

**THE EFFECT OF BUDGETING ON THE PERFORMANCE OF
SMALL SCALE ENTERPRISES**

**A CASE STUDY OF UGANDA MICRO-FINANCE
LIMITED (UML) KAMPALA UGANDA**

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**A RESEARCH REPORT SUBMITTED TO THE FACULTY OF BUSINESS AND
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DECLARATION

I **Yakub Abdullahi Mohamed** hereby declare to the best of my knowledge that the work embodied in this research report is my own work and has never been submitted for a degree or any academic award in any university or any institution of learning. It is in this regard that I declare this work originally mine and hereby present it in partial fulfillment of the requirement for the award of Bachelors degree of business administration (Accounting option) of Kampala international university.

Literature and citation from other scholars work has been fully referenced and acknowledged in the text and bibliography

Signature.....

Date..... 21st March 2011

APPROVAL

I certify that the research report was done under my supervision and submitted to the school of Business and Management with my approval.

SUPERVISOR

NAME, RUTEGANDA MICHEAL

SIGNATURE.....

DATE.....

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ABBREVIATIONS AND ACRONYMS

UML	-	Uganda Micro finance Limited
MFLS	-	Micro-Finance Institutions
NGOS	-	Non – Government Organizations
UMU	-	Uganda Micro finance Union
AEAF	-	Aureos East Africa Funds
KIU	-	Kampala International University

i.e. – That is

e.g. - Example given

ABSTRACT

This study was carried out to investigate on the impact of budgeting on the performance of small scale businesses. It aimed at achieving the following objectives, to establish the impact of budgeting on organization performance to identify indicators of performance in organization and to establish the relationship between budgeting and performance of organization.

The study was carried out to establish the reasons why many organizations have continued to perform poorly despite management efforts to improve performance through training, recruitment, motivation, monitoring and evaluation. This was evidenced by low revenue collection and overspending compare to planned ones, overdependence of grants from the government, low morale and commitment of employees, claims and rumors from customers in respect to poor services offered to them like corruption and bribes.

To collect the relevant data the researcher used questionnaires, interview and library research on relevant material. Data was analyzed by the use of descriptive methods such as percentage distribution and frequency distribution.

The researcher found out that, budgeting has both positive and negative impacts on the performance of small scale businesses, under positive includes high profits, and avoids delays in work reduction, in repair, maintenance costs and increase in relationship with external stake holders. Negative side it leads to misappropriation of resources, inefficiency utilization of resources, low profits and low productivity.

According to the researcher's findings, the role played by budgeting in small scale businesses included, better planning, increase in profit, high production and attain effective utilization of resources.

The following area were suggested for further study, establishing the magnitude of the relationship between budgeting and performance, are pertaining budgeting form different organization to make a comparison and examining the influence of culture on performance of small businesses.

CHAPTER ONE

1.0 INTRODUCTION

Many small scale enterprises such as micro finances face many problems as far as budgeting is concerned due to lack of proper planning, non-participatory budgeting processes, low level of budgeting education, and lack of efficiency and effective control measures which lead to poor performance. This study will be carried out on the effect of budgeting on the performance of 11 scale businesses (case study of Uganda Micro-finance Limited (UML) in Kampala District) This chapter will entail the background of the study, statement of the problem, purpose of the study, objective of the study, research questions, theoretical or conceptual frame work, scope of the study and significant of the study.

1.1 BACK GROUND OF THE CASE STUDY

Micro finance institutions are small scale financial groups which operate on small scale in offering financial services to their customers. In Uganda Micro financing started back in 1 980s and was a response to the defects associated to states delivery of subsidized services to the poor people.

The government accumulated large loans and losses, which required frequent capitalization. This led to a new approach of micro finance institutions (MFIs) which were to be privately owned, but with government support.

Micro finance institutions are in form of non-government organizations (NGO5) saving and loan co-operative, credit union, government banks, non bank financial institutions among others. As a result of their development in Uganda, the government had to establish a ministry called Ministry of micro-finance headed by General Akandwanaho alias Salem. In 2006, like else where in the world, Uganda had witnessed rapid advances in the development of the micro-finance industry. Those micro-finance institutions provided financial services such as savings and credit as well as insurance services to their members, thus they play an important role in the modern economics because of their flexibility and ability to innovate. In nearly every country

small scale enterprises play a significant role in providing employment opportunities and supporting large scale manufacturing firm.

Uganda Microfinance Ltd (UML) is the leading Ugandan microfinance institution (MF1) .It was invested in December 2004 with a total investment of US\$ 1 million under the financial services sector. It was founded in August 2005 and it's based in Kampala, Uganda. It offers savings and loans products to low income clients (roughly half of whom are women) with informal collateral conditions and flexible repayment schedules.

UML grew out of Uganda Microfinance Union (UMU), a non-governmental organization set up in 1997 by Rodney Schuster and Charles Naylaali to provide financial services to micro-entrepreneurs and low income people throughout Uganda. Aureos East Africa Funds(AEAF)US\$ 1 million equity and debt investment enabled UMU to transition into UML ,a fully-fledged, regulated micro-deposit taking institution- one of only four in Uganda.

1.2 STATEMENT OF THE PROBLEM

Small scale businesses such as UML have continued to perform poorly despite management efforts to improve performance through training, recruitment, motivation, monitoring and evaluation. This is evidenced by low revenue collection and overspending compared to planned ones, overdependence of grants from the government, low morale and commitment of employees, and claims and rumors from customers in respect to poor services offered to them. It is only unfortunate however, that the cause of this situation has not expired which inspired the researcher to study on the effect of budgeting on the performance of this businesses so as to improve this situation.

1.3 SCOPE OF THEE STUDY.

The study covered the effect of budgeting on performance of small scale business for a period of four year from 2005-2008.

The study used information from text books, journals, newspaper, internet and other written literature.

1.3 OBJECTIVE OF THE STUDY

1.3.1 GENERAL OBJECTIVE

To examine the effect of budgeting on the performance of the small scale businesses.

1.3.2 SPECIFIC OBJECTIVES

- i. To identify the role of budgeting towards small scale business performance.
- ii. To establish the relationship between budgeting and small scale enterprises performance.
- iii. To examine ways of improving budgeting in small scale businesses.

1.4 RESEARCH QUESTIONS

- I. What is the impact of budgeting on performance of the small scale enterprises?
- ii. How is budgeting related to the performance of small scale businesses?
- iii. What are the ways of improving budget performance? 1.5

1.5. SIGNIFICANCE OF THE STUDY.

- The study will help firms to understand the role of budgeting in maintaining the performance of the firms.
- It will also help Managers, tax collectors and investors to make economic decision.
- The study will help researcher to get literature for further research.

CONCEPTUAL FRAME WORK

This refers to the definition of a research topic through explanation of the variables within the topic. There are independent variables which predict, direct, influence, control and determine the dependent variables. There are intervening variables which work hand in hand with the independent variables to influence the dependent variables. Thus in this research the independent variables is budgeting and the dependent variable is small scale business organizations.

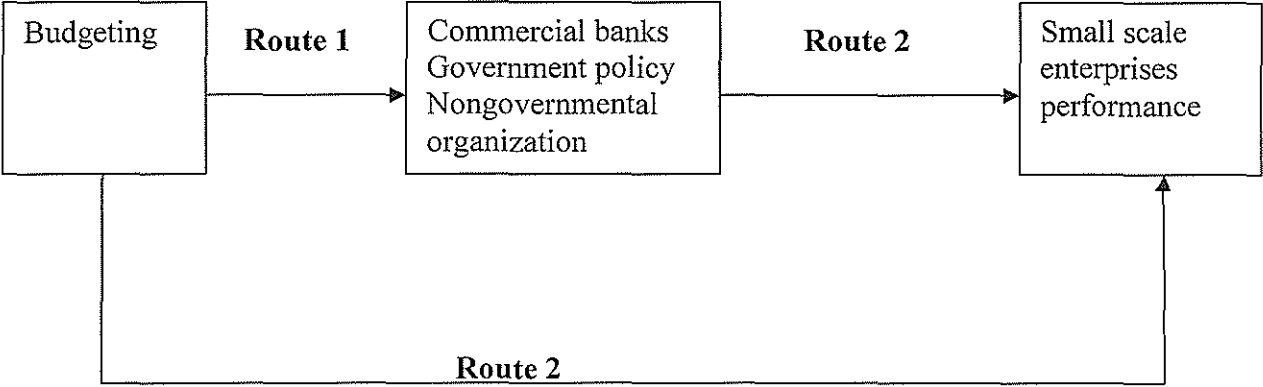
This can be illustrated in the diagram below

CONCEPTUAL MODEL

**Independent
Variable**

**Intervening
Variable**

**Dependant
Variable**



CHAPTER TWO

LITRETURE REVIEW

2.0 INTRODUCTION

This chapter presents literature of budgeting done by small scale enterprises, the performance of small scale enterprises and assuagement of how budgeting will affect them. Literature will be captured from both internal and external sources.

According to Drury (1996) budgeting is a process where managers are compelled to think ahead, anticipate and prepare for changing conditions, and coordinate the activities of the various functions so as to increase efficiency, eliminate wastage and control cost. Budgeting is a continuous process, which must be measurable, attainable, flexible and time bounded.

Performance is an integrated annual program and performance plan that shows a relationship between funding and expected result. It indicates that a set goal should be achieved at a given level of spending, Kydland and Prescott (1997).

2.1 FUNCTIONS OF BUDGET IN THE DECONOMY

It helps in anticipating the future, through comparing planned budget activities and actual performance, managers can forecast future trends.

It acts as road maps to the organization; all organizational activities are stated in budgeting and resource to be committed, controlled and evaluation measures.

Coordinate activities, through linking interrelated and non interrelated complex activities of different departments to attain organizational goal.

Controlling, budgeting is a basis through which corrective measures are taken to insure smooth operation of activities when actual performer deviate from stated standards in organizational budget.

Increase efficiency, through proper and clear statements and link of activities in the budget plan, less time is wasted.

2.2 DETERMINANTS OF BUDGETING

The size of the business; When organization is big the budget is also expected to involve huge commitment of resources and when the organization is small expected little commitment of resource is expected.

Level of investment; The higher the level of investment the bigger the budget expected and the level of investment the smaller the budget expected.

Life span of the Organization; When a business is established, huge resources will be committed to cover the cost of infrastructure put in place thus a bigger budget is expected as compared to mature organization.

Financial slack; Availability of easy cash around and or having much cash around can determine the level of the budget, when the degree of financial slack is high the budget is expected to be bigger.

Organization goal; When the objective of the firm is growth, then much resource will be invested to facilitate growth process, hence the budget will be bigger.

2.3 IMPACT OF BUDGETING ON SMALL SCALE BUSINESS

2.3.1 POSITIVE IMPACT

- It helps in utilization of resource, because resources are committed according to the number of activities as it were stated in the budget. This leads to high productivity.
- It increases productivity; less time is wasted has every department sets goals and objectives and aims at achieving master budget plan.
- Completion of work in time, with budgeting all activities are clear and properly stated when should be implemented and inter linked with other activities hence less time is wasted.

- Minimum wastage of resource, budget usually states resource to be utilized in every activity and when one want to go beyond that limit he/she must state it and follow proper procedures.

2.3.2 NEGATIVE IMPACT

- Budgeting leads to low profit due to misuse of resources.
- Low productivity due to delay of in linking interrelated activities.
- Wastage of resource due to lack of effective control and evaluation of procedures.
- Inefficiency utilization of resources due to lack of effective budgeting plan.
- Miss appropriation of resources due to unclear and proper state of activities and resources required to be committed

2.4 SMALL SCALE BUSINESS INDICATORS.

There are several pursuance indicators as identified by different scholars. Van Egeren (1994) fine performance as measure of how well the firm achieves its goals, these goals can be both organizational and financial. According to Kydland Prescott (1977) business performance is an graded annual program performance plan and annual budgeting that shows a relationship between funding and expected results. It indicates that asset goal should be achieved at a given level of spending. Business performance identifies the relationship between money and lbrmance results. It also explains how the relationships occur. Budgeting performance focuses all program activities direct and indirect required by a program for support, in addition to estimating activity cost.

Performance as a concept presents the problem of conceptual clarity in various areas. Fist its area of definition. The term performance is often used to describe everything from efficiency to effectiveness Stunnack (1996).BP has defined it as the measure of how well the business does its intended job. Stoner-et-al (1995) defined it as the extent to which an organization achieves its goals.

Another problem related to performance as stated by some scholars is measurement, in adequate definition; it often leads to problems in measurement. Most managers seem to use the term

performance to describe a range of measurements including input and output efficiency and effectiveness and in some cases transaction efficiency (Heffem and Flood (2000).But for the purpose of this study; Business performance would be taken to mean how well a budget is implemented according to plan. The narrower the variance gap the better the performance would be perceived .Any projected expenditure within 5% range below or above the expected revenue expenditure figures is acceptable by the financial decision making body of the institution.

Because of the ambiguity of the concept of performance, stake holders often disagree about which element of budget performance is most important, Brewer (1 998).Other challenges related to budget performance includes; Lack of credible and useful performance information, difficult in achieving consensus on goal and measures, difference in program and financial reporting structures and implementer's limitation of information on accounting systems.

1.5 BUDGETING PROCESS

1 budgeting process or program varies from one organization to another According to Kinney, Jesset Raiborn [1999]; the budgeting process begins with budget planning, which involves, identifying goals, selecting objectives and program activities and achieving them. The budgeting process requires careful integration of a complex set of facts and projection of human 4ionships and attitudes. Therefore no single system of budget is right for all organizations. However, it is recognized that there are basically two ways by which budgets can be derived; kin the top down (Imposed budgets) or from the bottom up (participatory budgets).Budgeting process is usually presented in a document known as Budget Manual.

2.5.1 BUDGET MANUAL

This is a detailed set of documents that provide information and guide lines about the budgetary process. Budget manual normally include the following

- Statement of budgeting purpose and its desired results.
- A listing of specific budgetary activities to be performed.
- A calendar of scheduled budgetary activities.
- Sample budget forms.
- Original revised and approved budget

2.5.2 STATEMENT OF BUDGETING PURPOSE AND ITS DESIRED RESULT

According to Ronald W. Hilton (2002), the statement of budgetary purpose and desired results communicates the reasons of the process and it should flow from general statement to specific details. An example of a general statement of budgeting purpose is, "The cash budget which provides a basis for planning, reviewing and controlling cash flows from and for various activities, this budget is essential to the preparation of a profoma statement of cash flows." specific statements regarding the cash budget could include reference to minimum desired cash balances and periods of high cash needs. These needs are taken into consideration when cash budget portion of the master budget is prepared.

2.5.3 BUDGETARY ACTIVITIES

These should be listed by job rather than by a persons name because the responsibility for action should be developed to whoever is holding each specific job when the manual is implemented. This section should indicate who has the final authority for revising and approving the budget. Budget approval may be delegated to a budget committee or to one or several members of top management.

2.5.4 THE BUDGET CALENDAR

This coordinates the budgetary process and it should include a time table for all budgetary activities. The budget time table is unique to each organization, that is, the larger the organization the more time will be needed to gather information, coordinate information, identify weak points in the process or the budget itself and take corrective action.

The calendar should also indicate control comparisons to be made and when and how feedback will be provided to managers responsible for operations.

Sample forms provide a means for consistent presentation of budget information by all individuals, making summarizations of information easier, quicker, and more effective. The sample forms should be understandable and should include standardized work sheet that allows managers to update historical information to arrive at budgetary figures. This section of the manual may also provide standard cost table for items on which the organization has specific guide lines or policies. For instance in implementing employees fringe benefit costs. The company rule of thumb may be 30% of base salary; similarly a company policy may set the daily

Meal expenses for the future period, the sales manager would simply multiply total estimated travel day by \$30.

2.5.5 ORIGIN AND REVISED BUDGET,

It's helpful for future planning to understand how the revision process works and why changes were made. The final approved budget is composed of many individual budgets serviced as a control document for budget to actual comparisons and known as the master budget.

2.5.6 BUDGET SLACK

It's an intentional underestimation of revenue or overestimation of expenses into the budgeting process? If slack exists it's usually build into the budgeting process, it is not often found in imposed budgets. Having slack in the budget allows subordinate managers to achieve their objectives with less effort that if there was no slack.

Budget slack creates problems because of the significant interaction of budgeting factors. If sales e understated for example, problems can arise in the production, purchasing and personnel areas. To reduce the possibility of slack, management wishes to consider basing the budget on activities rather than costs. Activity based budget on analysis of cost drivers and the relating of budget line items to activities performed.

2.5.7 STEPS REQUIRED FOR INSTALLING A BUDGET PROCESS

The budgeting process varies with differences in management style, organizational objectives, and a structure of completion in different organizations. The common steps are as following;

Review of a long range plans, the budget process is by definition directed towards short range planning sometimes referred to as profit planning. The obvious beginning place is then to review the most recent long range objectives that are still relevant. It is of the most important that the short range objectives be supportive for the long range tragic objective of the firm.

Development of strategic objective. The determination of proper goals to be established by the firm during the next fiscal period is a difficult and demanding task. Three basi11 .me short term objectives must not complicate the intermediate and long range objectives as cussed above. They must guide the firm in the proper direction as well as sufficient rate.

2\ This objectives must be capable of attainment if the employees are to be properly motivated.

3\The objectives when attain should reflect general standard of performance throughout the firm.

Obtaining estimate of sales production levels. Expected cost and availability of resources from i sub unit\division department, the departmental heads or managers are required to proof mates of the future conditions and activities that will have an impact on the company.

Coordinating estimates; In many organizations, the budget committee evaluates the different plans submitted by various organizational units to determine the potentiality of plans in the overall interest of the company and to estimate what resources are available and how they can be 6iiiy allocated along the various units of the organization.

Communicating the budget to responsible managers and the concerned departments. After individual budget plan have been approved, in the light of organization goals the availability of sources of budget should be communicated to department and responsible managers. Changes d modification of the final budget should be made known to managers and obtain their corporation and support for the budget.

Implementing the budget plan, the final budget is presented to the manager concerned and adopted as the plans of operation for the coming budget period. When implementing the budget plan one should put in to consideration the accounting system, budgeting report, organizational aspect of budgeting and behavioral aspect of budgeting.

Reporting interrning progress towards budgeted objectives. As a feedback in the budgeting process, performance reports are prepared to inform departmental managers and top management about the performance achieved in terms of budgeted figures. Such an investigating may call for the need to receive the budget during the year. This feedback of information can also be used as a basis for preparing the next year's budget.

2.6 TYPES OF BUDGET

There are different types of budgets that have been developed according to the purpose they w. Budgets are classified according to the coverage of encompasses, the capacity to which are related the conditions on which they are based and the period they cover.

budget under the classification of coverage of encompasses include functional budgets, sales budget, production budget, cost of production budget, purchase budget, capital expenditure budget, cash budget and plant utilization budget.

Fixed and flexible budget are the two types of budget classified according to the capacity to which they are related. The fixed budget is designed in a way that it remains unchanged respective of the output or overturns. On the other hand flexible budget is designed to change appropriately with fluctuations in output, employees and turnover.

According Wesgant, Keso, Kümel [2000] the two main types of budgeting are imposed budget and participatory budget which have the following advantage and disadvantages.

2.6.1 ADVANTAGE OF IMPOSED BUDGET

- Increases probability that the organization's strategic plans will be incorporated in planned activities.
- Enhances coordination among divisional plans and objectives.
- Uses top management's knowledge of overall resource availability.
- Reduces the possibility of inputs from inexperienced or unformed lower level employees.
- Reduces the time frame for the budgeting process.

2.6.2 DISADVANTAGES OF IMPOSED BUDGET

- May result in dissatisfaction, defensiveness, and low morale among individuals who must work under the budget.
- Reduces the feelings of teamwork.
- May limit the acceptance of the stated goals and objectives.
- Limit the communication process between employees and management
- May create ways a view of the budget as a punitive device.
- May result in unachievable budgets for international and divisions if local operating and political environment are not adequately considered.
- May stifle the initiative of lower-level managers.

Z.3 BEST TIMES TO USE IMPOSED BUDGET

- In starting up organization.
- In extremely small businesses.
- In time of economic crisis.
- When organization units require precise coordination of efforts.

Z.4 ADVANTAGES OF PARTICIPATORY BUDGET

- It provides information from the persons most familiar with the needs and constraints of organization units in which they work.
- It helps in integrating knowledge that is diffused among various levels of management.
- A participatory budget provides a means to developing fiscal responsibility and the budgetary skills of employees.
- It helps in developing a high degree of acceptance of and commitment of organizational goals and objectives by operating management.
- They are generally more realistic than the imposed budgets since all the employees are involved in planning them.
- They allow organizational units to coordinate with one another.
- They also help subordinate managers to develop operational plans that conform to organizational goals and objectives. Include specific resource requirements, Blend overview of top management with operating details.
- They provide a social contract that expresses expectations of top management and subordinates.

Th.5 DISADVANTAGES OF PARTICIPATORY BUDGETS

They require significantly more time than imposed budgets.

They also create level of dissatisfaction with the process similar to that occurring under imposed budgets when the effects of managerial participation are neglected by top management changes.

- Participatory budgets provide an achievable budget when managers are ambivalent or unqualified to participate.
- They may cause lower-level managers to introduce slack into the budget.
- They may also support “empire building” by subordinates.

- May start the process earlier in the year when there is more uncertainty about the future year.

2.6.6 CHARACTERISTICS OF A GOOD PLANNING BUDGET.

- It should have clear objective which must be simple and comprehensive.
- It should be flexible to incorporate changes in the resources and should be time bound.
- Properly drawn plans tell what, when, and how activities are to be done Chan Dan (1995), Bhatia (1996).
- It should mention priorities and the implementation control cycle i.e. Activities must be listed in order of their importance (Priority and importance) Ewing (1961), Mookie (1970). Budgeting process ensures that managers do plan for future operations and consider how conditions in the coming years might change and what steps need to be taken now to respond to the changing conditions. The process encourages managers to anticipate problems before they arise, and decision that may be made on the spot for that moment, based on experience rather than reasoned judgments, Murphy and Peck (1980).

CHAPTER THREE

METHODOLOGY

3.0 INTRODUCTION

This chapter addresses the research design and data collection methods and instruments. It also indicates the population, study area and the procedures of data collection, analysis and presentation.

3.1 RESEARCH DESIGN

The researcher used a case study research design focusing on small scale businesses on which detailed, explanatory, analytical, quantitative as well as qualitative research was carried out. It explained the impact of budgeting on the performance of small scale businesses. It was designed to be quantitative and qualitative since both numerical and non numerical data were used.

3.2 STUDY POPULATION.

The study was centered mainly on the response from management, staff and customers of Uganda Micro finance Limited (UML) which had 1000 employees. The research employed random sampling techniques in choosing the respondents to be involved in the research.

3.3 SAMPLE SIZE

Sample size of 3.5% was drawn through random sampling. Thus the sample size of 35 respondents was chosen. A random sampling was preferred because it was free from bias and therefore each unit or potential respondents has equal chances of being included in the sample random sampling was conducted

3.4 DATA COLLECTION

The data that was used for the purpose of the study comprised of both primary and secondary data.

3.5 SOURCES OF DATA

There were two major sources of data, that is, primary and secondary sources

3.5.1 PRIMARY DATA

This was obtained directly from the UML recording, staff and their customers. Questionnaires and interviews were used for that effect.

3.6 DATA COLLECTION METHODS

Data was collected through questionnaire, interviews and observation.

3.6.1. QUESTIONNAIRE

This was used for the top management, employees and customers. It contained both open ended and close ended questions. The researcher used a questionnaire because it helped in collecting a large amount of data within a very short period of time involving a large number of respondents.

3.6.2 INTERVIEWS

This was used in line with questionnaire to enable the researcher obtain the supplementary information necessary to reach the conclusions. It was believed that by using the interviews, the researcher was in position to get detailed data on all the aspects concerning budgeting.

3.6.3 OBSERVATIONS

This was used to enable the researcher obtain primary data which could be observed easily and did not require the use of questionnaire and interviews.

3.7 SECONDARY DATA.

This was collected from already available data literature. Relevant documents and records were used like journals government publications and other internal records.

Secondary data was used to supplements the primary data in attempt to answer the research questions.

3.7.1 SECONDARY DATA COLLECTION METHODS

Secondary data was obtained from UML reports and other documentary reviews. These included publications like business magazines from other universities like Kampala International University book bank.

3.8 DATA PROCESSING AND ANALYSIS AND PRESENTATION.

Data obtained was edited, coded, arranged and thereby analyzed by using percentage and ratios. The data was analyzed according to objectives in such a way that each objective was analyzed separately. The data was presented using pie-charts, diagrams and tables.

3.9 LIMITATIONS OF THE STUDY

Funds were a limiting factor to cover all the expenses during the research for instance typing and printing cost, transport and lunch in the shortest time possible.

Some information was confidential and thus limiting its access to the researcher.

Despite the above limitations, the findings of the study were not materially effective and the findings that follow in the next chapter will be part of the apparent knowledge gap.

Inadequate time given, the high academic schedule and other commitments, the available time for the study was not enough to allow a more comprehensive and detailed study. This was overcome by drawing up a time table so as to appropriately maximize the available time.

Getting willing customer to answer the question was difficult as some of them claimed to be busy in addition, some of the respondents declined to discuss their credit issues for personal reasons.

CHAPTER FOUR

4.0 DATA ANALYSIS PRESENTATION AND DISCUSSION OF THE RESULTS

This chapter presents information on the background of the respondents and the study results as guided by the objectives. The main tool for analysis is basically the use of tables, charts and pie-charts and interpretation is in percentages. The research objectives on which the findings were based include,

- (iv) To identify the role of budgeting towards small scale business performance.
- (v) To establish the relationship between budgeting and small scale enterprises performance.
- (vi) To examine ways of improving budgeting small scale businesses.

4.1 BACKGROUND INFORMATION

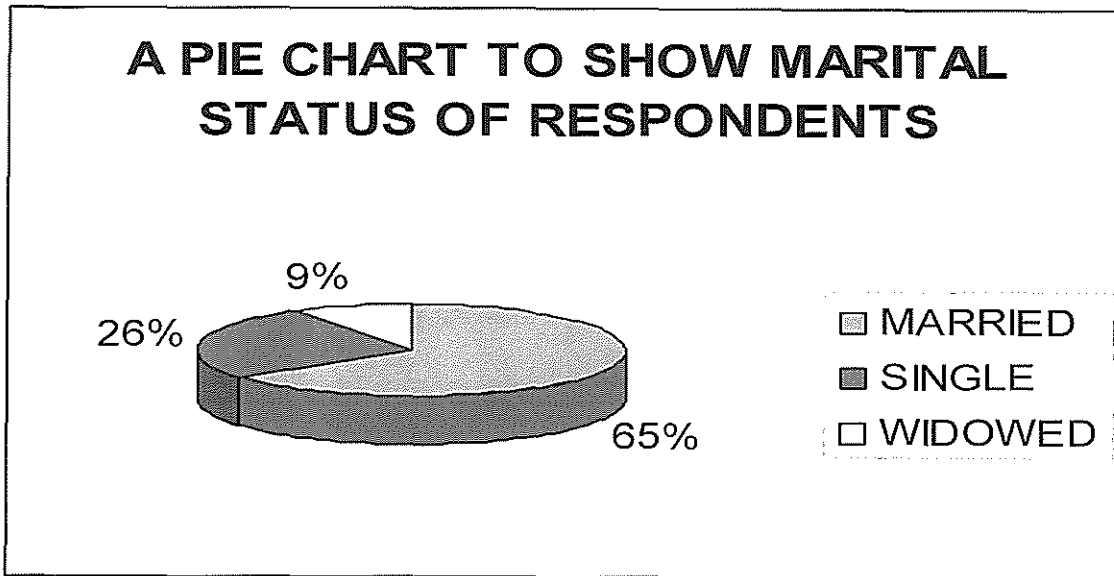
The study focused 35 respondents from different departments on Uganda micro finance limited, but the researcher collected views from 33 respondents, as shown in table below.

Table 1.0: Expected and actual number of respondents

No	Category	Expected number of respondents	Actual number of respondents	Percentage
1	Top management (director)	1	1	100.0
2	Human resource department	10	9	83.3
3	Accounting and finance department	12	12	100.0
4	Economic department	5	4	80.0
5	Social development department	5	4	88.9
6	Loan and culture department	8	7	87.5
	Total	35	33	88.9

Source: primary data

Figure 1: A pie chart showing the marital status of the respondents



Source, primary data

From the pie chart above 65% of the respondents were married meaning that UML mainly deals with married people.

4.2 EDUCATION LEVEL

From the findings most of the employees had secondary level education compared to those with the University education, the results are as shown in the table 2.0 below.

TABLE 2.0 EDUCATION LEVEL

Category	Men	Women	Total workers	Percentage
Primary	-	-	-	0.0
Secondary level	20	8	28	80.0
University level	5	2	7	20.0
Others	-	-	-	-
Total	25	10	35	100.0

Source primary Data

Findings in table 20.1 imply that most of the employees had little knowledge about budgeting. The organization should therefore, sponsor professional training seminars and workshops about budgeting in respect to organization performance.

4.2.1 WORKING PERIOD

From the findings 75.3% of the employees at work for less than 5 years, 20.0 % were at work for the period between and 10 years and only 5.7% were at work for more than 10 years, are shown in table 3.0

TABLE 3.0 WORKING PERIOD

Working period	Top management (director)	Human resource department	Accounting and finance department	Economic department	Social development department	Total	Percentage
Less than 5 years	1	6	10	4	5	26	74.3
Between 5 to 10 years	-	2	2	1	2	7	20.0
Above 10 years	-	-	1	-	1	2	5.7
Total	1	8	13	5	8	35	100

Source: primary data

Findings in table 3.0 indicates that most of workers have less period at work due to un reasonable salary, rewards and allowance such as chance of further studies, houses, transport and promotions in respect to changes in economic situation such increase in transport costs, rent and high price of commodities. Some of them work for less than three years for the purpose of getting experience then they shift to other organizations.

4.3 IMPACT OF BUDGETING ON PERFORMANCE OF AN ORGANISATION

According to the data that researchers collected it reveals that 57.2% of the respondents argued that the organization budgeting had greater impact on organization performance. This was because budgeting showed how resources were utilized and time suitable to utilize them. They argued that poor budget contributed to misallocation of resources, corruption, delay, incompleteness of work, increase in operating cost as well as creating poor reputation in UML. 28.5% of the respondents revealed that UML budgeting did not have great impact on the performance of the organization; they argued that the routine was to wake up and use the available resources according to the area the employee operated.

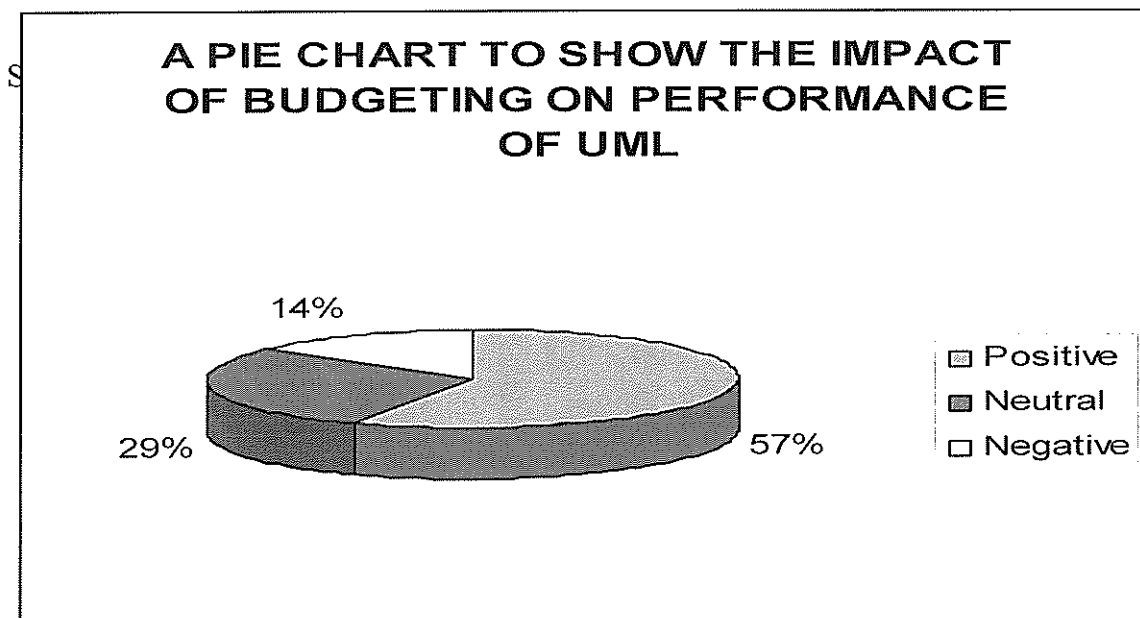
The other 14.3% of the respondents were not aware about budgeting in UML.

Table 4.0 impact of budgeting on performance of UML

Response category	No of response	Percentage of response
Positive	20	57.2
Neutral	10	28.5
Negative	5	14.3
Total	35	100

Source: primary data

Figure 2. A pie chart showing the impact of budgeting on performance of UML



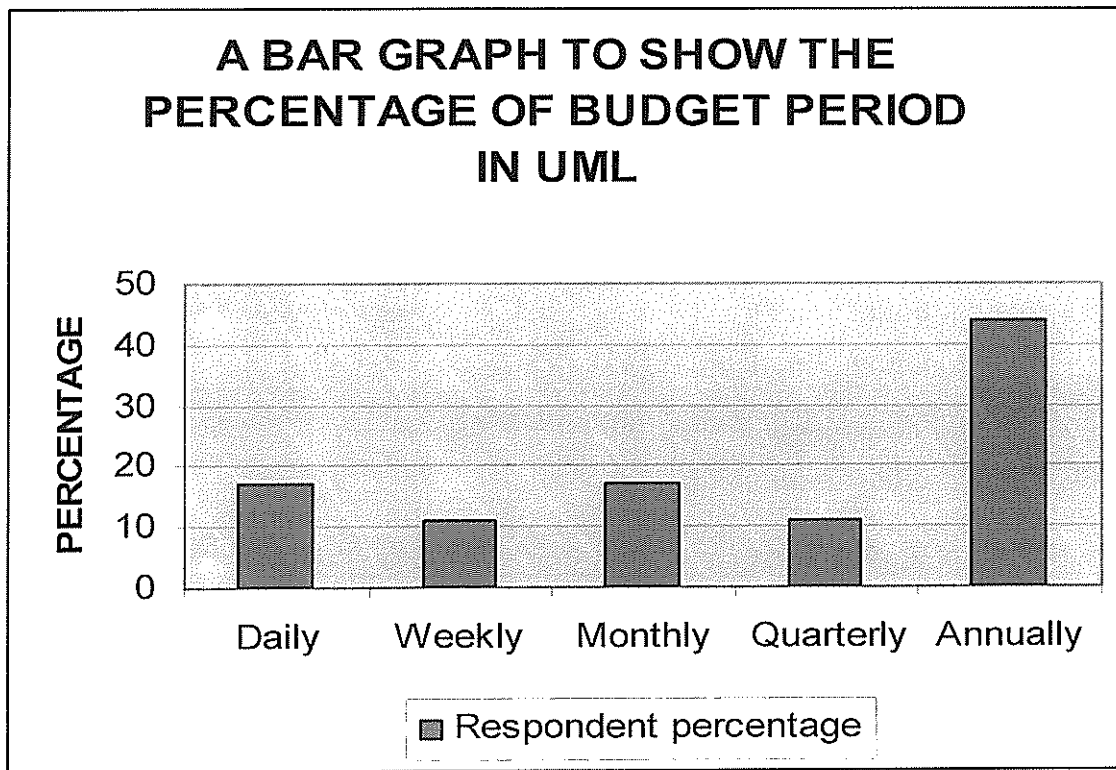
4.4 APPROPRIATE TIME TO MAKE BUDGET

Table 5. Budget making periods in UML

Reponses category	No of respondents	Respondent percentage
Daily	6	17
Weekly	4	11
Monthly	6	17
Quarterly	4	11
Annually	15	44
Total	35	100

Source: primary data

Figure 3 A graph showing the percentage of budget period in UML



Source, primary data

According to the data collection and summarized in table 5 above, 44% of the respondents revealed that the organization budget was prepared annually whereby every department was allocated its full fund and resource for the whole year whereby only monitoring was left to the finance department.

17% of the respondents revealed that organization budget was made in terms of quarter. This is because of the annually budget were made after every three months.

11% of the respondents argue that organization budget was made monthly. This is because partial amendments were made monthly depending on economic condition and availability of collected revenue. 11% of the respondents revealed that organization budget was prepared weekly on the basis that there were weekly activities which could rise as the process of production is in the continuous move. 17% of the respondents revealed that organization budget was made daily on the basis that daily activities were hard to be forecasted because of abrupt and emergency need.

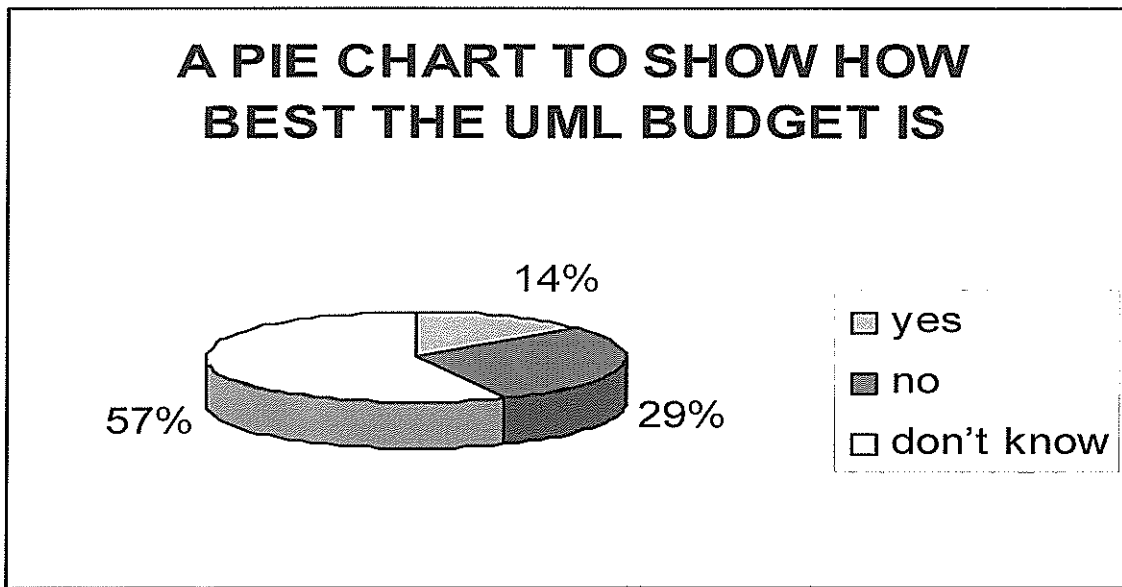
4.5 WHETHER THE ORGANIZATION HAS THE BEST BUDGET

Table 6: How best the UML budget is

Response category	No of respondents	Percentage
Yes	5	14
No	10	29
Don't know	20	57
Total	35	100

Source: primary data

Figure 4. A pie chart showing how best the UML budget is



Source: primary data

According to the data summarized in table 6 above, 14% of the respondents revealed that the organization had the best budget. This is because activities and resources are matched which leads to smooth flow of work in the organization hence increasing productivity as well as profitability of the organization through minimization of unnecessary costs. On the other hand, 29% of the respondents were negative with the ways in which the organization budget was made. They revealed that although the organization made the budget following the planned activities with the planned amount of money was a rigid process. Thus they tried to deviate from the budget. They also argued that it's easier to follow a routine rather than description; this makes the top management to deviate from the budget and hence lack standard measure of the best budget of the organization. 57% of the respondents had no information concerning the budget.

4.6 EXISTENCE OF BUDGETING COMMITTEE AT THE ORGANISATION

Finding summarizing existence budgeting committee UML is showing in the table below

Table7, Existence of budgeting committee in UML

Response	No of response	Response percentage
No	25	71.42
Yes	6	17.42
Don't know	4	11.44
Total	35	100

Source; primary data

From the findings in table 7 above, it indicates that 71.42% of respondents suggested that there was no existence of budgeting committee in UML. They reveal that things were normally done as a route for them they felt that they were used as means to an end in the organization. This created bad relationship to both employees and top management. They also revealed since they knew what was expected for them they needed no budget in UML. This lead to conflict top management, customers and employees.

17. 14% of the respondents suggested that there was existence of budgeting committee in UML. This was because UML was a small scale business and thus the top management could plan for the future undertaking pertaining cost resources and work plan.

11.44% of the respondents did not know that budgeting committee in UML existed because from the findings summarized in table 6 above those who said that there was budgeting committee in UML base their argument on the existence of a team of 6 members headed by financial managers who was concerned with the plan of how resource was utilized and also the time for utilization. They revealed that every department had its own budget which it follows and it was answerable to the financial manager acting beyond the budgeted resources required for one to document and record the resources utilized above the budget. This was to control corruption and misuse of resources for personal interest.

4.7 ROLE OF BUDGETING

Table 8; Role of budgeting in UML

Respondents category	No of respondents	Percentage
Higher	10	28.5
Moderate	20	57
Minimum	5	14.5
Total	35	100

Source; primary data

According to the findings, summarized in table 8 above, 28.5% of the respondents said that budgeting had higher/greater role that it plays in the organization. They argued that it helps in accomplishment of work in time, best utilization of resources which leads to higher productivity and increased profits and also it made it easier to access funds. 57% of the respondent revealed that the role of budgeting is moderate in the organization. They argued that even if the organization had the best budget without resource required in time, it was of no use. This is because resources have to be present for any operating activities in the organization to be accomplished 5 times. They also revealed that budgeting plays a big role in anticipating the future, controlling and coordinating activities and acting as a road map for the organization towards achieving its objectives and goals. 14.5% of the respondents said that budgeting plays a minimum role towards performance because they are not ware about the organization budget and its role and they had never been involved in budget training and its formulation.

4.8 WHETHER UML FOLLOW ITS BUDGET EFFECTIVELY

Table 9; Summary of how effective UML follow its budget

Respondent category	No of respondents	Percentage
Yes	15	43.0
No	10	28.5
I don't know	10	28.5
Total	35	100

Source; primary data

From table 9 above, 43% of the respondents revealed that UML follow its budget plan accordingly. This is because in very beginning of financial year, UML always makes a proposed budget and proposed work plan which acts as a road map in UML. 28.5% of the respondents argued that although UML has a budget, it does not follow it. They argued that they tend to deviate from the proposed budget. They also argued that due to uncertain such as macroeconomic changes which may lead high prices made UML not to accomplish its goals due to limited funds. They found it necessary for top management to always alter the proposed budget. 28.5% of the respondents due to give any view due to lack of knowledge about budgeting.

4.9 WAYS OF FORMULATING OF BUDGET IN UML

Table 10; Formulating of budgeting

Respondent category	No of respondents	Percentage
Participatory	20	57
Imposed	10	28.5
Both	5	14.5
I don't know	-	-
Total	35	100

Source; primary data

According to the research conducted and summarized in the table above, 57% of the respondents revealed that formulation of budget was participatory. They said that the process begins with budget planning which involves identification of goals, selection of objectives and programming activities to achieve them, implementation and finally monitoring and evaluation to take corrective action where there is a divergence. 28.5% of the respondents were not aware how UML formulate its budget. This showed that not everyone in UML was consulted when budget was being made. It was only the top management forms the various departments who were involved in formulation of budgeting in UML. The controlling and monitoring of budget was left for the committee which represented every department in organization. These employees were left out in this process of budgeting. They argued that it was a way of oppressing and over working themselves. Due to this, the relationship between employees and top management

weakened thereby leading to poor performance of the proposed budget. 14.5% claimed that both the method was used to formulate the budget.

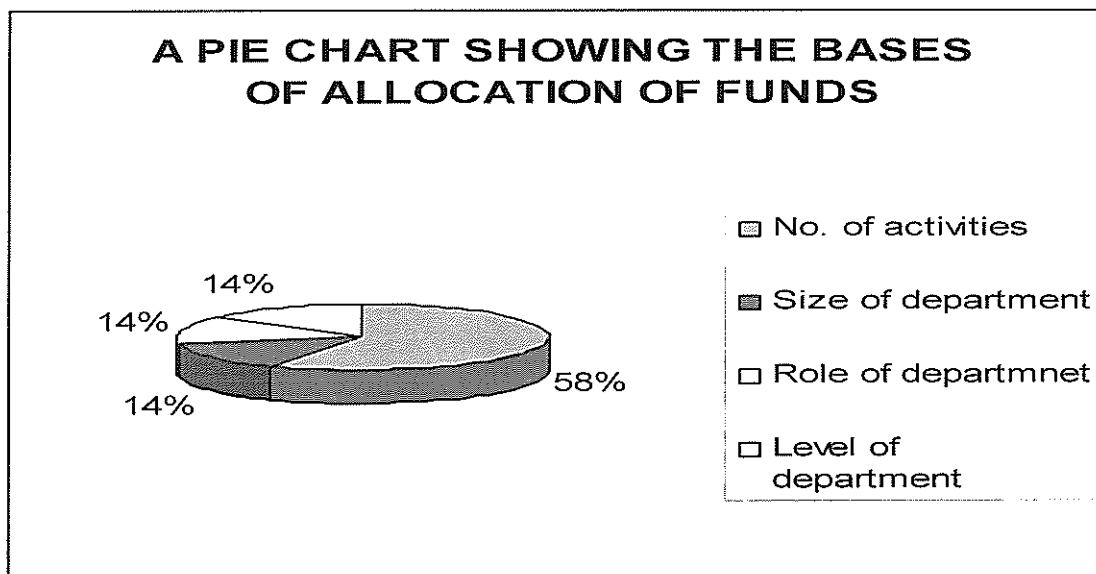
4.10 BASIS OF ALLOCATION OF FUNDS IN THE ORGANISATION

TABLE; 11 Basis of allocating funds in UML

Response category	No of response	Percentage
No of activities	20	57.1
Size of department	5	14.3
Role of department	5	14.3
Level of department	35	14.3
Total	35	100

Source; primary data

Figure5, shows the basis of allocation of funds in UML



Source. Primary data.

According to the findings in table 11 above, 57% of the respondents revealed that funds were allocated depending on the number of activities taking place in organization during a given

financial period, usually a year (June-June). However, some funds were set aside to compliment the budget due to uncertainty. This makes it hard for the organization to follow the proposed budget since there is no standard budget in UML. However, big activities are allocated huge amount of money and small activities are little funds.

28.5% of the respondents revealed that funds were allocated on the basis of departmental size, large department were allocated huge amount of money. Small departments were allocated little amount of money. They had the perception that big departments contributed much to the performance of UML compared to small department.

14.3% of the respondents reveal that funds were allocated according to the role played by department. Those departments that played a critical role in organization were allocated huge amount of fund while those who acted as facilitator to other department were allocated less amount since they played minimal role in the organization.

14.3% of the respondents revealed that funds were allocated depending on the level of department in the organization. Top departments in UML were finance department, loan department, marketing and human management department which were allocated huge amount of funds. The lower departments such as sensitization department were allocated less amount of money.

4.11 OVERCOMING BUDGETING IMPLEMENTATION PROBLEMS

Table 12.0. Solving budget problems

Respondent category	No of respondents	Percentage
Yes	25	71.5
No	16	28.5
Total	35	100

Source, Primary data

Form table 12 above, 17.5% of the respondents revealed that the top management had started using participatory management in formulation of budget whereby employees were also involved. They also argued that targets were given to every employee in his /her operation so that budget can be made. Following up the monitoring of every activity was also made to avoid deviation from the line of budgeting. On the other hand, 28.5% of the respondents revealed that autocratic management where strict supervision is done was the order of the day to maintain the budget. This made them to raise conflicts in the organization and cost also delays in completion of work. To them, they found this method to be ineffective since it lowered their morale.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 INTRODUCTION

This chapter entails summaries of the previous chapters, conclusion and recommendations with regards to the effect of budgeting on the performance of small scale enterprises.

5.2 SUMMARY OF FINDINGS

The study revealed that budgeting greatly influences and determines the performance of small scale organizations. Mostly, if not all, evaluated budgets contribute to the performance of organization and they work as a system of doing this.

This research was carried out to examine the impact of budgeting on performance small scale enterprise, which is UML. It was discovered that budgeting lead to high profit due to cost reduction especially for repair and maintenance. It also ensures that resources are effectively allocated, managed and utilized hence reduction of waste and capital being tied up. Well budgeted activities avoids delays in work thereby making it possible for the organization to complete its task within the budgeted time, this increases its relationship with external stakeholders.

However it was discovered that there was no standard budget for any department in UML. It was also affected by macro economic conditions as well as uncertainties in the business. It was also discovered that budgeting was time consuming and expensive due to economic changes and government policies.

The researcher also intended to establish the relationship between budgeting and origination performance. It was found out that the relationship between the two was positive evidenced by the fact that when proper budgeting is made, the organization performance increases in a positive way. On the other hand, when there is poor budgeting, the performance of the organization deteriorates leading to insolvency, credit worthiness hence poor public image.

The researcher also intended to assess the role played by budgeting to the organizations performance. It was found that, through budgeting UML attained effective utilization of resources, better planning, increased profits, improved loan processing and reduced conflict in the organization.

The researcher also intended to examine the ways of improving the budget of UML and it was found out that the process starts from planning, evaluating, implementing and controlling.

5.3 CONCLUSION

From the analysis of the finding of the study, the following conclusion was drawn. Many small scale businesses do not budget due to lack of knowledge about its impact and also the fact that its expensive and time consuming. But budgeting in small scale enterprises have got a big role to play in determining its performance since it acts as an engine or road map to the organization success. Thus budgeting impacts positively towards performance within organization since its performance improves with improvement in budgeting.

The researcher found out that in UML, though not well established, budget helped in attaining the organizations goals within the planned time, reduced costs of running the organization and controlling misappropriation of funds thereby attainment of the role of budgeting within UML as being identified by the respondents during the research.

Moreover, the better the budgeting process in UML, the greater the performance as shown by the findings that budgeting leads to better utilization of resources whereby most of the respondents identified it.

The management should emphasize the implementation and follow up of budgeting by financial managers/accountants in every department. The organization can perform very well if all is done within the budget.

5.4 RECOMMENDATIONS

From the above analysis of the study, the following were recommended so as to improve on budgeting in UML.

The employees should be encouraged to participate in the formulation of the budget so as to ensure a participatory management that reduces resistance from employees.

All the employees should be sensitized on the importance of budget in the organization so as to reduce the conflict between the organizations interest and stake holders.

The budget should be flexible so as to cater for macroeconomic change and risks prevailing in the business environment.

UML should employ qualified and skilled personal who have the ability to ensure budget implementation and planning within the organization.

Application of budgeting different levels of organization should not be left for top management but a function to every individual within an organization.

The top management should be willing to support the committee concerned with budget improvements with all the required resources.

5.5 AREAS OF FURTHER STUDY

As result of limitation of the study as early stressed in chapter three, the researcher was not able to address all issues on the effect of budgeting on the performance of small scale enterprises and thus suggested the following areas for further research.

- To establish magnitude of the relationship between budgeting and performance.
- Areas pertaining budgeting from different organization to make a comparison.
- Also the researcher suggests for further studies in areas pertaining budgeting in relation to marketing strategy and its associated costs.
- To examine the influence of culture on performance of small businesses.

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APPENDIX I: WORK PLAN

TIME IN MONTHS	ACTIVITIES
October - November , 2010	Research Proposal Writing
November - November 2010	Data Collection
November - December 2010	Dissertation Writing
December - December 2010	Submission Of Dissertation

APPENDIX II: BUDGET

ITEM	TOTAL COST (UGSH)
Stationery	50,000
Printing And Binding	60,000
Data Collection	100,000
Compilation And Analysis	50,000
Contingencies	20,000
Total	280,000

APPENDIX III: INSTRUMENTS

(a) RESEARCH QUESTIONNAIRES

Questionnaire for the Uganda micro-finance limited employees

Dear respondents,

I am a student from Kampala international university carrying out a research for the partial fulfillment of my degree. This questionnaire is designed to help me gather information on the following topic, *'The Effect of Budgeting on the Performance of Small Scale Businesses.'*

I kindly request you to fill in this questionnaire to enable me carry on my research information and whatever you give shall be treated confidentially.

You need not to include your name.

Thank you.

Yours faithfully

.....

Moses N Njuguna

PLEASE TAKE YOUR 10 TO 15 MINUTES AND FILL IN THIS QUESTIONNAIRE.

(Tick where appropriate)

General information

(1) Age

20-25 26-30 31-35 36-above

(2) Gender

Male Female

(3) Educational level

Primary

Secondary

Diploma

Degree

None

OBJECTIVES: EFFECTS OF BUDGETING IN SMALL SCALE BUSINESSES PERFORMANCE.

1. What impact does budgeting have on the performance of this organization?

(i) Negative

(ii) Positive

(iii) Neutral

2. Others (Specify)

.....
.....

3. a) does your department /business have a budgeting committee?

i) Yes

ii) No

iii) I do not know

b)
Why?.....
.....

4. How frequent do you make a company budget?

(i) Daily

(ii) Weekly

(iii) Monthly

(iv) Quarterly

(v) Annually

b) Why.....

5. Do you think the organization has the best budget?

(I) Yes

(ii) No

(iii) I do not know

b) Give reasons for your answer

.....
.....

(6) A part from improving performance, what other effects does budgeting have?

a) Do they have any other effects?

Yes

No

(b) If yes, what are the other effects?

Profitability

Management

Easy access to finance

Others
(specify).....

(7) Do you think you have benefited from budgeting?

Yes

No

(8) If yes how have you benefited

Managing the business

Making savings

Employment

Others
(specify).....

9. What is the role played by budgeting in your organization?

i) Low

ii) High

iii) Moderate

iv) No role

b)
Why?.....
.....

10. Do you think Uganda micro finance limited follows its budget plans effectively?

i) Yes

ii) No

b)Why?.....
.....
...

11. What way(s) does your department /organization use to formulate its budget?

i) Participatory

ii) Imposed

iii) Both of the above

iv) I do not know

12. How are funds allocated in your organizational budget?