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The Influence of Debt Management on Financial Performance of Ministries in Kenya

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ABSTRACT

Purpose: The financial performance of ministries in Kenya is crucial in understanding the efficiency of government spending and the achievement of national development goals. Specifically, the study focused on the influence of debt management on financial performance of ministries in Kenya. The study also focused on establishing the moderating effect of resource allocation. This study was anchored on Pecking Order Theory and Resource-Based View (RBV) Theory.

Methodology: For this study, descriptive research design was utilized. This study adopted a positivist research paradigm. The total target population was 538 respondents. Using the Krejcie and Morgan formula, the sample size for the study was 224 respondents. This study adopted the self-administered questionnaire approach. A pilot study was conducted to test validity and reliability of the questionnaire. Data from questionnaires was coded and analyzed using the latest Statistical Package for Social Sciences (SPSS) computer software. The study employed mixed methods data analysis by applying the use of descriptive and inferential statistics. The study results were presented through use of tables and figures.

Findings: The study concludes that debt management positively and significantly influences financial performance of ministries in Kenya. In addition, the study concluded that resource allocation has significant moderating effect on the relationship between debt management and financial performance of ministries in Kenya.

Unique Contribution to Theory, Policy and Practice: Based on the findings, the study recommends that the management of ministries in Kenya should establish a comprehensive debt forecasting and monitoring system. This system would allow ministries to accurately project future debt obligations and track current debt levels in real time. By integrating debt data with broader financial planning, ministries can ensure that debt is taken on strategically, with a clear plan for repayment.

Keywords: *Debt Management, Resource Allocation, Financial Performance*

Background of the Study

The government plays a pivotal role in ensuring the delivery of essential services that promote social welfare, economic growth, and national development (Butt, Hunjra & Ur-Rehman, 2020). Through its mandate, the government is responsible for providing public goods such as education, healthcare, infrastructure, security, and social protection (Mong'are & Atheru, 2023). To achieve this, governments establish various bodies and institutions, including ministries, state departments, and parastatals, which serve as the primary vehicles for implementing policies and delivering services to citizens (Abdullahi & Gichinga, 2020). These entities are tasked with managing public resources efficiently, ensuring equitable distribution of services, and fostering accountability in governance. In Kenya, government ministries act as the backbone of public service delivery, coordinating sector-specific initiatives and ensuring the alignment of national and devolved policies with the country's development agenda (Okee & Nakimbugwe, 2024)..

A ministry refers to a government department or agency responsible for overseeing and managing a specific area of public policy, government functions, or services. Each ministry typically handles a particular sector, such as education, health, finance, foreign affairs, or defense (Butt, Hunjra & Ur-Rehman, 2020). Ministries are headed by ministers, who are often appointed by the head of state or the prime minister, and they work to implement government policies, provide services, and manage resources related to their assigned area. Ministries play a vital role in the structure and function of government. Each ministry is tasked with overseeing specific areas of public policy and administration, ensuring that policies are implemented efficiently and effectively (Rahmah & Ojochide, 2024). For example, the Ministry of Health is responsible for public health initiatives, managing healthcare systems, and responding to health crises, while the Ministry of Education focuses on managing public education systems, developing curriculum standards, and promoting educational access. By organizing government responsibilities into specialized departments, ministries help streamline decision-making and foster focused attention on key issues that affect citizens (Hisab, Dahdooh & Abbas, 2024).

Ministries are responsible for allocating government funds and resources to ensure the proper functioning of the services under their jurisdiction. For instance, the Ministry of Finance manages national budgets, controls public spending, and formulates economic policies (Moradi, *et al*, 2023). Ministries often work with local governments, private organizations, and international bodies to achieve their goals, creating partnerships and collaborations to address complex challenges such as climate change, economic inequality, or national security. Ministries also play an essential role in shaping and enacting government legislation. Ministers, who head these departments, often propose new laws, amendments, or reforms related to their areas of responsibility (Ramzi, *et al*, 2023). They may also be involved in parliamentary debates, providing expertise and insights to lawmakers. Furthermore, ministries monitor the impact of policies once they are implemented, gathering data, evaluating outcomes, and adjusting strategies

as necessary. In this way, ministries act as both the implementers and evaluators of governmental decisions, ensuring that the state's priorities are met while adapting to changing circumstances (Okee & Nakimbugwe, 2024).

Cash management ensures that government entities maintain sufficient liquidity to meet their short-term obligations while avoiding idle funds that could be better utilized elsewhere. It involves forecasting cash inflows and outflows and making decisions on short-term borrowing or investment (Okoye, Afrifa & Afolabi, 2023). The procurement process refers to how governments acquire goods and services from external vendors. It must follow strict procedures to ensure fairness, transparency, and value for money, often involving competitive bidding and compliance with regulations to avoid corruption or inefficiency (Semucyo, 2021). Debt management is the process by which governments manage their borrowing and repayment obligations. It involves assessing the need for borrowing, managing the issuance of government bonds, and ensuring that debt levels remain sustainable (Mong'are & Atheru, 2023). This study aims to assess the influence of debt management on financial performance of ministries in Kenya.

The financial performance of ministries in Kenya is crucial in understanding the efficiency of government spending and the achievement of national development goals. Each ministry is allocated a budget by the National Treasury, which is designed to support its mandate, including infrastructure development, healthcare, education, and security (Cheruiyot, *et al*, 2022). However, the effectiveness of financial management within these ministries varies, and several factors influence their overall performance. One key aspect of financial performance is the execution of budgets. Ministries in Kenya often face challenges in utilizing their budgets efficiently (Ali & Abdul, 2022). While some ministries have demonstrated strong financial performance, with timely and effective use of allocated funds, others struggle with underutilization or misallocation of resources. Underutilization is often a result of bureaucratic delays, slow procurement processes, or political interference. This hampers the achievement of the ministry's objectives, leading to project delays or incomplete projects that ultimately affect service delivery (Njaga, Nyagilo & Matunda, 2023).

Financial accountability and transparency are also significant issues affecting the performance of ministries. In recent years, there have been increased calls for stronger auditing mechanisms and better management of public funds. While Kenya has made strides with reforms in public financial management, including the introduction of the Integrated Financial Management Information System (IFMIS), corruption and mismanagement remain persistent challenges (Murigi & Musau, 2023). Ministries, especially in sectors with large procurement budgets like infrastructure, are often vulnerable to corrupt practices, which can divert funds away from intended development projects. The performance of ministries can also be assessed based on their ability to meet set fiscal targets, such as reducing deficits or maintaining sustainable debt

levels (Mong'are & Atheru, 2023). Some ministries, particularly those in charge of revenue generation like the Ministry of Finance, have faced criticism for not meeting their revenue collection targets. Similarly, ministries in charge of expenditure have struggled to control costs, resulting in budget deficits and increased national debt. These issues require better fiscal discipline and long-term strategic planning to align the ministries' financial activities with the broader goals of the national economy (Cheruiyot, *et al*, 2022). Furthermore, the impact of devolution in Kenya has also influenced the financial performance of ministries. The transfer of specific functions to county governments has altered the way financial resources are distributed. While this has brought some successes, it has also led to coordination challenges between national ministries and county governments, with implications for financial accountability and resource allocation. The flow of funds between these two levels of government needs to be more seamless to enhance the overall financial performance of the public sector (Ali & Abdul, 2022).

Statement of the Problem

Ministries play a crucial role in the governance and development of a country by managing and implementing government policies and programs in key sectors such as health, education, finance, and infrastructure. These institutions are responsible for ensuring the efficient delivery of public services and the effective allocation of resources to meet the needs of citizens (Njaga, Nyagilo & Matunda, 2023). In Kenya, ministries are central to achieving national development goals, managing public resources, and fostering economic growth. Through their work, ministries help create a stable, transparent, and accountable public sector that can address social challenges, improve living standards, and promote sustainable development. Their ability to execute their mandates efficiently directly impacts the country's overall economic and social well-being (Murigi & Musau, 2023).

The financial performance of ministries in Kenya faces several significant challenges that hinder their effectiveness in achieving optimal outcomes. Revenue collection in Kenya has been a persistent challenge, contributing to the financial struggles of ministries. The National Treasury relies on revenue from taxes and other government sources, but the public sector struggles with tax evasion, a narrow tax base, and inefficient collection mechanisms (Njaga, Nyagilo & Matunda, 2023). According to the Kenya Revenue Authority (KRA), Kenya's tax-to-GDP ratio has remained low compared to other African countries. As of 2023, the country's tax-to-GDP ratio was about 16%, which is well below the African average of 20% and the global target of 25% set by the African Union. This limited revenue collection capacity impacts the available funds for ministries, making it difficult for them to finance their operations and deliver quality public services. Consequently, ministries often face budget shortfalls and delays in project implementation (Murigi & Musau, 2023).

Cost efficiency within Kenyan ministries is also a major challenge. Ministries often operate with inefficiencies in resource allocation, resulting in wastage and ineffective use of public funds. A

report by the Controller of Budget (COB) noted that a significant proportion of public funds are spent on recurrent expenditures, such as salaries and allowances, leaving limited resources for capital investments and service delivery (Njaga, Nyagilo & Matunda, 2023). For instance, in 2022, approximately 70% of the national budget was allocated to recurrent expenditure, leaving just 30% for development. This misallocation of funds impedes the ability of ministries to prioritize essential projects and deliver services that have long-term impacts on the economy and the well-being of citizens. Moreover, public sector procurement processes are often marred by corruption and lack of transparency, further exacerbating cost inefficiencies (Murigi & Musau, 2023).

The financial challenges in Kenya also directly impact service delivery by ministries. Ministries are often unable to meet public expectations for quality and timely services due to budget constraints, poor financial planning, and the slow release of funds (Njaga, Nyagilo & Matunda, 2023). For example, a 2022 survey by the Public Service Commission of Kenya indicated that 47% of citizens expressed dissatisfaction with the speed and quality of government services. Service delivery in key sectors such as health, education, and infrastructure is heavily affected by these financial limitations (Murigi & Musau, 2023). Ministries frequently face delays in implementing critical projects or meeting their operational targets due to inadequate funding and poor cash flow management. In the health sector, for example, the government has struggled to provide adequate medical supplies and equipment, with several public health facilities lacking essential resources to offer effective care. The situation is worsened by the over-centralization of budget approvals and delayed disbursements from the national treasury to line ministries (Njaga, Nyagilo & Matunda, 2023).

The influence of public sector financial management practices on the financial performance of ministries is profound, as effective financial management ensures that resources are utilized efficiently, leading to improved service delivery and achieving strategic objectives (Murigi & Musau, 2023). Various studies have been conducted in different parts of the world on public financial management practices and financial performance. For instance, Mong'are and Atheru (2023) researched on public financial management practices and performance of selected county governments. Ali and Abdul (2022) conducted a study on public financial management practices and financial performance of County Government and Njaga, Nyagilo and Matunda (2023) investigated on public financial management practices and financial performance of state corporations under state department for tourism. However, none of these studies focused on budgetary process, cash management, procurement process and debt management on financial performance of ministries in Kenya. To fill the highlighted gaps, the current study seeks to assess the influence of debt management on financial performance of ministries in Kenya. The study also sought to determine the moderating effect of resource allocation on the relationship between debt management and financial performance of ministries in Kenya.

Specific Objectives

The study pursued the following specific objectives;

i. To examine the effect of debt management on financial performance of ministries in Kenya
ii. To establish the moderating effect of the resource allocation on the relationship between debt management and financial performance of ministries in Kenya.

Theoretical Review

Pecking Order Theory

Author and Development The Pecking Order Theory was proposed by Stewart C. Myers and Nicholas Majluf in 1984, in their seminal paper Corporate Financing and Investment Decisions When Firms Have Information That Investors Do Not Have. The theory was developed to explain how companies decide on their capital structure (the mix of debt and equity financing) based on internal and external factors (Sa'id *et al*, 2023). According to this theory, companies have a preference for financing their operations with internal funds (retained earnings) first, followed by debt, and finally, issuing equity as a last resort. The central idea behind the Pecking Order Theory is that companies prefer to use their internal resources (such as profits or retained earnings) before seeking external financing. When external financing is necessary, firms will first opt for debt because it is less costly and does not require the company to relinquish control, unlike issuing equity, which dilutes ownership and can be seen as a sign of financial weakness (Adepoju, Salau & Obayelu, 2020). The theory also suggests that companies with higher levels of internal financing (i.e., retained earnings) will have less need to resort to debt financing, while companies with less retained earnings will have a higher tendency to take on debt. Thus, companies will follow a "pecking order" when raising capital, with internal funds being the most preferred and equity being the least preferred (Mberia & Wachira, 2022).

The theory assumes that there is an information gap between the company's management and external investors. Management has more information about the company's future prospects, making them better equipped to make financing decisions. In addition, the theory assumes that the cost of debt is lower than the cost of equity because debt holders take fewer risks than equity investors (Owich & Mutswenje, 2021). Further, the theory assumes that firms seek to maintain financial flexibility by avoiding the issuance of equity, which could send negative signals to the market. In the context of debt management, the Pecking Order Theory helps explain how organizations approach their debt strategies. According to the theory, firms will only resort to external debt financing when their internal funds are insufficient to meet their financial needs. This means that effective debt management involves a careful balancing act between utilizing retained earnings and taking on debt (Maina, 2020).

Resource-Based View (RBV) Theory

A theory that supports resource allocation is the Resource-Based View (RBV) of the firm. This theory was developed by Jay Barney in 1991, although its roots can be traced back to Edith Penrose's work in 1959. The RBV focuses on how firms use and manage their internal resources to gain a competitive advantage and achieve long-term success (Paille *et al*, 2020). The Resource-Based View (RBV) suggests that firms have unique combinations of resources—both tangible (such as capital and equipment) and intangible (such as knowledge, skills, and brand reputation)—which play a critical role in determining their ability to perform better than their competitors (Odusote & Akpa, 2022). Barney's RBV emphasizes that for a resource to be a source of competitive advantage, it must be valuable, rare, inimitable, and non-substitutable—often referred to as the VRIN framework. The allocation of these valuable resources to strategic areas of the firm can lead to sustainable competitive advantage, which is crucial for long-term success (Ali, Ogolla & Nzioki, 2022).

The main assumptions of the Resource-Based View are that firms differ in terms of their resources, and some firms possess resources that are superior to others. This creates a situation where these firms can outperform their competitors. Additionally, the RBV assumes that resources are not easily transferable or imitable by other firms, making them a lasting source of advantage if properly managed. Another assumption is that resources can be used to create value, which leads to competitive advantage and, ultimately, superior performance (Nyandara, Ngacho & Yambo, 2020).

The Resource-Based View provides insight into resource allocation by highlighting that organizations should focus on acquiring, developing, and managing internal resources that are unique and valuable to the firm (Mwaura *et al*, 2022). The theory suggests that instead of just distributing resources uniformly across various departments or projects, a firm should allocate its resources based on where it can achieve the greatest strategic advantage. This involves prioritizing the areas where the organization's resources are most valuable and can contribute to creating long-term value, such as in research and development, employee training, or strategic marketing (Paille *et al*, 2020).

Conceptual Framework

A Conceptual Framework is a structured representation or model that outlines the key variables or concepts within a study and shows the relationships between them (Mugenda, & Mugenda, 2019). It serves as a guide to help researchers understand the theoretical foundations of their study and how different factors might influence or interact with each other (Cooper, & Schindler, 2019).

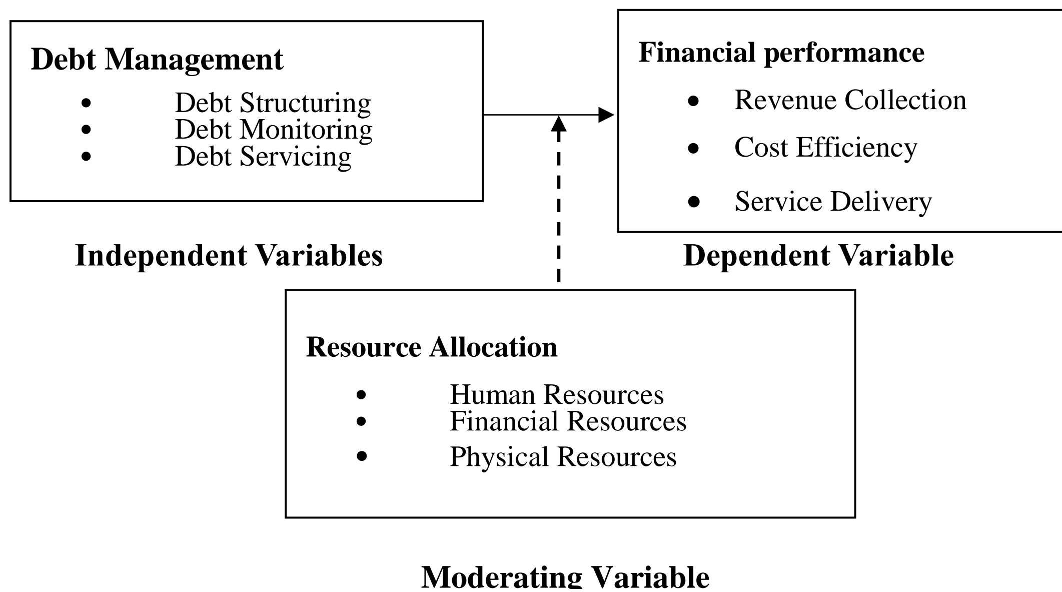

Figure 1: Conceptual Framework

Debt Management

Debt management is the strategic process through which an organization or government manages its debt portfolio, ensuring that borrowing is done in a sustainable and cost-effective manner. Effective debt management enables an organization to minimize borrowing costs, maintain a manageable level of debt, and ensure timely repayments without compromising financial stability (Mberia & Wachira, 2022). The key components of debt management include debt structuring, debt monitoring, and debt servicing, each of which plays a crucial role in maintaining fiscal health and ensuring that debt obligations are met responsibly. Debt structuring refers to the process of determining the terms and conditions of borrowing, such as the amount, interest rate, repayment schedule, and maturity period. Proper debt structuring is essential to ensure that the debt is manageable and aligned with the organization's financial capacity and objectives. A well-structured debt allows an organization to minimize costs, enhance liquidity, and maintain financial flexibility (Owich & Mutswenje, 2021).

Debt monitoring is the ongoing process of tracking the status of an organization's debt obligations, ensuring compliance with terms and assessing the overall risk associated with the debt portfolio. It involves regularly reviewing the debt's performance and financial ratios, such as debt-to-equity ratio and debt-service coverage ratio, to ensure that the organization can meet its obligations without undue strain (Sa'id *et al*, 2023). Debt servicing refers to the process of making regular payments to fulfill the principal and interest obligations associated with outstanding debt. Servicing debt is a critical component of maintaining financial stability, as

failure to do so can lead to default, damaged credit ratings, and increased borrowing costs. Debt servicing involves setting aside adequate resources to ensure timely payments according to the terms outlined in the debt agreement (Adepoju, Salau & Obayelu, 2020).

Resource Allocation

Resource allocation is the process of distributing an organization's available resources—whether human, financial, or physical—across its various departments, projects, or initiatives in a manner that maximizes efficiency and supports its strategic objectives. Effective resource allocation is crucial for optimizing performance, ensuring the smooth operation of activities, and achieving organizational goals (Nyandara, Ngacho & Yambo, 2020). Human resource allocation refers to the distribution and assignment of employees' skills, time, and expertise to various tasks, projects, or departments within an organization. This process ensures that the right talent is in the right roles, enhancing productivity and ensuring that the workforce is fully utilized to its potential (Mwaura *et al*, 2022). Proper human resource allocation is key to maintaining employee motivation, satisfaction, and performance. It involves determining staffing needs, considering factors such as the complexity of tasks, required skills, and workload distribution. Effective human resource allocation also requires identifying training needs and succession planning to ensure that the organization has a skilled workforce capable of addressing both current and future challenges.

Financial resource allocation refers to the process of distributing an organization's financial capital to various business activities, projects, or departments based on strategic priorities. This includes budget planning, capital investments, operating expenses, and other financial commitments. Effective financial resource allocation ensures that an organization can meet its short-term and long-term financial obligations, while also supporting growth initiatives and maintaining profitability (Odusote & Akpa, 2022). Physical resource allocation refers to the distribution of tangible assets, such as machinery, equipment, facilities, and infrastructure, necessary for the organization's operations. Physical resources are essential for the smooth functioning of day-to-day activities, and their efficient allocation is vital for operational effectiveness and cost management. Allocating physical resources requires careful planning to ensure that the right equipment is available at the right time and in the right quantity (Mwaura *et al*, 2022).

Empirical Review

Debt Management and Financial Performance

Sa'id *et al* (2023) researched on framework for financial hardship debt management in abandoned housing projects in Malaysia. This study employs the qualitative research method using the inductive approach to analyze both primary and secondary data and sources. Data collection involved a series of semi-structured interviews with five volunteering Islamic banks

and a representative of Abandoned Property Owners Association Malaysia (Victims). Statutory acts, regulatory policies, guidelines, directives and standards were also analyzed. The result indicates developer's default, underlying contracts, regulatory arbitrage and bureaucracy, attitudinal disposition of customers and sell-then-build approach as major factors of AHP's conundrum. The paper concludes that acute effects of financial hardship indebtedness arising from AHPs can be effectively managed based on three fundamental Sharīʿah principles, namely, justice, public interest and removal of hardship.

Adepoju, Salau, and Obayelu, (2020) assessed the effects of external debt management on sustainable economic growth and development: Lessons from Nigeria. Information was generated extensively from literature, the Nigeria Central Bank and National Bureau of Statistic reports. The analyses of the data collected with descriptive statistics shows that, availability of access to external finance strongly influences the economic development process of any nation. Debt is an important resources needed to support sustainable economic growth. But a huge external debt without servicing as it is the case for Nigeria before year 2000 constituted a major impediment to the revitalization of her shattered economy as well as the alleviation of debilitating poverty. The much needed inflow of foreign resources for investment stimulation, growth and employment were hampered. Without credit cover, Nigerian importers were required to provide 100 percent cash covers for all orders and this therefore placed them to a competitive disadvantage compared to their counterparts elsewhere. The study concluded that failure of any owing country to service her debt obligation results in repudiation risk preventing such to obtain new loans since little or no confidence will be placed on the ability to repay.

Owich and Mutswenje (2021) researched on debt management and loan performance of commercial banks in Kenya. The research design applied was causal research design. The target population of the research project was 108 managers from banks in tier II, and tier III. The research embraced purposive sampling to come up with a sample size of 85 respondents. The data was collected using questionnaires. The analysis identified that commercial banks loan performance aligns with the effectiveness of credit management practices evident in the banks. The credit management practices that entail character, capacity, capital, conditions, and collateral were less effective to loan performance than third party security. The study concluded that periodic loan review tends to be effective in loan performance as determined in the study with a positive significance level as well as the extent of loan collateral presence on loan performance.

Maina (2020) examined the influence of debt management on the performance of SACCO funded projects: a case of unaitas savings and credit cooperative society limited in Murang'a County, Kenya. The study will utilize a distinct review outline. The objective population was 154 staff and 135 individuals from Unaitas Sacco society restricted in Muranga County. The example size was resolved the by utilization of Krejcie and Morgan test measure assurance table. Stratified arbitrary inspecting was utilized to choose 127 respondents from the objective

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populace. This study utilized essential information which was gathered by utilization of polls. The study utilized a survey as the essential device for information gathering. The study found that there is a positive huge relationship between business arranging, credit hazard moderation methodologies, borrowers' advance characteristics' mindfulness and borrowers' level of monetary aptitudes. The study concluded that debt management has a positive influence on the performance of SACCO funded projects in Murang'a County, Kenya.

Resource Allocation and Financial Performance

Paille *et al* (2020) assessed the impact of resource allocation on environmental performance: an employee-level study. The originality of the present research was to link resource allocation and environmental management in the Chinese context. Data consisted of 151 matched questionnaires from top management team members, chief executive officers, and frontline workers. The main results indicate that organizational citizenship behavior for the environment fully mediates the relationship between strategic resource allocation and environmental performance, and that internal environmental concern moderates the effect of strategic resource allocation on organizational citizenship behavior for the environment. The study concluded that resource allocation has positive influence on environmental performance.

Odusote and Akpa (2022) examined resource allocation and innovativeness of selected SMEs in Lagos State, Nigeria. The study employed a descriptive research design that utilized both quantitative and qualitative approaches, targeting 139 individuals from RDB and sampling 103 respondents as the sample size. The research adopted a stratified and simple random sampling technique, with data being collected through questionnaires and interviews. The study adopted a survey research design. The population of the study was 8,396 owners and managers which is the total number of registered SMEs in Lagos State, Nigeria. A sample size of 481 owner/managers of SMEs sampled using the researcher advisors table of sampling. The study revealed that resource allocation had significant effect on innovativeness in selected SMEs in Lagos State, Nigeria. The study concluded that resource allocation affects innovativeness in selected small and medium scale enterprises in Lagos, State, Nigeria.

Ali, Ogolla and Nzioki (2022) assessed the influence of resource allocation on organizational performance of cement manufacturing firms in Kenya. Specifically, the study evaluated the effect of resource allocation on the organizational performance of Kenyan cement manufacturing firms. The target population was 209 staff in five leading cement manufacturing companies in Kenya. The sampling method was stratified random sampling to obtain a sample of 137 respondents. The researcher used questionnaires to collect data. Data was analyzed through both descriptive and correlation analysis. The study found that resource allocation positively and significantly influences the organizational performance of cement manufacturing companies in Kenya. The study concluded that resource allocation has a positive influences on organizational performance of cement manufacturing companies in Kenya.

Nyandara, Ngacho and Yambo (2020) conducted a case sty on determining the effects of resource allocation on the performance of South Nyanza Sugar Company Limited, Kenya. The research employed descriptive research design. The target population of the study was the 994 employees of Sony sugar. A sample of 329 employees was utilized. A questionnaire was used to collect data. The data collected were analyzed both qualitatively and quantitatively. Data were analyzed according to the objective of the study. The study revealed that resource allocation, if well handled, has a positive influence on the performance of South Nyanza Sugar Company Limited, Kenya. The study concluded that resource allocation has a positive influence of project performance.

RESEARCH METHODOLOGY

Research Design

For this study, descriptive research design was utilized to investigate and additionally clarify existing status of affairs pertaining the objectives of a research. This study adopted a positivist research paradigm. Cooper and Schindler (2018) asserts that positivist research paradigm takes the quantitative approach and is based on real facts, objectivity, neutrality, measurement and validity of results.

Target Population of the Study

This study was conducted in the ministries in Kenya. According to the KNBS report (2023) there are 22 ministries in Kenya. The 22 ministries have a total of 269 departments. In each department, the study targeted the head of department and assistant head hence the total target population was 538 respondents.

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Table 1: Target Population

Ministry	No. of Departments	Target Population size
1. The Presidency	20	40
2. Ministry of Education	18	36
3. Ministry of Foreign and Diaspora Affairs	3	6
4. National Treasury	16	32
5. Ministry of Health	24	48
6. Ministry Of Roads, Transport And Public Works	22	44
7. Ministry of Interior and National Administration	18	36
8. Ministry of Agriculture And Livestock Development	22	44
9. Ministry of Water and Sanitation	20	40
10. Ministry Of Lands, Housing And Urban Development	12	24
11. Ministry of Information Communications And The Digital Economy	15	30
12. Ministry of Youth Affairs, Sports And The Arts	10	20
13. Ministry of Energy	14	28
14. Ministry of Trade, Investments And Industry	12	24
15. Ministry Of Public Service, Gender And Affirmative Action	10	20
16. Ministry of Tourism and Wildlife	9	18
17. Ministry of Labour and Social Protection	5	10
18. Ministry of East African Community and Northern Corridor Development	2	4
19. Ministry of Mining and Petroleum	2	4
20. Ministry of Environment and Forestry	7	14
21. Ministry of Defence	6	12
22. Ministry of Devolution and Arid and Semi-Arid Lands (ASALs)	2	4
TOTAL	**269**	**538**

For the current study, the sample frame incorporated the 538 heads and assistant heads of 269 departments from the 22 ministries in Kenya. Therefore, the sampling frame was 538 heads and assistant heads of 269 departments from the 22 ministries in Kenya.

The overall sample size for this study was determined using a formula by Krejcie and Morgan (1970). The sample size for this study was determined as follows;

$$\text{Required sample size } (\mathbf{s}) = \frac{X^2NP\,(1\text{-}P)}{d^2\,(N\text{-}1) + X^2P\,(1\text{-}P)}$$

X^2=the table value of chi-square for 1 degree of freedom at the desired confidence level 1.96 x 1.96 = 3.8416. (for 0.05 confidence level)

N = the population size.

P = the Population proportion (assumed to be 0.50 since this would provide maximum sample size).1.345

d = the degree of accuracy expressed as a proportion (0.05).

$$s = \frac{x^2NP(1-P)}{d^2(N-1)+x^2P(1-P)}$$

$$= \frac{3.8416*538*0.5*0.5}{0.05^2(538)+3.8416*0.5*0.5} = \frac{516.70}{2.305}$$

$= 224.16$

≈ 224

Therefore, using the Krejcie and Morgan formula, the sample size for the study was 224 respondents.

Data Collection Instrument

This study used semi-structured questionnaires and Secondary Data Collection Sheet to collect the primary data for the study. Semi-structured questionnaires were structured into sections 1-5. Section one collected general information regarding the ministries, while sections 2-4 collected information relevant to various study independent variables while section five targets information on financial Performance. The primary data was collected using a self-administered semi-structured questionnaire (Appendix I).

Data Analysis and Presentation

Data from questionnaires was coded and analyzed using the latest Statistical Package for Social Sciences (SPSS) computer software. SPSS software was used because of its ability to appropriately create graphical presentations of questions, data for reporting and presentation. The analyzed data was presented in the form of frequency distribution tables, pie charts and bar graphs where appropriate. The study employed mixed methods data analysis by applying the use of descriptive and inferential statistics. Both quantitative and qualitative data was collected. Quantitative data collected was analyzed using descriptive statistics techniques.

Pearson R correlation was used to measure strength and the direction of linear relationship between variables. The information provided initial achievement of debt management and influence on financial performance of ministries in Kenya. A large correlation implies a strong relation exists between the variables.

Multiple regression models were fitted to the data to determine how the predictor/independent variables affect the response/dependent variable. Multiple regression analysis was used in this study because it uses the predictor variables in predicting the response variable. It is a statistical tool attempting to establish whether some variables can be used together in predicting a particular variable (Mugenda & Mugenda, 2008).

The research model that guided this study was as shown below:

$Y= \beta_0 + \beta_1 X_1 + \varepsilon$

Where:

Y= Financial performance of ministries in Kenya

β_0 = Constant

β_1= Beta coefficients

X_1= Debt management

ε = Error term

This study used multiple regressions analysis (stepwise method) to establish the moderating effect of resource allocation (Z) on the relationship between debt management and financial performance of ministries in Kenya. The regression model for the moderating effect was as follows;

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta z Z + \beta iz XiZ + \varepsilon, (i=1)}$$

$X_i Z_i$ is the interaction between the moderator with each of the independent variable (X_1).

BZi is the coefficient of X*Z the interaction term between the moderator and each of the independent variable for i = 1;

β_0 is constant (Y- intercept) which represent the value of Y when X =0

RESEARCH FINDINGS AND DISCUSSION

Descriptive statistics

In this section the study presents findings on Likert scale questions where respondents were asked to indicate their level of agreement or disagreement with various statements that relate with the influence of debt management on financial performance of ministries in Kenya. They used a 5-point Likert scale where 1-strongly disagree, 2-disagree, 3-moderate, 4-agree, 5-

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strongly agree. The means and standard deviations were used to interpret the findings where a mean value of 1-1.4 was strongly disagree, 1.5-2.4 disagree, 2.5-3.4 neutral, 3.5-4.4 agree and 4.5-5 strongly agree. On the other hand, a standard deviation greater than 1.5, suggests that the responses were more diverse, with a wider range of scores across the participants.

Debt Management and Financial performance

The first specific objective of the study was to examine the effect of debt management on financial performance of ministries in Kenya. The respondents were requested to indicate their level of agreement on various statements related to debt management and financial performance of ministries in Kenya. The results were as shown Table 2.

From the results, the respondents agreed that the organization has a clear strategy for structuring its debt (M=3.901, SD=0.709). In addition, the respondents agreed that the debt structure is reviewed periodically to ensure it remains optimal (M=3.850, SD=0.707). Further, the respondents agreed that Debt maturities are managed to avoid cash flow pressures (M=3.833, SD=0.608). The respondents also agreed that the organization regularly monitors its debt portfolio (Mean=3.795, SD=0.602). In addition, the respondents agreed that There are systems in place to identify potential debt-related risks early (M=3.695, SD=0.589). Sa'id *et al* (2023) revealed that acute effects of financial hardship indebtedness arising from AHPs can be effectively managed based on three fundamental Sharīʿah principles, namely, justice, public interest and removal of hardship. In addition, the findings are in line with the findings of Adepoju, Salau, and Obayelu, (2020) who revealed that failure of any owing country to service her debt obligation results in repudiation risk preventing such to obtain new loans since little or no confidence will be placed on the ability to repay.

From the results, the respondents also agreed that Regular reports are generated to evaluate debt sustainability (M=3.676, SD=0.602). The respondents agreed that the organization consistently meets its debt repayment obligations (M=3.723, SD=0.578). The respondents also agreed that debt servicing costs are effectively managed within the budget (M=3.697, SD=0.732). The respondents agreed that the organization has a clear plan for managing debt repayments (M=3.683, SD=0.654). Mberia and Wachira (2022) established a significant relationship between debt management training skills training and financial performance of women self-help groups. In addition, the findings concur with the findings of Maina (2020) who revealed that debt management has a positive influence on the performance of SACCO funded projects.

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Table 2: Descriptive Results for Debt Management

	Mean	Std. Dev
Debt Structuring		
The organization has a clear strategy for structuring its debt.	3.901	0.709
The debt structure is reviewed periodically to ensure it remains optimal.	3.886	0.608
Debt maturities are managed to avoid cash flow pressures.	3.850	0.707
Debt Monitoring		
The organization regularly monitors its debt portfolio.	3.833	0.608
There are systems in place to identify potential debt-related risks early.	3.795	0.509
Regular reports are generated to evaluate debt sustainability.	3.776	0.602
Debt Servicing		
The organization consistently meets its debt repayment obligations.	3.723	0.578
Debt servicing costs are effectively managed within the budget.	3.697	0.732
The organization has a clear plan for managing debt repayments.	3.683	0.654
Aggregate	**3.794**	**0.634**

Resource Allocation and Financial Performance

The second specific objective of the study was to establish the moderating effect of the resource allocation on the relationship between debt management and financial performance of ministries in Kenya. The respondents were requested to indicate their level of agreement on various statements related to resource allocation and financial performance of ministries in Kenya. The results were as shown Table 3.

From the results, the respondents agreed that the organization allocates human resources based on project needs and priorities (M=3.932, SD=0.682). In addition, the respondents agreed that employee skills are effectively matched to the tasks and roles assigned (M=3.905, SD=0.778). Further, the respondents agreed that the allocation of human resources is regularly reviewed to ensure efficiency (M=3.897, SD=0.586). The respondents also agreed that financial resources are allocated based on the organization's strategic goals (M=3.878, SD=0.695). In addition, the respondent agreed that budget allocations for different departments or projects are clear and transparent (M=3.865, SD=0.782). Paille *et al* (2020) established that resource allocation has positive influence on environmental performance. In adition, the findings are in line with the findings of Odusote and Akpa (2022) who revealed that resource allocation affects innovativeness in selected small and medium scale enterprises.

From the results, the respondents also agreed that financial resources are monitored to ensure they are used efficiently (M=3.826, SD=0.502). The respondents agreed that Physical resources are allocated to support key operations and projects (M=3.794, SD=0.563). The respondents also agreed that the allocation of physical resources is aligned with organizational priorities (M=3.752, SD=0.603). The respondents agreed that the organization ensures that physical

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resources are maintained and used efficiently (M=3.701, SD=0.721). The findings concur with the findings of Ali, Ogolla and Nzioki (2022) who concluded that resource allocation has a positive influence on organizational performance of cement manufacturing companies.

Table 3: Descriptive Results for Resource Allocation

	Mean	Std. Dev
Human Resources		
The organization allocates human resources based on project needs and priorities.	3.932	0.682
Employee skills are effectively matched to the tasks and roles assigned.	3.905	0.778
The allocation of human resources is regularly reviewed to ensure efficiency.	3.897	0.586
Financial Resources		
Financial resources are allocated based on the organization's strategic goals.	3.878	0.695
Budget allocations for different departments or projects are clear and transparent.	3.865	0.782
Financial resources are monitored to ensure they are used efficiently.	3.826	0.502
Physical Resources		
Physical resources are allocated to support key operations and projects.	3.794	0.563
The allocation of physical resources is aligned with organizational priorities.	3.752	0.603
The organization ensures that physical resources are maintained and used efficiently.	3.701	0.721
Aggregate	**3.839**	**0.657**

Test for Hypothesis One

The first objective of the study was to examine the effect of debt management on financial performance of ministries in Kenya. The corresponding hypothesis was debt management has no statistically significant influence on financial performance of ministries in Kenya.

A univariate analysis was therefore conducted to test the null hypothesis. From the model summary findings in Table 4, the r-squared for the relationship between debt management and financial performance of ministries in Kenya was 0.222; this is an indication that at 95% confidence interval, 22.2% variation in financial performance of ministries in Kenya can be attributed to changes in debt management. Therefore, debt management can be used to explain 22.2% change in financial performance of ministries in Kenya. However, the remaining 77.8% variation in financial performance of ministries in Kenya suggests that there are other factors other than debt management that explain organizational financial performance of ministries in Kenya.

Table 4: Model Summary for Debt Management

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.471[a]	.222	.219	.70542

a. Predictors: (Constant), debt management

The analysis of variance was used to determine whether the regression model is a good fit for the data. From the analysis of variance (ANOVA) findings in Table 5 the study found out that that Prob>$F_{1, 151}$= 0.000 was less than the selected 0.05 level of significance. This suggests that the model as constituted was fit to predict financial performance of ministries in Kenya. Further, the F-calculated, from the table (299.14) was greater than the F-critical, from f-distribution tables (3.904) supporting the findings that debt management can be used to predict to predict financial performance of ministries in Kenya.

Table 5: ANOVA for Debt Management

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	42.179	1	42.179	299.14	.000[b]
1	Residual	21.311	151	0.141		
	Total	63.49	152			

a. Dependent Variable: financial performance of ministries in Kenya

b. Predictors: (Constant), debt management

From the results in table 6, the following regression model was fitted.

$Y = 0.142 + 0307 X_4$

(X_4 is Debt Management)

The coefficient results showed that the constant had a coefficient of 0.142 suggesting that if debt management was held constant at zero, financial performance of ministries in Kenya would be at 0.142 units. In addition, results showed that debt management coefficient was 0.307 indicating that a unit increase in debt management would result in a 0.307 unit improvement in financial performance of ministries in Kenya. It was also noted that the P-value for debt management was 0.000 which is less than the set 0.05 significance level indicating that debt management was significant. Based on these results, the study rejected the null hypothesis and accepted the alternative that debt management has positive significant influence on financial performance of ministries in Kenya.

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Table 6: Beta Coefficients for Debt Management

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.142	.035		4.0571	.000
	debt management	0.307	0.084	0.306	3.655	0.003

a. Dependent Variable: financial performance of ministries in Kenya

Test for Hypothesis Two

The second objective of the study was to establish the moderating effect of the resource allocation on the relationship between debt management and financial performance of ministries in Kenya. Moderation happens when the relationship between the dependent variable and the independent variables is dependent on a third variable (moderating variable). The effect that this variable has is termed as interaction as it affects the direction or strength of the relationship between the dependent and independent variable. To achieve the second research objective, the study computed moderating effect regression analysis. This (moderating effect regression analysis) also guided the study in testing the second research hypothesis. Resource allocation (M) was introduced as the moderating variable.

Ho_2: Resource allocation has no significant moderating effect on the relationship between debt management and financial performance of ministries in Kenya.

The study combined the variable (debt management) to form a new variable X. The study then used stepwise regression to establish the moderating effect of resource allocation (M) on the relationship between independent variable (X) and financial performance of ministries in Kenya (Y).

From the model summary findings in Table 7, the first model for which is the regression between debt management (X) without moderator, resource allocation (M) and interaction, the value of R-squared was 0.336 which suggests that 33.6% change in financial performance of ministries in Kenya can be explained by changes in debt management. The p-value for the first model (0.000) was less than the selected level of significance (0.05) suggesting that the model was significant. The findings in the second model which constituted debt management, resource allocation and financial performance of ministries in Kenya (X*M) as predictors, the r-squared was 0.568. This implies that the introduction of resource allocation in the second model led to a 0.232 increase in r-squared, showing that resource allocation positively moderates financial performance of ministries in Kenya.

Table 7: Model Summary for Moderation Effect

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.580[a]	.336	.334	.65170	.336	386.860	1	204	.000
2	.754[b]	.568	.564	.52727	.568	537.10	2	203	.000

a. Predictors: (Constant), debt management

b. Predictors: (Constant), debt management, resource allocation, Interaction (X*M)

From the model summary findings in Table 8, the F-calculated for the first model, was 443.28 and for the second model was 947. Since the F-calculated for the two models were more than the F-critical, 3.904 (first model) and 3.056 (second model), the two models were good fit for the data and hence they could be used in predicting the moderating effect of resource allocation on financial performance of ministries in Kenya.

Table 8: ANOVA for Moderation Effect

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	63.832	1	63.832	443.28	.000[b]
	Residual	21.675	151	0.144		
	Total	85.507	152			
2	Regression	107.958	2	53.979	947.00	.000[c]
	Residual	8.622	150	0.057		
	Total	116.58	152			

a. Dependent Variable: financial performance of ministries in Kenya

b. Predictors: (Constant), debt management

c. Predictors: (Constant), debt management, resource allocation, Interaction

Further, by substituting the beta values as well as the constant term from the coefficient's findings for the first step regression modelling, the following regression model was fitted:

$Y = 1.387 + 0.608 X$

Where X is debt management

The findings show that when debt management is held to a constant zero, financial performance of ministries in Kenya will be at a constant value of 1.387. The findings also show that debt management has a statistically significant effect on financial performance of ministries in Kenya as shown by a regression coefficient of 0.608 (p-value= .000).

By substituting the beta values as well as the constant term from model 2 emanating from the second step in regression modeling the following regression model was fitted:

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Y= 3.876 + 0.220 X + 0.325 M + 0.283 X*M

Where X is debt management; M is resource allocation and X*M is the interaction term between debt management and resource allocation.

The findings show that when debt management, resource allocation, interaction (X*M) are held to a constant zero, financial performance of ministries in Kenya will be at a constant value of 3.876. The model also indicated that debt management had a positive and statistically significant effect on financial performance of ministries in Kenya as shown by a regression coefficient of 0.220 (p-value= 0.002). It is also seen that resource allocation had a positive and significant effect on financial performance of ministries in Kenya as shown by a regression coefficient 0.325. On the other hand, interaction of debt management and resource allocation (X*M) also had a positive and significant effect on financial performance of ministries in Kenya as shown by a regression coefficient of 0.283 (p-value= 0.000).

It is therefore seen that debt management on its own has 22% effect on financial performance of ministries in Kenya. However, when interacted with resource allocation, it has an effect of 28.3%. This is a clear indication that introduction of resource allocation as moderating variable has positive influence on financial performance of ministries in Kenya. The study therefore rejects the null hypothesis and accepts the alternative that resource allocation has significant moderating effect on the relationship between debt management and financial performance of ministries in Kenya.

Table 9: Beta Coefficients for Moderation Effect

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.387	.194		7.163	.000
	Debt Management	.608	.050	.580	12.260	.000
2	(Constant)	3.876	1.009		3.841	.000
	Debt Management	.220	.067	.782	3.284	.002
	resource allocation	.325	.048	.310	6.748	.000
	Interaction (X*M)	.283	.065	1.661	4.357	.000

a. Dependent Variable: financial performance of ministries in Kenya

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Debt Management and Financial Performance

The first null hypothesis test was 'Debt management has no statistically significant influence on financial performance of ministries in Kenya. The study found that debt management is statistically significant in explaining financial performance of ministries in Kenya. The influence

was found to be positive. This means that unit improvement in debt management would lead to an increase in financial performance of ministries in Kenya. Based on the findings, the study concluded that debt management positively and significantly influences financial performance of ministries in Kenya.

Resource Allocation and Financial Performance

The second research hypothesis tested was that 'Resource allocation has no statistically significant influence on the relationship between debt management and financial performance of ministries in Kenya. The study revealed that resource allocation is statistically significant in explaining financial performance of ministries in Kenya. It was also found that the interaction between resource allocation and debt management had positive, statistically significant effect on financial performance of ministries in Kenya. Based on the findings, the study concluded that resource allocation has significant moderating effect on the relationship between debt management and financial performance of ministries in Kenya.

Recommendations

The study recommends that the management of ministries in Kenya should establish a comprehensive debt forecasting and monitoring system. This system would allow ministries to accurately project future debt obligations and track current debt levels in real time. By integrating debt data with broader financial planning, ministries can ensure that debt is taken on strategically, with a clear plan for repayment.

In addition, the study recommends that the management of ministries in Kenya should adopt a needs-based, strategic resource allocation framework. This framework would ensure that resources are allocated based on the specific priorities and performance goals of each ministry, aligning financial planning with key national development objectives. By focusing on the most critical areas, ministries can achieve greater impact and efficiency in their programs.

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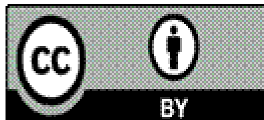

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