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# Factors Associated with Utilization of Donor Funds in Somali Region of Ethiopia

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#### Authors' contributions

This work was carried out in collaboration among all authors. Author AAM designed the study, collected, analyze and interpreted the data. Author OO drafted the manuscript. Author AY supervised the data collection and analysis. All authors read, reviewed, edited, finalized and approved the final draft of the manuscript.

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**Original Research Article** 

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## ABSTRACT

**Aims:** Donor funds play a critical role in the provision of social services and development process in developing countries, however poor utilization of the donor funds has been reported as a major barrier to achieving this. The study investigated the factors that influence the use of donor funds. **Study design:** This was a cross-sectional survey using quantitative method.

Place and duration of study: Jijiga Town of Somali Region between June and July 2020.

**Methodology:** Descriptive analysis was done using Relative Importance Index (RII) and Inferential statistics was conducted using correlation analysis and Pearson's coefficient was performed to examine the effects of the four independent variables (Financial management practice, Human resource capabilities, stakeholder's participation in planning, coordination and communication and Monitoring and Evaluation) and utilization of the donor- funded projects.

**Results:** The study found lower utilization rate of donor funds across all the sectors in the region compared to domestic funds with utilization rate for domestic resources ranged from 93%-100% compared with 43% utilization rate for donor funds. All the four predictor variables show positive

Corresponding authors: E-mail: ooladeji@unicef.org; E-mail: aamumin@unicef.org, Abenetyohannes@gmail.com; correlation with utilization of donor funds, p value less than 0.01. Monitoring and Evaluation has the highest correlation, r=0.754, n=79, p=0.0003) followed by Stakeholder Participation, r=0.695, n=79, p=0.0005), Human Resource Capabilities r=0.654, n=79, p=0.0004) and Financial Management Practice with r=0.634, n=79, p=0.0005).

**Conclusion:** The study reaffirmed the poor utilization of donor-funds in most developing countries and the associated factors which are major barriers to socio-economic development and will contribute to knowledge management in the region and help all stakeholders in improving utilization of donor funds.

Keywords: Donor-funds; utilization; associated factors; relative importance index.

## 1. INTRODUCTION

Donor funds play a critical role in the provision of social services and development process of the developing countries. Donor funds refer to official development assistance specifically designed for the developing countries and are meant to supplement internally generated resources that are often inadequate to fully cater for huge capital investment needs in most of the developing countries. Such donations can be in the form of grants which are non-repayable and loans that is repayable to the developed nations.

Ethiopia's budget between 2016/17 and 2018/19 amounted to US\$ 34.5 billion and the total estimated international support to the country according to OECD was US\$ 12.6 billion corresponding to 37% of the country's budget over the same period. With a total contribution of 3.5 billion, humanitarian assistance US\$ represented 28% of the entire international assistance provided to the country and 10% of the country's budget [1]. Covering the same period, the budget for the Somali region amounts US\$ 1.6 billion representing 4.6% of the nation's budget and the Somali region internal budget from 2015/16 to 2017/18 was of US\$ 1.2 billion. During the same period the region received an estimated US\$ 886 million of external development aid and an estimated additional US\$ 652.7 million of humanitarian assistance. The total estimated allocated resource over this period is US\$ 2.7 to 2.8 billion - 43% of domestic support & 57% of external assistance. For 2018/2019 the estimated figure for the region is US\$ 1.2 billion - 59% of which correspond to domestic support and 41% to international assistance [1]. This highlights the importance of donor funds for the provision of social services for both humanitarian and development interventions in the region.

Somali Region which is one of Ethiopia's four Developing Regional States (DRS) and faces developmental inequities and has shown less improvement in key health outcomes and other social indicators compared to the national average [2-3]. The multidimensional child deprivation (MCD) rate in Somali Region is high with 90% of children (ages 0-18) rated as deprived in three to six dimensions, including deprivation in housing (85%), water (73%) and sanitation (70%) and the average deprivation intensity is the second highest in the country and the only region that has not shown any improvement and the MCD index shows stagnation since 2011 [4]. Effective utilization of all available fund especially donor -funds which are mostly targeted to capital and high impact interventions are essential to reduce the multidimensional child deprivation in the region.

In spite of the need for the donor funding in supporting and improving access to social services and addressing poverty in most developing countries, poor utilization of the donor fund has been reported as a major barrier to improving the wellbeing of the population [5-7]. Some of the factors associated with poor utilization of donor funds, include structural and institutional weakness in strategic planning, poor planning and budgeting process, poor community participation and coordination among other partners, poor accountability and poor Monitoring Evaluation system are the factors and contributing to inefficiencies. low & sub-optimal resource use [8-11].

A review of the implementation of global fund project by the technical evaluation reference group identified limited human resource capacity, poor data management and procurement challenges as factor attributed to low utilization of the fund [12]. Similarly, the study by Ziraba (2016) identified in addition to low recipient capacity, poor coordination mechanisms as important factors responsible for poor resource utilization and advocated for strengthening the County Coordination Mechanism; improving procurement & supply chain management cycle; performance hiah-risk improving in environments; and building local capacity for greater sustainability [5]. 3 A review of basic education public expenditure identified lack of financial government leadership, poor management systems and reporting ; frequent and unpredictable changes in policy regarding program implementation and weak project monitoring among factors responsible for low budget utilization for donor- funded projects [7].

The study assessed the utilization of donor funds and associated factors and identified recommendations to improve utilization in the region.

## 2. MATERIALS AND METHODS

## 2.1 Design

The study was a cross-sectional descriptive survey using quantitative method conducted between June and July 2020.

## 2.2 Study Population and Setting

The study was conducted in Jijiga the capital of Somali Region. The study population included 79 key staff of eleven development partners and United Nation Agencies from Program, Finance and Logistics section of the selected organizations with field presence in the study area at the time of the study.

**Sampling technique:** Stratified random sampling was used and each of strata or subgroups (Program staffs, Finance and Logistic staffs) were selected proportionately to overall target population.

The target population were heterogenous with diverse sectorial backgrounds, had varying degree of exposure and experiences in managing donor- funded projects within the Somali region context.

## 2.3 Data Collection and Statistical Analysis

Methods used involved both primary and secondary data using quantitative techniques.

The data was collected through structured close ended questionnaire self-administered to the respondents and the retrospective chart review of the 2018/2019 annual budget utilization report obtained from the website of the Bureau of Finance & Economic Development (BoFED) [13].

The questionnaire consisted of two parts. Part 1 had questions on the respondent's demographic profile and Part 2 contained questions on utilization of donor fund and four themes that affect budget utilization (Financial management practices, Human resource management capacities, Stakeholder's participations and Monitoring and Evaluation practice). Each of the themes has a various number of items that were used to measure or describe each theme.

The Financial Management Practices theme had 21 items; Human Resource Capacity theme had 13 items, Stakeholders Participation in Planning, Coordination & Communication theme has 16 items and Monitoring and Evaluation theme had 15 items; all measured in 5-point Likert scale ranged from (I- Strongly Disagree, 2-Disagree, 3-Neutral, 4-Agree, 5-Strongly Agree). The measurement scale of the utilization of donorfunds ranged from (1- below 20% utilization rate, 2- 21-40% utilization rate, 3-41-60% utilization rate, 4-61-80% utilization rate and 5 - above 81% utilization rate).

The questionnaire was developed through a review of related studies [5-10] and consultation with staff of the donor agencies.

Data obtained from the questionnaires was analyzed using both descriptive and inferential statistical methods using Microsoft excel and Statistical Package for the Social Science (SPSS) vs 20. Descriptive analysis was done using Relative Importance Index (RII) which measure the mean score calculated for the top 5 ranked items for each of the four themes ((Financial management practices, Human resource management capacities, Stakeholder's participations and M&E practice) that affected utilization of donor fund ranked using Likert's scale.

Utilization of donor funds is the dependent variable for the study which measured budget performance of the donor funds in terms of timely budget implementation as per the scheduled agreed in their project documents (annual work plans). The four predictor(independent) variables involved this study in were Financial Management Practices. Human resource capabilities. Stakeholder participations in planning, communication & coordination, and Monitoring and Evaluation factors.

RII is calculated using the following equation [14]

 $\mathsf{RII} = (\sum w) / (\mathsf{A} \times \mathsf{N})$ 

Where,

W = the weight ranging from 1 to 5 (in this study Strongly Disagree to Strongly Agree) given to each factor

A = the highest weight (i.e., "5" in this case), and N = the total number of respondents

Inferential statistics was conducted using correlation analysis and Pearson's coefficient was performed to examine the effects of the four independent variables (Financial management resource practice. Human capabilities, stakeholder's participation in planning, coordination and communication and Monitoring and Evaluation) and utilization of the donorfunds (the dependent variable) and the level of significance set at 0.01 (2-tailed).

The retrospective chart review was conducted using the donor fund utilization record for the 2018/2019 annual regional budget and was analysed using Microsoft excel. The outcome of the study was the utilization rate of donor funding and associated factors.

## 3. RESULTS AND DISCUSSION

#### 3.1 Sociodemographic Profile of the Respondents

Table 1 shows the sociodemographic profile of the respondents with 50(63%) being program staffs, 12(15%) were finance staffs and 17(22%) were logistic staffs. 26 (32%) of the respondents had more than 12 years working experience, while only 7 (9%) had less than two-year work experience. They were from the major sectors of social and basic service with 21(26%) from the relief food and emergency sector, 15(19%) from the health and nutrition sector and 10(13%) from the protection sector.

## 3.2 Utilization of Donor Fund

The utilization of donor fund was analysed from the feedback from the respondents through the questionnaire and the data extracted from the retrospective chart review of the 2018/2019 annual budget expenditure report obtained from the website of the Somali Regional Bureau of Finance & Economic Development (BoFED). Table 2 shows that respondents rating of the utilization of donor funds; 48(61%) of the respondents rated the utilization at between 41-60%, while 28(35%) rated utilization at between 61-80%.

Table 3 shows the annual financial utilization reports for 2018/2019 comparing the utilization rate between two funding sources (domestic and donor funds through the UN agencies). It shows that the utilization rate for domestic resources ranged from 93% at the regional level and 100% at the district and city administrative level, compared with 43% utilization rate for donor funds disbursed through the UN agencies.

## 3.3 Descriptive Analysis of Respondents' Responses on the Four Themes Associated with Utilization of Fund Using RII

Table 4 shows Relative Importance Index (RII) analysis for the top 5 ranked variables for the Financial Management Practices theme reported by the respondents that affect utilization of donor funds in the region. The RII which measures the mean score of the variables ranged from 0.74 to 0.8; weak financial management system (RII 0.80), Emergency funding with short spending period (RII 0.77), Poor documentation of the implementing partners (RII 0.75), delayed requests and disbursements (RII 0.75), and Lack of flexibilities in the use of donor funding (RII 0.74).

Table 5 shows Relative Importance Index (RII) analysis for the top 5 ranked variables for the Human Resource Capacity theme reported by the respondents that affect utilization of donor funds in the region. The RII of the variables ranged from 0.67 to 0.85; Involvement of the top management leadership (RII 0.85), Human Resource Capacity in fund management (RII 0.78), High staff turnover among partners staffs (RII 0.76), Absence of system for knowledge transfers (RII 0.70), and Donor funded Projects considered as side line activities (RII 0.67).

Table 6 shows Relative Importance Index (RII) analysis for the top 5 ranked variables for the Stakeholders Participation in Planning, Coordination & Communication theme reported by the respondents that affect utilization of donor funds in the region. The RII of the variables ranged from 0.77 to 0.86; Government ownership of donor project (RII 0.86), Effective communications among stakeholders (RII 0.84), Stakeholders Participation in Planning / Coordination / (RII 0.81), well functional coordination platforms across government structures (RII 0.78), Weak coordination among implementing partners (RII 0.77).

Table 7 shows Relative Importance Index (RII) analysis for the top 5 ranked variables for the Monitoring and Evaluation theme reported by the respondents that affect utilization of donor funds in the region. The RII of the variables ranged from 0.73 to 0.83; M&E practices (RII 0.83), Steering committee role & commitments (RII 0.77), Evaluation findings are used to inform future programming (RII 0.74), Logistical constraint undermines Implementing Partners capacities to implement donor projects (RII 0.73), Donors have system for independently verifying spending of donor -funded projects (RII 0.73).

## 3.4 Correlation Analysis Using Pearson Correlation Coefficient to Assess Utilization Rate and Associated Factors

Table 8 shows the results of the correlation analysis done using Pearson correlation

coefficient to determine the linear relationship between utilization of donor funds. the dependent variable and the four predictor variables practice. management Human (Financial resource capabilities, stakeholder's participation in planning, coordination and communication and Monitoring & Evaluation). All the four predictor variables show positive correlation with utilization, the dependent variable and are with p value less than 0.01. Monitoring and Evaluation predictor variable has the highest correlation, r=0.754, n=79, p=0.0003) with the dependent variable (Utilization of donor funds), followed by Stakeholder Participation in planning, coordination and communication, r=0.695, n=79, p=0.0005), Human Resource Capabilities r=0.654, n=79, p=0.0004) and Financial Management Practice with r=0.634, n=79, p=0.0005). This indicates that all the four predictor variables are strongly or moderately related to the dependent variable and show positive linear relationship with the utilization of funds.

Variables	Frequency (n=79)	Percentage
Role of the respondents		
Programme Staffs	50	63%
Finance Staffs	12	15%
Logistics/Procurement Staffs	17	22%
Work experience in years		
0 - 2	7	9%
3 - 5	8	10%
6 - 8	13	17%
9 - 11	26	32%
Over 12	25	32%
Engagement Sector of the Respondents		
Health & Nutrition Sector	15	19%
WASH (Water, Sanitation and Hygiene)	5	6%
Education	4	5%
Agriculture & Livestock	6	8%
Protection Sector	10	13%
Refugees/IDPs	7	9%
Climate Change/Resilience/DRR	4	5%
Relief Food/Emergency	21	26%
Governance/Coordination	7	9%

#### Table 1. Sociodemographic profile of the Respondents

Utilization Rate	Frequency (n=79)	Percentage
21- 40%	2	3%
41_60%	48	61%
60- 80%	28	35%
>80%	1	1%

## Table 2. Utilization rate of donor funds by respondents

Table	Table 3. Somali region annual financial utilization report FY 2018/2019*					
Eunding source	Implementation	Planned Budget	Iltilized Budget in	Porcontago	-	

Funding source	Implementation level	Planned Budget in ETB	Utilized Budget in ETB	Percentage Utilized
Domestic (Government)	Regional	10,676,799,506.00	9,890,869,620.00	93%
	District	4,477,781,147.00	4,477,781,147.00	100%
	City Council administrations	544,949,106.00	544,949,106.00	100%
UN Agencies Funded Programmes (UNEXCOM	All Administrative level	108,966,673.00	46,815,355.00	43%

\* Source: Somali BoFED website, Accessed on 05 April 2020 https://srbofed.gov.et/

Thematic Variables	ΣW Relative Importance Index		Overall ranking	
Poor financial management system	320	0.80	1	
Emergency funding with short spending periods	306	0.77	2	
Poor documentation of the Implementing partners	300	0.75	3	
Delayed requests and disbursements	291	0.75	4	
Lack of flexibilities in the use of donor funding	285	0.74	5	

## Table 5. Relative Importance Index (RII) for Human Resource Capabilities

Thematic Variables	∑W	Relative Importance Index	Overall Ranking
Involvement of the top management leadership	337	0.85	1
Human Resource Capabilities	304	0.78	2
High staff turnover among partners affects budget utilization	302	0.76	3
Absence of system for transferring knowledge	275	0.70	4
Donor funded Projects considered as sideline activities	269	0.67	5

## Table 6. Relative Importance Index (RII) for Stakeholder Participation in Planning & Coordination

Thematic Variables	∑W	Relative Importance Index	Overall Ranking
Government ownership of donor project	336	0.86	1
Effective communications among stakeholders	337	0.84	2
Stakeholders Participation in Planning/Coordination/	324	0.81	3
Well-functioning coordination platforms across government structures	307	0.78	4
Weak coordination among implementing partners	300	0.77	5

## Table 7. Relative Importance Index (RII) for Monitoring & Evaluation

Thematic Variables	ΣW	Relative Importance Index	<b>Overall Ranking</b>
M&E Practice affect budget utilization of donor Projects	332	0.83	1
Steering committee role & commitment is critical for the successful	303	0.77	2
implementation of donor projects			
Evaluation findings are used to inform future programming	291	0.74	3
Logistical constraint undermines IPs capacities to implement donor projects	293	0.73	4
Donors have system for independently verifying spending of donor -funded	290	0.73	5
projects			

		Utilization	Financial management practice,	Human resource capabilities,	Stakeholders participation in planning, coordination and communication	Monitoring 8 Evaluation
Utilization	Pearson Correlation	1	.634**	.654**	.695**	.754**
	Sig. (2-tailed)		.000	.000	.000	.000
Financial management practice,	Pearson Correlation	.634**	1	.489**	.453**	.533**
	Sig. (2-tailed)	.000		.000	.000	.000
Human resource capabilities	Pearson Correlation	.654**	.489**	1	.496**	.463**
	Sig. (2-tailed)	.000	.000		.000	.000
Stakeholders participation/communication	Pearson Correlation	.695**	.453**	.496**	1	.620**
	Sig. (2-tailed)	.000	.000	.000		.000
Monitoring &Evaluation	Pearson Correlation	.754 <sup>**</sup>	.533**	.463**	.620**	1
	Sig. (2-tailed)	.000	.000	.000	.000	

# Table 8. Pearson Correlation coefficient Matrix of the variables (N=79)

\*\*. Correlation is significant at the 0.01 level (2-tailed).

## 4. DISCUSSION

The study found lower utilization of donor funds across the sectors compared to government funding, this is similar to a finding from Development Finance International (DFI) detailed analysis of financial absorption in the WASH sector in Rwanda, Mozambique, Uganda and Ethiopia that reported that absorption of donor funding significantly lower than government funding [6]. In Rwanda, the review of the 2013/2014 budget expenditure showed absorption of domestic allocation was 84% compared to 60% for donor funds. This was found to be particularly true at the decentralized level where government procedures and funds were predominant, absorption was higher, and in districts with high donor funds it was lower. Similarly, in Amuru district in Uganda, donor funding performed 40-45% worse than government funding, bringing overall absorption down to 50-60%, whereas in Nakasongola, all funding for the water sector was from central government transfers, of which 95% were absorbed in 2013/14 [6]. This finding points to the importance of aligning donor and government financial systems to achieve high levels of financial absorption.

A WaterAid's report (2015) shows that Official Development Assistance (ODA) disbursements are consistently below ODA commitments made, even when aggregated over a longer period and ranges from 30-50% between 2003 and 2013 and the fear is that low financial absorption could contribute to donor and private sector reluctance to invest, reinforcing a vicious cycle of underinvestment [11]. Similarly a review carried out by the African Population and Health Research Center - APHRC on the utilization of Global fund, showed that in 34 countries within the two Africa constituencies that were assessed, only about 65% of funds from signed grants for three years prior to the review had been disbursed which is used as rough estimate of grant utilization [5]. In the same study, low absorptive capacity was identified as a challenge facing grant implementation in countries. A total of 20 countries, of which 18 are African, are considered high impact (have a substantial burden of disease and Global Fund investment) and have low absorptive capacity (estimated at 69%) [12]. The challenge is that most countries with high burden of diseases and unable to pay for the prevention and treatment of the three diseases, are also faced with significant absorptive capacity challenges [12]. This is

similar to Somali region which is one of Ethiopia's four Developing Regional States (DRS) and faces developmental inequities and has shown less improvement in key health outcomes and the children have multiple deprivation in more than five areas than compared to the national average [4].

The study showed financial management, especially the non-flexibility and disbursement mechanism of some donors. financial management systems and delayed request and disbursement with poor documentations are factors that cause low utilization of donor funds. This is similar to finding in a study by Arndt (2000), which reported that poor financial management of donor funded projects due to lack of formal training in foreign aid management, budgeting and accounting as critical factors responsible for underutilization of donor funds. The poor understanding of the donor expenditure protocols was also found to result in ineligible expenditures, which lead to rejection or delay in disbursement of further funding by the donor [8].

The inflexible nature of most of the donor funds and disbursement pattern as reported in this study especially in the region with recurrent humanitarian crises is similar to finding from other studies which identified the rigid financial conditions set some donors, and limited flexibility for re-allocations of funds to adapt to changed humanitarian requirements and operational circumstances as factors that significantly influenced effective donor funds utilization [9,10]. Similar to the findings in this study, a Development Finance International (DFI) detailed analysis of financial absorption in the WASH sector, through five country cases including Ethiopia, Rwanda, Uganda and Mozambique showed that delay in request because of cumbersome donor procedures for financial management such as long periods in processing disbursement requests led to delayed disbursement which affects utilization of donor fund [6].

This study showed that utilization of donor funds is affected by the human resource capacity of the team involved in management of the fund especially in understanding of the guideline and condition involved with different donors especially among the top leadership of the implementing institutions. This is similar to the finding in a study in Ugandan which ranked weak project implementation capacity as the most critical area among the various challenges that affected utilization donor fund and recommended appropriate attention to be focused on building capacity of technical staff especially on financial management and procurement processes so as to comply with donor guideline and regulation [15]. Similarly, a review by Mosley and Marion (2000) on foreign aid reported that the extent of success of donor funded projects is determined by both technical and managerial capacity of the human resources of the implementing agencies [16].

A study in Ethiopia on utilization of donor fund also identified the need to provide capacity building opportunities to staff involved in managing or implementing donor funds so as to improve on effective use of the fund [10]. A synthesis report on water, sanitation and hygiene sector by Water Aid in Ethiopia, Rwanda and South Africa also found quality of planning and unrealistic budgeting either under-estimating or over-estimating required funds due to low planning capacity of the program implementation team at regional and district levels has led to over- or underutilization of allocated funds [17].

Another study by Arndt (2000), identified weak capacity of the officers in the donor funds projects due to lack of formal training in foreign aid management, budgeting and accounting as critical factors responsible for underutilization of donor funds. The poor understanding of the donor expenditure protocols was also found to result in ineligible expenditures, which lead to rejection for further funding by the donor [8].

Our study identified effective coordination mechanisms which ensure active participation of stakeholders including the beneficiaries in planning, coordination and communication as an important factor that influence utilization of donor funds. This is similar to finding in a synthesis report by Water Aid on barriers to financial absorption in the water, sanitation and hygiene sector in Africa which identified eeffective coordination and communication between stakeholders in the sector is an important factor in achieving high absorption rates [17]. A review of the Global fund also identified low capacity of country coordinating mechanism leadership in coordinating with stakeholders as one of the broad categories of causes of low absorptive capacity of the global fund in most African countries [5]. A review by Mosley and Marion (2000) reported problems of poor utilization of

development assistance ranged from poor or no consultation with the intended beneficiaries. lack of coordination between various government agencies, the failure to harmonize policies, programs and procedures harmonization and alignment [18]. Other studies which evaluated the role of stakeholders' participation in donor funding reported found that primary stakeholder involvement significant influence on donor funding and a recipe for effective project implementation as it encourages participation and involvement of the community in all the processes of project implementation and also ensures community empowerment. The studies recommended improved involvement of community members and other stakeholders so at to ensure ownership and accountability for better and efficient projects implementation and utilization of donor funds [19,20].

The study found Monitoring and Evaluation has the most significant influence among all the other factors that affect the utilization of donor funding. This is similar to finding in a study in Kenya that evaluated the influence of various factors attributed to donor behaviour on effective implementation of donor- funded development concluded that Monitoring and evaluation is key to effectiveness in the implementation of donorfunded development projects as it determines the appropriateness. effectiveness, relevance. impact and sustainability of projects so that the information obtained can inform the design of future projects. Omollo, (2017), Mosley & Marion (2000) also identified poor monitoring of foreignfunded projects as one of the bottlenecks for utilization responsible ineffective of development assistance [18,20] while another study in Kenya identified effective monitoring and system as a critical evaluation project management function that influences performance of donor- funded projects at very great extent among other factors in a water and sanitation company that was studied [19].

## 5. CONCLUSION AND RECOMMENDA-TIONS

The study reaffirmed the poor utilization of donorfunds in most in developing countries and associated factors which are major barriers to socio-economic development and will contribute to knowledge management in the region and help all stakeholders in improving utilization of donor funds.

## **5.1 Recommendations**

The study recommends the need for more flexible funding mechanisms, better alignment of donor and government financial systems, expanded structures and mechanisms to facilitate community participations. The relevant government sectors at the regional and district level to invest in building their core capabilities needed for effective and efficient fund management.

#### 6. LIMITATION OF THE STUDY

This study involved self-administered questionnaires which is subject to response biases.

## CONSENT

As per international standard or university standard, respondents' written consent has been collected and preserved by the author(s).

## **COMPETING INTERESTS**

Authors have declared that no competing interests exist.

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