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Effects of Fund Management Practices on Financial Performance in CDF funded Water Projects in Kenya

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Abstract: *Kenya's CDF was a concept implemented in 2003 through an Act of parliament, whose aim was to address the challenges at grassroots level through the provision of funds to empower 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 be widely accepted throughout Kenya today. Increasingly however, was the issues on Management of fund accrued from CDF funded water projects. The study used cross-sectional survey design, which emphasized on the measurement and analysis of relationships between the variables. The study used primary sources of data. The CDF funded water project managers were interviewed to obtain the primary data. Data was analyzed using SPSS program. Descriptive statistics as well as inferential statistics were used. Mean, Correlation, ANOVA and regression analysis measured the nature of the relationship between the cash management, receivable management, inventory management practices and financial performance. The study findings were that, there was a strong positive relationship between the independent variables (cash management, receivable management, inventory management practice) and the dependent variable (financial performance). The variability of financial performance attributed to changes in efficiency of Receivable Management practices, efficiency of cash management and efficiency of inventory management was 88.3%. This has a general implication that efficient fund management practices have a positive effect on the financial performance of CDF funded water projects in Kenya and therefore optimal fund Management practices should be embraced as a policy recommendation.*

Key words: *(Cash Management Practices, CDF Water Funded Projects, Financial Performance, Fund Management, Inventory Management Practices, Receivable Management Practices)*

I. Introduction

The constituency development fund (CDF) was established in Kenya through the CDF Act 2003. 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 (R. O. K., 2003). 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 were previously managed by the central government. While there are, several rules that govern the management of CDF funds to ensure transparency and accountability, decisions on CDF fund management are primarily by constituents. There have been discrepancies on fund management and development in some constituencies. Thus, in some constituencies, the funds have been managed efficiently while others have not.

Constituency Development Fund replaced the district focus for rural development and the public fund raising projects. It is regarded as the most effective way of equitable distribution of national resources in Kenya from the consolidated fund. 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 programme has transferred billions of Kenya shillings to the Rural and urban areas of its constituency based development projects. A lot of money has been disbursed by the national treasury through CDF programme to the 290 constituencies since its inception in 2003. This requires scrutiny of the extent to which the funds allocated are managed to achieve the desired result (Manasseh, 2007).

As suggested by Wanjiru (2008) and Manasseh (2007) public audits are an 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).

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 project proposals and budget estimates are analyzed. The money allocated is based on the priority of the project to the community (R.O. K., 2003). The projects started vary with the 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. Kaimenyi (2005) argues that there are so many studies that have been carried out on CDF. The studies show that 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 bank accounts by the National Management Committee, which has had far-reaching implications on the constituents' well being.

This 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 projects. 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 existence of efficient fund management practices makes 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. Atrill (2006) asserts that 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, Murara and Mureithi (2009) debt collection was identified by 55% of respondents to be among the top five major challenges facing businesses.

As observed by Mead (2004) the health of an economy has a strong relationship with the health and water sectors given their importance to a nation's social-economic growth. 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. There has been a public outcry on the management of the accrued funds from projects leading to halting while others are operating normally. Water projects are some of the projects that have halted due to 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 is 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. In this study, the following null hypotheses were tested;

Hypothesis 1

H_{01}: There is no significant effect of cash management practices on financial performance of CDF funded water projects in Kenya

Hypothesis 2

H_{02}: Efficient receivable management practices have no relationship with financial performance of CDF funded water projects in Kenya

Hypothesis 3

H_{03}: There is no significant effect of efficient inventory management practices level on financial performance of CDF funded water projects in Kenya

II. Literature Review

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 an aspect of corporate finance and 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 argued by Peel and Wilson (2000) and Padachi (2006) efficient management of working capital is pivotal to the health and performance of firms hence the 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.

Cash management is the process of planning and controlling cash flows into and out of 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. Kwame (2007) established that the setting up of a cash balance policy ensures prudent cash budgeting and investment of surplus cash.

Receivables Management means planning, organizing, directing and controlling of receivables. It deals with a shortened debtor's collection period, low levels of bad debts and a sound credit policy. Sound credit policy often improves the businesses' ability to attract new customers and accordingly increase financial performance. Therefore, 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 is 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. Lazaridis and Dimitrios (2005) found that firms that pursue an optimal level of receivables increase their profitability. Juan & Martinez (2002) emphasized that firms can create value by reducing the number of days of accounts receivables and this confirmed the finding of Deloof (2003) that established that the length of receivables collection period has a negative effect on a firm's performance. Sushma & Bhupesh (2007) also affirm 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.

Inventory management practices are activities employed in maintaining 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 answer the questions: how much is ordered and when is it ordered? The questions relate to the problem of

determining the economic order quantity and can be solved by analyzing the costs of maintaining certain levels of inventory. There are costs involved in holding too much and holding too little stock, hence the need to put in place an effective stock management system to ensure reliable sales forecasts for stock ordering purposes (Atrill, 2006). Ross (2008) recommends Economic Order Quantity model as an approach of determining the optimal inventory. The model takes into account the inventory carrying costs, inventory shortage costs and total costs and this helps in the determination of the appropriate inventory levels to hold.

Maintaining optimal inventory levels reduces the cost of possible interruptions or 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).

III. Methodology

To discover the relationship between fund management practices and financial performance in CDF funded water projects in Kenya a descriptive research design was used. The research study took a census. The target population was 55 project managers operating within Molo Constituency in Nakuru County, Kenya. A self-administered structured questionnaire was used to collect Primary quantitative data and 52 questionnaires were filled in and returned. This was a 94.5% response rate. A perceptual response was captured in a five-point Likert scale. The SPSS program was used to analysis the data.

A reliability test was done to ensure that the tool was reliable. The results indicated Cronbach's alpha for the dependent variable (financial performance) of 0.967 and independent variables (cash management, inventory management and receivable management practices) of 0.973, 0.964 and 0.972 respectively. The alpha values were acceptable as they exceeded the 0.7 threshold (Gliem and Gliem, 2003). Test for multicollinearity was done. Variance inflation factor (VIF) of less than 10 had been assumed (Thomas, 2008). The three independent variables gave VIF of 8.13424 for CM, 9.34270 for RM and 7.81766 for IM. Multicollinearity did not exist. Both descriptive and quantitative analyses of the data were adopted. Percentage, mean and standard deviations were shown. Pearson correlation, ANOVA and regression analysis were used.

Data Analysis Model

The financial performance model adopted for this study is as summarized below:

$FP = \beta_0+\beta_1 CM+\beta_2 RM+\beta_3 IM+\varepsilon$ Equation (1)

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

CM - Cash Management Practices;
IM - Inventory Management Practices;
RM - Receivables Management Practices;
FP - Financial Performance indicator and
ε - Error term that was assumed to be random
β_0 - Constant
β_1, β_2, and β_3 - Coefficients of the Independent Variables (CM, RM & IM)

IV. Results and Discussion

4.1 Descriptive Analysis

The descriptive analysis was in the form of tables and narratives. The tables columns for responses in form of percentages for those who indicated never (1), rarely (2), sometimes (3), often (4) and very often (5). 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 are as shown in Table 1. They indicate that on the average, project managers rarely prepared cash budgets. Majority of the respondents (57.6%) seldomly prepare cash budgets (score 1 and 2 on the scale). The question had a mean of 2.61 and a standard deviation of 1.3287. An insignificant number of the CDF project managers (26.9%) often-prepared cash budgets (scores 4 and 5 on the scale). The finding shows that CDF funded water project managers in Kenya do not embrace cash budgeting as a tool of planning and control.

On target cash balances, the results of the study indicate that 26.9% of project managers often determine target cash balances (score 4 and 5 on the scale). The study indicated 55.8% of the project managers

hardly determine the appropriate amount of cash to they hold. 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.

Preparation of the cash flow projection for the CDF funded water projects, 25% of the respondents indicated that they prepare cash flow statements. However, 19.2% of the respondents indicated that they never prepare cash flow statements. A whole 75% of the respondents indicated that they do not often prepare cash flow projection. The general implication is that most of CDF funded projects do not consider the importance of cash flow statement as a method of controlling cash flow in and cash outflow from the project.

The CDF funded water projects experience cash surplus as compared to cash shortages. Table 1 below shows that on average, CDF funded projects experience cash surplus regularly and experience cash shortages irregularly. Majority of the projects (55.8%) regularly experience cash surpluses, compared to (26.9%) of all projects that indicated that they regularly experienced cash shortages. The question had a mean on cash deficit occurring was 2.58 with a standard deviation of 1.1345 and the question on cash surplus occurring had a mean of 3.39 and a standard deviation of 1.4015. The finding stresses 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 study concludes that the management of cash surpluses rather than cash shortages is a problem for the CDF funded water projects.

Table 1: Frequency of Occurrence of the Cash Management Practices

MANAGEMENT PRACTICES	NEVER	RARELY	SOMETIMES	OFTEN	VERY OFTEN	Mean	STD. DEV.
BUDGET PREPARATION	28.8	28.8	19.2	17.3	9.6	2.61	1.3287
TARGET CASH BALANCE.	21.2	34.6	17.3	19.2	7.7	2.58	1.2305
CASH FLOW STATEMENTS	19.2	25.0	30.8	19.2	5.8	2.67	1.1557
CASH DEFICIT OCCURRENCE	26.9	30.8	19.2	15.4	7.7	2.58	1.1345
CASH SURPLUS	15.4	11.5	17.3	30.8	25.0	3.39	1.4015

A significant majority (84.6%) of all the CDF funded water projects often sells their products on credit and 63.5% CDF funded projects managers often set up credit guidelines for their credit customers. It is only an insignificant (15.4%) of project managers who rarely set up credit guideline for their customers. The question had a mean of 4.42 and a standard deviation of 0.743. The finding is that selling products on credit is a practice often used by the CDF funded project managers in Kenya as shown in Table 2. This concurs with findings by Kwame (2007) which showed that small firms always sell their products on credit.

The high use of credit sales can be attributed to the sound credit policies since majority (63.5%) of CDF funded projects operators set up credit guidelines for their credit customers. Only an insignificant majority (15.4%) rarely set up credit guidelines for their customers. The question had a mean of 3.64 and a standard deviation of 0.9209. 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.

A majority of the respondents (57.7%) reviewed their levels of receivables often, and only (5.8%) of the respondents indicated that they never review the levels of receivables and (11.6%) rarely review the level of receivables. The question had a mean of 3.60 and a standard deviation of 1.1517. On the level of bad debts a majority (54.1%) of the respondents review levels of bad debt often and only (17.3%) of the respondents indicated that they never or rarely review the levels of bad debts. This finding is at variance with Padachi (2006) who found that most small businesses review their levels of receivables and bad debts often. In provision for bad debts, a significant majority (90.6%) rarely or never provides for bad debts and hence treats bad debts as a loss in the project.

Table 2: Frequency of Occurrence of the Receivables Management Practices

MANAGEMENT PRACTICES	NEVER	RARELY	SOMETIMES	OFTEN	VERY OFTEN	MEAN	STD. DEV
SALE OF PRODUCT ON CREDIT	0	0	15.4	26.9	57.7	4.42	0.7430
SETTING UP OF CREDIT GUIDELINES	0	15.4	21.2	48.1	15.4	3.64	0.9209
REVIEW LEVELS OF RECEIVABLES	5.8	11.8	25.0	32.7	25.0	3.60	1.1517
REVIEW LEVELS OF BAD DEBTS	7.7	9.6	28.8	42.3	11.8	3.42	1.0640
PROVISION FOR BAD DEBTS	78.8	11.8	9.6	0	0	1.31	0.6372

Table 3 shows that majority of the respondents (77%) indicated that they often prepare inventory budgets and a similar number often review 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 question on preparation of inventory budget had a mean of 3.99 and a standard deviation of 0.9299 and that on review of inventory levels had a mean of 4.02 and a standard deviation of 1.1293. This shows that CDF funded water projects in Kenya embrace the use inventory budgets as a control tool. 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) state that enhancing the management of inventory enabled firms to avoid tying up excess capital in idle stock at the expense of profitable ventures.

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 (53.8%) indicating that they determined their inventory levels based on manager's experience. 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.

Table 3: Frequency on Inventory Management Practices

Management Practices	Never	Rarely (Annually)	3.Sometime (semi-annually)	4.Often (Quarterly)	Very Often (monthly)	Mean	Std. dev.
Inventory budgets Preparation	1.9	5.8	15.4	46.2	30.8	3.99	0.9299
Inventory levels Review	3.8	7.7	5.8	19.2	57.7	4.02	1.1293

Based on stock replacement order, 11.5% order the stock on daily basis, 19.2% order on weekly basis and 48.1% order after every two weeks. The respondents who indicated that they replenish their stock monthly were (19.2%) while only 1.9% indicated that they order stock annually. The findings imply that most of the CDF funded project managers replenish 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 as indicated in table 4 below:

Table 4: Frequency of Stock Replacement Orders

Very rarely (yearly)	Rarely (monthly)	Frequently (fort night)	Very frequently (weekly)	Most frequently (Daily)	Mean	Std Dev.
1.9	19.2	48.1	19.2	11.5	3.19	0.9398

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 5. The implication was that efficiency in cash management rated lowest in average with a mean index of 2.73077with responses deviating from this mean by a standard deviation margin of 1.34478. Receivables management with the mean of 3.32692 followed this, with a standard deviation of 1.39637 and inventory management with a mean of 3.78846 and Standard Deviation of 1.09072 in that order. This shows that CDF funded water projects are 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 water projects have embraced and implemented efficient practices of fund management in their projects operations. The existence of fund management practices are evidenced in the CDF funded water projects in Kenya.

Table 5: Statistics for Indexed Efficient Practices of Fund Management Variables

Variable	N	Mean	Std. Dev.
Financial Performance	52	2.96154	1.10190
Receivable Management Practices	52	3.32692	1.39637
Inventory Management Practices	52	3.78846	1.09072
Cash Management Practices	52	2.73077	1.34478

4.2 Correlation Analysis

A strong positive relationship was established between the dependent variable (financial performance) and the three independent variables (receivable management practices, inventory management practices and cash management practices) for the CDF funded water projects in Kenya. Table 6 below shows that the correlation between FP and CM was ($R = 0.90590$, $p < 0.01$), FP and RM had ($R = 0.92586$, $p < 0.01$) and FP

and IM had (R = 0.90671, p < 0.01). There was also a strong relationship among the independent variables. This 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 depend on each other in the operation of the CDF funded water 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.

Table 6: Correlation Matrix of the Dependent and Independent Variables

		Financial Performance	Cash Management Practices	Receivable Management Practices	Inventory Management Practices
Financial Performance	Pearson Correlation	1			
	Sig. (2-tailed)				
Cash Management Practices	Pearson Correlation	.906**	1		
	Sig. (2-tailed)	.000			
Receivable Management Practices	Pearson Correlation	.926**	.925**	1	
	Sig. (2-tailed)	.000	.000		
Inventory Management Practices	Pearson Correlation	.907**	.910*	.922**	1
	Sig. (2-tailed)	.000	.000	.000	

** Correlation is significant at the 0.01 level (2-tailed)
*Correlation is significant at the 0.05 level (2-tailed)

4.3 Regression Analysis

Also in table 7 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. Past studies have shown business performance is correlated positively to the fund management practices (Padachi, 2006; Benjamin & Kamalavali, 2006; Sushma & Bhupesh, 2007) and are therefore supported by these research findings.

Table 7: Coefficient of Determination

Dependent Mean	2.96154	R-Square	0.8831
Coefficient of Variation	13.111	Adjusted R^2	0.8758

4.4 Multiple Regression Analysis

Table 8 shows the contribution of the three independent variables in explaining the financial performance as shown by parameter estimate values, which assess the contribution of each variable towards the prediction of the dependent variable. Receivable management and cash management practices 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.

Table 8: Regression Coefficients and Collinearity Statistics (N=52)

Variable	DF	Parameter Estimate	Standard Error	t -Value	Pr > |t|	Variance Inflation Factor
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

The overall equation can be represented by use of unstandardized coefficients as follows:
FP = 0.36434CM + 0.36434RM + 0.26664IM. Equation (2)

The constant can not be included in the model because its p-value > 0.05 (0.4151) which means that the intercept is not different from zero (0). However, the coefficients of all the variables had p-values < 0.05 and therefore the values of the independent variables were not equal to zero. They were all included in the model.

V. Conclusion

The efficiency levels on fund management practices were average thus indicating that CDF funded water projects embraced and implemented efficient fund management practices in project operations hence the survival of CDF funded water projects are eminent. The general implication is that each of the fund management practice has a significant effect on each other; hence, the need to incorporate the three fund management practices in all the CDF funded water projects in Kenya. This implies that efficient fund management practices have a significant effect on the financial performance of CDF funded water projects in Kenya since it attributes to 88.3% of financial performance using the model. The study therefore rejected the three null hypotheses that cash management practices, receivable management practices and inventory management practices and concluded that in deed the three practices have statistically significant effect on the financial performance of CDF projects in Kenya. The findings reinforce the establishment by (Deloof, 2003) which showed that, fund management has a significant effect on the overall performance of businesses.

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