A SURVEY OF BUDGETING PRACTICES AMONG THE MAJOR BRITISH NON-GOVERNMENTAL DEVELOPMENT ORGANIZATIONS IN KENYA

BY
MORRISON ANDAMBI MULERI

RESEARCH PROJECT

SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

SEPTEMBER, 2001
# TABLE OF CONTENTS

DECLARATION ........................................................................................................ IV

ABSTRACT ............................................................................................................... V

DEDICATION ........................................................................................................ VII

ACKNOWLEDGEMENT ......................................................................................... VIII

LIST OF TABLES ................................................................................................... IX

LIST OF APPENDICES ........................................................................................ X

1. INTRODUCTION .............................................................................................. 1
   1.1 Background ................................................................................................. 1
   1.2 Statement of the Problem ........................................................................... 6
   1.3 Objectives of the Study ................................................................................. 8
   1.4 Research Questions ..................................................................................... 8
   1.5 Importance of the study .............................................................................. 9

2. LITERATURE REVIEW ...................................................................................... 11
   2.1 Management Control Techniques ............................................................... 11
   2.2 Budgeting Philosophies and Approaches ................................................... 14
   2.3 Budgeting: What Goes Wrong? .................................................................. 16

3. RESEARCH METHODOLOGY .......................................................................... 18
   3.1 Research Design .......................................................................................... 18
   3.2 Population of Study .................................................................................... 18
   3.3 Sampling Approaches ................................................................................ 18
   3.4 Data Collection ........................................................................................... 21
   3.5 Data Analysis ............................................................................................. 22
4. ANALYSIS AND INTERPRETATION .............................................................. 23
   4.1 Data Analysis ........................................................................ 23
   4.2 Research Findings and Interpretation ........................................ 23

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS .................. 33
   5.1 Summary ............................................................................... 33
   5.2 Conclusions .......................................................................... 35
   5.3 Recommendations ................................................................... 37

6. REFERENCES ................................................................................. 39

7. BIBLIOGRAPHY ........................................................................... 39

8. APPENDICES .................................................................................. 41
DECLARATION

THIS RESEARCH PROJECT IS MY ORIGINAL WORK AND HAS NOT BEEN PRESENTED FOR AWARD OF ANY DEGREE OR ANY ACADEMIC CREDIT IN ANY UNIVERSITY OR COLLEGE.

MORRISON ANDAMBI MULERI

29-10-2001

DATE

UNIVERSITY OF NAIROBI
LOWER KADETE LIBRARY

THIS RESEARCH PROJECT HAS BEEN SUBMITTED FOR EXAMINATION WITH OUR APPROVAL AS UNIVERSITY OF NAIROBI SUPERVISORS.

MOSES ANYANGU
DEPARTMENT OF ACCOUNTING

ELIUD MUDUDA
DEPARTMENT OF BUSINESS ADMINISTRATION

31-10-01

DATE

31-10-01

DATE
ABSTRACT

There is perceived endemic financial mismanagement (corruption) in Kenya today. Traditionally, corruption was perceived to be a preserve of the Government Sector. Recent studies (by Transparency International, External Auditors, the Bretton Woods' Institutions, Consulting and Research Firms amongst others) show that the problem is equally endemic in the Non-Government Sector as it is in the Public Sector. Budgets form the base for financial management in Non-Governmental Development Sector. This study set out to determine how budgeting practice is actually done, to what extent the budgets are used as management and control tools and the mechanisms International Non Governmental Organizations (INGOs) adopt to control financial mismanagement.

Due to the historical ties between Kenya and Great Britain, a fact that is well reflected in the number of British INGOs operating in Kenya and the magnitude of their operations, this study zeroed in on the British INGOs operating in Kenya. Four British INGOs and twelve local organizations funded by British INGOs were selected in Kenya using convenience stratified sampling approach. Data was collected through detailed questionnaire, desk study of policy documents, and observation of the practice and follow up discussions. The data collected was analyzed by descriptive statistics using summary statistics, tables and percentages.

The study reveals that budgets are normally prepared using such modern practices as zero based or priority based budgeting. They (budgets) form an integral part of the planning process and have become a standard practice. However, there is over-emphasis on conformity to budgets and parameters (funds that can be mobilized) which tends to relegate proper financial management to the periphery. Many organizations strive to spend without due regard to value for money and impact. Generally aspects of cost effectiveness are left out of the budget management. Once budgets are approved, little effort is made to use the budgets to control the activities or measure performance by the budget holders. Financial mismanagement in this sector is never taken too seriously. The worst scenario is the possibility to cut funding or have staff dismissed. Scrupulous staffs find this convenient and
Therefore keep on recycling themselves between NGOs with a string of scandals behind them. The NGOs do not share such crucial information amongst themselves. The push by funding organizations to spend (which in fact is a measure of success) has just worsened the matter.

The findings lead to calls for more stringent budget management practices in the sector. There is need to utilize different expertise (finance and monitoring experts) in preparation and monitoring of budgets. While profit measure is the main indicator of performance in profit sector, budget management should similarly be adopted as the yardstick in non-profit sector. This should be measured against the background of sound financial policies, systems and practices to ensure efficiency and cost effectiveness. External audits, monitoring and evaluations should be made mandatory and performance evaluation tied to actual rewards and punishment. There is a big gap that needs the active participation of such umbrella bodies as the NGO Council, which can formulate and implement strict code of conduct and generally acceptable practices. The need exists for the "funding" development organizations to share information and co-ordinate their work so as to reduce financial mismanagement. The Kenya Government will also need to move fast to enact stringent anti-corruption laws to help control the national culture of corruption. Many of the incidences of financial mismanagement can indeed be interpreted as finance crimes and, by extension, crimes against humanity where they directly lead to threats to lives.
DEDICATION

This work is dedicated to my late father, Herman Muleri Serede, who took every opportunity to stress that the world is a jungle and the only weapon, for attack and defense, is education. He invested all that he had in weapons.

Unfortunately the cruel hand of death, through cancer, took you away on 12/5/1998 before you could witness my second graduation.

May your soul rest in peace.
ACKNOWLEDGEMENT

My special appreciation goes to my supervisors, Moses Anyangu and Eliud Mududa, who took the effort to train and closely supervised my work. Their advice and guidance is greatly appreciated.

Special thanks also go to my teachers, colleagues and mentors such as Prof. Kinandu Muragu, Prof. Phil O'Keefe, Prof. Peter Nyarango, Dr. Martin Ogutu, Dr. Rudolf Bos, Prof. Edward Kairu, Prof. Peter Gufwoli (RIP) etc for their invaluable support and encouragement during my period of study, work and research.

I am also greatly indebted to my wife, Mellisah Mang'oli, and our children (Collins, Denis and Brian) for their encouragement, patience and understanding when I had to stay away from home for long periods.

Finally this work would not have succeeded without the support and cooperation I got from my friends and colleagues in Oxfam GB, Save the Children Fund, Action Aid as well as Novib and Cordaid.

Thanks to all my classmates in the MBA 1999-2001 group for the lively and educative group discussions we held and to all those who could have contributed in one way or another. Failure to mention you all by names in no way implies less credit.

Thank you all.
List of Tables

1. Table I - Summary of Responses on Period Based Questions .................23
2. Table II - Summary of Responses on Staff Based Multiple Choice Questions ..........27
3. Table III - Summary of Responses on Time Based Questions ......................29
4. Table IV - Summary of Responses on Close Ended Questions ....................30
**LIST OF APPENDICES** ............................................................... PAGE

1. Appendix I - Memo by Jimmy Carter ............................................. 41
2. Appendix II - Letter of Introduction .............................................. 42
3. Appendix III - List of British INGOs Registered in Kenya by 1/1/2001 .......... 43
4. Appendix IV - The Questionnaire .................................................. 45
1. **INTRODUCTION**

1.1 **Background**

1.1.1 **Role of Development Organizations in Kenya**

The third world is estimated to have 2,500 International Non Governmental Organizations (INGOs), spending about $5B annually (Hancock, 1989). In Kenya NGOs mushroomed in the 1970s and 1980s. They mushroomed to; (i) intervene in emergencies resulting from drought, (ii) mitigate effects of famine and (iii) provide alternative development delivery machinery owing to the apparent failure of direct bilateral or multilateral aid programs. The latter was particularly strong owing to Government bureaucracy and apparent corrupt practices. Privatization and trimming of the public sector (in roles, functions, manpower and resources) that followed at the instigation of the World Bank and the International Monetary Fund accelerated the pace at which Non Governmental Organizations came up. Today Non Governmental Organizations play crucial roles in three major fields: (i) Emergency mitigation (e.g. the Nairobi bomb blast, HIV/AIDS pandemic, rehabilitation of street children, care for refugees, water hyacinth problem and in famine outbreaks), (ii) Development facilitation (e.g. promotion of agriculture, health, religion, security, environment, education, water and sanitation, natural resources management etc) and (iii) Democracy (through civic education, promotion of human rights, advocacy etc.)

The United Nations recognizes the vital role of development organizations in development. It is estimated that up to 50% of UN development aid is delivered through development organizations (http://www.un.org), mainly International Non Governmental Organizations (INGOs). European Commission Humanitarian Organization (ECHO), the humanitarian assistance arm of the EU, channels all its assistance, estimated well over ECU 10M each year, through INGOs. Likewise, the organization of African Unity (O.A.U), Common Market for Eastern and Southern Africa (COMESA) and East African Community (E.A.C) deliver the bulk of their development projects through development organizations (Amate, 1986).
The Kenya Government realized the need for concerted effort for rural development early enough. Indeed the first development plan in 1964 encompassed initiatives towards the use of development programmes / organizations to achieve development.¹

Almost 95% of NGOs funds come from outside the country. The money is secured, availed, managed and evaluated on the basis of project proposals and corresponding budgets. The budgets form part of the contractual basis for such funding.

Budgets are believed to be powerful tools. They aid planning, coordinate activities, communicate plans, motivate managers, control activities and measure performance (Drury, 1996 and Horngren, 1997). The need to explore how financial management is done in NGOs can therefore be done by in-depth study of the budgeting processes. Budgets are expected to play central roles in management and control of NGO operations.

Britain is Kenya's former colonial master. As expected quite a good number of NGOs in Kenya are of British origin. True to this historic relationship, there have never been serious conflicts between the British and Kenya Governments in regards to the operations of the British NGOs in Kenya. British Non Governmental Organizations therefore present a special class of organizations with long and cordial relationship with people of Kenya. Indeed many argue that the British Government and organizations have a moral obligation to assist their former colonies. UK has an well-entrenched culture of charity. Indeed, UK was the first country in 1979 to attain the use of 0.7% of Gross Domestic Product (GDP) on overseas assistance as required by the UN. The UK also contributed substantially to the total US $50B spent on overseas assistance worldwide in 1987 (Hancock, 1989).

¹ In the belief that a remedy could be found within the framework of existing policy, a conference was held in Kericho in 1966 out of which grew the Special Rural Development Programme (SRDP). ...Much publicity was given to SRDP, and it led to rural development becoming the major theme in the presentation, if not the content, of the 1970-4 Development Plan (Leys, 1975)
The current group of British INGOs strongly believe that increase in aid by British Government and other donors is a vital plank step to tackle global poverty and to promote sustainable development in accordance with the British Government's White Paper. In this paper adopted in 1999, the British Government envisages that the proportion of people living in poverty (to the total population) can be reduced by half by 2015 (www.oxfam.org.uk).

Many definitions of budgets exist. This proposal takes the working definition of budget as the process of implementing approved programs of a firm within the strategic plan. This survey seeks to explore the process of budget management amongst Kenyan International Non Governmental Organizations.

1.1.2 Problems Facing Development Organizations in Kenya

Threat to survival of NGO movement in Kenya at the altar of impropriety in financial management is real and of great concern. It reflects the worldwide trend as captured by Hancock (Hancock, 1989):

Out of the (World Bank's) 189 projects recently audited, 106 were found to have either serious shortcomings or to be complete failures. UN....employs some of the highest paid professionals in the world. More than 80% of all the money passing through the UN system is spent on its 50,000+ staff.......The Director General of the UN was re-elected in 1987 to a third six year term in office. His net earnings during that period, excluding fringe benefits, was UK£813,276

The collapse of the sector will endanger further the most vulnerable groups of the Kenyan society. Many Kenyans (47% of the population who lack access to safe water, education, health etc) (www.actionaid.org.uk) and live in rural areas would be at a loss. Already the Swedish Government, through its aid arm SIDA, has closed its project liaison office in Kenya. Netherlands Government, through its international cooperation arm NEDA, has frozen further support to the country. World Bank has scaled down its projects. The Belgian Government has expressed it intention to close all its development projects in Kenya including the Development Department at its Embassy in Nairobi. The root cause of this trend was well expressed by a Royal Netherlands Embassy official who, on a recent tour of projects in Nyanza, remarked (Daily Nation, 25/6/01):

The prudent use of Dutch assistance will determine whether projects funding continue...the Embassy (has) supported various projects in Nyanza and (will) continue to do so as long as the money is not diverted to other uses
There is also threat of loss of credibility amongst Non Governmental Organizations due to lack of accountability, transparency and low impact. NGOs face the risk of becoming less cost effective than Governments. In fact, Hancock has already detected this link between Governments and INGOs in his extensive studies on the World Bank and UN projects that culminated in the publication of his internationally acclaimed book, Lords of Poverty. He summarizes his findings thus (Hancock, 1989):

After the multi billion dollar financial flows involved have been shaken through the sieve of overpriced and irrelevant goods that must be bought in the donor countries, filtered again in the deep pockets of hundreds of thousands of foreign experts and aid agency staff, skimmed off by dishonest commission agents, and stolen by corrupt ministers and presidents, there is really very little left to go around. This little, furthermore, is used thoughtlessly, or maliciously, or irresponsibly by those in power - who have no mandate from the people, who do not consult with them and who are utterly indifferent to their fate. Small wonder then, that the effects of aid are so often vicious and destructive for the most vulnerable members of human society.

What Kenya looses in donor funds is likely to be ploughed into other countries (Kenyan NGOs have to compete with other nations for limited resources). This eventuality would deprive Kenya of development aid while promoting other nations in their development endeavors. The American Government has recently committed about two Billion Kenya Shillings to the fight against HIV/AIDS in Uganda while Kenya only attracted four hundred million Kenya Shillings. Never the less, the British Government has remained sympathetic to Kenya². The overseas assistance arm of the British Government, DFID, which greatly supports Non Governmental Organizations, has recently relocated its regional offices from Nairobi to Kampala in Uganda. This is an indication that tolerance can reach a breaking point.

---

² The British Government has increased funding for anti-Aids activities in the country by 60%, the deputy High Commissioner, Mr. Paul Harvey, said on Saturday. Has been increased from UKP3M to UKP5M annually. For next 5 years.independent of aid conditionalities imposed by donors (Daily Nation, 25/6/2001 pp. 4)
The World Food Programme is in the process of establishing a regional office and one of the reasons put forward against Kenya is rampant corruption and mismanagement. A reader, commenting in the Daily Nation on the future of Non Governmental Organizations in Kenya concluded (Daily Nation, 12/6/01):

_I get the impression that some NGOs are run like private businesses and they lack transparency and accountability. It's not just in Kenya that the leadership has complained... Similar complaints have been expressed in Zambia, Zimbabwe, Ethiopia, Ghana and Nigeria._

To a great extent Prof. Anheier of the London School of Economics disagrees. He strongly believes that the management of NGOs is often ill understood because many do not understand these organizations well enough; and it is frequently ill conceived because we operate from the wrong assumptions about how non profit organizations function (Anheier, 2000).

Debates aside, some greedy NGO managers, without any integrity or reputation to uphold, are holding the whole NGO sector at ransom. They can wreck the whole sector. If this happens then Kenya will slide deeper into the list of most corrupt nations in the world. Kenya already ranks as the fifth most corrupt country in the world on corruption perception index as carried out by Transparency International. This discourages foreign trade, international businesses, local trade and industry, tourism etc. In his book on corruption and mismanagement in an African NGO, Thompson quotes Dick lamenting that we live in a world dominated by smooth talkers who proclaim goodness but are corrupt to the core. Perhaps Anheier fails here. The overall conclusion by Thompson, however, gives some encouragement (Thompson, 1997):

_Organized civil society is still the best placed to represent the interest of the voiceless majority. The fact that there is a remnant in the NGO sector who are ready to stand firm for justice, integrity and transparency whatever the cost, is the strongest testimony to the sector's potential...........,you will not miss the challenge: that since it is the situations of people in need that give others the legitimacy to set up structures and mechanisms to appeal for funds, we are obligated to use our whistles on those others in this country and elsewhere in Africa before it is too late._

These views by Thomson are corroborated by findings made by Hancock. Hancock has observed, while writing off many World Bank and UN projects, that (Hancock, 1989):
It is the staff of voluntary agencies like Oxfam or Save the Children Fund who most frequently cite altruistic and humanitarian concerns as being the main or only reason for working in the third world. It is for this reason that perhaps they are prepared to put up with by far the worst salaries and by far the worst working conditions in the development industry.

Financial impropriety can be partly attributed to (i) In appropriate budget philosophies and approaches that establish waste and inefficiencies in the final budgets approved to guide operations (ii) Less than thorough scrutiny of reports by donors to ensure that the input/output linkage established through a logical approach at the budgeting stage is maintained and problems detected early enough (iii) Inadequate proper follow up on implementation which would otherwise ensure that the resources are not diverted and (iv) Interim and final impact evaluation to ascertain that real impact or value for money was achieved throughout the project cycle. Proper budgeting practices are essential and can be successfully applied to ensure that these objectives are attained.

1.2 Statement of the Problem

In his studies, Kaplan found out that Modern Management Accounting, a discipline that is expected to ensure that supremacy of the budget as a control and management tool is upheld, has never performed to expectations. The discipline has been greatly criticized for producing reports that are too late, too complex, too internal, too distorted and too summarized to assist decision making (Kaplan, 1992).

The Lords of Poverty, perhaps the most comprehensive publication ever highlighting the financial corruption rampant in development organizations, with special emphasis on UN and World Bank projects, contends that it is discernable that almost 60% of the funds earmarked for eradication of poverty do not reach the target beneficiaries.

The Guardian and The Sun, leading UK dailies, report that almost UK£50M (Kshs 5B) raised through charity initiatives in the UK by the now disgraced Lord Jeffrey Archer, did not in fact reach the intended beneficiaries (The Guardian and The Sun, 25/7/01). Questions abound on what proportion of the UK Government's UK£1.6B actually benefits the target communities. Hancock has already concluded that most of World Bank and UN Programmes are in state of flux in their financial management. Of the 189 projects audited, 56% could not attract a clean audit report. At EU

---

3 "Taxes paid by ordinary people in the rich countries provide all official foreign aid – some UK £60,000M every year. We think the money goes to the poor in poor countries – it does not" Hancock in Lords of Poverty (Hancock, 1989).
Headquarters in Brussels the Leonardo Programme has been in the dock over EU budget fraud allegations for a long time (http://www.Findarticles.com). The entire EU has recently encountered wide spread accusations of graft. In fact the EU Court of Auditors has now been established to control the level of financial mismanagement in the EU. Does this situation also affect the British INGOs? Are there better budgeting practices in these organizations?

Proper and efficient budgeting practice can greatly contribute to the desired financial management amongst Non Governmental Organizations. Previous extensive studies by Horngren and Drury found out that more stringent budgeting practices are essential amongst NGOs because, unlike in profit making sector, several profit parameters can not be applied to NGOs. Indeed both Horngren and Drury contend that the input of financial resources (budgets) should be used to assess the level of outputs (impact). These views give budget management more weight.

Anheier concludes that financial management in NGOs is little more than cost controlling and cost cutting. He however acknowledges the central importance of financial management. The source of uncertainty for non-profit organizations is initially and primarily seen in the areas of financial resources. It is, therefore, not surprising to see that management of non-profit organizations frequently means financial management.

Mintzberg underscores the critical role played by Development Organizations in the development of society. However, he also observes that performance of this role is hampered by ineffective use of budgeting in the management and control of their activities. It is with this understanding and against such controversy that great interest developed to find out the situation amongst the British International Non Governmental Development Organizations operating in Kenya. In particular how effective is budgeting practice in these organizations since they have not been cited in the prominent financial scandals? Could they be having better budget management practices?

4 Muleri reaffirms this in his "Practical Financial Management for NGOs". He also identifies five pillars of financial management as custodianship, integrity, accountability, transparency, consistency, disclosure and non-deficit financing (Muleri, 2000)
1.3 Objectives of the Study

The main objectives of the study are:

(i) To ascertain the budgeting practices in use amongst the British International Non Governmental Organizations operating in Kenya and their partner organizations.

(ii) To examine the extent to which budgets are used in management and control of British International Non Governmental Organizations operating in Kenya.

(iii) To explore the mechanisms that British Non Governmental Organizations use to detect, act on and deter financial mismanagement amongst the development projects they fund.

1.4 Research Questions

To carry out the foregoing objectives, this study will examine in depth the practice of budget management as done in a sample of British INGOs and their partner organizations in Kenya. The specific questions answered by the survey are:

(i) What approaches and philosophies do the Non Governmental Organizations operating in Kenya adopt for budgeting, both for administration and projects?

(ii) To what extent and in which ways is cost effectiveness built into the projects funded?

(iii) What does budgeting process entail in the Non Governmental Organizations funded by the British sources in Kenya?

(iv) To what extent does budgeting practice amongst Non Governmental Organizations in Kenya conform or differ from the theoretical contention?

(v) Are there any tough decisions taken against financial mismanagement that can deter spread or recurrence of similar behavior?
1.5 **Importance of the Study**

Many studies in the past have dwelt on determining the strength of the budget as a management tool (Horngren, Drury, Kaplan). How practical harnessing of this strength is done and especially in non profit-making organizations has been largely ignored. Horngren, for instance, concludes that there is no way input / output can be objectively done in NGOs. He proposes therefore that input (or rather budget or expenditure) be taken as an indication of output (impact). Anheier of The London School of Economics reduces financial management in NGOs to cost control and cost cutting. These suggestions assume that financial impropriety is non existent. This study will therefore attempt to reconcile theory to practice and test the changing role of budgets especially as it relates to Non Governmental Organizations.

At the level of the organizations directly involved (Save the Children Fund, Oxfam GB and Action Aid) and their projects / partners, this research will help them to critically review how well they use the strength of the budget as a management and control tool. It will also help them to exploit further the budget tool for better financial management.

The lessons learnt from this survey are expected to trickle down the fraternity so that more organizations will be able to put the budget tool to better use. Should this happen, it will be a vital contribution by the British International Non Governmental Organizations to remedy the alleged lack of accountability and transparency amongst Non Governmental Organizations in Kenya.

The research findings will be used by many other organizations to strengthen their level of financial management. The findings will also be part of the base upon which training in budget management will be modeled (through Oxfam, Action Aid, Save the Children Fund and through the NGO Council of Kenya to the rest of the NGOs in Kenya).

The survey findings are expected to stimulate self-appraisal by Non Governmental Organizations. The weaker organizations will then be able to benefit from cross learning (organizations learning from each other).

If the foregoing is achieved, this study will have immensely contributed to the process of minimizing financial impropriety amongst the development sector. It will also have demonstrated how best budget
and expenditure can be linked to activities that serve the set objectives of Non Governmental Organizations.
2. LITERATURE REVIEW

2.1 Management Control Techniques

Control and monitoring of division management's activities has been singled out as the primary focus of performance measurement (Hartley 1983, Scapens 1979, Fremgen 1972, Pizzey 1987 and Solomon 1969).

Drury and Horngren contend that monitoring is an essential component of the budgeting process. Monitoring could be one-off in a year, frequent (quarterly) or rolling/continuous (month or quarter out and another in; allows continuous planning and is more realistic).

In their studies, Scapens and Sale (1985) and Drury (1988) conclude that motivational and behavioral implications of performance measurement imply that it can be used to influence decisions. Indeed, it is the laxity in control and monitoring that gives Governments opportunity to allege corrupt practices amongst Non Governmental Organizations.

Governments, especially in the Developing World, have always accused NGOs of improper financial management. Official resistance from the Government Circles on initiative to develop rural areas is not a new development in Kenya either. It is based on suspicion that has developed and been sustained over time. Leys observed it right from Kenya’s attainment of independence (Leys, 1975):

But in any case the SRDP, or any serious plan for rural development, implied transfers of resources from the better-off to the worse-off, and on a national scale these were seen by those concerned to be - as one of them put it - "unthinkable"

The differences between the state and NGOs are therefore historical in a way. They revolve around issues of building of empires, control and monitoring. These differences go beyond Kenya. Commenting in the Daily Nation, Udo expresses his fears that some NGOs are indeed run like private businesses and therefore lack transparency and accountability. He fears that the complaints from leadership recorded in Kenya, Zambia, Zimbabwe, Ethiopia, Ghana and Nigeria over corruption in NGOs may hold some truth.
The World Bank, United Nations, European Union and IMF projects have been found to experience serious financial mismanagement problems.

In the African context, a scrutiny (control and monitoring) of the financial dealings at the Organization of African Unity (OAU) attests to this reality (Amate, 1986):

> On his budget proposal for the 1968-9 financial year, the Secretary General stated that the Advisory Committee had scrutinized his draft budget "item by item, line by line, word by word, and figure by figure" and that there were (lengthy and laborious) deliberations during which the General Secretariat was called upon again and again to justify its request... through the progressive elimination", he continued, "practically all expenses relative to implementation of programmes defined by numerous resolutions had been detected"

Horngren proposes that Planning, Programming Budgeting Systems (PPBS), a system that establishes overall objectives, programmes to achieve them, costs and benefits of each Programme, and then uses this to allocate resources should be used. He therefore believes this is the best linkage between strategic plans and budgets. The approach was adopted for US Government in 1970s but was later abandoned due to lack of the data needed to run the system.

Budgets should, in the first instance be used to aid (compel and operationalize) planning. The budget should then be used to coordinate all the activities and produce one master budget with all the activities (divisions, departments, sections, branches etc.) included. The control of activities should relate to the budget set. The budgets should be challenging enough to motivate managers to achieve higher performance and if attained then managers should be rewarded accordingly. Budgets should be used to communicate plans and operations through regular progress reports that refer to performance in relation to the budget. Finally budgets should be used to evaluate effectiveness and efficiency of programmes.

This model, therefore, indicates that the budget management process shall not be complete if any one aspect of budget management is ignored. Organizations should strive to use the budget process in all these facets.
Following the findings of Horngren and Drury, the following model can be adapted to illustrate this holistic belief in budgets.

![Diagram adapted from the relationships as specified by Horngren (Horngren, 1997)]

It is clear that proper financial management starts with a good budget. Amongst other things, a good budget calls for an activity budget to act as a link between the objectives and their realization (Carter's memo, 1971). A faulty budget is a faulty start to the whole financial management process. Sizer (1989) established the strong base of budgets by demonstrating the long term and short term planning in his version of Programme Planning and Budgeting System (PPBS). He contends that to implement a participative approach to budgeting, the budgets should be initiated at the lowest level of management. They should then flow upwards in hierarchy as they accumulate. The superior manager becomes the "budgetee" at the next higher level (Sizer, 1989).
2.2 **Budgeting Roles, Philosophies and Approaches**

Budgeting practice comprises the whole budget cycle process. This cycle encompasses: the philosophies adopted to guide preparation of a budget, the approval process for the budget so made and the mandate for implementation of the budget. Others included are: monitoring and control of the budget during implementation, establishment and maintenance of desired input/output (cost/benefit) relationships and eventual evaluation of whether the budget achieved the objects for which it was adopted. Donor dependant organizations can only secure funding with prior establishment of mechanism to assure, to some extent, effective budgeting practice. Whether what is approved between the two parties actually serves the intended purpose or only hoodwinks one party is a subject for further research.

Homgren and Drury did pioneering comprehensive studies ever on some aspects of the budgeting process. Indeed they may be considered as authorities in the study of budget management. However, this may only be as far as it applies to the commercial sector. Homgren and Drury identified two extreme budget philosophies: autocratic and participatory approaches. They also proposed three different types of budgeting processes that sufficiently capture the practice namely:

- **Incremental Budgeting** (budget for the future is a percentage increment over the past)
- **Zero Based Budgeting** (no relation to past. All activities have to be rationalized and starts from objectives, and how to achieve them then selects most optimal way to achieve them)
- **Priority Based Budgeting** (incremental but with sensitivity analysis attached i.e. what if the total funding available is cut or increased by 10%, 20% etc)

The budgeting process starts with budget premises / assumptions derived by scanning the environment (Drury, 1996).

Zero Based Budgeting is considered to be superior to the other budgeting types since: it allocates resources in accordance with the needs and benefits, creates a critical questioning attitude, focuses on outputs in relation to value for money and involves more staff thereby motivating them (Carter memo, 1971).
In his memo of March 15th, 1971 as the Governor of Atlanta City (see copy as annex), Jimmy Carter explained further benefits of Zero Based Budgeting as: (i) Allows detailed analysis and justification of budget requests. (ii) Budget holder gets to understand better the operations. (iii) Allows evaluation to be conducted more easily. (iv) Promotes cost effectiveness.

Muleri found out that some structured premises for budgeting amongst Non Governmental Organizations have been devised. They include Objective Oriented Programme Planning (OOPP), Logical Framework Approach (LogFrame) and Project Cycle Management (a.k.a. ZOPP). Most of these premises approach budgeting through thirteen well defined steps that include: sector analysis, problem analysis, objective analysis, alternative analysis, definition of project components, goal analysis, project purpose, outputs and eventually the requisite activities or the budget (Muleri, 2000)

Differences on approaches and philosophies to budgeting have been causes of great disagreements in the past. They directly affect accountability. In the study of budget process in the OAU, Amate observes (Amate, 1986):

*The Secretary General took the opportunity to complain that there was no definite theory on which the budget was based nor was there any rational method of discussion. Debates on the budget, he alleged, had been haphazard and influenced by shakeups, crises and difficulties prevailing at each time of the budget discussion.*

This pressure compelled the OAU Secretary General to think and propose even more creative budgeting approaches, Amate (Amate, 1986) observes:

*He recommended that a minimum number of permanent elements which were to be retained in the budget should be decided upon so as to avoid each budget session having to deal with each item "as if it were recreated anew"; that an objective and rational method for the examination of the budget should be defined, to avoid questioning at each budget the quantitative and qualitative importance of each of the sections of the departments of the Secretariat"*

Yet inability to effectively manage budgets has been detected for a long time. It eventually translates into financial mismanagement. In the OAU, just like in the EU, this was a fact. Amate found out in his studies that (Amate, 1986):

*Year after year his (OAU General Secretary's) records showed that whereas he was spending huge sums of money on programmes for which no financial allocations had been approved) he*
was at the same time heavily under spending or not spending anything at all on programmes and projects for which financial allocations had been approved

Different organizations adopt different mechanisms to detect and control financial mismanagement. Amongst the most commonly used are:

- Well developed internal controls and checks,
- Vibrant in-house or contracted internal audits services,
- Use of frequent external audits,
- Establishment of watch dog committees,
- Use of a few highly qualified and highly compensated staff to control the other staff etc.

They all present the risk of staff acrimony and lack of team spirit.

Well-developed and implemented budgeting practices are expected to play the role in a more acceptable and respectful way. Proper budgeting practices can monitor, control, evaluate and yet still motivate staff to higher performance. It is a better option worth exploring further.

2.3 Budgeting: What Goes Wrong?

Budgets have degenerated to the level of resource mobilization and allocation tools. Being the basis for securing funds, budgets are often used to build empires rather than being used to: (i) Aid the planning process (ii) Coordinate activities of the organization (iii) Control operations (iv) Motivate performance (v) Communicate intentions and operations and (vi) Evaluate performance and impact of a project.

Mintzberg found out that Non Governmental Organizations indeed played crucial role in development. They, however, did so in a less cost-effective way by playing the budget game. They often made higher budgets and included spurious items in budgets. The aim was to create room for financial mismanagement. He advises (Machiavelli, 1983):

But don't just rely on this one budget tactic. You should use an assortment of tactics in playing the budget game. Develop a series of arguments that support a large budget, and suppress the arguments of those who are in opposition to your budget request.

Many practitioners believe that the inability of donors to win the budget game has led to "too much resources" being amassed by the Non Governmental Organizations. This makes it possible for managers in Non Governmental Organizations to afford independent lives and thereby challenge the evils of the state. The state vs. NGOs conflict is hypothesized to stem from this. The discovery by Prince conforms to this line of thoughts (Machiavelli, 1983 p.75):

Princes (should) store and strengthen the towns in which they dwell, and take no heed of the country outside. For whoever has thoroughly fortified his town, and put himself on such a
footing with his subjects...will never be attacked without (the attacker being cautious); for men are always averse to enterprises in which they foresee difficulty. It is impossible not to foresee difficulty in attacking a Prince whose town is strongly fortified and who is not hated by his subjects. 

A Prince, therefore who has a strong city, and does not make himself hated, cannot be attacked, or should he be so, his assailant will come badly off (The Prince: 75)
3. **RESEARCH METHODOLOGY**

3.1 **Research Design**

This research was carried out in the form of a survey. The researcher introduced the survey and gathered information by way of a detailed questionnaire and follow up discussions. Reference policy documents were also collected and studied alongside the primary data collected. Open discussions were conducted after the questionnaire had been filled to seek more clarifications on some of the issues arising. Any discrepancies detected by the survey between practice and policy are highlighted in this research report.

3.2 **Population of Study**

The population for this study comprised all the British Non Governmental Organizations registered as such and operating in Kenya as at the start of the year 2001 (see annexed list) and the partner organizations they fund. This group includes a diversity of not-for-profit organizations that cut across many aspects of survival, development and social justice. The British Embassy estimated the INGOs to be in excess of the 158 listed while no record was kept of the partner organizations that work with these INGOs. No comprehensive and up to date lists are maintained by the Embassy due to high level changes that occur from time to time.

The survey went further down to the level of national and local non-profit organizations such as Non Governmental Organizations (NGOs) and Community Based Organizations (CBOs).

3.3 **Sampling Approaches**

Sampling organizations for inclusion in this survey was done using stratified convenience approach. In many instances International Development Organizations (INGOs) such as the British INGOs act as first level intermediaries to link up donors (British and other Governments, UN, EU, the public etc.) to community organizations (such as local NGOs and CBOs) which in turn have direct linkage to the beneficiaries. In some instances the INGOs or Donors have direct linkage with the beneficiaries. This complex relationship can be roughly expressed as follows:
The British Embassy in Nairobi estimates that whereas many (about 158) British Non Governmental Organizations have a presence in Kenya, just a handful of them are big enough to influence and dictate the practice. Indeed many of the smaller International Non Governmental Organizations are themselves offshoots of the major ones. They adopt almost similar practices to the major Non Governmental Organizations. Good representation can then be achieved by in-depth study of a few major INGOs. The following are some of the top British International Non Governmental Organizations operating in Kenya:

1. Oxfam Great Britain (Oxfam GB) - largest UK charity working in over 70 countries and with annual budget of about UK£175M (1999/2000 year) worldwide
2. Save the Children (SC) - second largest UK charity working in over 70 countries and with annual budget of about UK£100M (in 1999/2000 year) worldwide
3. Action Aid (AA) - third largest UK charity and working in over 30 countries and an annual budget of about UK£75M worldwide
4. Christian Aid (CA)
5. AMREF
6. Intermediate Technology Development Group (ITDG)
7. World Wide Fund for Nature (WWFN)
8. Others such as CAFOD, VSO, Merlin, Leonard Cheshire, WDM etc.

These major organizations are believed to constitute over 85% of the turnover in British International Non Governmental Organizations operating in Kenya.

Stratified convenience sampling approach was found necessary criteria because it guaranteed selection of some of the major organizations at the second (INGOs) level and some from the lower (local NGOs, CBOs) level. Convenience was found necessary to control costs and to enhance accessibility to information since some of the discussions and analysis require confidential information to be divulged. Only organizations believed to be able to extend this cooperation have been sampled.

The three British Non Governmental Organizations sampled from the first level are:

- Oxfam Great Britain (Oxfam GB), the first largest UK Charity
- Action Aid, the second largest UK Charity and
- Save the Children Fund (SCF), the third largest UK Charity

Samples from the second level (local NGOs and CBOs) were decided on in consultation with the first level organizations (INGOs) strictly on the basis of convenience. Broadly twelve organizations were sampled from the following sample frame:

- Funded at least up to 75% of their total annual budget by any of the above British INGOs. This leverage ensured that the INGO had a controlling influence on the partner organization (in systems, policies and practices)
- Had been in operation for over three years so as to guarantee existence of budget management besides other control procedures and
- Represented each of the following common clusters: Health and HIV/AIDS, Education and Child Development, Food and Farming and Emergencies (Oxfam, Action Aid and Save the Children Fund Internet Web sites)
3.4 Data Collection

A questionnaire (see copy attached) was the main tool used to collect mainly primary data. The survey collected the required information through:

- Detailed comprehensive questionnaire that collected information on all aspects of the study. It combined 5 point Likert scale (Very Important-VI to Very Unimportant-VUI) through bi-chotomous, multi-chotomus to open-ended questions.
- Study of the budgeting process in practice, how budgets are made, reports received at each level, to what use they are put, main problems experienced etc and
- Detailed open discussions to cross check information gathered by the questionnaires and the policy documents of these organizations.

The information was gathered mainly at the Kenya Head Office (of the INGOs and the selected partners) level. Target respondents were the Kenya Country Directors / managers (who addressed questionnaire sections 1, 5, 7, 8 and 9) and the Finance and Administration Managers of each organization (who addressed questionnaire sections 2, 3, 4 and 6). Where necessary, the required respondents or their most appropriate replacements were traced at the organizations' head offices in the United Kingdom and interviewed (in the case of Oxfam GB and Save the Children Fund)7. The head offices in the UK helped to state and clarify policy.

The process involved delivery of the questionnaires alongside the letter of introduction (see appendix) to the sampled organizations. The researcher delivered them and used the opportunity to expound on the background and importance of the study. The organizations were encouraged to think through and fill the questionnaires. After an interval of at least two days the researcher went back to collect the forms, seek clarifications on some of the responses and to explain whatever questions the respondent found not clear. The filled questionnaires were then collected and analyzed.

---

6 The Researcher is a manager with Oxfam Regional Management Center (RMC) that oversees Oxfam’s operations in the Horn, East and Central Africa (HECA) Region. The RMC is based in Nairobi, Kenya.
3.5 **Data Analysis**

Data collected was analyzed through summary statistics, tables and percentages. This descriptive statistics approach to data analysis is not new in social sciences research.

In the past several researchers, both in Kenya and internationally, have employed same technique. They include: Minja (1985), Osewe (1998), Kyamanywa (1982), Nzule (1999) and Maurice and Antony (1966). When Coates, Rickwood and Stacey carried out research to establish cost management practices in various companies, it is this descriptive statistics method of data analysis that they used.

In 1966, Lyne and Andrews used this approach and sampled eleven UK companies to study Activity Based Techniques in management.

Field study approach is believed to give a more in-depth understanding of observations as it gives a greater involvement with the organisations under study (Coates et al, 1966). This approach is becoming more acceptable and it is considered necessary in accounting research. Goves and Tomkins (Wilson and Chua, 1994), observe that a significant number of researchers in accounting need to put less emphasis on "detached" mathematical analysis, laboratory tests and move into more detailed field work. They are then able to focus on studying how practitioners perceive the field of accounting.

The main findings, conclusions and recommendations arising from these analyses form subject matter of the ensuing chapters of this report.

---

7 The Researcher was seconded to work from Oxfam GB’s headquarters in Oxford, United Kingdom for a period of two months as the survey was going on.
4. **ANALYSIS AND INTERPRETATION**

4.1 Data Analysis

This section uses suitable analyses to interpret and present findings from the data collected during the survey. This is done by means of modes / frequencies of responses, percentages and summary tables. Descriptive analyses are done for qualitative data and main indicators presented.

Fifteen (15)\(^8\) organizations in total were selected and fully participated in the survey. Of these organizations, seven had their main offices in Nairobi and its suburbs and the rest were from outside Nairobi (Nyanza, Turkana and Rift Valley). This represented a response rate of 100%. The only constraint realized was that most of the Chief Executives who were expected to fill parts 1, 5, 7, 8 and 9 of the questionnaires did not do so. They instead delegated the responsibility to their Finance and Administration Managers. These managers felt inadequate in filling parts of the sections earmarked for their chief executives. In the end, although 100% of filled questionnaires were collected, they were only filled to between 80% and 90% level. To fill up this void, follow up discussions were held and captured general indications of practice.

4.2 Research Findings and Interpretation

4.2.1 General Findings and Interpretation

<table>
<thead>
<tr>
<th>Table 1 - Summary of Responses on Period Based Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Question</strong></td>
</tr>
<tr>
<td>1.5 How often are budgets made?</td>
</tr>
<tr>
<td>2.1 How long before does budget preparation start?</td>
</tr>
<tr>
<td>4.5 How often are budgets revised?</td>
</tr>
<tr>
<td>4.10 How often do projects you fund report to you on finances?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Question</th>
<th>Month</th>
<th>Quarter</th>
<th>Biannual</th>
<th>Annual</th>
<th>Adhoc</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.5 How often are budgets made?</td>
<td>10%</td>
<td></td>
<td></td>
<td>90%</td>
<td></td>
</tr>
<tr>
<td>2.1 How long before does budget preparation start?</td>
<td>40%</td>
<td>50%</td>
<td>10%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.5 How often are budgets revised?</td>
<td>30%</td>
<td>15%</td>
<td>15%</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>4.10 How often do projects you fund report to you on finances?</td>
<td>60%</td>
<td>40%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^8\) Three main organizations namely Oxfam GB, Action Aid and Save the Children Fund were selected. Twelve projects and/or partner organizations to these three were also selected and participated in the survey in accordance with the approved revised proposal.
All the organizations (100%) that participated had generally been operating in Kenya for a long time (over 20 years) and have substantial turnover (each with over KES 200M per annum) in Kenya. They all (100%) rated budgeting and budget management as very important on the five point Likert Scale.

This information is vital. It serves to rule out lack of well-developed systems or procedures on grounds of the organizations being small or newly started. Old organizations and with annual turnover in excess on KES 200M as those surveyed, would be expected to have well developed and entrenched budgeting practices.

The organizations surveyed mainly prepare annual budgets (90%, table I) and start their budgets preparation exercise at least three months before (in fact 60% of them start six months to one year before, table I) the time budgets are expected to become operative. They similarly prepare regular management reports on either monthly (60%) or quarterly (40%) time intervals. The reports are used for management reporting and for onward relay to the next higher office in the hierarchy (incase of projects and partner offices to the country office. In the case of country office then to the regional or head office).

All the participating organizations (100%) had well developed performance appraisal systems that were activated once each year.

### 4.2.2 Approaches and Philosophies to Budgeting

Investigations into approaches and philosophies of budgeting were aimed at finding out: if a rational linkage exists between budgets and plans (strategic and operational) and if they are well developed as to establish a sound cost effectiveness basis that can serve to amplify variances. Researchers have argued that these are necessary to curb financial malpractice.  

Most (70%) of the organizations surveyed were not sure of what budgeting approaches (incremental, zero based/activity, priority based, combination or none of these) they adopted. Further probing
revealed that most of them (70%) adopted a mixture of zero based and priority based budgeting. They
normally start with activity based budgeting but whenever budget limits are imposed from up the
hierarchy; they are often below the budgeted requirements. The organizations then go back to "prune"
out items that do not meet priority ranking. Of the remainder organizations, 20% still adopt incremental
budgeting while the remaining 10% adopted other forms of budgeting.

To facilitate this budgeting process, many (85%) of the organizations adopt Logical Framework
(Logframe) in planning. This framework allows the organizations to develop a logical link (between
organization's objectives, activities to achieve them and the detailed costs necessary for these activities).
The remaining organizations (15%) adopt other frameworks. All (100%) of the organizations had
strategic plans and about 75% of them made 3-5 years' plans while the rest made 1-3 years' strategic
plans. All strategic plans had budgets attached to them (realistic budgets for the first year and indicative
budgets for the subsequent years).

4.2.3 Cost Effectiveness in Budgeting Practice

A test on how well cost effectiveness is built into budgets was aimed to check existence of "sanctioned
mismanagement". The reasoning is that if a budget with over-estimation of expenditure is approved
then that is advance approval from the donor or budget-approving manager. Cost effectiveness can also
be enhanced in the interim reports if the receiver of the reports scrutinizes them and makes changes to
incorporate these requirements in subsequent budgets.

Generally (70%) organizations start detailed budgeting at least six months before the budgets become
operational. Policy guidance to the budgeting process is often (40%) given by the Board (of Governors,
Trustees, and Directors) and occasionally (30%) given by the CEO. In the remaining situations, others
give policy guidance. Once made the budgets are scrutinized and approved by Board (30%), CEO
(60%) and remainder by others. Once approved the budget holders (managers of the budget) turn out to
be "others" (85%) and budget team (in 15% of the cases).

Very few (25%) of the organizations utilize ratios to scrutinize budget proposals. In these cases, the
main ratios used were administration costs to program costs and staff costs to total costs. Two
benchmarks were unveiled: 30:70 maximum for administration to program costs and 40:60 for staff to
total costs respectively. For the majority (70%) no ratios were checked both at the budgeting and
reporting stages. Asked why ratios were vital, 85% contend with the ability of ratios to check against low impact. If unchecked, un-proportionately high amounts may be spent on remuneration and administration at the expense of program work.

Reports of actual realized against these budgets are made for CEO (30%), Finance Manager (30%) and others (40%). The final decision-makers on the entire budget cycle were found to be the Board (50%) and others (50%).

4.2.4 Components of the Budgeting Practice

Most researchers have identified six vital roles that budgets should play if used in a meaningful and holistic way. In a nutshell, these roles are aid planning for operations, co-ordinate activities, control operations, motivate performance, communicate plans/operations and evaluate achievements. The collection and analysis of data under this section was meant to determine to what extent the surveyed organizations utilized budgets in these roles. The findings of practice Vis a Vis this theoretical framework is analyzed below.

4.2.5 Conformity to Theoretical Framework

4.2.5.1 Use of Budgets in Planning Operations

Budgeting process starts after strategic plan has been drafted and forms a vital component of the strategic plan (75%). Annual budgets are mandatory and are made at least half a year before they become operational. Budgets are generally (100%) rated very important. In fact all funding organizations (100%) insist on presentation of a proposal and a budget before any funding arrangement is discussed and eventually contracted. Once a contract is established, funds are released on different arrangements (refund of actual amounts spent - 20%, lump sum remittances with passage of time - 30%, lump-sum remittances when scheduled reports are submitted - 20% and in 30% of the cases other arrangements were in place).

Before any expenditure is incurred, most (90%) of the organizations do a budget check. In many instances (100%), however, budget revisions are allowed. The revisions could be done once annually
(20%), bi-annually (20%), quarterly (20%) and on ad hoc basis (40%). In 65% of the cases, an item could still be funded even if it was not in the approved budget.

4.2.5.2 Use of Budgets in Coordinating Activities

In 20% of the cases budgeting is done at the Section level, in another 20% at the department level, in yet another 20% of the cases at office level and the rest at other levels. All the organizations (100%) had organization-wide budgets that were derived as a summation of all units' budgets.

All the organizations took steps to ensure that the budgets made were broadly in line with and served the strategic plans approved. Efforts were also taken to ensure that the budgets were comprehensive enough (took into account all the anticipated activities in as much as was practically possible).

In use of the approved budgets, the funding organizations made contracts with beneficiary organizations using a mixture of methods (funding specific programs in an organization, whole or part of the whole organization etc). Once funding agreements are struck, funds were disbursed on lump sum basis (20%), timed disbursement basis (30%), submission of reports basis (20%) and other bases (30%).

The reports required from funded organizations were mainly financial and narrative (90%) and would cover the whole or part of the organization (whichever is funded).

4.2.5.3 Budgeting Practice in Control of Activities

Table II - Summary of Responses on Staff Based Multiple Choice Questions

<table>
<thead>
<tr>
<th>Question</th>
<th>BOD</th>
<th>CEO</th>
<th>FM</th>
<th>B.Team</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.2 Who gives policy guidance to budgeting?</td>
<td>40%</td>
<td>30%</td>
<td></td>
<td></td>
<td>30%</td>
</tr>
<tr>
<td>4.2 Who scrutinizes and approves budgets?</td>
<td>30%</td>
<td>60%</td>
<td></td>
<td></td>
<td>10%</td>
</tr>
<tr>
<td>4.3 Once approved, who is the budget holder?</td>
<td></td>
<td></td>
<td></td>
<td>15%</td>
<td>85%</td>
</tr>
<tr>
<td>4.7 For whom are financial reports made?</td>
<td>30%</td>
<td>30%</td>
<td></td>
<td></td>
<td>40%</td>
</tr>
<tr>
<td>6.8 Who is the final decision-maker?</td>
<td></td>
<td></td>
<td></td>
<td>50%</td>
<td>50%</td>
</tr>
</tbody>
</table>
Of the organizations surveyed, 90% would carry out a budget check (that a budget existed and had sufficient balance to cover the cost) before any commitment or payment is made. Asked whether they would fund an activity that did not have a budget, 65% would not, 20% would and 15% would "somehow".

In 90% of the responses, the persons controlling the budgets were different from the persons who approved or prepared the budgets. Often the budget holders were not adequately inducted on the rationale and basis of preparation of the budgets they were managing.

All (100%) the organizations make periodic reports. These reports are mainly (90%) income and expenditure reports with a comparison between budget and actual. Many organizations (60%) report at monthly time interval and the rest (40%) report quarterly. No dominant reason for this interval of reporting could be deciphered. These reports are made for CEO (30%), the Finance Manager (30%) and for other users (40%).

Most (70%) of the funding organizations surveyed did not give any guidance on what could or could not be charged against the budgets. Only 45% of the organizations have and issue out guidance on how fixed assets (cars, computers, mobile phones etc) bought from the budgets they fund could be used.

In 40% of the budgets, indication of the beneficiaries of each project had to be provided before the budget could be approved. This was in an apparent effort to ensure that the impact was achieved and could be measured at the end of the budget period.

4.2.5.4 Budgeting Practice in Motivation of Performance

All (100%) the organizations carry out performance appraisal of their management staff. They all (100%) do so once annually. However, only a handful (35%) of the organizations could identify the best budget manager in their respective organizations in the immediate past two years. Of those who did, 25% gave personal, rather than organizational, positions. All who identified best budget manager did so on the basis of his/her ability to:

(i) Conform to budget approved,
(ii) Maintain good ratios between staff & administration expenses on one hand and program expenses on the other (impact, input/output) and
(iii) Minimized or discussed variances in time (sticking to goals).

Even in the best of cases, variances were recorded on budgets except that the managers moved fast to justify (beyond control and necessary to achieve the goals set) and even got consent beforehand. In only 10% of the cases was the Board involved in voting the best budget manager.

Only in 50% of the cases was budget management ability a vital factor in selection, appraisal, retention and promotion of management staff. This was a contravention of policy manuals, which stated that budget management ability was a key measure of competence. Only 25% of the cases had regular (annual) training for managers in financial management.

For the adjudged good managers, no reward was ever received in form of promotion, money or distinct non-monetary reward (at times just certificates of appreciation were issued). Extreme poor budget management was only sneered at (90%) and would only be detected when the reports would be submitted (90%). In only 10% of the cases would the CEO deny promotion on account of poor budget management and this only occurred rarely (10%).

Table III - Summary of Responses on Time Based Questions

<table>
<thead>
<tr>
<th>Question</th>
<th>10yrs+</th>
<th>5-10yrs</th>
<th>3-5yrs</th>
<th>1-3yrs</th>
<th>0-1yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.3 How long is your strategic plan?</td>
<td></td>
<td></td>
<td>75%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>2.4 What period plans have budgets?</td>
<td></td>
<td></td>
<td>75%</td>
<td>25%</td>
<td></td>
</tr>
</tbody>
</table>

4.2.5.5 Budgeting Practice in Communication of Plans and Operations

Budgeting exercise starts at the top management (10% of the cases), mid management (30%), and at lower cadres (supervisors, all staff and others) in 60% of the cases. Only in 10% of the cases was it indicated that it involves everybody. This is the ideal situation as advocated by Management by Objectives (MBO) Approach.

In all (100%) of the cases the budgets flowed upwards and ensured management was aware of plans. All the expenditure reports (100%) showed a relation to the budget approved. Reports were submitted
to Finance Manager (30%), CEO (30%) and others (60%). Any revisions to budgets had to go through the same budget approval channels.

Periodic reports were prepared (100%) and shared within the organizations and funding partners

### 4.2.5.6 Budgeting Practice in Evaluations / Audits

**Table IV - Summary of Responses on Close Ended Questions**

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
<th>Somehow</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.4 Are budgets very important?</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.9 Are ratios used to scrutinize budgets/reports?</td>
<td>25%</td>
<td>75%</td>
<td></td>
</tr>
<tr>
<td>3.11 Are budgets made strictly financial?</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.4 Are there specific budget checks before payment is made?</td>
<td>90%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>4.9 Is it possible to fund an activity without a budget?</td>
<td>20%</td>
<td>65%</td>
<td>15%</td>
</tr>
<tr>
<td>4.11 Do you make any financial returns to your head office?</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.1 Is a check (budget, balance) done before order is placed?</td>
<td>75%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>6.4 Have you ever recorded expenditure beyond budget?</td>
<td>75%</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td>6.7 Must your organization, and others you fund, be registered?</td>
<td>90%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td>6.9 Do you spell out staff remuneration and benefits for organizations you fund?</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6.10 Do you give rules for use of fixed assets you fund?</td>
<td>35%</td>
<td>65%</td>
<td></td>
</tr>
<tr>
<td>6.11 Is it mandatory to do internal audits?</td>
<td>25%</td>
<td>75%</td>
<td></td>
</tr>
<tr>
<td>6.12 Is it mandatory to do external audits?</td>
<td>10%</td>
<td>90%</td>
<td></td>
</tr>
<tr>
<td>6.13 Would you refund if a partner overspent on total budget?</td>
<td>20%</td>
<td>75%</td>
<td>5%</td>
</tr>
<tr>
<td>6.18 Do you undertake external evaluations of projects?</td>
<td>15%</td>
<td>75%</td>
<td>10%</td>
</tr>
<tr>
<td>7.2 Do you link manager's perform.to management of budget?</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7.4 Is budget mangt ability an issue in staff selection, retention and promotion?</td>
<td>20%</td>
<td>75%</td>
<td>5%</td>
</tr>
<tr>
<td>7.9 Do you consider you current budgeting framework ideal?</td>
<td>30%</td>
<td>50%</td>
<td>20%</td>
</tr>
<tr>
<td>7.10 Should projects you fund adopt your budget framework?</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8.3 Are allowable and disallowable costs specified?</td>
<td>15%</td>
<td>75%</td>
<td>10%</td>
</tr>
<tr>
<td>8.5 Is financial mismanagement in NGOs on increase in Kenya?</td>
<td>90%</td>
<td>10%</td>
<td></td>
</tr>
</tbody>
</table>
8.8 Have you ever detected financial mismanagement? | 85% | 5% | 10%
9.1 Is there a disciplinary code for financial mismanagement in your organization? | 75% | 25% |
9.3 Do your contracts spell out this disciplinary code? | 50% | 50% |
9.5 Do you subscribe to any corruption free firm in Kenya? | 100% |

In all the audits (both external and internal) or monitoring trips made, the approved budgets formed the base for analyzing expenditure (inputs). Expenditure and impact was adjudged on the basis of how well they related to the budget approved (95%). In most of the cases, however, benefits were not as tangible as inputs and therefore an accurate input/output relationship could not be worked out.

No organization had ever been issued with an adverse report on the grounds of lack of cost effectiveness by the monitors, internal or external auditors or evaluation teams. In many cases output could not be quantified (change in people's attitudes, quality of life, happiness etc) making input/output relationship analysis almost impossible.

4.2.6 Actions against Financial Mismanagement

The survey revealed a general consensus (90%) that financial mismanagement is on the increase in Kenya. Many of the organizations had developed their disciplinary code against financial mismanagement. All of them had very detailed financial procedure manuals that established adequate controls and checks. Only 50% of the organizations incorporated the disciplinary code into staff or partner contracts. The extreme disciplinary step stipulated was dismissal of staff involved (75%) and invocation of court charges (25%). For partner organizations, the only action was termination of funding arrangement. None of the organizations surveyed subscribed to any anti-corruption organizations. Some (50%), however, had prominent posters in the main reception areas that proclaimed their premises were "corruption free areas".

Many (85%) of the organizations had experienced financial mismanagement, to some of them outright fraud, in the past. External audit was not mandatory in 75% of the cases. Similarly, 75% of the organizations did not make internal audits mandatory. In all the organizations, program officers made
frequent (quarterly or monthly) supervision visits to partner organizations but whether these visits included finance monitoring was unclear.

Asked whose duty it was to detect financial mismanagement, 50% feel it should be management, 20% think external auditors, another 20% think internal auditors while 10% felt it should be everybody's responsibility.

None of the organizations ever shared out the lists of staff or partner organizations they had terminated relationships with due to financial mismanagement. Many feared the retaliation that may arise given the fact that no foolproof information existed to defend the position in courts. "Lists of shame" comprising of blacklisted past staff and partner organizations on account of financial mismanagement were compiled in the organizations surveyed but were treated with extreme secrecy.
5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Summary

5.1.1 On Approaches and Philosophies to Budgeting
Majority of INGOs and their partner organizations adopt appropriate budgeting approaches (mainly Zero Based Budgeting and Priority Based Budgeting). Similarly, most of the organizations surveyed adopt appropriate philosophies to budgeting (most common framework being the Logical Framework Approach). Only very few (20%) still use incremental budgeting.

5.1.2 On Use of Budgets to Achieve Cost Effectiveness
In many cases no recognizable effort has been put into tapping the power of budgeting practices to achieve cost effectiveness. Too much stress has been put on procedures without the realization that cost effectiveness can not be fully controlled by procedures.

5.1.3 On Use of Budgets in Planning for Operations
All the organizations surveyed take budgeting quite seriously. They all prepare annual plans and budgets to source funding and plan for operations of the subsequent years. Such budgets are generally in line with the strategic plans of the respective organizations. The budgets are also used to cross check transactions.

5.1.4 On Use of Budgets in Coordinating Activities
Master budgets are prepared by all the organizations surveyed. They are a culmination of narrower budgets prepared at the levels of sections, units, department etc. The master budgets are organization wide and serve to bring together and rationalize (coordinate) the intended operations of the entire firm.

5.1.5 On Use of Budgets in Controlling Activities
Many organizations check all payments against existence of budget lines. Reports are also expected to link the activities that took place to those that were planned. What happens as a result of this exercise, however, leaves some room for improvements. Despite the checking, most of the organizations do still allow payments or refunds in excess of the budgets. Over expenditure is rampant amongst the
organizations surveyed. In some of the instances, the circumstances causing the variance are controllable.

5.1.6 On Use of Budgets in Motivating Performance

In theory (performance manuals that exist) all the organizations surveyed carry out annual performance reviews and use budgets management as an indicator of managers' performance. In practice, some years pass by before some managers' performance is evaluated. Performance evaluation rarely touches on a manager's ability to manage budgets effectively.

5.1.7 On Use of Budgets to Communicate Plans and Operations

Perhaps at the face value this is one of the functions that budget practices serve best. All the organizations surveyed did prepare budgets, present them through the hierarchy and have them approved at the appropriate levels. Similarly, they all made reports, although many delayed, and always submitted them through the same hierarchy. Further inquiry revealed that this is done because failure to do so would mean a cut in further funding. Organizations did not have any choice.

5.1.8 On Use of Budgets in Evaluation and Audits

In most of the evaluations and audits done, the budget formed the basis for assessing organizations. This is quite well entrenched and practiced amongst the INGOs whenever the exercises were undertaken. Sadly though, most of the organizations do not make monitoring, evaluations, audits etc as mandatory. Many organizations have capitalized on this loophole to engage in fraudulent expenditure of budgets. In fact, many funding organizations were never concerned if expenditure was in line with the budget. In one incident, a scrupulous manager simply paid himself the balance that remained on transport budget at the end of the year. This report was accepted without question since expenditure conformed to the budget.
5.2 Conclusion

5.2.1 On Approaches and Philosophies to Budgeting
Most of the organizations have adopted budgeting approaches and philosophies that are modern and can act to reduce financial mismanagement. At times, however, the overall budget parameters from head offices contradict these practices.

5.2.2 On Use of Budgets to Achieve Cost Effectiveness
Room still exists, in most of the organizations, for sanctioned extravagance in use of donor resources. The role of scrutinizing budgets is left to program staff. Most of them "lack knowledge" of competitive market pricing. To many of them, discussions at unit prices' level would demean their esteem.

5.2.3 On Use of Budgets in Planning for Operations
Use of budgets in planning of operations is widely and sufficiently well used in the organizations surveyed. Indeed it is the only, and mandatory way of planning for operations.

5.2.4 On Use of Budgets in Coordinating Activities
There exists a perfect practice through which organizations use budgets to coordinate activities of the organizations. Although the coordination role leaves some room for sub-optimal results, this is a rather advanced area that falls outside the scope of this survey.

5.2.5 On Use of Budgets in Controlling Activities
Whereas the initiative exists and is appreciated, the actions arising out of emerging realities makes the whole initiative meaningless. Good and productive use of budgets to control activities will require a solid base. Such a base must have very realistic and comprehensive budgets and strictly enforceable action to deviations.

5.2.6 On Use of Budgets in Motivating Performance
Even in the few cases where Performance Evaluation is done, the way in which it is done in most of the organizations seems improper. It is used as a session for recollecting any incidences of non-performance and negotiating compensation (training, salary increase, bonuses etc). It does not therefore reflect the usefulness of budgets in motivating performance. In the few incidences where it was well
done, the reward to motivate performance was often decided upon by the Head Office in Europe (certificate of recognition, public recognition, memo of appreciation etc). This form of appreciation did not particularly seem to motivate the African managers. Never is budget mismanagement punished for all to see. Budget mismanagement is therefore tolerated.

5.2.7 On Use of Budgets to Communicate Plans and Operations

Budgets are generally very well used to communicate plans and operations of organizations. With a bit of refinement (in content and timing) this practice can be perfected. Current practice is, however, sufficient. There are issues of honesty which specific organizations have to devise ways to address them. Some incidences were uncovered where fraudulent budgets and reports were submitted. At times same reports submitted to more funders, and therefore funded in more ways than one. In some cases budgets were made and approved for assets that organizations had already bought using other donors' funding.

5.2.8 On Use of Budgets in Evaluation and Audits

Use of budgets in evaluations and audits is generally well accepted but the evaluations and audits themselves are not mandatory in most of the organizations. The potential of budgets in evaluations and audits is thus under utilized.
5.3 Recommendation

5.3.1 On Approaches and Philosophies to Budgeting
There is need to strengthen and entrench appropriate budgeting approaches and philosophies through close scrutiny. Firms that have not yet adopted such approaches and philosophies should be encouraged through such national watchdog bodies as the NGO Council.

5.3.2 On Use of Budgets to Achieve Cost Effectiveness
There is need for more team spirit in the scrutiny and authorization of budgets. To best utilize the staff expertise, it is necessary to split tasks so that different professionals (finance managers on finances, M&E staff on impact, G&D staff on gender equity etc) can give an input to the process. The Chief Executives should only act after getting advice from these different professionals.

5.3.3 On Use of Budgets in Planning for Operations
There is need to strengthen further the use of budgets in planning for operations so as to boost the value for money use of resources. This can be done through encouragement of the rest of the organizations to discard incremental budgeting for Zero Based or Priority Based Budgeting. More attention would also need to be paid to unit costs and use of assets controlled more strictly.

5.3.4 On Use of Budgets in Coordinating Activities
The current practice is good enough and should be upheld. Later on, the organizations may find it useful to re-assess the relationships between the various units/sections/departments so as to eliminate sub-optimality that currently exists.

5.3.5 On Use of Budgets in Controlling Activities
INGOs need to strictly enforce the use of budgets in controlling activities. Except for the situations where deviations are beyond management's control, all other deviations must be strictly acted upon. Currently the whole checking and identifying activities that do not conform to the budget is a mere theoretic exercise.

5.3.6 On Use of Budgets in Motivating Performance
Budget management ability is crucial in success of any non-profit making organization. Such organizations should make budget management a critical performance measure and compliance
rewarded in a way staff may decide on. Non performance should similarly be punished in a way others can see. For this to work effectively, organizations must develop and build consensus on criteria, rewards and punishment systems. Only in this way will the budgets be better managed and used to motivate performance.

5.3.7 On Use of Budgets to Communicate Plans and Operations

Although well done, there are issues of morality and ethics to be addressed. Organizations should devise ways to ensure that an activity is only funded once (and by one donor), at most cost effective price, is used well on project work and is reported only once. This will require much closer scrutiny and networking amongst donor organizations. Indeed monitoring and evaluations such as impact monitoring, external audits etc should be made mandatory.

5.3.8 On Use of Budgets in Evaluation and Audits

The possibility of making capacity audits (on systems, procedures and personnel), carrying out interim internal and external audits and final evaluation should be explored by the INGOs. Current laxity has opened many avenues for abuse of resources. If internal audits, monitoring visits, external audits and evaluations of impact are made mandatory then financial mismanagement will be controlled to a great extent. This is already done by some of the "hard" INGOs that insincere NGOs are already avoiding to approach for funding. Success however requires collaboration and similar steps amongst all the major INGOs.
6. REFERENCES

- Amate, C. O. C; Inside the OAU, Pan Africanism in Practice, Macmillan Publishers (pp. 84-95)
- Anheier, K. K; Managing Non-Profit Organizations - Towards a New Approach, London School of Economics (2000) (pp. 1 - 20)
- Davies, Colin; Underdevelopment in Kenya, The Political Economy of Neo-Colonialism, University of California Press (pp. 230-233)
- Hancock, G.: Lords of Poverty, Macmillan Publishers, 1989 (pp. 48, 81, 190 etc)
- Internet Web site for Action Aid, www.actionaid.org.uk
- Internet Web site for Save the Children Fund, www.savethechildren.org.uk
- Internet Web site for BOND, www.bond.org.uk
- Machiavelli, Niccolo: "The Prince", Prentice Hall, 1983 (pp. 75, 82, 85 etc)

7. BIBLIOGRAPHY

- Black, Maggie; A cause for Our Times; Oxfam the first 50 years, Oxfam Publications (1992)
- Elinani J. M; A Survey of Performance Measure in Divisionalised Companies in Kenya, Unpublished MBA project, University of Nairobi (1994)
- Kaplan R. and Johnson T; Relevance Lost: The rise and fall of Management Accounting, Harvard Business School Press


McKinney J. B; Effective Financial Management in Public and Non-Profit Agencies, Quorum, West Port, Connecticut (1995)


Nzule M.M; A Survey of Adoption of Activity Based Costing Systems among Kenya Firms, Unpublished MBA project, University of Nairobi (1998)


Schwartz P; Management in Non-Profit Organizations, Haupt, Bern (1992)

Thompson J. D; The Prince of AALAE; Corruption & Mismanagement in an African NGO, Ruaraka Printing Press (1997)


EMORANDUM

O: All Heads of Executive Agencies and Heads of States Authorities

ROM: Governor Jimmy Carter

SUBJECT: F.Y. 1973 Budget Preparation: Zero-Base Budgeting

For the F.Y. 1973 Budget we shall adopt the concept of "Zero-Base Budgeting". This process will permit a detailed analysis and justification of budgets requests by enabling you to identify, evaluate, and rank in order of importance each functional and operating which your Agency will perform.

This process will permit you and your internal management to present information and analysis needed for the Budget Director and Legislature better understand your operations and will provide to each of you more direct contract over your budgets.

Each of you will have two reviews with me to discuss your Agency's operations and your recommendations. The first review will give you the opportunity early in the Summer to present your own department's plans for the next fiscal year. The second review will give you the opportunity to update and revise your budget requests, if necessary.

Zero-Base Budgeting will assist us in re-evaluating your Agency's functions,
APPENDIX II - LETTER OF INTRODUCTION

June 21, 2001

The Kenya Country Programme Manager / Director
Save the Children Fund (attn. Nigel Nicholson)
P.O. Box
NAIROBI

REF: A SURVEY OF BUDGETING PRACTICES AMONG THE MAJOR BRITISH DEVELOPMENT ORGANIZATIONS IN KENYA

I currently work for Oxfam GB as the Regional Finance Co-ordinator in charge of the Horn, East and Central Africa (HECA) Region. I am at the same time concluding my MBA studies at the University of Nairobi.

To complete the requirements for the award of the degree of Masters in Business and Administration (MBA) of the University of Nairobi, I am required to carry out a research project. I am therefore conducting a survey on the budgeting practices among the major British Development Organizations in Kenya. Your organization has been sampled among the most suitable ones to participate in the survey. The three focus organizations will be Oxfam GB, Save the Children Fund and Actionaid.

The objective is to determine how we manage our budgets at the moment (prepare, implement, evaluate etc.) for both the mainstream organization and the projects or partner organizations funded. The survey will use the practice, experience and previous studies to recommend any improvements to strengthen the process. Some emphasis will be put on using budgets to reduce financial mismanagement in development organizations.

In a short while I shall call on you to explain the survey and present the final questionnaire that will facilitate the survey. Attached is a draft version of the questionnaire.

The questionnaire will require the personal attention of the following two officers (or their deputies):

1. The Kenya Country Programme Manager or Director. To fill sections 1, 5, 7, 8 and 9
2. The Country Finance and Administration Manager. To fill sections 2, 3, 4 and 6.

The information collected, analyzed, conclusions reached and the recommendations made are confidential and purely for academic purposes. A copy of the final report may be presented to you on written request.

Thank you very much for your co-operation and assistance in this survey.

Yours truly,

Morrison A. Muleri
Oxfam GB RMC
Box 40680, Tel 715003 xt 128
Tel House 810845
E-mail mmuleri@oxfam.org.uk
NAIROBI
APPENDIX III - LIST OF BRITISH INgos REGISTERED IN KENYA BY 1/1/01

1. ABANTU for Development
2. ACORD
3. Action Against Hunger UK
4. Action on Disability and Development
5. ActionAid
6. ACTSA
7. ADRA-UK (Adventist Development & Relief Agency)
8. AFFORD
9. AfPiC (Action For Peoples in Conflict)
10. AFRICA NOW
11. African Initiatives
12. Akina Mama wa Afrika
13. Alliances for Africa
14. AMREF
15. APT Enterprise Development
16. Associated Country Women Of The World
17. BasicNeeds
18. Book Aid International
20. British Red Cross Society
21. CAFOD
22. CARE International UK
23. ChildHope UK
24. Children in Crisis
25. Children's Aid Direct
26. Christian Aid
27. Christian Blind Mission
28. Christian Engineers In Development
29. Christian Partners in Africa
30. Christians Abroad
31. CODA International
32. Comic Relief
33. Commonwealth Human Ecology Council
34. Commonwealth Trade Union Council
35. Computer Aid International
36. Concern Universal
37. Concern Worldwide
38. Conflict, Development and Peace Network
39. CORD
40. Development Education Association
41. ECHO International Health Services Ltd
42. Education for Development
43. Engineers Against Poverty
44. Evergreen Trust
45. FARM-Africa
46. Food for the Hungry UK
47. Forest Management Foundation
48. Forest Peoples Project
49. FORWARD International
50. Friends of Conservation
51. Future In Our Hands
52. Global Witness
53. GOAL UK
54. Hamlet Trust
55. Harvest Help
56. Health Unlimited
57. Healthlink Worldwide
58. Help Africa Trust
59. HelpAge International
60. Homeless International
61. Hope for Children
62. Human Relief Foundation
63. Humanitarian Relief Foundation
64. Impact Foundation
65. Intermediate Technology Development Group
66. Interminds
67. International Alert
68. International Care & Relief
69. International Childcare Trust
70. International Co-operative College
71. International Community Assist
72. International Community of Women Living with HIV/AIDS
73. International Extension College
74. International Family Health
75. International Health Exchange
76. International HIV/AIDS Alliance
77. International Institute for Environment and Development
78. International Integrated Health Association
79. International Planned Parenthood Federation
80. International Records Management Trust
81. INTRAC
82. Joint Cooperation Trust
83. Lasallian Developing World Projects
84. Leonard Cheshire International
85. LEPRA
86. Link Community Development
87. Living Earth Foundation
88. MANGO
| 89. | Marie Stopes International                               | 138. | TRANSAID Worldwide                                  |
| 90. | Mercy Corps Scotland                                      | 139. | Transparency International (UK)                     |
| 91. | Methodist Relief and Development Fund                    | 140. | Tree Aid                                            |
| 92. | Minority Rights Group International                       | 141. | Tropical Health and Education Trust                 |
| 93. | Motivation                                                | 142. | UK Committee for UNICEF                             |
| 94. | Muslim Hands                                              | 143. | VETAID                                              |
| 95. | One World Action                                          | 144. | Village Aid                                         |
| 96. | OneWorld UK                                               | 145. | Vision Aid Overseas                                 |
| 97. | OXFAM                                                     | 146. | Voluntary Service Overseas                          |
| 98. | PANOS                                                     | 147. | Volunteer Missionary Movement                       |
| 99. | People in Aid                                             | 148. | War on Want                                         |
| 100.| PLAN International UK                                     | 149. | WaterAid                                            |
| 101.| Population Concern                                        | 150. | WOMANKIND Worldwide                                 |
| 102.| POWER                                                     | 151. | World Development Movement                          |
| 103.| Project HOPE UK                                           | 152. | World Emergency Relief                              |
| 104.| PROMPT                                                    | 153. | World Medical Fund                                  |
| 105.| Quaker Peace and Social Witness                          | 154. | World University Service (UK)                       |
| 106.| Rainforest Foundation                                    | 155. | World Vision UK                                     |
| 107.| Raleigh International                                     | 156. | WORLDwrite                                          |
| 108.| Reform Corporation                                        | 157. | WWF (UK)                                            |
| 109.| Relationships Foundation International                    | 158. | Y Care International                                |
| 110.| Results Education                                         | 111. | Riders for Health                                   |
| 112.| Royal Commonwealth Society                                | 113. | Royal Society for the Protection of Birds           |
| 114.| Send a Cow                                                | 115. | Sense International                                 |
| 116.| Sight Savers International                                | 117. | SIL UK                                               |
| 118.| Skillshare International                                  | 119. | Society for Environmental Exploration (Frontier)    |
| 120.| SOS Children's Villages UK                               | 121. | St Mathew's Children's Fund                         |
| 122.| Students Partnership Worldwide                            | 123. | Teaching-aids at Low Cost (TALC)                    |
| 124.| Tearfund                                                  | 125. | The Diana Princess of Wales Memorial Fund           |
| 126.| The European Children's Trust                            | 127. | The Leprosy Mission                                 |
| 128.| The Mothers' Union                                        | 129. | The Oasis Charitable Trust                          |
| 130.| The Resource Alliance                                     | 131. | The Richmond Fellowship International               |
| 132.| The Salvation Army                                        | 133. | The Save the Children Fund                         |
| 134.| The Toybox Charity                                        | 135. | The Welfare Association                             |
| 136.| Tools for Self Reliance                                   | 137. | Tourism Concern                                      |


# APPENDIX IV - THE QUESTIONNAIRE

## A SURVEY OF BUDGETING PRACTICES AMONG THE MAJOR BRITISH NON GOVERNMENTAL DEVELOPMENT ORGANIZATIONS IN KENYA

(Tick against the most appropriate answer(s). Where clarification is required, do not hesitate to ask for it or to await guidance.)

**Note 1:**  
VI = Very Important, I = Important, ID = Indifferent, NI = Not Important and VUI = Very Un Important  

**Note 2:**  
BOD = Board of Directors, CEO = Chief Executive Officer, FM = Finance manager, B. Team = Budget Team

## 1. INTRODUCTION

1.1 For how long has your organization been operating in Kenya?

<table>
<thead>
<tr>
<th>0-5 years ( )</th>
<th>5-10 years ( )</th>
<th>10-15 years ( )</th>
<th>15-20 years ( )</th>
<th>Over 20 yrs ( )</th>
</tr>
</thead>
</table>

1.2 In how many administrative provinces do you have operations in Kenya?

<table>
<thead>
<tr>
<th>1-2 ( )</th>
<th>3-4 ( )</th>
<th>5-6 ( )</th>
<th>6-7 ( )</th>
<th>Over 7 ( )</th>
</tr>
</thead>
</table>

1.3 What is the size of your organization in Kenya (staff numbers, number of offices, turnover)?

Staff:  

<table>
<thead>
<tr>
<th>1-20 ( )</th>
<th>21-50 ( )</th>
<th>51-70 ( )</th>
<th>71-100 ( )</th>
<th>Over 100 ( )</th>
</tr>
</thead>
</table>

Offices:

<table>
<thead>
<tr>
<th>1-2 ( )</th>
<th>3-4 ( )</th>
<th>5-6 ( )</th>
<th>6-7 ( )</th>
<th>Over 7 ( )</th>
</tr>
</thead>
</table>

Turnover p.a. in Millions of KES:

<table>
<thead>
<tr>
<th>Below 50 ( )</th>
<th>51-100 ( )</th>
<th>101-150 ( )</th>
<th>151-200 ( )</th>
<th>Over 200 ( )</th>
</tr>
</thead>
</table>

1.4 How important are budgets in your organization?

<table>
<thead>
<tr>
<th>VI ( )</th>
<th>I ( )</th>
<th>ID ( )</th>
<th>UI ( )</th>
<th>VUI ( )</th>
</tr>
</thead>
</table>

1.5 How often are budgets made for both the organization and the partner organizations that you fund?

| Monthly ( ) | Quarterly ( ) | Biannually ( ) | Annually ( ) | Over 1 yr ( ) |

2. THE LINKAGE BETWEEN BUDGETS AND PLANNING

2.1 At what time does budgeting start? (state period before budget becomes effective)

| Month ( ) | Quarter ( ) | Biannual ( ) | Annual ( ) | Over 1 yr ( ) |

2.2 Who gives policy guidance to the budgeting process?

| BOD ( ) | CEO ( ) | FM ( ) | B. Team( ) | Others ( ) |

2.3 How long is the strategic plan for your organization?

| 10yrs+ ( ) | 5-10yrs ( ) | 3-5yrs ( ) | 1-3 yrs ( ) | Upto 1 yr ( ) |

2.4 Which of the following documents in your organization have budgets attached?

| 10yrs+ plan ( ) | 5-10yrs plan ( ) | 3-5yrs plan ( ) | 1-3 yrs plan ( ) | To 1 yr plan ( ) |

2.5 At what point does your budgeting process begin?

| After objectives set ( ) | Before setting objectives ( ) | After strategic plan made ( ) | Before strategic plan made ( ) | None of these ( ) |

3. USE OF BUDGETS IN COORDINATION OF ACTIVITIES

3.1 How many different units prepare their own budgets in your organization?

| All depts ( ) | All sections ( ) | All offices ( ) | All work groups ( ) | None ( ) |

3.2 Is there any one master budget for the whole organization? Yes ( ), No ( )
3.3 How are programs planned for?

3.4 What funding arrangements do you make with the other partner organizations that you fund?

<table>
<thead>
<tr>
<th>Lumpsum ( )</th>
<th>Timed ( )</th>
<th>Reports condition ( )</th>
<th>Actual refunds ( )</th>
<th>Others ( )</th>
</tr>
</thead>
</table>

If others, specify

3.5 Do you fund specific programs or the whole (or part of the whole) organization?

<table>
<thead>
<tr>
<th>Whole organization ( )</th>
<th>Specific programs ( )</th>
<th>Mixture ( )</th>
<th>Part of whole organization ( )</th>
<th>Other arrangement ( )</th>
</tr>
</thead>
</table>

3.6 What kind of reports do you get from the projects that you fund?

<table>
<thead>
<tr>
<th>Narrative ( )</th>
<th>Financial ( )</th>
<th>Intern audits ( )</th>
<th>Ext. audits ( )</th>
<th>Others ( )</th>
</tr>
</thead>
</table>

3.7 Are they for entire organization or just the components that you fund?

<table>
<thead>
<tr>
<th>Whole organization ( )</th>
<th>Specific programs ( )</th>
<th>Mixture ( )</th>
<th>Part of whole organization ( )</th>
<th>Other arrangement ( )</th>
</tr>
</thead>
</table>

3.8 What funding arrangements do you make with the donor organizations that fund your organization?

<table>
<thead>
<tr>
<th>Lumpsum ( )</th>
<th>Timed ( )</th>
<th>Reports condition ( )</th>
<th>Actual refunds ( )</th>
<th>Others ( )</th>
</tr>
</thead>
</table>

If others, specify


3.9 Are there any specific ratios you observe when scrutinizing budgets submitted to you? Yes ( ), No ( )
If yes, list them out: ________________________________________________________________

3.10 For what reasons are they considered important?
______________________________________________________________

3.11 Are budgets strictly financial? Yes ( ), No ( )
If not which other budgets do you prepare? ____________________________________________

4. **BUDGET – COMMUNICATION LINKAGE**

4.1 Who is involved in your budgeting process?

<table>
<thead>
<tr>
<th>Everybody ( )</th>
<th>Top management( )</th>
<th>Mid management( )</th>
<th>Supervisors( )</th>
<th>Others ( )</th>
</tr>
</thead>
</table>

4.2 Who is involved in the scrutiny and approval of budgets?

<table>
<thead>
<tr>
<th>BOD ( )</th>
<th>CEO ( )</th>
<th>FM ( )</th>
<th>Bgt. Team( )</th>
<th>Others ( )</th>
</tr>
</thead>
</table>

4.3 Once the budgets are approved, who become the budget holders?

<table>
<thead>
<tr>
<th>BOD ( )</th>
<th>CEO ( )</th>
<th>FM ( )</th>
<th>B. Team( )</th>
<th>Others ( )</th>
</tr>
</thead>
</table>

If others, specify---------------------------------------------
4.4 Are there any budget checks that have to be done before expenditure is incurred?
Yes ( ), No ( )
If yes, who does it?

4.5 How often can budgets be revised in your organization?
<table>
<thead>
<tr>
<th>Monthly ( )</th>
<th>Quarterly ( )</th>
<th>Biannually ( )</th>
<th>Annually ( )</th>
<th>Adhoc ( )</th>
</tr>
</thead>
</table>

4.6 What types of financial reports are generated in your organization?
<table>
<thead>
<tr>
<th>Expenditure only ( )</th>
<th>Income only ( )</th>
<th>Income and expenditure ( )</th>
<th>Inc. &amp; Expn. With budget variance ( )</th>
<th>Others ( )</th>
</tr>
</thead>
</table>
If others specify

4.7 For whom are these reports generated?
<table>
<thead>
<tr>
<th>BOD ( )</th>
<th>CEO ( )</th>
<th>Donors ( )</th>
<th>Prog. Team ( )</th>
<th>Others ( )</th>
</tr>
</thead>
</table>

4.8 Do reports ever make references to the budgets approved? Yes ( ), No ( )
If yes, in what ways?

4.9 Is it possible to fund an activity or project without a budget? Yes ( ), No ( ), Somehow ( )

4.10 How often do projects you fund report back to you on finances?
<table>
<thead>
<tr>
<th>Monthly ( )</th>
<th>Quarterly ( )</th>
<th>Biannually ( )</th>
<th>Annually ( )</th>
<th>Adhoc ( )</th>
</tr>
</thead>
</table>
4.11 Do you make any returns of your organization to the head office? Yes ( ), No ( ).
If yes, which ones?

5. **MOTIVATION EFFECT OF BUDGETS**

5.1 Who was the best budget manager in your organization last year?

5.2 What criteria were used to vote him or her the best?

5.3 Who voted him / her the best?

5.4 Did he record any variances (overspends, under spends, excess revenue or less revenue than planned) on his or her budgets? (specify)

5.5 Do you know if he or she ever revised the budget in the course of the year? Specify

5.6 In what ways are the best managers recognized in your organization?

<table>
<thead>
<tr>
<th>Promotion in post ( )</th>
<th>Monetary reward ( )</th>
<th>Non monetary reward ( )</th>
<th>Sponsorship ( )</th>
<th>Others ( )</th>
</tr>
</thead>
</table>

If others, specify

5.7 Who decides on this recognition?
5.8 What disciplinary action is taken if a manager fails to effectively manage his/her budget?

<table>
<thead>
<tr>
<th>Demotion in post ( )</th>
<th>Monetary punishment ( )</th>
<th>Non monetary punishment ( )</th>
<th>Deny opportunities( )</th>
<th>Others ( )</th>
</tr>
</thead>
</table>

If others specify

5.9 At what stage would such budget mismanagement be detected?

5.10 Who would take the action against the manager?

6. CONTROL OF OPERATIONS

6.1 Before requisition of goods and services is done, is any check done to check availability of adequate budget for it? Yes ( ), No ( )

6.2 What would happen if you detected an invoice has come in but there is no budget provision to cover it?

6.3 What checks does a payment go through before the cheque is signed ad released?

6.4 Has any expenditure beyond the budget been recorded in your organization? Yes ( ), No ( ).
6.5 Before you send money to any of the projects that you fund, what control process is undertaken?

6.6 If you use reimbursement process, how do you certify yourselves that expenditure has been well incurred?

6.7 Must all the projects you fund have legal status (be registered)? Yes ( ), No ( )
If yes, specify the registration status you recognize

6.8 Who is the final decision making office or organ in the organizations you fund?

<table>
<thead>
<tr>
<th>BOD ( )</th>
<th>CEO ( )</th>
<th>FM ( )</th>
<th>Bgt. Team( )</th>
<th>Others ( )</th>
</tr>
</thead>
</table>

If others, specify:

6.9 Do you standardize and spell out salaries, benefits and other allowances to be paid to the staff and collaborators of the organizations that you fund? Yes ( ), No ( )
If yes, explain briefly

6.10 Do you have standard rules on how to use the fixed assets financed by your organization and given to the projects or partner organizations you work with? Yes ( ), No ( )
If yes, clarify the policy on private usage of official automobiles, computers and telecommunication equipment
6.11 Is it mandatory to do internal audits among the projects you fund? Yes ( ), No ( ).
If yes who does it?

6.12 What is the policy of your organization on external audits both for the organization and the partners that you fund?

6.13 Suppose a partner organization overspent on its total budget contracted, would you refuse to refund the excess? Yes ( ), No ( ). Explain

6.14 Suppose a project under spends on the budget agreed would you repose or plough to the next phase the amounts unspent? Explain

6.15 What do you do with variances reported by projects to your organization?

6.16 Besides the financial reports, how often do program officers visit the partner organizations that you fund?

6.17 What do these program officers do in terms of ensuring that finances are well spent?

6.18 Do you ever undertake external evaluations of your projects and those undertaken by your partner organizations? Yes ( ), No ( )
If yes, what do they cover on finances?  

7. **MEASURE OF PERFORMANCE**

7.1 How is performance appraisal done in your organization?

<table>
<thead>
<tr>
<th>Monthly ( )</th>
<th>Quarterly ( )</th>
<th>Biannually ( )</th>
<th>Annually ( )</th>
<th>Adhoc ( )</th>
</tr>
</thead>
</table>

7.2 Are you able (and if so in which ways) to link a manager’s performance to his performance on the budget agreed on?

7.3 Who does the performance appraisal for the management staff?

7.4 Is financial or budget management ever an issue in selection, appraisal and retention of staff in your organization? Yes ( ), No ( )

7.5 How regular and in which fields is financial management training offered to the managers in this organization?

7.6 What factors would you consider to judge good budget management?

7.7 Which of the following approaches most closely reflect your organization’s practice? (incremental, zero based budgeting, priority based budgeting, a combination)

<table>
<thead>
<tr>
<th>Incremental budgeting ( )</th>
<th>Zero based budgeting ( )</th>
<th>Priority based budgeting ( )</th>
<th>A combination ( )</th>
<th>None of these ( )</th>
</tr>
</thead>
</table>
7.8 What budgeting framework do you adopt for your organization?

<table>
<thead>
<tr>
<th>LogFrame ( )</th>
<th>OOPP ( )</th>
<th>PPBS ( )</th>
<th>ZOPP ( )</th>
<th>Others ( )</th>
</tr>
</thead>
</table>

If others, specify

7.9 Do you consider this frame/approach ideal for your organization? Yes ( ), No ( )
Why is that so?

7.10 Are the projects you fund required to adopt the same approach? Yes ( ), No ( )

8. USE IN DETECTION OF FINANCIAL MALPRACTICE

8.1 How and at what stages do you discover variances on budgets in your organization?

8.2 What of the partner organizations that you fund?

8.3 Are there policy guidance on what is acceptable and not acceptable for charging against the budget lines in or funded by your organization? Yes ( ), No ( )
If yes, list a few major ones

8.4 In your opinion what constitutes financial accountability and transparency in development organizations?
8.5 Financial mismanagement is on the increase amongst development organizations in Kenya. Do you agree with this statement? Yes ( ), No ( )
Defend your answer

8.6 How do you ensure that cost/benefit (input/output) (value for money) aspects are incorporated in the projects that you fund?

8.7 Who is supposed to detect financial malpractice in development organizations?

8.8 Has your organization ever-detected financial mismanagement within the organization or amongst the partner organizations that you fund? Yes ( ), No ( )

8.9 Can you share, in broad terms without divulging specifics, the nature of these incidences?

8.10 Do you want to share the amounts of money involved?

8.11 Who investigated the cases?

<table>
<thead>
<tr>
<th>Police ( )</th>
<th>Head office ( )</th>
<th>Management( )</th>
<th>Ext. audit ( )</th>
<th>Others ( )</th>
</tr>
</thead>
</table>

If others specify

8.12 How did you resolve the issues?
8.13 What controls have been put in place to deter recurrence?

9. **ACTION AGAINST FINANCIAL IMPROPRIETY**

9.1 Is there a general disciplinary code against financial impropriety in your organization or projects? Yes ( ), No ( )
If yes, what is the extreme punishment?  

9.2 What in broad terms are the normal consequences for staff members and staff of partner organizations engaged in financial mismanagement?

9.3 Do the contracts you make with your partner organizations spell these consequences out? Yes ( ), No ( )

9.4 How do staff and partner organizations react to them?

9.5 Does your organization and partner projects subscribe to Corruption Free organizations in Kenya? Yes ( ), No ( )
If yes, which one(s)?  

9.6 What vetting process do you use to ensure you keep untrustworthy staff and partners away from the organization?

9.7 What in broad terms are the normal consequences for staff members and staff of partner organizations who engage in financial mal practices?
9.8 How widely do you share with other organizations staff and partner organizations that are found guilty of financial mismanagement?

Thank you.

These Details are optional:

<table>
<thead>
<tr>
<th>Organisation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Position</td>
<td></td>
</tr>
<tr>
<td>Names</td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td></td>
</tr>
</tbody>
</table>