

EFFECT OF RESERVATION PROCUREMENT PRACTICE ON SERVICE DELIVERY IN COUNTY GOVERNMENTS IN THE GREAT LAKE REGION OF KENYA

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Abstract: *Kenyan county governments spend over 30% of their budgets in procurement of goods and services. A huge fraction of these procurements is reserved for special groups in discriminatory procurements practices in order to give advantage to the groups. The effect of these discriminatory procurement practices on service delivery has not been established especially for county governments in the Great Lake Region of Kenya. The main objective of this study was to investigate the effect of discriminatory procurement practices on service delivery in county governments in the Great Lake Region of Kenya with a specific objective to determine the effect of reservation procurement practice on service delivery in county governments in the Great Lake Region of Kenya.*

Methodology: *The study adopted a descriptive survey research design. The target population of the study was the 50 heads of procurement in each of the five counties of Siaya, Kisumu, Kisii, Nyamira, Homa Bay and Migori. A pilot test was carried out to establish the validity and reliability of the data collection instrument. Questionnaires with five-point Likert scale were used to collect primary data. The data was analyzed descriptively using the means and standard deviation. Inferential statistics was analyzed by correlation and multiple regression analysis.*

Findings: *Results show that reservation procurement practice has a positive significant effect on service delivery of the organization, which implies that holding all factors constant, a unit increase in reservation procurement practice leads to a significant increase in service delivery of county governments in the Great Lake Region of Kenya.*

Keywords: *discriminatory procurement practices, Great Lake Region of Kenya, service delivery*

Background of the Study

Public procurement accounts for a significant percentage of Kenya's GDP and has a direct impact on the economy. According to estimations drawing from National Accounts data, governments in OECD member countries spend on average twelve percent of their GDP on public procurement. Variations reflect the different size of the state, its role in the economy and the existence of big spending projects such as infrastructure investments. For instance, the National Accounts Data for 2018 showed that, the Netherlands, the Czech Republic and Iceland spent over fifteen percent of GDP by way of public procurement transactions, the largest shares amongst OECD countries. In comparison, procurement expenditures in Mexico, Chile and Switzerland represented less than seven percent of GDP.

Public procurement is a significant activity in the developing world with a study of 106 developing countries finding that the purchases of their governments accounted for approximately 5.1 percent of their combined

national outputs (Evenett and Hoekman, 2015). In Kenya public procurement takes up about 10% of GDP (World Bank, 2018). The need for discrimination in public procurement against foreign firms in favour of local suppliers has largely been motivated by the desire to achieve benefits such as, stimulating infant industries, fostering underdeveloped regions and creating employment. This need has grown over time throughout the globe.

The Constitution of Kenya of 2010, provides guidance on financial matters and has a number of statutes governing public tendering. These includes the Public Procurement and Disposal Regulations 2006; Public Procurement and Disposal (Preferences and Reservations) Regulations 2011 and Public Procurement and Disposal Act, 2005. These laws have remained instrumental in protecting public interest besides maintaining an equilibrium of private sector participation in procurement processes. The procurement laws in Kenya therefore allow for both non-discrimination procurement practice where all bidders compete and for discriminatory procurement practices. Discrimination in public procurement refers to a government's tendency to favour its own domestic industry's supplies and disregard foreign firm supplies. If a government cares for local firms' profits but not foreign firms, it will discriminate them when competing for government procurement contracts (Vagstad, 2015). According to Sennoga (2015), there are four discriminatory procurement practices that are available to governments; reservation, preference, indirect supply and supply-side practices.

Currently, preference and reservation provide the greatest percentage of discrimination procurement practices and it has a legal backing that demands youths, women, and people with disabilities to have guaranteed access to 30% of Government Procurement opportunities. These programs are established under AGPO program established in 2013. This program is also founded on Article 227 of Kenyan constitution on fair equitable, transparent and cost-effective public procurement and, Article 55 which provides for affirmative action and the Public Procurement and Asset Disposal Act of 2015. AGPO program thus aimed at empowering disadvantaged groups by providing them with more business opportunities from the government. Reservation procurement practice reserves works and supplies for contractors who satisfy certain prescribed criteria for example, contractors who: are owned, managed and controlled by a target population group; are classified as being a small business enterprise; have equity ownership by companies with prescribed characteristics; or are joint ventures between non-targeted and targeted joint ventures (McCrudden, 2017).

Reservation schemes/ contracts or portions thereof are reserved for contractors who satisfy certain prescribed criteria for example, contractors who: are owned, managed and controlled by a target population group; are classified as being a small business enterprise; have equity ownership by companies with prescribed characteristics; or are joint ventures between non-targeted and targeted joint ventures (McCrudden, 2017). Set asides schemes are part of reservation practices where all firms from other countries are shut out from bidding for part/whole of a particular contract by clearly and unambiguously setting criteria that favours only local firms. The request for proposal will therefore include: contractors which are owned, managed or controlled by local firms, classified as small business enterprises or a joint venture with local firms. Fenster (2013) argues that set asides are easy for officials to understand and introduce, simple to explain to tenderers and transparent but they may be the least cost effective, the least competitive and the least equitable. For a country determined to discriminate in favour of local firms directly regardless of additional cost, set asides may present the best option, he concludes.

Kenya, just like many other developing countries is dominated by small and medium sized businesses. These SMEs lack the capacity to compete favourably in highly competitive public procurement markets due to high

costs of production arising out of poor production techniques and lack of expertise. There are structural and behavioural factors affecting firm's competitiveness. These structural and behavioural aspects include firm size, operating efficiency, product development capability, knowledge of government requirements, personnel knowledge and training, quality control processes plus production methods and technology. There need to protect them from excessive competition from large foreign firms through set asides (Musila, 2014).

Preferencing refers to a procurement practice where although all contractors who are qualified to undertake the contract are eligible to tender, tender evaluation points are granted to those contractors who satisfy prescribed criteria or who undertake to attain specific goals in the performance of the contract. This favours local suppliers. Under preferences at short listing stage a number of suppliers/service providers who are invited to tender are limited on the basis of qualification. Weighting is given to policy objectives along with the usual commercial criteria, such as quality, at the short-listing stage. In Kenya, a procuring and disposing entity is empowered under Section 50 of the Public Procurement and Disposal of Public Assets Act (No. 1 of 2005) (PPDA Act), with the prior written approval of the Public Procurement and Disposal of Public Assets Authority (PPDA), to limit the participation in the procuring process on the basis of nationality and for devolved units, on the basis of counties.

Indirect supply practice as a discriminatory procurement practice involves indirect schemes to achieve social economic benefits to the governments. These require the seller to transfer extra, economic benefit to the buyer as a condition for country or the county to buy goods and services from that firm. Instead of bargaining for price discounts, governments prefer to realize in-kind transfer that spill over to the whole economy. The purchasing government obliges a foreign seller to include extra benefits with the sale of the basic goods. These foreign firms may then sign individual offset contracts with local firms in the purchasing government economy. In a technologically deficient economy that many developing countries are, there is usually enormous public expenditure on foreign goods without any visible impact on the economy since much of the expenditure leaks out of the economy.

Supply-side measures are provided to targeted enterprises to overcome barriers to competing for tenders or for participating in procurements within the supply chain, for example, access to bridging finance and/or securities, mentorship and capacitation workshops. A country would undertake to empower its national firms to become competitive in bidding for tenders. Effort would be undertaken by government to eliminate all supply side constraints. The government would therefore provide access to finance, undertake mentorship, capability workshops or even direct subsidies. Once this is done, firms are allowed to fairly compete with international firms at equal footing (Watermeyer, 2014).

Each year, the GOK and county governments spend a junk of their budgets on procurement. With the 30% of its procurement amounting to billions of Shillings, this offers disadvantaged groups to contribute to economic development by helping them avert unfair competition in the public procurements. However, the effect of these discriminatory procurement practices on service delivery has not been established empirically, and especially for county governments of the Great Lake Region of Kenya comprising Siaya, Kisumu, Kisii, Nyamira, Homa Bay and Migori. Statistics indicate that service delivery in these counties is averagely the lowest in the whole country. Service delivery starts with procurement practice. This is the gap that the present study sought fill by investigating the effect of discriminatory procurement practices on service delivery in the county governments of the Great Lake Region of Kenya.

Statement of the Problem

Regulations 28-33 of the Public Procurement and Disposal of Public Assets Regulations (No. 70 of 2003) (PPDA Regulations) prescribe the use of preference and reservation schemes by central government Procuring and Disposing Entities (PDE) and Regulations 52-53 of the Local Governments (Public Procurement and Disposal of Public Assets) Regulations (No. 39 of 2006) (Local Government Regulations) make similar prescriptions for local authorities. It is stated in Regulation 28(2) of the PPDA Regulations and Regulation 52(2) of the Local Government Regulations that a preference scheme shall have as its objective the development of local businesses, by giving local businesses a competitive advantage when competing for public procurement contracts (GOK, 2006). However, the effect of these discriminatory procurement practices on service delivery has not been well documented. Statistics indicate from a Public Service Delivery Indicators report for county governments by the World Bank indicate that service delivery in counties in the Great Lake Region of Kenya is averagely the lowest in the whole country. Service delivery starts with procurement practice.

There are a number of studies that have been done on streamlining procurement processes in the public sector. The studies however focus on challenges of non-disclosure of information, unaffordable advertisement in the print media, lack of transparency, unequal opportunities for women and the minorities, contract requirement, disputes and breach of contract. The studies have not focused on the effect of discriminatory procurement practices in service delivery for county governments. This therefore, stands as a motivator of this research for the Lake Region counties of Kenya. There is still a myriad of challenges in procurement entities despite the enactment of the preference and reservation provisions in PPDA of 2015 and the Regulation of 2006.

Objectives of the Study

The main objective of this study was to investigate the effect of discriminatory procurement practices on service delivery in county governments with a specific objective to determine the effect of reservation procurement practice on service delivery in county governments in the Great Lake Region of Kenya.

Research Methodology

This part presents the technique that was utilized to assemble the information and the procedures that was utilized to analyse it. It comprises of the research design, target populace, the test estimate and testing outline, testing procedures utilized and information collection tools which was utilized.

The study adopted a descriptive survey research design. The target population of the study was the 50 heads of procurement in each of the five counties of Siaya, Kisumu, Kisii, Nyamira, Homa Bay and Migori. A pilot test was carried out to establish the validity and reliability of the data collection instrument. Questionnaires with five-point Likert scale were used to collect primary data. The data was analyzed descriptively using the means and standard deviation. Inferential statistics was analyzed by correlation and multiple regression analysis.

Results of the Pilot Study

The study undertook a pilot test on 10% of the sample size which was 5 heads of procurement randomly selected from the ministries. This was in line with Creswell (2013) who suggests that a pilot study in academic research can be done with between 10% and 20% of the sample size. Out of the 5 targeted pilot test sample to whom the questionnaires were issued, all the five questionnaires were returned. This represented an 100% response

rate for the pilot study. The questionnaires were then used to test for validity and reliability. The pilot sample size was regarded enough to yield realistic estimates for reliability and validity of the questionnaire.

Results and Discussion

The objective of the study was to establish the effect of reservation procurement practice on service delivery of Counties in the Great Lake region. The descriptive statistics for reservation procurement practice based on the responses received is shown in Table 1 below.

Table 1: Descriptive Statistics on Reservation Procurement Practice

Statement	N	Min	Max	Mean	Std. Dev
RPP 1: We set aside some tenders for specific groups within the county	38	2	4	3.54	0.954
RPP 2: My county gives preference to local suppliers based on their qualifications	38	2	4	3.29	0.973
RPP 3: My ministry gives conditions for tendering of goods/services that favour the local suppliers.	38	2	4	3.48	0.890
RPP 4: Some specific tenders are reserved for local youth women and youth	38	4	5	4.10	0.301
RPP 5: Reserved tenders for the local suppliers form the largest percentage of the tenders in a particular year.	38	4	5	4.01	0.598
RPP 6: The reserved tenders are free for all	38	2	5	3.14	0.912
Weighted Average				3.59	0.879

Descriptive results in Table 1 show that the respondents agreed that they set aside some tenders for specific groups within the county (M= 3.54, S.D = 0.954), neither agreed nor disagreed that the county gives preference to local suppliers based on their qualifications (M= 3.29, S.D = 0.973), and that they agreed on the issue that their ministries give conditions for tendering of goods/services that favour the local suppliers (M= 3.48, S.D.=0.890). On the other hand, the respondents agreed on both issues that some specific tenders are reserved for local youth women and youth and that reserved tenders for the local suppliers form the largest percentage of the tenders in a particular year (M= 0.410, S.D. = 0.301 for both).

The weighted average of 3.59 (S.D. =0.879) shows that the respondents generally agree that there existed proper reservation procurement practice in Counties in the Great Lake region.

Descriptive Statistics of Service Delivery

The study’s dependent variable was service delivery. The descriptive results are presented in Table 2.

Table 2: Descriptive Statistics of Service Delivery

Statement	N	Min	Max	Mean	Std. Dev.
SD 1: The goods are delivered in time which enhances employee work	38	1	3	1.90	1.007
SD 2: There is accessibility in the services in the ministry since the goods/services are delivered in time.	38	1	4	2.94	1.250
SD 3: The goods delivered are safe which improves service delivery	38	1	3	2.23	0.970
SD 4: The suppliers deliver goods/services that are appropriate	38	1	3	2.42	0.905
SD 5: There is availability of the goods/services which has improved service delivery	38	1	4	1.74	0.945
SD 6: The services provided in our organization are satisfactory.	38	1	5	2.14	0.898
Weighted Average				2.23	0.973

Table 2 shows that the respondents generally disagreed that the goods are delivered in time which enhances employee work performance (M = 1.90, S.D = 1.007), that the goods delivered are safe which improves service delivery (M = 2.23, S.D = 0.970) and that the suppliers deliver goods/services that are appropriate (M = 2.42, S.D = 0.905). Moreover, the respondents disagreed that there is availability of the goods/services which has improved service (M = 1.74, S.D = 0.945), and that the services provided in the counties are satisfactory (M = 2.14, S.D = 0.898). However, the respondents neither agreed nor disagreed on the opinion that there is accessibility in the services in the ministry since the goods/services are delivered in time (M = 2.94, S.D = 1.250).

The weighted average mean of 2.23 indicates that the respondents generally disagreed that service delivery in the in Counties in the Great Lake region is effective.

Correlation Analysis

Correlation analysis shows the direction, strength and significance of the relationships among the variables of study (Sekaran, 2000). To establish whether there was a relationship between the variables, a correlation analysis was conducted. The correlation analysis shows the direction, strength, and significance of the relationships among the variables of the study (Sekaran and Bougie, 2010). A positive correlation indicates that as one variable increases, the other variables will also increase. On the other hand, a negative correlation indicates that as one variable increases the other variable decreases (Sekaran, 2003).

The model that was to be fitted is as follows:

$$Y = \beta_0 + \beta_1 X_1 + + \epsilon \dots\dots\dots I$$

Where the variables are defined as:

Y – Service delivery

β_0 – The constant term

β_1 is the coefficients to be estimated

X_1 – Reservation procurement practice

ε - Error term.

Table 3 shows results of the correlation analysis.

Table 3: Correlation between Study Variables

	Y	X_1	X_2	X_3	X_4
Y	1				
X_1	.646***	1			

Note: * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table From the results in Table 3, several conclusions can be drawn. First, it has been indicated that reservation procurement practice (X_1) is significantly and positively correlated with service delivery in Counties in the Great Lake region. This is indicated by the correlation coefficient of 0.646 that is significant ($p < 0.01$). This implies that there is a strong and significant positive association between reservation procurement practice and service delivery in Counties in the Great Lake region.

Table 4: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t-stat	Sig.
	Beta	Std. Error	Beta		
1 (Constant)	0.376	0.286		1.315	.002
X_1	0.391	0.165	0.308	2.370	.038

Dependent Variable: Y

From Table 4 above, several inferences can be derived. The constant term in the regression equation of 0.376 indicates the level of service delivery that is in existence in the organization.

Reservation Procurement practice and Service delivery

On the regression between discriminatory procurement practices and service delivery, the first objective was to establish the effect of reservation procurement practice on service delivery at Counties in the Great Lake region. Table 4 shows that reservation procurement practice has a positive significant effect ($\beta = 0.391$, $p = 0.038$) on service delivery of the organization. This implies that holding all factors constant, a unit increase in reservation procurement practice leads to a 39.1% significant increase in service delivery at Counties in the Great Lake region.

Summary of Findings

The general objective of the research was to investigate the effect of discriminatory procurement practices on service delivery of manufacturing firms; a case study of Counties in the Great Lake region in, Kenya. The specific objectives of the study was to establish the effect of reservation procurement practice on service delivery of Counties in the Great Lake region. Regression results from the analysis based on the first objective show that reservation procurement practice has a positive significant effect on service delivery of Counties in the Great Lake region. This implies that holding all factors constant, a unit increase in reservation procurement practice leads to a significant increase in service delivery of the organization.

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