Thank you in advance for your support and cooperation.

Yours faithfully,

MWANGI J.K.

GMB-NE-1222-09-11

Supervisor:

Sign.....

Appendix B:

Questionnaire

Effect of fund management practices on the financial performance of CDF funded water projects in Kenya.

Instructions

1. Please answer all questions in the relevant sections honestly and exhaustively. All the information given will strictly be used for this study only and will be treated with utmost confidentiality. Please tick where applicable

SECTION A: GENERAL INFORMATION (ALL RESPONDENTS)

Name of the water project..... (optional)

Age bracket of the manager	20-29 year	()
	30-39 years	()
	40- 49 year	()
	50 – 59 years	()
	60 and above years	()
Gender	Male	()
	Female	()
Highest level of education attained	Primary school certificate	()
	Secondary school certificate	()
	College certificate	()
	University degree	()
	Any other(please specify)	
Number of years experience in project management	Less than 1 year	()
	1-5 years	()

	6-10 years	()
	Above 10years	()

Section B

Part (i): **Examination on the practices of cash management.**

1. In a scale of 1-5 to what extent, do you agree with the following factors concerning the practices of fund management?

How often do you perform the following practices of fund management? Please indicate by ticking only one in the scale

Likert scale	1.never	2.rarely	3.sometimes	4.often	5.Very often
Preparation of budget					
Determination of target cash balance.					
Preparation of cash flow statements					
Occurrence of cash deficit					
Occurrence of cash surplus					

Part (ii): **Investment on cash surplus**

2. Where do you invest the surplus cash? Indicate by ticking the one relevant to your situation

Cash surplus investment	1. bank deposit	2.financial markets	3. Project expansion	4. No cash surplus	5. nowhere

Part (iii): Receivable management practices

3. In a scale of 1-5 to what extent, do you agree with the following factors concerning the receivables management practices?

Indicate by ticking only one of the following.

Management practices	1.Never	2.Rarely	3.Sometimes	4.Often	5.Very often
Selling product/service on credits					
Setting up of credit guidelines for customers					
Review levels of receivables					
Review levels of bad debts					
Provision for bad debts					

Part (IV): Inventory management practices

4. In a scale of 1-5: how often do you perform the following operations on inventory management practices?

Indicate by ticking only one of the following

Management practices.	1.Never	2.Rarely (annually)	3.Sometimes (Semi-annually)	4.Often (Quarterly)	5.Very Often (monthly)
Preparation of inventory budgets					
Review of inventory levels					

Part (v): Parameter of determining inventory levels

5. How do you determine inventory levels of the project? Tick only one of the parameters that determine your knowledge on inventory management practices.

Parameters	Mark this column
Based on theories of inventories management.	
Based on historical data	
Based on manager's experience	
Never determines inventory level	
Based on EOQ computations	

Part (VI): Stock replacement order

6. In a scale of 1-5 to what extent, do you agree with the following factors concerning stock replacement order? Indicate by ticking only one of the following:

1. Very rarely (yearly)	2. Rarely (monthly)	3. Frequently (fort night)	4. Very frequently (weekly)	5. Most frequently (Daily)

Section C

Part (vii): Financial performance indicators.

7. In a scale of 1-5 to what extent, do you agree with the following factors concerning the financial performance indicators?

Indicate by ticking only one of the following:

FP indicators	1. Not at all	2. Little extent	3. moderate	4. large extent	5. very large extent
Growth in total sales					
Growth in surplus					

8. From where do you get the deficit budget if any? Tick the relevant sources

Sources	Tick here
CDF kitty	
Government Treasury	
Local government	
NGOS	
MP	
Bank loan	
Members' contribution	
None of the above	

Appendix C:

Work Plan

Activity	July – January 2013	February 2013	April/may 2013	June- July	August
Proposal writing					
Proposal approval by supervisors					
Proposal defense					
Correction of errors					
Data collection					
Data analysis					
Report writing					
Project defense					
Correction of errors and submission of project					

Appendix: D.**Budget for the research**

Stage / core activities	Items & services	Unit cost (shillings)	Total cost (Shillings)
Proposal writing	Typing	40	2,000
	printing	10	3,000
	photocopy	3	4,000
	Library research(transport to other libraries)	500	10,000
	Internet research	200	10,000
	laptop	50,000	50,000
	Sub-total		80,000
Pre- testing	photocopy	3	2,000
	Subsistence for the researcher	1000	5,000
	Sub -total		7,000
Field work	Photocopy of schedules	3	5,000
	Subsistence for four research assistants	2000	8,000
	Subsistence of researcher	1000	8,000
	Field facilitation for 4 research assistance	1500	6,000
	Sub- total		27,000
Project report writing	Printing	10	6,000
	photocopy	3	2000
	binding	100	500
	Sub- total		8,500
	Total		123,500
	10% contingencies		12,350
	Grand Total		135,850