

**UNIVERSITY OF NATAL**

**AN INVESTIGATION INTO THE CAPITAL BUDGETING  
PRACTICES OF ELCT IRINGA DIOCESE, IRINGA, TANZANIA.**

**ENOCK STANLEY UGULUMU**

**AN INVESTIGATION INTO THE CAPITAL BUDGETING PRACTICES OF ELCT  
IRINGA DIOCESE, IRINGA, TANZANIA**

A DISSERTATION PRESENTED TO

**THE GRADUATE SCHOOL OF BUSINESS (GSB)  
UNIVERSITY OF NATAL**

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE

**MASTER OF BUSINESS ADMINISTRATION DEGREE**

**SPECIALITY: STRATEGIC FINANCIAL MANAGEMENT**

BY

**ENOCK STANLEY UGULUMU**

991262743  
JANUARY 2003.

## **DEDICATION**

I dedicate this dissertation to my father Stanley Ugulumu and my mother Martha Mng'anzagala Semkini for sending me to school.

To my wife Rehema Ugulumu and my son Elisha Mwamgombavanu Ugulumu for their love and endurance.

## **DECLARATION**

**This research dissertation represents the original work by the author. Where the work of others has been used, this has been fully acknowledged and referenced.**

**Enock Stanley Ugulumu**

**January 15,2003**

## **ACKNOWLEDGEMENTS**

This dissertation would not have been completed without the assistance of a number of people to mention.

First and foremost, I extend my thanks to my supervisor Professor Jeremy Lord for his diligence, support and encouragement during the time of writing this dissertation. I will remember him in my life.

Secondly, my special thanks go to the Management and Staff of the Evangelical Lutheran Church in Tanzania Iringa diocese for allowing me to collect and use secondary and primary data that enabled my research to be enduring. In particular, my special thanks go to Right Reverent Bishop Owdenburg Moses Mdegella for giving me an opportunity for academic development.

It is impossible to conclude without remembering the support of the German Ecumenical Agency for training development (OSW) through financial support in a form of scholarship and prayers from my family and my brothers and sisters.

To all who have directly or indirectly contributed towards this dissertation, I say thank you.

## ACRONYMS

BMW	Berliner Missionswerk
CMS	Church of Sweden Mission
DCF	Discounted Cash Flow
DLM	Danish Lutheran Mission
DMS	Danish Mission
ELCA	Evangelical Lutheran Church in America
ELCT	Evangelical Lutheran Church in Tanzania
EEPRO	Efficiency Enhancement Program
FELM	Finnish Evangelical Lutheran Mission
IRR	Internal Rate of Return
KPS	For Church of Province of Saxony of Germany
LCS	Lutheran Coordination Service
LMC	Lutheran Mission Co-operation
LMW	Leipzig Evangelical Lutheran Department of World Mission
MIRR	Modified Internal Rate of Return
MWB	Evangelical Lutheran Church in Bavaria
NLM	Norwegian Lutheran Mission
NMZ	Northelbian Centre for World Mission - Germany
NPV	Net Present Value
PI	Profitability Index
PME	Planning, Monitoring and Evaluation
SEM	Swedish Evangelical Mission
UEM	United Evangelical Mission
USA	United States of America
USSR	Union of Socialist Soviet Republics
VELK	United Evangelical Lutheran church of Germany
WACC	Weighted Average Cost of Capital

**TABLE OF CONTENTS**

	<b>DECLARATION</b>	<b>i</b>
<b>ACKNOWLEDGEMENTS</b>		<b>ii</b>
<b>ACRONYMS</b>		<b>iii</b>
<b>LIST OF TABLES</b>		
iv		
<b>EXECUTIVE SUMMARY</b>		<b>1</b>
<b>CHAPTER 1: INTRODUCTION</b>		<b>3</b>
1.1 Introduction to the Topic		3
1.2 The Problem Statement		6
1.3 Research Methodology		7
1.4 Anticipated benefits		8
<b>CHAPTER 2: LITERATURE REVIEW</b>		<b>9</b>
2.1 Capital budgeting		9
2.2 Cash flow determination		11
2.3 Cost-benefit analysis		12
2.3.1 Basis for Cost benefit analysis		13
2.4 Capital structure		15
2.5 Taxes and the Non-profit Organizations		16
2.6 Determination of Discount rate		16
2.7 Risk		21
2.8 Evaluation of an investment project profitability		25
2.8.1 Quantitative		25

2.8.1.1	Introduction	25
2.8.1.2	Net present value (NPV)	26
2.8.1.3	Internal rate of return (IRR)	27
2.8.1.4	Modified Internal rate of return (MIRR)	28
2.8.1.5	Profitability Index (PI)	29
2.8.2.	Capital rationing	30
2.9	Qualitative factors	32
2.10	Capital budgeting in the context of balanced scorecard	34
<b>CHAPTER 3:</b>	<b>CASE STUDY: ELCT Iringa Diocese</b>	<b>36</b>
3.1	Planning at Church level	36
3.1.1	Introduction	36
3.2	Strategic Plans	37
3.3	Joint Planning	38
3.3.1	Stage 1	38
3.3.2	Stage 2	39
3.3.3	Stage 3	39
3.3.4	Stage 4	40
3.3.5	Stage 5	40
3.4	Common basket	41
<b>CHAPTER 4:</b>	<b>CAPITAL BUDGETING: ELCT Iringa Diocese</b>	<b>42</b>
4.1	Introduction	42
4.2	Administrative structure	42
4.3	Financial Planning	43
4.4	Cash flow estimation	44



4.4.1 Cash outflow estimation	44
4.4.2 Cash inflow estimation	44
4.5 Risk and return	45
4.6 Investment constraints	49
4.7 Church financial situation	50
<b>CHAPTER 5 FINDINGS</b>	<b>52</b>
5.1 Introduction	52
5.2 Results	53
<b>CHAPTER 6 DISCUSSION</b>	<b>54</b>
6.1 Introduction	54
6.2 Strategic Planning	55
6.3 Financial Planning	56
6.4 Benefit – cost analysis	57
6.5 Cost of Capital	58
6.6 Risk analysis	59
6.7 Discounting	60
6.8 Qualitative factors	60
<b>CHAPTER 7 RECOMMENDATIONS</b>	<b>63</b>
7.1 Introduction	63
7.2 Background Information	63
7.3 Recommendations	64
7.4 Conclusion	68

<b>BIBLIOGRAPHY</b>	<b>69</b>
<b>APPENDICES</b>	<b>74</b>

**LIST OF TABLES**

<b>Table 1</b>	Program subsidies to ELCT Iringa diocese	5
<b>Table 2</b>	Balanced scorecard and strategy perspectives	35
<b>Table 3</b>	Budget monitoring tool	46
<b>Table 4</b>	Summary of Income and Expenditure (Haydom Lutheran Hospital)	48

## EXECUTIVE SUMMARY

Discounted cash flow (DCF) techniques for capital investment appraisal perform very crucial and important roles that relate to issues ranging from financial to technical, policy and socio- economic environments. Analyses need to be carried out when an organization undertakes capital expenditure on projects and programs.

Capital budgets coordinate the development of the organization's long-term capital expenditure projections based on its long-term strategic plans.

This dissertation is a result of a descriptive study conducted in the Iringa diocese of the Evangelical Lutheran Church in Tanzania located in Iringa district.

The purposes of this study were the following:

- To undertake descriptive research to understand the practice of DCF capital budgeting by key heads of programs and projects of the ELCT Iringa diocese.
- To identify key problem areas pertaining to capital budgeting that led to the deterioration of finances in the diocese of Iringa.
- To provide recommendations on the alleviation of those identified problems.

The study used various forms of data including, the ELCT statistical reports, financial guidelines, a library literature review and a long questionnaire that was distributed to the heads of the particular program/project.

The study established the following:

- The diocese of Iringa has strategic plans some of which extend to a period of three years.

- The heads of programs do not have the necessary skills to pursue DCF Capital budgeting techniques for cash flows estimates falling within the estimated time frame.
- The available guidelines issued by the ELCT head office that are currently used do not include the discounting rates and the time value of money when analyzing and evaluating projects and programs.
- Since 1997 there has been a decrease in the income that ELCT Iringa diocese is receiving.
- There is a need for ELCT Iringa to concentrate more on public relations exercises to attract key donors who could support the running of its programs and projects.

In order to reduce the degree of vulnerability and improve her financial viability, it is recommended that ELCT Iringa diocese employ DCF capital budgeting techniques by developing new and better guidelines for capital budgets. Program and project heads also need to be trained in the use of newly developed guidelines. The ELCT Iringa diocese is also advised to improve its handling of finances in order to inspire confidence from its donors.

## CHAPTER 1 - INTRODUCTION

This chapter provides an overview of the topic, a definition of the problem statement (Management dilemma) and the background to the problem. It also introduces the research methodology and lastly it reviews the anticipated benefits.

### 1.1 INTRODUCTION TO THE TOPIC

According to Rappaport, 1986; Stewart, 1991; Mc Taggart et al. 1994; Copeland. et al, 1996 and Arnold 1998; as cited in Arnold and Hatzopoulos, (2000:603) state:

The survival and vitality of a corporation are determined by its ability to regenerate itself through the allocation of capital to productive use. The selection and employment of processes and techniques to decide major financial commitments are crucial. Inadequate evaluatory and decision tools risk the possibility of applying scarce resources to areas which provide a return less than the cost of capital, resulting in a destruction of value. On the other hand an appraisal system, which leads to a failure to apply resources to projects offering a return greater than the cost of capital results in opportunity cost and potential loss of competitive position.

Discounted Cash Flow techniques explain the unique characteristic of evaluating investments of the firm by focusing on the importance of time value of money (Arnold, 1998). Discounted cash flow techniques consist of two known methods, which are Internal rate of return (IRR) and Net present value (NPV). Many large companies have in the recent times increased the use of DCF techniques as they are regarded as more complete. The capital budgeting literature for example, Butler and others (1993) study of trend analysis of usage in 100 large UK firms indicated that the NPV and IRR methods increased from 58% in 1975 to 84% in 1986. The study by Graham and Harvey (2002) on how Chief financial officers in 4440 USA firms determine capital budgeting has indicated that many executives use NPV and IRR to value projects. Out of 392 chief financial officers, over 70% responded that they always or most always use IRR and NPV methods.

Capital budgeting in the private, public sector and non-profit organizations presents unique challenges at this point in time. DCF remains very important to non-profit organizations as all organizations live or die by cash.

A non-profit organization is a term referring to an organization which charges a fee for its services it offers with an expectation of generating enough revenue to cover its costs and hence enable its survival and viability (Brigham, et al, 1999; Anthony, et al, 1999). This study would stick to the definition of Anthony and Young (1999) who define non-profit organization as an entity whose goal is something other than earning a profit for its owners and usually it aims at providing services. They further describe the two distinctions of non-profit organizations as public and private. The public non-profit organizations are owned by a state or local government while a private category is further divided into charitable non-profit organizations whose donor contributions are tax deductible while on the other hand commercial and membership organizations have donor contributions that are not tax deductible. This study finds church entities to be sufficiently included in the private non-profit organization with charitable organizations. Non-profit organizations do not have outstanding shares and hence do not have shareholders. To operate sustainably, many non-profit organizations are tax-exempt.

The Evangelical Lutheran Church in Tanzania, Iringa Diocese (ELCT-IRINGA) is a non-profit organization, which was established on the 27<sup>th</sup> August 1987 as a unit within the Evangelical Lutheran Church in Tanzania (ELCT). The church has a total of 20 dioceses in the country. ELCT- Iringa is located and operates within Iringa district in Tanzania and has a range of activities that include pastoral services (evangelization) and community based services mainly in areas covering education, health and safe water. Capital budgeting is an ongoing management challenge both

for profit driven and non-profit organizations. All organizations need to replace capital equipments in the drive to keep pace with technological and information changes currently taking place. They need also to expand infrastructures as demands are on the increase. In a poor country like Tanzania, churches are forced to continue setting up new infrastructures for schools and health services to offer benefits to the growing population. Churches are complementing the government efforts, as the latter is unable to provide adequate services due to financial constraints.

The Lutheran church in Tanzania began experiencing financial problems in the beginning of 1990s. These problems resulted into the suspension or delay of a number of projects and programs. The church runs its activities using funds capital from local contributions, retained earnings and donations from churches in Europe and America. These foreign donations have decreased since the mid 1990s. One of the factors that lead to this decrease included changes of the tax structure in countries like Germany where a portion of the tax deducted from wages went to work financing social services in Africa. Another factor was political changes, for example, the collapse of the USSR and the formation of smaller independent states. Therefore donations from European and American Churches were diverted to Eastern Europe countries. Tanzania's Lutheran church cannot sustain its operation costs and capital expenditure, as the economy of the country is so weak. Tanzania's per capita income according to the World Bank report (1997) was US \$ 240 ([www.cwrc.org](http://www.cwrc.org)) whereas Iringa district where ELCT Iringa diocese is located was US \$ 167.3 (Iringa district socio-economic profile, 1997). The following table 1.1 shows the decreasing trend of donors' subsidies to ELCT Iringa diocese.

**TABLE 1.1 Program subsidies to ELCT Iringa diocese**

In Tanzania Shillings (000)

Unit	Subsidy 1996	Subsidy 1997	Subsidy 1998	Subsidy 1999	Subsidy 2000	Change '02-'99
Iringa diocese	68,158	79,920	55,944	51,468	49,608	-3.61

(Source- **LMC joint plans 2000 –2002: 56)**

In the mid 1990's the church embarked on a campaign of strategic financial management in achieving its long-term program or project objectives. A major feature of strategic management within the national Lutheran Church is the establishment of a central Fund capital that includes forecasted capital expenditures of activities for programs or projects from all the 20 units (Dioceses) of the church. These strategic plans can run from a period of 1 to 3 years. Projections of cash inflows from individual diocese comprise local contribution and grants from donors.

## **1.2 THE PROBLEM STATEMENT**

ELCT – Iringa diocese is a non-profit and service oriented organization. This church institution is currently facing problems to run its programs and projects. The reason behind these problems is a failure to estimate the availability of yearly cash inflows and cash outflows accurately. This also makes managing future financial obligations more difficult as contributions from donors, especially from Europe and America, have greatly reduced their grants and contributions which have been the primary source of funds for the running of programs and projects of this institution (LCS- LMC



Manual, 1998, Arusha Times, October 2002; Financial Times, June 2002).

Managers and church leaders have been examining the trends of their finances.

Amongst the questions are:

- What is the relationship between capital budgeting and the diocesan goals and objectives?
- What can be done to eradicate the current discrepancies in cash flow?
- What roles should organizations play in order to run their programs effectively and efficiently in the changing and dynamic situations?

This case study survey proposes to study and describe the nature, roles, structure and involvement on discounted cash flow techniques in capital budgeting for ELCT-Iringa diocese's programs and projects. The study, therefore, attempts to evaluate the development and performance of non-profit organizations with particular attention to promoting the knowledge and use of DCF techniques in the assessment of economic and social value of various projects/programs being undertaken. The study has also surveyed the Haydom Lutheran hospital to research techniques used to evaluate its projects and programs.

### **1.3 RESEARCH METHODOLOGY**

Several methods were employed to collect data relevant to the study of non-profit organizations. Data collected involved:

- 1.3.1 Analysing the literature on secondary source and descriptive statistics for the presentation of data. The aim was to give insights of the exact issues which determine application of DCF capital budgeting techniques in ELCT- Iringa or to determine whether those techniques are not practiced at all.

- 1.3.2 The research utilized both quantitative and qualitative elements as the two can lead to the achievement of the organization's strategic objectives.
- 1.3.3 Secondary data surveyed covered a period of five years starting from 1996 showing the historical declining trend of program donations for ELCT Iringa diocese.
- 1.3.4 The study utilized self-administered questionnaire. The questionnaire was adopted to local conditions of social and economic that dealt with eg level of education, cash inflows, cash out flows, practices of capital budgeting and altitude of church as per declining program subsidies from donors. The questionnaires were distributed to the head of programs and projects and to officials of ELCT Iringa diocese. Questionnaires with 79 questions were distributed to 30 respondents.
- 1.3.5 The research approach has used a descriptive and/or exploratory case study because it seeks to highlight the practical aspects of capital budgeting.

#### **1.4 ANTICIPATED BENEFITS**

The main objective of the study was to provide managers of programs and church leaders of ELCT Iringa diocese with relevant theoretical and practical models in the use of discounted cash flow techniques in capital budgeting. These would aid them in evaluating and selecting projects and programs that would not affect the diocesan future objectives. Discounted cash flow capital budgeting techniques are expected to thoroughly improve organizational strategic objective achievements. They will also help to nurture a shared vision and commitment amongst leaders and managers resulting in long term successful development plans.

## CHAPTER 2 LITERATURE REVIEW

This chapter provides a review of literature on the trends in the development of DCF capital budgeting techniques for non-profit organizations, their application together with the role of qualitative factors in providing future benefits that will sustain organization's projects and programs.

### 2.1 CAPITAL BUDGETING

Capital budgeting is the term used when organizations are involved in capital investment decisions. Capital investments decisions are the most important to any organization, as they tend to affect the survival and future prosperity (Butler et al. 1993; Ross, et al. 2001).

Capital budget emerges as a result of organization strategic planning process. The decision by an organization to undertake a particular project involves committing its capital, people and technical know how.

A capital expenditure is defined as a current outlay or sometimes series of cash resources, which in turn provide a flow of future benefits (Braswell et al. 1984).

Capital expenditure is categorized as having the following features:

- Large anticipated benefits
- Degree of risk
- Time span between the initial outlay and the anticipated return.

Capital budgeting for projects may be categorised into four major areas depending on the purpose of the capital investment undertaken. These include (Arnold, G; 1998, [www.nacubo.org](http://www.nacubo.org))

- Repair and renovation of existing facilities.

- Construction of facilities or purchase of new equipment.
- Implementation of new programs/projects or/and expansion of existing programs/projects.
- Compliance with the government regulations, safety requirements and
- Cost reduction as a process that enables the organization to produce at lower cost.

Kleinmuntz and Kleinmuntz (2001) studied the use of multi objective decision analysis to prioritise hospital capital expenditure in USA. In their study they found that capital budgeting decisions in non-profit organizations share similarities with government procurement decisions. They also observed that both non-profit hospitals and government departments have limited financial resources while there are a large number of alternative projects competing for available funds. Lastly, they argue that capital budgets for non-profit healthcare shares a number of features with for profit organizations and therefore hospitals cannot ignore the return on investment when allocating their funds to various selected projects or programs.

According to Braswell et al (1984) and Levy and Sarnat (1994), argue that, in many instances the choices between alternative projects or programs in relation to capital investments create difficulties for the managers for a number of reasons as follows:

- The estimated benefits of the investment are uncertain, as they will be realized some time in the future.
- The benefits and costs that are incurred in different time periods are not comparable.
- Not all benefits or costs of particular courses of action can be measured in quantitative terms.

To eliminate the above difficulties, financial analysts apply DCF methods to evaluate projects that run over a one-year period. These methods discount the future cash flow by using the required rate of return.

Discussions of cash flows that are relevant to the DCF methods follow in the next section.

## **2.2 CASH FLOW DETERMINATION**

There are two decisions that affect a project; these are the investment and the financing. The cash flows associated with these decisions should be separated. The important point is to emphasize the cash flows from the investment. The financing costs are only reflected when cost of capital are determined when rate of return is evaluated (Chandra, 2001).

The cash flow of a project must be measured in incremental terms. According to Correia et al (1989), the estimation of future cash flow is probably the most important and difficult task in evaluating an investment project. They have also classified project cash flow into four groups (pp 271- 275) as follows:

### **-Beginning of project cash flows**

These are the initial investment costs and in most cases they may consist of the following cash flows

- Cost of acquisition
- Proceeds from the sale of old assets
- Tax effects
- Changes in working capital requirements.

### **Annual operating cash flows**

Investing in a project results in generations of future cash inflow. The investment is said to result in positive cash flows due to increased revenue or reduction in costs.

### **Wear and tear allowance**

This is the written off cost of an asset normally allowed by the respective country's revenue authority. This allowance helps to reduce costs and boosts revenue.

### **End of the project cash flows**

This involves cash flows arising from the following actions that involve the organization's management and the respective country's revenue authority:

- Benefits on the sale of assets
- Tax recoupment or scrapping allowance
- Return of working capital

## **2.3 COST- BENEFIT ANALYSIS**

A cost-benefit analysis is defined as the systematic evaluation of the relevant benefits and costs of a set of investment alternatives (Minnesota Laws 2001, Chapter 10, article 2, section 41). Cost-benefit analysis is also a recommended technique used by the USA Federal government in a formal economic analysis of its programs. A project/program is said to be cost effective if it has the lowest cost expressed in present value terms and for a given amount of benefits. According to the USA government circular number A-94 that was revised (Transmittal Memo No. 64) in October 1992, the cost effectiveness analysis has been used to compare programs with identical costs but differing benefits. The selection of the most favorable program with the largest benefits is based on discounted value of benefits.



### 2.3.1 BASIS FOR COST–BENEFIT ANALYSIS.

Based on the USA's revised circular No. 64, the following issues are crucial be known before embarking into benefits and costs estimation:

**Corporate objectives.** The rationale for the program's practices being evaluated should be clearly stated in the analysis. This will enable analysts to justify whether the program has been achieved effectively and efficiently.

**Assumption.** The analysis should state clearly the underlying assumption used to arrive at estimated future benefits and costs. A number of key issues derived from the internal and external environment analyses are the bases for making assumptions.

**Evaluation of possible alternatives.** The analysis should consider alternative means of achieving program objectives by examining a number of scales and methods of provision.

**Verification.** The use of retrospective studies is advised to determine whether anticipated and realized benefits and costs are realistic and worthwhile.

The benefits of a program/project investment are the positive effects obtainable by investing in that program or project. An important method for evaluating capital investment is using cash flows that result from respective projects.

The cash flow is calculated as follows:

Net cash flow = cash inflows from project - cash outflow from the project (Braswell et al. 1984)

Levy and Sarnat (1994) proposed that modern financial analysis use the principle of incremental cash flow whereby a project is evaluated by examining the cash inflows and outflows induced by the investment. Under this principle, the magnitude and

timing of cash flows are crucial. However, cash flow does not include depreciation or interest on any debt used to finance the capital expenditure. The same project analysis method used by an investor-owned organization is applicable for a non-profit organization. However, the following two differences have been noted whereby non-profit organizations are expected to add social value in addition to purely economic value (Brigham et al. 1999). Social value defines the benefits the non-profit organizations can realize from the investment made in addition to the economic returns.

Therefore with non-profit organisation, project analysis should consider social value on top of cash flow and is explained by the following equation (Brigham et al. 1999; Chandra, 2001).

$$\text{TNPV} = \text{NPV} + \text{NPSV}$$

Where NPV  $\Rightarrow$  means net present value of the project cash flows.

NPSV  $\Rightarrow$  means net present social value of project

TNPV  $\Rightarrow$  total net present value

Criteria for acceptability of a project for a non-profit organisation is that  $\text{TNPV} \geq 0$  as not all projects have social value.

$$\text{NPSV} = \sum_{t=1}^{\eta} \frac{\text{Social value}}{(1 + K_s)^t}$$

Where K - means discounting factor

$\eta$  -means number of periods

Brigham and others (1999) have outlined the quantification of social value of a project. They argue that value is achieved through capturing the amount the



individuals actual pay when they obtain services or products. The approach also considers those who do not pay by using the average net price.

## **2.4 CAPITAL STRUCTURES**

Seitz and Ellison (1999) argued that non-profit organizations could have similar capital structures as for-profit organizations because they can obtain loans and use these together with retained earnings and other contributions to finance the investment's initial costs and other future related costs. However, repayment of debt will solely depend on future pledges while institutions like churches cannot pledge as assets are held in collateral trusts. The trade off theory of capital structure choice proposes that organizations have optimal debt ratios that they determine by trading off the benefit of debt with its cost (Graham and Harvey, 2002). They go on to argue that the chief benefit of debt is the tax advantage of tax deductibility. Non-profit organizations have almost the same effective cost of debt as for-profit organizations as non-profit organizations legally enjoy tax exemptions. Therefore the trade off theory is applicable in the case of non-profit organizations. Asymmetric theory, however, is not applicable since no common shares are issued.

## **2.5 TAXES AND THE NON-PROFIT ORGANIZATIONS**

Contributions to charitable organizations engaged in provision of education, health, welfare and scientific research are encouraged through a variety of subsidies to both non-profit and financial supporters.

Both financial supporters and non-profit organizations have tax-exempt status on profits and donations to encourage them to participate in provision of social services (Weisbrod, 1988; Young and Anthony, 1995). However, organizations will not be advantaged from tax shield of  $1-T_c$  (where  $T_c$  is corporate tax rate) in the event of an organization using loans as a source of financing. Pike and Dobbins (1986) have concluded that taxation maximizes wealth after-tax and has a positive effect when incremental cash flows are estimated.

Weisbrod (1991) has further emphasized that subsidies due tax-exempt status are meant to help overcome “free rider” tendencies through increased revenues that come in two ways. First, the deduction for donations on the donor’s individual tax return that stimulates giving. Second, the various tax subsidies to the organization increase the amount of output.

## **2.6 DETERMINATION OF THE DISCOUNT RATE**

This section discusses views of the appropriate discount rates for non-profit organizations. The discount rate is the return that is expected by the providers of the funds. Under normal circumstances of a profit making organization, a sufficient return on capital expenditures is required in order to pay interest costs and principal required on debts, common stock and preferred stock.

Braswell et al. (1984) argue that a non-profit organization’s missions are to benefit society as a whole. It lacks the power to raise funds through taxation therefore the non-profit organization must raise its funds from the environments in which it competes for funds with other organizations. Kotler and Andreason (1991) have outlined four sources or donor markets from which a non-profit organization can tap capital funds, these sources include:

- Individual donors – these contributions are said to vary with income, age, education and gender.
- Foundation donors – Non-profit organizations can tap funds from foundations where their interest and scale of operations concur with each other.
- Corporate donors – these are supportive in higher education, health and social services.
- Government donors– Government may support social services, for example the provision of loans to students at registered church-owned Universities.

Seitz and Ellison (1999) have argued that opportunity cost applied to profit business can also be applied to non-profit organizations when discounting future cash flows. However they differ in the way of application. Weighted average cost of capital (WACC) in for profit organization is determined by investment opportunity cost outside the organization. A non-profit organization can incur debt and compute its cost, however they do not have equity. Non-profit organizations can have fund balance on the balance sheet however, there is no market for the fund balance. The features explained above make it difficult for non-profit organization to compute WACC. Instead, using investment opportunities outside, the non-profit organization can compare opportunity cost. Braswell, Fortin and Osteryoung (1984) further argued that, profit organizations use an after tax rate and it is difficult to determine cost of capital for non-profit organizations, which raise funds through donations.

They have suggested an approach that is somehow unique to non-profit organizations in applying discount rates. The suggested discounted rate for non-profit reflects the weighted opportunity cost associated with the funds utilized (309-310:1989). Three steps are noted as follows:

- Identify the sources of fund capital e.g. donations, borrowing, endowment, income and grants.
- Determine the cost each source from which the fund is raised.
- Assign the appropriate weight to the various sources.

$$\text{The cost of donations then is equal to: } K_{\mu} = \sum_{i=1}^{\tau} \frac{(K_{oi})(w_i)}{1 - Fr}$$

Where:  $K_{\mu}$  – Implies cost of donation.

$K_{oi}$  – Implies opportunity cost of funds for section i

$Fr$  – Implies the fund-raising costs expressed as a percentage of total fund raised by a non-profit organization.

$W_i$  – Donation from sector i as a percentage of all donations.

$\tau$  – Means number of sources of donations.

Cost of capital comprises costs of respective financing sources for any construction or purchase of a long-term asset or a program. According to Ryan and Ryan (2001) study on capital budgeting practices of fortune 1000, it was found that corporate capital budgeting and cost of capital estimation are among the most important decisions made by financial managers. They argued that using an appropriate method of estimation could result in the optimization of stakeholder's interests.

Gambino and Reardon (1999:907) suggested that cost of capital for the non-profit organization, parallels the profit-oriented organization but have noted two major differences:

- Non-profit organisation are tax-exempt and hence there are no tax effects associated with debt finances

- While for-profit organisations raise equity capital, non-profit organisations raise equity equivalent called fund capital.

Fund capital's opportunity cost is said to be purely controversial. However, Brigham et al. (1999) reveal four possible positions with regard to the cost of fund capital. These include:

- Zero cost of fund capital. The logic behind this is that, contributors don't need any monetary return on their contribution.
- Zero cost of fund capital but when inflation is recognised, fund capital must be adjusted to get a return sufficient to replace existing assets as they wear out. A return is normally equal to the inflation rate.
- Fund capital has an opportunity cost roughly equal to returns on portfolios of short term, low risk securities e.g. T Bills.
- Fund capital has an opportunity cost calculated as the cost of retained earnings similar to the for profit organization.

In general terms, fund capital has a cost equal to the cost of retained earnings of similar for-profit organisation. However, the contribution that is designated for a specific purpose such as a street children's center may indeed have a zero cost.

Gambino and Reardon (1999) have argued that the cost of fund capital for a non-profit organisation can be a proxy by estimating the beta co-efficient of a similar investor corporation and then using Hamada's equation, adjusting for leverage and tax differences.

According to the more comprehensive USA revised circular (No. A-94 of 1992) on guidelines and discount rates of Federal programs, the future benefits and costs of programs undertaken by the government departments are discounted in order to

reflect the time value of money. The guidelines provide for the use of cost of capital as weighted average cost of capital in discounting future benefits and costs. The following rates have been advised for use:

- **Base case analysis**- programs can use the approximated marginal rate of return on an average investment in the private sector of the very recent period.

- **Other discount rates**- analysts have to first include a sensitivity analysis of discounted net present value together with other outcomes subject to variations in the discount rate. The calculations will vary depending to the economic characteristics of the project under analysis.

The programs may also use the internal rate of return that is implied by the stream of benefits and costs and this can provide useful input especially when budgets are constrained.

If the Federal investment provides internal benefits for increasing revenue or decreasing costs, guidelines advise the use of the comparable- maturity Treasury rate as the discount rate.

If some activities are to provide economic and social benefits, the organizations are guided to use the comparable maturity treasury rate for the economic benefits while the social value should use the approximated marginal rate of return of the base case for discounting. When the program would like to sell its assets in future periods the asset is measured by discounting the future benefits using the treasury rate.

The objective in decision-making is not to avoid risk. Proper assessment of environment characteristics is vital in order to determine if there will be tangible changes with respect to the organization's future cash flows.

Once the risk characteristics of future cash flows are calculated, an appropriate risk adjusted discounted rate is established for discounting future flows into their present values (Chandra, 2001). The risk section is broadly discussed below.

## 2.7 RISK

In practice there is uncertainty about the prospects of outcome of any organization. Our knowledge about the future is always imperfect; therefore all investment decisions create some uncertainty. It is difficult to predict the different variables and consequently the magnitudes of benefits and costs. Whether they occur or not, creates challenges in capital budgeting (Anthony and Young, 1999 and Pike and Dobbins, 1986). Assets can be analysed in two ways. One is standalone, which an investor will face if only one asset is held. The second involves portfolio analysis, an asset is considered as one among assets in a portfolio (Brigham, E et al. 1999). Mills (1996) explored the question of the prospect of inflation on the capital budgeting process and it was found that the cost of capital increases at the same rate as the rate of inflation. He also found that the capital budgeting process is not neutral with respect to inflation, every output price rise at the same rate as costs.

Brigham, et al (1999) observed that the relevant capital budgeting risk for the non-profit organisation is corporate risk rather than market risk. The risk is measured by a project corporate beta. Corporate beta is used to measure the volatility of returns on the project relative to the organization as whole.

$$\text{Corporate beta} = (\sigma_p / \sigma_f) \sqrt{\rho_{pf}}$$

Where:  $\sigma_p$ - implies standard deviation of project P's return



$\sigma_f$  - implies standard deviation of the firms returns

$\rho_{pf}$  -implies correlation coefficient between returns project P and the Firms returns.

Capital investment proposals are therefore not risk free. Anthony and Young (1999), proposed that since all capital investment projects involve future cash flows, there is always the possibility that the future returns will not be as anticipated. Similar suggestions come from Seitz and Ellison (1999) but they add a remedy for diversifying the volatility of donations across many donors as possible

If risks are not explicitly considered, then a very volatile proposal might be evaluated in the same way as that which has a high probability of success. There are a number of ways to incorporate risk into an analysis and with all of them; an increase in risk reduces the NPV of a proposal.

These ways are as follows:

- Organisations add percentage points to their WACC to account for higher perceived risk. The problem with this method is that, there is no easy way to establish a meaningful risk scale.
- Statistical techniques like sensitivity and scenario analyses are available for incorporating the relative risk of a project but they require an analyst to estimate the probabilities of possible outcomes. Seitz and Ellison (1999) have considered risk adjustment in this way. They give an example of institutions like churches that are highly supported by donations from several individuals. The churches will probably suffer if most of these individuals are affected by catastrophes such as floods and droughts. They therefore advise for risk



adjustment using methods like sensitivity analysis by assuming a number of scenarios.

- Another approach – that is used by many organisations is to discount any projected cash flows beyond some predetermined time periods such as 5 or 10 years and use WACC as discount rate for all cash flows. In the same way, Seitz and Ellison considered risk adjustment by giving an example of Rush Presbyterian St Luke's hospital in Chicago, which adjusts for risks by adding an additional 10% to the initial outlay.

The globalisation of the economic world is almost a cliché. Non-profit organisations operations receive most of their funding capital from across currencies of developed countries for example, Europe and America. White et al. (1998) and Chandra, (2001) stated that exchange rate changes result in two effects on any organization actual financial statements as follows:

- When an organization has payables or receivables dominated in foreign currency, a change in exchange rate will alter the amount paid /received when expressed in local currency. Such a risk is referred to as transaction exposure. In a local currency, this can be translated as a potential gain/loss.
- Another issue is the flow effect where donors will show corresponding variation in their books of accounts as a result of exchange rate fluctuations.

Pike and Dobbins (1986) discuss political and social risks which increase where instability is in existence. Such risks are said to give rise to nationalization, expropriation and confiscation. They can also lead to restrictions or delays in the repatriation of capital and profits. South Africans Parry and Firer (1990) of the

Graduate School of Business at Wits University, studied the capital budgeting under the uncertainty resulting from apartheid policies in South Africa and concluded that the environment in which organizations made decisions became more turbulent and uncertain during the 1980s because of political and social unrest.

The discounted cash flow techniques of capital budgeting are very relevant to for-profit business organizations where the fundamental goal is to optimize the shareholders value. In the context of non-profit organizations, Kleinmuntz and Kleinmuntz (2001) have cited Clever and Gapenski who advocated that non-profit organizations like healthcare organizations should emulate the profit-driven corporate world and use rigorously financial analytical skills to determine where to invest their limited capital. However, the Kleinmuntzes further argued that financial return is never the fundamental objective for the non-profit organizations hence profitability is not a basis for setting priorities. Non-profit organizations are said to be mission focused and in the case of healthcare, mission varies from hospital to hospital. Therefore the fundamental objective is said to be the effective delivery of healthcare services, with focus on the quality and quantity of the service delivered to the community. The DCF techniques of capital budgeting are quantitatively and qualitatively described in the following sections.

## **2.8 EVALUATION OF AN INVESTMENT PROJECT PROFITABILITY**

### **2.8.1 QUANTITATIVE**

#### **2.8.1.1 INTRODUCTION**

Investment appraisal involves two processes, the Project level and the Corporate level. At the project level, attention is on project's details, requirements and objectives.

At Corporate level a broad view is required and alternative solutions related to the corporate strategic fit, availability of financial resource and the acceptability of risk level are compared ([www.FinancialManagementDevelopment.com](http://www.FinancialManagementDevelopment.com)).

Investment appraisal is a financial assessment to study the cost effectiveness of a project set against its economic criteria of analysis. The benefits (cash flows) from the projects normally run over a number of years and compensate for the initial outlay, inflation, risk and interest ([www.FinancialManagementDevelopment.com](http://www.FinancialManagementDevelopment.com) and Correia et al., 1989). The relevance of investment appraisal is to enable the organization to make decisions and also to help the analyst to understand the organization's expenditure. Investment appraisal therefore considers the timing and identifies the balancing risk. Capital budgeting decisions take place in alignment with the organization's strategic plan and objectives. When cash flows arising in different time periods have been established, they are discounted and the comparison is done. In this section, discounted cash flow techniques of capital budgeting are analysed. The following will be examined:

- Net Present Value (NPV)
- Internal Rate of Return (IRR)
- Modified Internal Rate of Return (MIRR)

➤ Profitability Index (PI)

Unlike the non DCF techniques, discounted cash flow techniques of capital budgeting take into consideration the project's life period as well as the time factor by discounting the future inflows and outflows to their present values (UNIDO, 1984). Descriptions of DCF techniques with their advantages and disadvantages are as follows:

**2.8.1.2 NET PRESENT VALUE (NPV)**

The NPV technique consists of the project's estimated future cash flows that are discounted at the organization's cost of capital and subtracting the organisation cost of outlay from the sum of future present values. However, the discount rate may change over time as the level of interest rate change or if the risk characteristics of a project change or the financing mix varies over time. The technique incorporates the time factor when evaluating the cash flows of a project or program.

The shareholders' wealth increase indicates that the projects' NPV is equal to or greater than zero. This is explained by the following formula:

$$NPV = \sum_{t=1}^{\eta} \frac{C_t}{(1+k)^t} - I$$

Where:  $C_t$ - implies net cash flow at time  $t$

$I$  - implies cost of the Investment

$K$  - implies Cost of Capital

$\eta$  - Implies time life of a project

When selection is to be made among alternative projects, the project with the largest NPV is first chosen for implementation.

Net present value measures the net benefits of a specific project but it suffers one problem of not relating the initial outlays that produce the positive benefits (UNIDO, 1984; Chandra, 2001). This is crucial when alternative projects of different magnitudes are compared and when is important to relate the absolute values of projects' net benefits to the total investment.

### 2.8.1.3 INTERNAL RATE OF RETURN (IRR)

IRR equates the present value of net cash flows with the initial outlay of the project as shown is the following formula:

$$\sum_{t=1}^{\eta} \frac{C_t}{(1+r)^t} = I$$

Where: r -implies Internal rate of return

I-Implies the initial cost of investment

C<sub>t</sub>- Implies the cash flow at time t

η- Implies life time of the project

The criteria to accept the project are that, if the projects  $IRR \geq WACC$ , then the project should be accepted. If evaluation is between alternatives of mutually exclusive projects, the project with the highest IRR is preferred. (Correia, et al., 1989)

IRR determines the return on the capital invested and hence provides the maximum rate the organization can use to service the loan's interest. This method is more

convenient when the evaluator wants to escape determining the explicit discount rate, for net present value purpose.

The method faces a number of limitations that include (UNIDO, 1984):

- IRR cannot be applied when there is considerable negative net cash flow.
- When two or more mutually exclusive projects are compared, the technique can be misleading.
- The technique doesn't reflect time preferences for decision-making.

### 2.8.1.3 MODIFIED INTERNAL RATE OF RETURN (MIRR)

MIRR is defined as follows:

PV costs =PV terminal value

$$\sum_t \frac{COF_t}{(1+K)^t} = \sum_{\tau=0}^{\eta} \frac{CIF_t(1+k)^{\eta-\tau}}{(1+MIRR)^{\eta}}$$

$$PV \text{ costs} = \frac{TV}{(1+MIRR)^n}$$

Where- COF implies cash outflow or cost of project

-CIF implies cash inflow

PV is simply the investment outlay discounted at the cost of capital.

The numerator of the right term is the future value of the cash flow and is assumed reinvested at the cost of capital.

MIRR assumes that cash flows are reinvested at cost of capital whereas the regular IRR assumes the cash flow reinvested at IRR. MIRR is more realistic and has no multiple rate problems (Chandra, 2001).

MIRR is as good as NPV however when projects differ in size, then conflict between MIRR and NPV can still occur.

"MIRR is superior to IRR but NPV is better for choosing among exclusive projects as it provides a better indicator of how each project will increase the value of the organization."(Brigham, 1999: 441)

#### **2.8.1.5 PROFITABILITY INDEX (PI)**

The NPV and IRR evaluation techniques compare a project's benefits with its initial outlay in absolute amounts (Braswell et al 1984). The profitability index evaluates the project in terms of its relative magnitude. This is as shown below:

$$PI = \frac{NPV}{I}$$

If the profitability Index is greater than one, the project should be accepted.

PI ranks various projects in the order of highest return to cost (Correia et al., 1989)

#### **2.8.2 CAPITAL RATIONING**

Capital rationing is defined as the situation in which an organization decides to limit its capital expenditure to less than what is required to finance the capital budget. This may be caused by capital budget constraints that may exist (Brigham et al., 1999). Drury (1988) wrote that organizational management should allocate the limited and available capital resources in a way that the net present value is maximized and is

subject to the constraint of pursuing other objectives while maintaining the interests of various groups involved in capital investment. Project alternatives should be ranked to allow the capital budgeting technique used be capable of ranking the various alternatives to determine the optimal combination of projects as they meet the constrained capital.

Kleinmuntz and Kleinmuntz (2001) studied the use of multi objective decision analysis to prioritize hospital capital expenditure and found that if the hospital has no limit on its ability to obtain capital then it should accept any project with a positive net present value. However, if there is limited access to capital, there is a problem of capital rationing. The aim should be to maximize benefits using the available financial resources. Two alternatives are available to solve this problem and are described below by Kleinmuntzs (2001:8) as follows:

- Using integer programming. "If  $X_i$  represents a binary decision variable for each project ( $X_i=0$  or  $1$  for all  $i$ ) and there is only a budget amounting to  $\$C$ , then the objective is to maximize aggregate benefits while staying with the budget constraint"

$$\begin{aligned} & \mu \\ \text{Maximize } & \sum_{i=1} B_i X_i \end{aligned}$$

Subject to:

$$\begin{aligned} & \mu \\ & \sum_{i=1} C_i X_i \leq C \end{aligned}$$

$$X_i \in (0,1), i = 1 \dots \mu$$



- Another appealing alternative to integer programming is to compute benefit cost ratios ( $BC_i/C_i$ ) and an equivalent profitability index, using NPV in the numerator ( $PI_i = N_i/C_i$ )

Projects are sorted by using ratios and the selection of high ratio projects is done until funds are exhausted.

The quantitative analysis is the starting point for decision-making. Quantitative is more mathematical and Arnold (1998) described it as the one element needed for successful investment appraisal. According to Damodaran (2000) of the University of New York, the DCF model of evaluation analysis is described as the basic framework. In recent years the DCF model, however, has been criticized for its failure to consider various options that are embedded in projects/programs. He gave an example that the NPV of a project does not include in it the value of management ability to expand the size or scope of the project should things work out particularly well nor does it reflect the value of the start of the project until conditions become more favorable. It is therefore argued that whereas once the traditional approach was to pick the project with highest NPV, there is a possibility to short change projects that offer management more flexibility in making operating changes, and therefore DCF is likely to ignore other options that are included within the project.

For that matter qualitative factors are very important as well and need attention from financial analysts in evaluating projects. Qualitative factors pertaining to projects/programs are further discussed in the next following section.

## **2.9 QUALITATIVE FACTORS**

Qualitative appraisal assesses some non-financial benefits that are used to decide the probability of a project investment, if the objective criteria of an organization ranks

projects approximately equal, then the decision must be based on qualitative decisions.

Capital budgeting decisions need some heroic assumptions to be made regarding for instance an asset's life- or cost-saving ability and sometimes qualitative analysis may become more important than quantitative analysis (Braswell et al. 1984). Seitz and Ellison (1999) cited Kamath and Oberst in a survey of 427 hospitals in America, over 95% of those hospitals that indicated that qualitative factors were included in their capital budgeting decisions. When asked to rank qualitative factors in order of importance, facility need, physician demand and community need were ranked the three most important qualitative factors considered.

To create an attractive non-profit capital investment, Seitz and Ellison argue that an organization can use its resources to pursue non-financial goal through the best allocation of resources.

Chandra (2001) credited qualitative factors with an important role to play on business including capital budgeting. In making decisions, an organization's executive apply several factors including the following (pp 473-475):

- **Intuition-** this is very common in businesses and capital budgeting. Mitzberg's study, which was cited by Chandra, indicated that in many strategic decisions, managers depend more on their judgment than explicit analysis.
- **Vision-** most successful businesses in the world are guided by the vision of its leaders. Chandra cited various companies whose leaders' vision has found its way into businesses. He illustrates as follows:
  - IBM- value added leadership
  - HONDA –the No. 1 producer of the best motorcycle in the world.
- **Sponsorship-**research in decision making processes of top management

suggests, that a decision is likely to be subject to the conditions of the sponsors of the project. The projections and the analysis of the project tend to be secondary in importance.

Pycraft et al. (1997: 47-51) described good quality products and services to mean higher customer satisfaction and hence customer loyalty to the organization's products or services.

Good quality performance in an operation set up means that attributes of the quality characteristics will lead to:

- Cost reduction – as fewer mistakes will spend less correction time.
- Increased dependability and the internal satisfaction (staff of organization) lead to a stable and efficient organization.

Vertin (1991) characterized a successful organization as one that consists of talented people who like and respect one another. They also share deeply held convictions and a simple and intelligent investment philosophy. Communication is highly emphasized within and outside the organization in relation to the organization's objectives. A successful organization is also built around the talents of its staff and it allows intellectual disagreement and interaction among its members but insists upon mutual respect.

## **2.10 CAPITAL BUDGETING IN THE CONTEXT OF BALANCED SCORECARD**

Robert Kaplan from Harvard Business School and David Norton developed the concept of the balanced scorecard. The balanced scorecard is a way of checking what steps need to be taken throughout the organization to make the company's strategy work (Lynch, 2000; [www.iaes.org](http://www.iaes.org)). The authors were concerned that the traditional measures of company performance failed to provide adequate guidance to

management operating in a rapidly changing and increasingly competitive business environment. Very little research has been done to study the application of balanced scorecard in the capital budgeting process. It is cited in [www.iaes.org](http://www.iaes.org) that, Thompson Corrigan, Bridget Lyons and Andra Gumbus of the Sacred University are presently carrying out such a study. The objective is to design a set of balanced scorecard criteria for capital budgeting and show where and how they should be included in the process. Their assumption is that projects evaluated under balanced scorecard criteria will improve the chances within the organization of long term success as opposed to the traditional decision making techniques of NPV and IRR. The balanced score card has been applied to measure a number of distinct areas as shown by Table 2.1 below:

**TABLE 2.1 Balanced score card and strategy perspectives**

Strategy perspective	Example of score measure
Financial perspective	Return on capital Economic value added Sales growth Cost reduction
Customer perspective	Customer satisfaction Customer retention Acquisition of new customers
Internal perspective	Training and development Job turnover Product quality Stock turnover
Future perspective	Employee satisfaction Employee retention Employee profitability

(Source: Lynch; 2000: 765)

## **CHAPTER 3.0 CASE STUDY: ELCT – IRINGA DIOCESE**

### **3.1 PLANNING AT CHURCH LEVEL**

#### **3.1.1 INTRODUCTION:**

Iringa Diocese is one of 20 dioceses, which make up the Evangelical Lutheran Church in Tanzania (ELCT). The major issues facing the Iringa Diocese and the whole ELCT include the strategic objectives of sustainability and viability along with the provision of educational, health, pastoral and community development projects like water, micro-finance and agriculture. The provision of these services aims to add value to the community as well as sustaining the diocese in the long run.

The Evangelical Lutheran Church in Tanzania (ELCT) together with its partners, (donors) in Europe and America participated fully in the growth of the church and fulfillment of church missions since 1963 when the church was formed. The participation included the provision of Fund Capital towards construction of primary schools, seminaries, secondary schools and hospital buildings. Its involvement is also in other areas such as the financing of church evangelism programs, assets (e.g. vehicles), the training of church employees and social programs such as the settlement of refugees in the Great Lakes region of Eastern and Central Africa (Church and State, 1990). According to the recent report ([www.elct.org](http://www.elct.org)), Christian churches in Tanzania provide more than 50% of the health services to the Tanzanian population. ELCT alone runs 20 hospitals in addition to a number of health centers and dispensaries that account for about 15% of the health care industry in Tanzania. The church (ELCT) also runs more than fifty secondary schools and twenty vocational training institutions. ELCT owns 2 teachers colleges and 1 University.

This chapter revisits and discusses a number of key issues that enable the Iringa Diocese to involve itself in capital budgeting for its programs and projects. The discussion covers a period from 1997 to 2002.

### **3.2 STRATEGIC PLANNING**

Strategic plans are concerned with an attempt to design a desired and anticipated long-term direction for the organization's activities. It also tries to achieve competitive advantages over its competitors. Strategic plans means trying to match the organization's resources with its activities (Johnson and Scholes, 2002).

Planning for the Evangelical Lutheran Church in Tanzania is done for projects and activities over short-term and long-term periods. The main priorities for the strategic directions of the Church's programs and projects are based on the following guidelines (PME for Guidelines ELCT 1999:17):

- Capacity building
- Institutional based income generating and stewardship
- Promotion of social services: health, education, gender equality, mission and communication
- Policy advocacy

The final decision on approval for programs and projects lies with the Lutheran Mission Co-operation of Tanzania (LMC).

LMC is a joint instrument of the Evangelical Lutheran Church in Tanzania (Comprising the 20 dioceses and head office) and its partners (donors) who are churches, related agencies and mission societies of Europe and America.

### **3.3 JOINT PLANNING**

Joint planning involves all members of Lutheran Mission co-operation (i.e. Church programs and its dioceses' programs and partners in Europe and America) in identifying needs and mobilizing resources. The planning comprises both long term and short-term plans of all Dioceses (of ELCT). A number of stages are involved from idea germination to problem solving or taking an opportunity. The stages are as follows (LMC- joint plans: 2000 –2002)

#### **3.3.1 STAGE 1**

This is concerned with combination of strategic plans at congregational and institutional levels to form the dioceses' strategic plans. Pastors, heads of schools and managers of health institutions are involved. This stage includes the following activities.

- Identification of needs and resources
- Study of the root cause of problem and proposal of solutions
- Incorporation of solutions into programs and projects
- Integration of programs and projects in short term and long term plans which show:
  - Objectives, activities and timeframe
  - Indicates the availability of local resources.

#### **3.3.2 STAGE 2**

Plans from all Dioceses and Head Office of church are presented before ELCT committees of planning and finance for screening. This stage involve evaluating the extend to which the diocesan plans:



- Reflect the mission of the church
- Link to the budgets and the cost effectiveness of activities in the plans.

The committees work to rank priorities within priorities of dioceses and institutions. All plans from the dioceses are then developed into the first consolidated draft plan (FCDP). This consolidated draft plan is first reviewed by the ELCT executive committee and then submitted to an advisory group for consideration.

### **3.3.3 STAGE 3**

At this stage, the advisory group performs the following duties:

- Establishes a commenting base of the plans
- Assesses which projects and programs are to be integrated into short and long term plans
- Establishes the environment for sustainability and realization of the plans
- Comments on the degree to which the resources are available to meet the identified needs in the plans.

### **3.3.4 STAGE 4**

The Lutheran Mission Co-operation secretariat receives, reviews and comments on the advisory group recommendations. It then prepares a second consolidated draft plan (SCDP) which is communicated to LMC members i.e. ELCT and its donors.

### **3.3.5 STAGE 5**

At this stage the LMC secretariat take the second consolidate plan to the planning committee and financial committee. These two committees develop proposals that will be approved by the LMC assembly.



The LMC assembly establishes joint plans on a long and short-term basis. The required financial resources are then allocated into a Common basket.

At this stage the donors/contributors use the plans to mobilize resources that will meet the financial needs of identified plans, whereas the ELCT dioceses undertakes the monitoring of the plans in their respective areas.

### **3.4 COMMON BASKET**

The Common basket is defined as the LMC resource mobilisation and allocation system. The members of LMC give approval depending on the availability of financial and human resources as per approved plans. The Common basket works to enable the ELCT and its dioceses towards fulfilling their strategic objectives and comprises the financial resources that include, block grants, designated funds, contributions of the ELCT and bilateral Funds.

The human resource part is concerned with the foreign mission workers/volunteers who work for church projects and programs. The Common basket is used also for the training and development of Tanzanian personnel.

## **CHAPTER 4.0 CAPITAL BUDGETING: ELCT IRINGA DIOCESE**

### **4.1 INTRODUCTION:**

The Evangelical Lutheran Church in Tanzania is a mission-oriented institution with a population of nearly 3.5 million out of a total of 34 million Tanzanians. The Lutheranism commenced in the country during the late 19<sup>th</sup> century as a work of seven churches/ Mission societies that operated independently countrywide.

By 1938 there were 7 Lutheran churches in the then Tanganyika. They operated under a federation with each church maintaining self-autonomy. The area covering Iringa diocese was part of the Lutheran church of Southern Tanganyika. On June 19<sup>th</sup>, 1963 the 7 churches merged to become a single church, which is now called the Evangelical Lutheran Church in Tanzania (Mdegella et al, 1991).

### **4.2 ADMINISTRATIVE STRUCTURE**

ELCT Iringa diocese has administrative programs namely:

- Medical and diaconical services.
- Evangelism and mission.
- Projects and development.
- Family nurture and youth development.
- Building and land development.
- Training and development.
- And Christian education and liturgy.

The diocese has approximately 70,000 Christians out of a total of 645,000 living in Iringa district. The diocese owns one hospital (ILULA) that falls under medical and diaconic services program. It owns also other 7 dispensaries and 2 secondary schools. It owns other assets like land and commercial buildings. Issues pertaining

to financial matters where Capital budgeting is among them are clearly stated in ELCT bylaws, financial regulations and plan guidelines, which are developed to be applied by its dioceses and institutions. The section that follows discusses the practical aspects of long-term capital budgeting in Iringa before the diocese's plans are forwarded to the higher levels of the church and the LMC.

### **4.3 FINANCIAL PLANNING**

The church has set clear rules and regulations to govern financial matters. ELCT Iringa diocese together with other ELCT dioceses and institutions like hospitals and colleges use the set directives in working out their short-term and long-term activities. The Capital budgets comprise capital receipts from project funds and any other fund earmarked for development projects and estimated capital expenditure to be incurred during the financial year. The estimated capital expenditure is either portions of major works or the commitment to long-term plans of the church and its institutions of financial regulations (Financial regulations, 1997).

### **4.4 CASH FLOWS ESTIMATION.**

The church has developed guidelines that are followed by its institutions (dioceses) in establishing the benefits and costs for its projects and programs. During the planning stage objectives are set in such a way to be accomplished. The identified projects activities are then allocated corresponding costs.

#### **4.4.1 CASH OUTFLOW ESTIMATION**

Depending on the nature of a project or a program cost estimation is activity based. In order to understand the total cost for project or program, costs for all activities are determined as follows:

- For each plan and single activity, costs are estimated in terms of material, time and, labor.
- According to the above concrete needs, estimates are made of the corresponding costs in money (Estimated expenditure).
- A budget plan is set up for all the components of the project. Similar clusters of costs are put together.

#### **4.4.2 CASH INFLOW ESTIMATION**

The compositions of financial resources that go into the common basket include external contributions that relate to fund capital originating from outside Tanzania. These are the designated funds, bilateral funds and block funds. The dioceses within the Evangelical Lutheran Church in Tanzania also contribute to the common basket. It is stated also in the bylaws that projects and programs should benefit from contributions both local (as own) contribution and external contributions.

Based on the expenditure of activities in specific periods, cash inflows are estimated in order to meet the expenditure of project/ program.

Appendices I and J outline the ELCT Iringa diocese plans based on the logical framework approach and its corresponding program capital budget summary for the years 2002-2003 in Tanzania Shillings.

**4.5 RISK AND RETURN.**

Risk is a constraint that has to be considered in the achievement of any organisations objectives. Risk is the possibility of the organization losing portions of its investment. Following the bylaws of decentralization and the common approach of all ELCT dioceses and institutions in regard to planning and financial matters, ELCT Iringa diocese has maintained the strategic approach since its inception in 1997.

The Evangelical Lutheran Church in Tanzania has developed monitoring and evaluation guidelines which continuously collect and analyse information that relates to immediate activities and objectives. The guidelines compare the progress of the project with the original plans to enable the projector manager to continuously observe changes or impacts caused by the project and be aware of the risks perceived to affect the project. Risks are observed directly during implementation or in a form of assumptions of issues that may occur during the course of a project's time frame. These may be risks, which are external or internal.

A tool has been designed to monitor finance. The budget-monitoring tool compares the planned expenditure with the actual expenditure. It also compares the planned inflow of finance against the actual inflow of finance. The deviation is then documented and analysed. An example of the tool to monitor risk is shown in Table 4.1 below.

**TABLE. 4.1 The tool to monitor risk**  
**PROJECT / PROGRAM**  
 BUDGET MONITORING FROM... TO...

Cost/ Expenditure	Planned	Actual	Deviation (in %)	Causes/correction
1. Investment Cost				
2. Operational costs				
Salaries				
Material / equipment				
Travel costs				
Services				
Overheads				
<b>TOTAL</b>				
Finances:				
1. Own Contribution				
2. External Contribution				
<b>TOTAL</b>				

**(Source: P.M.E – Guidelines for ELCT; 1997: 80)**

The financial regulations for the Church projects/programs states that capital expenditure is limited to the sanctioned budget but in case of any required financing, extra provision is subject to the national executive committee’s approval (Financial Regulations, 1997).

My experience has shown that, if risks are perceived ahead, only inflation rates and growth rates have been used to estimate future cash flows from ELCT Iringa diocese own contribution and the external contribution sources.

According to the five-year strategic plan (2002–2006), of Haydom Lutheran Hospital ([www.m-produksjon.net/haydom](http://www.m-produksjon.net/haydom)), the hospital has used a similar approach to plan for the effects of risk. For instance, in the projected expenditure within the strategic time frame, the hospital derived expected costs from a continuation of the expenditures from 2000 and only adjusted by 6% inflation and 3% as real increase

per financial year. Haydom Hospital and Mbulu Dioceses have found it useful to budget 6% expected inflation and 3% total increase in projected income for the period 2002–2006. Table 4.2 below summarises the projected income and expenditure for the stated period.

**Table 4-2 HAYDOM LUTHERAN HOSPITAL**  
SUMMARY OF EXPECTED INCOME AND EXPENDITURES

Income and expenditure in US \$ 91US \$=900TSh)

(Estimated Inflation Rate at 6%)

**PROJECTED EXPENDITURES**

	2001	2002	2003	2004	2005	2006
Rehabilitation & Investments						
Needed Rehabilitation	365,945	243,964	243,964	121,982	121,982	121,982
New Investments	276,000	184,000	184,000	92,000	92,000	92,000
Operational costs						
Total running costs	871,021	949,413	1,034,860	1,127,998	1,229,517	1,340,174
MOC	676,389	737,264	803,618	875,943	954,778	1,040,708
School grants	13,000	14,170	15,445	16,835	18,351	20,002
Scholarships	35,333	37,453	39,700	42,082	44,607	47,283
<b>Total projected Expenditures</b>	<b>1,512,966</b>	<b>1,377,377</b>	<b>1,462,824</b>	<b>1,341,980</b>	<b>1,443,499</b>	<b>1,554,156</b>

**PROJECTED INCOME**

Other Income	185,019	201,670	212,126	239,605	261,169	284,674
Patient fees	222,222	242,222	264,022	287,784	313,685	341,916
MOH grants	68,889	75,089	81,847	89,213	97,242	105,994
Income generating Activities	167,043	182,077	198,464	216,326	235,795	257,017
NORAD/BN/NLM	116,959	127,485	138,959	151,465	165,097	179,956
Other donors						
<b>Total projected Income</b>	<b>760,132</b>	<b>828,544</b>	<b>895,419</b>	<b>984,393</b>	<b>1,072,989</b>	<b>1,169,558</b>

**PROJECTED NEED FOR ASSISTANCE**

Unfinanced towards						
Coverage of Total Running Costs	110,889	120,869	139,441	143,604	156,529	170,616
Unfinanced towards						
Coverage of Rehabilitation						
and Investments	641,945	427,964	427,964	213,982	213,982	213,982
<b>Total Unfinanced</b>	<b>752,834</b>	<b>548,832</b>	<b>567,405</b>	<b>357,586</b>	<b>370,510</b>	<b>384,598</b>

Source: Haydom Lutheran Hospital 5 year strategic plan 2002-2006 pg 55

According to the book by Dr. Steffen Flessa (1997) on the study of costing of health services of 16 hospitals owned by the ELCT, it was found that external donors contributed to the larger extent, the income for establishing new projects like building and equipment. Donor policies were also stringent in that they supplied only capital expenditure but hardly any working capital to run hospitals and this led to a lower quality of hospital services.

#### **4.6 INVESTMENT CONSTRAINTS**

Reilly and Brown (2000) argued that investor objectives are the objective goals that are expressed in terms of both risks and returns. The expression of a person's return objective can be stated in terms of absolute or relative percentage return or it may take the form of a general goal, such as capital preservation or capital appreciation. On considering investors' objectives, Reilly and Brown cautioned about the existence of investment constraints. These constraints are important to grasp, as they will affect the requirements of investors in terms of:

- Liquidity needs – An investor's need to obtain liquid cash as the needs arise. Therefore the investment plans of turning into liquidity must concur with the investors required liquidity needs.
- Time horizon – There is a close relationship between an investor's time horizon, liquidity needs and ability to handle risks. Investors with long time horizons are said to require less liquidity with a higher degree of tolerance while investors with a shorter time horizon favour less risky investment.



#### **4.7 CHURCH FINANCIAL SITUATION**

ELCT had 14 mission and church partners prior to 1997. The partners supported ELCT diocese and its institutions through the Lutheran Co-ordination Service (LCS). The LCS was later on, replaced by the Lutheran Mission Co-operation (LMC). Morgensen (2002) defines the LMC as a common stand for all ELCT dioceses and its donors. The church finances started to deteriorate from the 1996 financial year. The financial deficit for donor contributions to ELCT dioceses and institution was projected at Tsh. 162,000,000 but the real outcome deficit was Tsh. 259,000,000. The escalated deficit was mainly caused by the exchange risk whereby the Tanzanian currency (Shilling) strengthened against the Scandinavian currency (LCS-LMC-Manual, 1998).

The decline in Capital Expenditure estimates had far reaching effects on the implementations of various projects to the ELCT dioceses and institutions. The project funds suffered from currency adjustments and this caused a delay in the implementation of many projects. During the 1997 financial year, the ELCT reserve fund and pension funds values decreased as funds were invested in foreign currencies. ELCT dioceses and institutions presented consolidated strategic and financial plans to the donors, and projects or programs were listed in three categories according to their urgency.

During the 1997 financial year, only 3 projects were fully sponsored and 4 partially sponsored out of 18 projects on list A. Of 25 projects on list B only, one project was partially covered. On list O, 3 out of 15 projects were sponsored. The sharp decline in availability of financial resources, culminated in the reduction of ELCT dioceses and institution program estimates by 30% from the 1997 figures (LCS-LMC manual

1998). This financial resource decline had shaken the unity of the Church. The following table 4.2 gives the declining trend of donors' contributions.

**Table 4.3 Donor contributions**

SUBTOTAL AGENCIES COMMON BASKET CONTRIBUTION (BLOCK GRANT) FROM DONORS							
Member	Currency	1997 Amount in currency pledge	1998 Amount in currency pledge	1999 Amount in currency pledge	2000 Amount in currency pledge	Exchange Rate	2000 Amount in Tanzania shillings actual
<u>BMW</u>	DEM	165.000	65.000	65.000	20.000	395	7.900.000
<u>CSM</u>	SEK	1.650.000	1.500.000	1.500.000	880.000	82	72.043.098
<u>DLM</u>	DKK	120.000	120.000	120.000	120.000	96	11.530.333
<u>DMS</u>	DKK	220.000	220.000	235.000	240.000	96	23.060.665
<u>ELCA</u>	USD	27.000	27.000	27.000	27.000	700	18.900.000
<u>FELM</u>	FIM	700.000	560.000	400.000	350.000	121	42.326.207
<u>KPS</u>	DEM	-	100.000	100.000	100.000	395	39.500.000
<u>LMW</u>	DEM	20.000	20.000	20.000	30.000	395	11.850.000
<u>NLM</u>	NOK	225.000	225.000	225.000	210.000	88	18.426.594
<u>NMZ</u>	DEM	380.000	380.000	380.000	350.000	395	138.250.000
<u>MWB</u>	DEM	1.830.000	1.830.000	1.830.000	1.830.000	395	722.850.000
<u>SEM</u>	DEM	250.000	250.000	250.000	870.000	82	71.224.377
<u>UEM</u>	DEM	420.000	420.000	420.000	358.000	395	141.410.000
<u>VELKD</u>	DEM	65.000	65.000	40.000	10.000	395	3.950.000
<u>ELCT</u>	TZS	-	-	50000000	35000000	1	35000000
<b>TOTAL</b>							<b>1358221274</b>

(Source: LMC JOINT PLANS 2000- 2002: 56)

## **CHAPTER 5      FINDINGS**

### **5.1    INTRODUCTION**

In this chapter, findings will be described as to how far the knowledge about discounted capital budgeting techniques is known and applied in the real situation. Various concepts about capital budgeting were included in the questionnaire and applied in Iringa situation. However, if the concepts are not well known or are not well applied, the existence of knowledge gap that has to be filled will be implied. According to White (2000), the importance of combining the qualitative and quantitative techniques of data collection was described. He argued that, using various methods of data collection, for example the interviews and questionnaire in a case study situation give more information for the study. Descriptive findings are therefore used to strengthen the argument for the ELCT Iringa diocese case study. The section that follows describes, in percentages, the perceived and practical aspects of the key concepts of discounted budgeting techniques.

### **5.2    RESULTS**

Organizational survival and its financial sustainability are key issues that managers and leaders of non-profit organizations should consider. Based on this study therefore, the practical aspects of discounted capital budgeting techniques in non-profit organizations need to be examined so as to evaluate the financial sustainability of projects and the challenges facing stakeholders in the non-profit sector in Tanzania.

Knowledge and practical issues for DCF capital budgeting were examined with a view to evaluating the extent to which there are strengths and weaknesses in both

quantitative and qualitative factors of evaluation. "Present" in the questionnaire refers to what is known and practiced while "future" refers to what is needed most as "present" is unsatisfactory. The format for presenting the findings from the questionnaires, which were distributed, follows the criteria on headings of information that were sought (Appendix A). The complete lists of findings are seen in appendices B through H.

This study therefore analyses a few of findings in regard to capital budgeting practices of ELCT Iringa diocese and appear in the next chapter.

## **CHAPTER 6      DISCUSSION**

### **6.1 INTRODUCTION**

This section presents a detailed discussion of the findings of the case study. ELCT Iringa diocese programs are evaluated and the differences between the actual findings of capital budgeting and the conventional theories of discounted cash flow techniques are described.

This research is descriptive in nature. Not all findings will be discussed but only those that happen to reflect feelings of respondents. The study relates the practical aspects of a case study and the best-selected techniques for evaluating alternative projects. The tool used for analysis of descriptive data was SSPS software and frequencies are used to provide descriptions. The questionnaire was used to complement the actual findings and does not stand alone when analyzing. The discussion will also provide the selected capital budgets for ELCT Iringa diocese and suggest what they should look like when adjustments based on the findings and the conventional theories are made. The adjustments may look beyond ELCT Iringa capital budgets by involving the LMC estimated consolidated cash flows for the entire church. This is because the problem concerning ELCT Iringa diocese estimation for its cash flows has a direct relationship with the ELCT and LMC policies.

### **6.2 STRATEGIC PLANNING**

For ELCT Iringa diocese the strategic plan consists of activities from various programs and projects to be operational in a short-term (i.e. from one year to three years). The plans for the church activities have clear objectives of improving social value in terms of provision of services like health care and education. The planning

processes require that the head and manager of programs and projects develop a list of activities to be completed in the given time frame. Personal experience as treasurer of the diocese showed that some project and program heads were not able to link their plans' activities with the benefits and costs under the time frame of the program or project life. The results have been underperformance of diocese's objectives. Appendix B (results number 6 and 7) provides some confirmatory evidence that only 57.1% of the 21 respondents surveyed indicated even moderate progress of their programs' work. However, 90.5% of the respondents indicated that they would like to progress more in future. The survey has indicated also that 52.4% (result number 12) of respondents participated very little and had very little knowledge about the activities of their programs. About 90.5% (result number 13) from the respondents indicated their intention to thoroughly involve themselves in preparing details concerning their programs' activities in the future. This is evidenced clearly with reference to appendix E where 47.6% (result number 58) said they were not familiar with the guidelines for decision making for capital budgeting.

The main focus of the church and Iringa diocese in particular has been to proclaim the Christian philosophy based on Jesus Christ's mission. Since the inception of the church (ELCT) in Tanzania, donors from Europe and America have been in the forefront of making decisions that involved capital expenditure. Although their involvement could be construed as genuine and helpful (especially towards construction of school and healthcare center buildings) the concept of participation and transfer of ownership to Tanzania communities was not evident. The imbalances of economies between the developed Europe and America and the underdeveloped economies of Africa have resulted in a dependence syndrome amongst the poor. The per capita income amongst residents of Iringa district cannot sustain the huge costs



needed for working capital and the expansion of social services projects. The essence of strategic planning, analysis, selection and implementation in the Tanzania Lutheran church has for the most part taken place since the mid-1990s. Based on the analysis above, it can be argued that, in the Tanzanian Lutheran church and in the Iringa diocese in particular, strategic management planning is a new discipline.

### **6.3 FINANCIAL PLANNING**

Forecasting financial requirements for programs and projects has been a big challenge to almost every head of program or a project. The difficulty lies in determining the financial benefits and costs of each project. The responses to questions concerning whether the head of programs and projects participated in or had knowledge of key aspects of cash flows revealed that the 21 respondents did not have adequate knowledge and had not participated thoroughly in estimating future cash flows (Appendix B, results number 14 to 20)). Only 19% of the project heads understood why the project's cash outflows had increased while 67% responded that they had little understanding and 14% had no understanding of the trend.

Morgensen (2002:24) cited a report from the Efficiency Enhancement Program Team (EEPRO) dated September 1999. The team had earlier been set up to by the ELCT headquarters to assist dioceses with financial and administrative crises. The team visited a number of dioceses, which included Iringa, Morogoro, Ulanga Kilombero, Dodoma and Karagwe. In Karagwe diocese for instance the team observed among other things that:

"Management capacity is poor. It was difficult to find change agents... The management (previous and present) is not prudent in financial management. It has

persistently spent above the means of the diocese. Sometimes earmarked funds for vulnerable groups in the society, have been consumed by the diocese in general operations.... Income generating activities have virtually collapsed....The diocese is highly indebted....Looking at the trend of local income, it appears that the diocese head office has completely lost touch with parishes. The head office is run by the LMC subsidy and some local income from interest and commission charges for projects/program..."

In the responses to questions concerning making changes in Iringa diocese, the 21 heads of programs responded with interesting observations as appendix H section D [results number 79(i) to 79(iv)] sets out the results. 38.1% of the respondents commended the diocese for its (human resource) training program in order to improve their skills, 28.6% recommended the diocese follow financial regulations and 14.3% advised team work among leaders and managers.

#### **6.4 COST-BENEFIT ESTIMATION**

The ELCT- Iringa diocese has not yet developed its own guidelines on estimating benefits and costs for its programs and projects. Most of the guidelines on computing the costs of activities are obtained from the ELCT head office. The guidelines are used to develop estimated costs for all activities and later sum the user costs for each program or project for each year. Personal experience with the ELCT Iringa diocese has shown that when costs for a program or project are projected to future cash outflows, only the inflation rate was considered (Table 4.2 also for Haydom Lutheran Hospital). Mogensen (2002) argued that as long as Tanzania becomes poorer because of international economic dynamics, it is unrealistic to expect the



church to be economically self-supporting. The time value of money is not a consideration when future benefits are considered. Even donors do not consider the time value of money as they only grant finance according to the capital budget presented. For instance, ELCT Iringa diocese had estimated that 13,392,121 Tanzanian Shillings (in 1999) could purchase 7 units of two-way radio. Funds were only available in 2000. The radios had to be imported from Australia and by the time the funds became available only five two way radio could be purchased. The value of the money used to procure radio calls was much less than that of the base year.

## **6.5 COST OF CAPITAL**

ELCT Iringa diocese uses local contributions, grants from donors and surplus from its operations to finance its projects and programs. There is no debt in its financing policy because there is a fear of risk from paying the principal and interest. There is no financial policy to govern the capital structure for the organization. In hospitals, the required return has been adopted for other competitors who participate in the healthcare industry. Due to the nature of its being a non-profit organization, there is no effort to develop a required return or weighted average cost of capital (WACC) to compensate even the future value of cash inflows from the various sources of capital. The responses to the question about the knowledge of physical surroundings, equipment and facilities whether the cost should be recovered over a long term, showed that many managers did not link the benefits of programs of offsetting the cost over a long term (Appendix C results number 50 to 56).

## **6.6 RISK ANALYSIS**

It is very important to determine program or project risk as it affects future cash flows. ELCT has set guidelines for evaluating some influencing factors in the program or project's environment. Risks are observed directly during implementation or in a form of assumptions about issues that may arise in the course of the project's life. The changes in cash flow are documented during the monitoring process and corrective measures are taken.

ELCT Iringa diocese does not use the conventional techniques like sensitivity and scenario analyses to measure the relative variability of a project's cash flow. Therefore there is no risk adjustment for projects. Responses (Appendix B, results number 30 to 31) from the 21 respondents of Iringa diocese showed a misunderstanding of the meaning and practicability of risk inclusion when performing cash flow estimation. Only 14.3% had knowledge about risk, the remainder had nothing to do with it or had very little knowledge of it.

## **6.7 DISCOUNTING**

When assessing the costs and benefits of a project or a program, it is very important to discount the benefits and costs that take place in different years into comparable numbers. The discounting rate depends on the project risk and costs of other sources of funding. This allows the values that fall within different years to be added and subtracted from the initial outlay as they are calculated at present values. ELCT, all dioceses and other church-owned institutions are not using discounted methods in evaluating the economic status of their projects. Responses from the 21 heads of programs and projects confirmed that they did not have knowledge of, neither did they employ DCF capital budgeting techniques when evaluating their programs

[Appendix D, results number 57(i) to 57(ii)], only 4.8% had knowledge of what NPV was, while the rest had nothing to do with or very little knowledge of it. However, over 81% showed interest in receiving more training about NPV.

## **6.7 QUALITATIVE FACTORS**

The quantitative factors of capital budgeting carry equal importance to its counterpart of qualitative aspects. Arnold and Hatzopoulos (2000) cited the study by Pike and Dobbins (1986) found that many companies in United Kingdom consider strategic fit to be an important aspect for the acceptance of a project alongside with the quantitative factors. Mogensen (2002) researched the involvement of the Danish Mission (Danmission) in the setting up of new programs in two dioceses of Karagwe and Northwest of ELCT. The issue at stake was to discover whether the level of operations were sustainable by local standards or by western level standards. A response from one church leader was that the main problem facing the church is poverty. The church income has decreased due to the decrease in offerings. Another interviewee commented that even if money could be made available, there was still a problem of dishonesty and a lack of accountability. Citing the report by Efficiency Enhancement Program Team (2000), Mogensen noted the serious administrative problems whereby many dioceses in ELCT have lost the spirit of teamwork between their parishes and diocesan head office. He gave an example of German and Swedish Mission partners who reported that they were reluctant to support such dioceses with administrative problems. ELCT Iringa is not exception, during my tenure as treasurer; there were instances of the misallocation of funds. For instance there was one project where money was raised to purchase 7 motorcycles for Pastors. The project was not implemented and instead, the funds were used to pay

salaries, as the local contribution was not enough to pay operational costs of other programs.

In the space left on the questionnaire for comments on qualitative issues used in capital budgeting responses were that, the diocese management needs to: improve commitment (4.8%), train its personnel (38.1%), change its management styles (9.5%), follow financial regulations (28.6%), and improve team work (14.3%) [Appendix H, results number 79(i) to 79(iv)]. In the space left on the questionnaire for comments about their knowledge of ELCT- Iringa programs, the 21 heads of programs commented that the diocese has to sustain the well-being of people in areas such as health, education, and agriculture (71.4%), employ head of programs who can plan and foresee future needs (52.4%). Over 62% agreed that heads of programs were incapable of capital budgeting (Appendix G result number 71). In the space left on the questionnaire to evaluate their satisfaction at using DCF capital budgeting techniques, of 21 respondents, 4.8% strongly disagreed, 38.6% disagreed and 14.3% were neutral on availability of data to help them appraise their programs and projects. 28.6% disagreed while 42.9% were neutral on quality of their programs and projects. (Appendix F result numbers 65 and 67).

The emerging program and project financial management problems reflect the reality of handling financial issues in ELCT Iringa diocese and the entire Lutheran church in Tanzania. Both ELCT and donors need to understand each other on principles and guidelines that would improve the quality of programs in terms of achieving their objectives for stakeholders. Much has to be done to improve the capability of management in ELCT Iringa diocese. Detailed recommendations for problems appear in the next chapter.

## **CHAPTER 7     RECOMMENDATIONS**

### **7.1     INTRODUCTION**

Due to the fact that the DCF capital budgeting techniques are not well known, the capital budgeting for ELCT Iringa has been carried out in a highly haphazard and inefficient manner by heads of programs (combined with incomplete guidelines from the ELCT head office). I therefore make recommendations for improving capital budgets and for solving the current management and operational problems.

### **7.2     BACKGROUND INFORMATION**

The analysis has revealed that ELCT Iringa diocese has started implementing a strategic planning approach whereby plans for the organization run over three years. The organization finds it difficult to sustain future operations because of discrepancies between the budgeted cash flow and the actual cash flow over the long term. Therefore the diocese's problems can be summarized in two:

- Those involving quantitative factors whereby there are problems of estimating future cash flows in different years. The organization is not listed and has not discounted cash flows arising in different year periods to evaluate if the value is being added or maintained. There is problem of estimating the weighted average cost of capital because the models used in for-profit businesses, are not easily applied to non-profit organisations. The organization is non-profit making and its major goal is adding value to the community. ELCT Iringa diocese has never cast doubt over its project or program proposals cash flows through identification of possible risks, which may happen in the course of a project or program life time period.

- The second concern is qualitative issues. ELCT Iringa diocese has deficiencies in its human capital. Heads of programs have few skills in projecting future benefits as well as costs pertaining to their projects or programs. The lack of teamwork spirit has been cited as a shortcoming. The diocese head office does not work very closely with its parishes (the ones who donate local contributions for financing the ongoing programs). Another area of major concern is in area of the public relations with other donors especially from European countries. There is little effort by ELCT Iringa diocese to learn what donors would like to offer in assistance to the diocesan social related programs and projects. Inefficiencies in handling finances (especially the issue of misallocation of project or program funds,) has been criticized by local stakeholders as well as other donors from Europe and America.

### **7.3 RECOMMENDATIONS**

DCF capital budgeting techniques in non-profit organizations are as important as in for profit organizations because it is viewed that a non-profit business will live or die by cash. The decision criteria for non-profit organizations should not change when programs and projects are being appraised. The ELCT Iringa diocese programs and projects are considered in terms of cash flows that will eventually determine the accomplishment of its objectives. Therefore commercial practices are unavoidable in non-profit organizations as well.

As a result of the unsatisfactory and deteriorating situation which is undoubtedly caused by not employing proper techniques in appraising projects and programs, it is hereby recommended that ELCT Iringa diocese, in cooperation with ELCT management and other stake holders like donors and the Lutheran community in



Tanzania, put forward training new ideas and distribution of information as a basis to further improvement of DCF budgeting techniques and hence have determination of future cash flows. In that respect, the following recommendations are crucial for implementations:

- **Capital budgeting guidelines:** There is a strong need to develop guidelines that sets forth basis for analysing and comparing future cash inflows and cash out flows for the analysis period. A number of issues need to be accomplished to arrive at good comparison, these include:
  - Identifying and listing activities to be accomplished
  - Calculating user cost per activity
  - Summing user costs for the program or project for each year of the analysis period which is equivalent to cash inflow per that particular year in the case of a non-profit organization.
  - Establishing mechanisms to forecast errors in cash flow data used in analysis. This could be achieved via techniques like sensitivity analysis.
  - Establishing the discount rate from, for example the treasury bond rate, where its maturity corresponds to the life period of the project or program. This should be adjusted according to the risk level of the program or project. If the inflation level is at hand it must be included in discounting the future cash flows.
  
- **Capacity building:** A number of mission organizations have supported the training programs for ELCT in fields covering medicine, theology, communication and education. It is recommended that capacity building be

maintained especially in the management and administration of church institutions under the dynamics of the environments in which they operate. The heads of programs or projects should be trained regularly as technological environments are changing rapidly. This will enable them to make adjustments in their plans and hence achieve objectives efficiently.

- **Good public relations:** ELCT Iringa diocese should maintain good public relations with all institutions that support the financing of its program and projects. These include stakeholders like Parishioners (Lutheran Christians) within Iringa diocese and donors from other sources outside the diocese. The management should ensure proper use and reporting of finances. Key issues that are fundamental to the Lutheran philosophy should be highly maintained as stakeholders value it so much against other competitors' for example the healthcare industry.
- **Diversification of donor funding:** There are various donors with varying interests in supporting social welfare and development programs or projects. The diocese is recommended to look for more possible donors as this strategy will help to lower the risk errors associated with the variation of cash flows. According to fund raising report by the Department of Public Administration of the City University of New York (1989), the number of non-profit organizations in the USA had increased to meet the needs of the growing demands. The report found also that although many Americans were willing to give money for charity, many non-profit organizations lacked both skills and resources to raise funds, to maintain and expand their services. In the case of Iringa diocese and ELCT, the management can only sustain and



develop more programs or projects if more knowledge for fund raising from local and international sources is provided to its leaders.

- **Education:** The diocese and the Church at large should educate its people about the importance of self reliance. Development should start from people initiatives which show people how to collect and use the resources they have before seeking assistance from other donors. This could be the most reliable source of cash flow.
- **Sources of outlay:** Institutions like hospitals and profit making units within the diocese like hotels are advised to include other sources of initial outlay like loans. Although they may not benefit from the tax shield, the tax exempt status may still benefit the church institutions through increased net cash flow.
- **Exchange rate volatility:** Because the Tanzanian Shilling is very volatile, most of the foreign currency obtainable from Europe and America sources should be kept in a foreign currency account before being distributed to any program or project. This will help to maintain its value unlike if it was in a local bank.

## 7.4 CONCLUSION

ELCT Iringa diocese work is carried out in accordance with the church mission of serving its people physically, mentally and spiritually. The diocese focuses on activities like the provision of social services such as education, health and evangelism programs to the residents of Iringa district. Problems of forecasting future values of costs and benefits and discounting cash flows (using a relevant required rate of return) for comparison purpose has resulted in the diocese being perceived as inefficient in achieving objectives that are set for accomplishment over time periods

of programs or projects. The ELCT Iringa diocese case study found that there are problems in the level of knowledge of DCF capital budgeting techniques and a lack of guidelines to direct heads to properly compute the relevant future cash flows and discounting of cash flows.

What is urgently needed is deliberate attempt by ELCT Iringa to train its human capital in capital budgeting issues and to apply models of DCF capital budgeting techniques to program or project appraisal and implementation.

## BIBLIOGRAPHY

### A. Books

- ✓Anthony, R. and Young, D. (1999) *Management Control in Non-profit Organisations*. 6<sup>th</sup> Ed. Boston: McGraw-Hill.
- ✓Arnold, G. (1998) *Corporate Financial Management*. Harlow: Prentice Hall.
- ✓Braswell, R. Fortin, K. and Osteryoung, S. J. (1984) *Financial Management for Not for profit Organisations*. New York: John Wiley & Sons. Inc.
- Brigham, E. Gapenski, C. L. and Daves, R. D. (1999) *Intermediate Financial Management*. 6<sup>th</sup>.Ed. Forthworth: The Dryden press.
- Brigham, E. Gapenski, C. L. and Ehrhardt, C. M (1999) *Financial Management, Theory and Practice*. 9<sup>th</sup>. Ed .Harcourt: The Dryden press.
- Brigham, E. and Ehrhardt, C. M. (2002) *Financial Management; Theory & Practise*. 10<sup>th</sup>. Ed ,Florida: Thompson Learning Inc.
- Beenhakker, H. (1997) *Risk management in Project Finance and Implementation*. Westport: Quorum.
- Butler, R., Davies, L., Pike, R. and Sharp, J. (1993) *Strategic Investment Decisions, Theory, Practice, & Process*. London: by Routledge.
- Chandra, P. (2001) *Financial Management; Theory and Practice*. 5<sup>th</sup>. Ed. New Delhi: TATA McGraw-Hill.
- Chandra, P. (2001) *Projects Planning Analysis Selection Implementation & Review*. 4<sup>th</sup>. Ed. New Delhi: TATA McGraw-Hill.
- Correia, C., Flynn, D., Uliana, E. and Wormald, M. (1990) *Financial Management*. Cape Town: Juta & Co. Ltd.
- Dixon, R. (1994) *Investment Appraisal: A guide for Managers*. London: Kogan Page Ltd.
- ✓Drury, C. (1988) *Management and Cost Accounting*. London: VNR International.
- Flessa, S. (1997) *Costing of Health Services of the Evangelical Lutheran Church of Tanzania: Methodology and results*. Arusha.
- Gambino, A. and Reardon, J. A. (1981) *Financial planning and Evaluation for Non-profit Organisation*. New York: NAA.
- Johnson, G. and Scholes, K. (2002) *Exploring Corporate Strategy; Text & Cases*. 6<sup>th</sup>.ed. Harlow: Prentice Hall.

Kotler, P. and Andreasen, A. (1991) *Strategic Marketing for Non-profit Organisation*. New Jersey: Prentice Hall.

✓ Mdegella, O. Kilimhana, S. and Kasumba, O. (1991) *Karne ya kwanza ya Injili*(1891-1991), Dar es saalam:DUP.

Lee, C. (1985) *Financial analysis and planning: Theory and application*. Addison: Wesley Pub. Company Inc.

Levy, H. and Sarnat, M. (1994) *Capital Investment and Financial Decisions*. 5<sup>th</sup>.ed. Hertfordshire: Prentice Hall.

Lynch, R. (1997) *Corporate Strategy*. Harlow: Prentice Hall.

Pike, R. and Dobbins, R. (1986) *Investment decisions & Financial Strategy*. Oxford: Phillip Allan Publishers Ltd.

Pycraft, M., Singh, H., Phihlela, K., Slack, N., Chambers, S., Harrison, A. and Johnson, R. (1997) *Operations Management*-Southern Africa Edition. Cape Town: Pearson South Africa.

Reilly, K. F. and Brown, C. K. (2000) *Investment analysis and Portfolio Management*. Boston: Thompson Learning Inc.

Richlin, R. and Stockton, B. (1982) *Managing Cash flow & Capital during Inflation*. New York: Alexander Hamilton Institute.

Ross, S., Westerfield, W.R., Jordan, D.B. and Firer, C. (2001) *Fundamentals of Corporate Finance*. 2<sup>nd</sup>. Ed. Roseville: Irwin/McGraw- Hill.

Seitz, N. and Ellison, M. (1999) *Capital budgeting and Long term Financing Decisions*. Orlando: The Dryden press.

Vertin, J. (1991) *Managing the Investment Firm*. Charlottesville: by AIMR.

Weisbrod, B.(1988) *The Non-profit Economy*. London; Harvard University press.

White, B. (2000) *Dissertation Skills for Business and Management Students*. London: Continuum.

White, G., Sondhi, C.A. and Fried, D. (1998) *The analysis and use of Financial Statements*. 2<sup>nd</sup>. Ed. New York: John Wiley & Sons Inc.

Young, D. (1984) *Control in Financial Healthcare*. Illinois: Dow-Jones Irwin.

## **B. Journal Articles**

Arnold and Hatzopoulos (2000) The theory-Practice gap in Capital budgeting: Evidence from United Kingdom. *Journal of Business Finance & Accounting*. Vol. 27(5) & (6), pp. 603-623.

Damodaran, A. (2001) The promise of real options. *Journal of Applied Corporate Finance*, Vol.13, pp. 29-43.

Parry, H.M.A. Firer,C. (1990) Capital budgeting under uncertainty: An empirical study. *South African Journal of Business Management*. Vol. 21-22, pp. 52-58.

Ryan, P. and Ryan, D. (winter, 2002). Capital budgeting practices of Fortunes 1000: How have things changed? *The Journal of Business and Management*. Vol. 8 No. 4, p 2.

Mills, T (Spring 1996) The impact of Inflation on Capital budgeting and Working Capital. *A Journal of Financial and Strategic Decisions*. Vol. 9, Number 1, pp.1-12.

## **C. Other type of publications**

Kleinmuntz, N. D. and Kleinmuntz,E. C *Multi objective Capital budgeting in not for profit Hospitals and healthcare systems* Champaign: University of Urbana, 2001.

Mogensen, M. *Danmission in Africa and Asia: An analysis of the work of Danmission in Tanzania, Cambodia and Pakistan*: Christiasfeld, Denmark, 2002.

## **D. Corporate Authors**

UNIDO. Manual for Evaluation of Industrial Projects. Vienna: UNIDO Publication, 1986,Austria.

Iringa District Council. Iringa District Socio-Economic Profile. Dar es salaam: Government Printer,1997.

Evangelical Lutheran Church in Tanzania. (1999) PME- Guidelines for ELCT. Stuttgart: Association for Appropriate technology.

Evangelical Lutheran Church in Tanzania. 1997) Financial regulations. Arusha.

Department of Public Administration. Fund raising report. (1989) The City University of New York.

Lutheran Mission Cooperation – Tanzania. (1998) LCS-LMC Manual Arusha: Tanzania.

Lutheran Mission Cooperation-Tanzania. (2000) LMC Joint Plans 2000-2002, Moshi: Moshi Lutheran Printing Press.

Lutheran Coordination Service (1990) Church and State. Arusha: Tanzania.

## **E Government Publications**

Minnesota- USA office of Investment Management.(2001) State wide Planning and Analysis.

## **F Newspapers**

Nkwame, M.V. Bwire, N. (2002) Health reforms backfire on NGO's facilities. Ed. No. 00240 (online), Arusha Times available at:

[http://www.arushatimes.co.tz/front\\_page\\_1.htm](http://www.arushatimes.co.tz/front_page_1.htm) downloaded on 4th, October 2002.

Ubwani, Z. (2002) AS support dwindles...Church hospitals face closure.( Online), Dar es Salaam. The Financial Times (Tanzania) available at:

<http://www.ippmedia.com/features/ft/2002/06/05/ft4.asp> downloaded on 5th June, 2002.

**G. Other Internet references available at:**

<http://www.cwrc.org/teams/esamt/Tanzania/profile.htm>. Downloaded on 28th, August, 2002

<http://www.elct.org/social.html>. Downloaded on 14th November, 2002.

<http://www.FinancialManagementDevelopment.com>.

[http://www.iaes.org/conferences/past/philadelphia\\_52/prelim\\_program/g10-1/corrigan-lyo](http://www.iaes.org/conferences/past/philadelphia_52/prelim_program/g10-1/corrigan-lyo). Downloaded on 5th November, 2002.

<http://www.nacubo.org/website/members/bomag/cbg396.html> downloaded on 3rd march, 2002.

<http://www.m-produksjon.net/haydom> Downloaded on 12th August 2002.

<http://www.whitehouse.gov/omb/circulars/a094/a094.html> downloaded on 31st October, 2002.

## APPENDICES

### Appendix A: Survey questionnaire guide

#### PART I

1. What is your title in the institution you are concerned with? **(Tick only one)**
  - (a) Accountant
  - (b) Doctor / Medical practitioner
  - (c) Nurse
  - (d) Pastor
  - (e) Member of ELCT - IRINGA Executive Council
  - (f) Head o department / school / centre
2. Which category describes the best program / department where you work? **(Circle only one)**
  - (a) Projects & Community development
  - (b) Women, Children & Nutrition
  - (c) Christian & Secular & Education
  - (d) Information
  - (e) Treasury
  - (f) Administration
  - (g) Health & Diaconical Services
  - (h) None
3. What is your sex?
  - (a) Male
  - (b) Female
4. What is your age?
  - (a) 16 - 19
  - (b) 20 - 25
  - (c) 26 - 30
  - (d) 31 - 40
  - (e) Over 40
5. What is your Marital Status?
  - (a) Single
  - (b) Married
  - (c) Separated
  - (d) Widow / Widower



## PART II

### Getting information from others

This part of Questionnaire helps in finding out whether you thoroughly participated on topic concerned, it helps also to know whether you understand some key concepts that make up theories of capital budgeting. Please circle the answer that best indicates your participation and understanding. Circle an answer for both **Column A and Column B**.

<u>No</u>	<u>Topic Area</u>	<u>A. This is how much I have been involved in this area.</u>				<u>B. This is how much I would like to be involved in this area</u>			
		<u>None at all</u>	<u>Very little</u>	<u>Some</u>	<u>Very much</u>	<u>None at all</u>	<u>Very little</u>	<u>Some</u>	<u>Very much</u>
6 - 7	How are you progressing in your program of work?	1	2	3	4	1	2	3	4
8 - 9	How are you progressing in non program areas (e.g. social, spiritual)	1	2	3	4	1	2	3	4
10 - 11	Capital Budgeting	1	2	3	4	1	2	3	4
12 - 13	Details of your program activities at your institution	1	2	3	4	1	2	3	4
14 - 15	Cash outflow increase	1	2	3	4	1	2	3	4
16 - 17	Cash outflow decreases	1	2	3	4	1	2	3	4
18 - 19	Cash inflow increases	1	2	3	4	1	2	3	4
20 - 21	Cash inflow decreases	1	2	3	4	1	2	3	4
22 - 23	Reasons for increase/decrease of cashflows	1	2	3	4	1	2	3	4
24 - 25	Patient fees, collect, contributions, rewards and grants	1	2	3	4	1	2	3	4
26 - 27	New equipments, projects available for my program (e.g. water project, pyrethrum project, TEE, x-ray etc)	1	2	3	4	1	2	3	4
28 - 29	Capital budgeting failure at your institution	1	2	3	4	1	2	3	4
30 - 31	Financial & Business Risk	1	2	3	4	1	2	3	4
32 - 33	Depreciation of equipment	1	2	3	4	1	2	3	4
34 - 35	Working Capital	1	2	3	4	1	2	3	4
36 - 37	Performance evaluation	1	2	3	4	1	2	3	4
38 - 39	Progress in capitalisation of program at your institution.	1	2	3	4	1	2	3	4
40 - 41	Debt Capital	1	2	3	4	1	2	3	4
42 - 43	Equity Capital	1	2	3	4	1	2	3	4
44 - 45	Problems faced by your institution	1	2	3	4	1	2	3	4
46 - 47	Long term projection of dept / program capital budgets	1	2	3	4	1	2	3	4
48 - 49	Financial regulations & Policies	1	2	3	4	1	2	3	4

## PART III

Physical Environment

Please circle what best describes, in your opinion, the following physical surroundings, equipment or facilities at your institution.

No	Topic Are	Don't know	Very poor	Poor	Average	Good	Excellent
50	Number of computers for each department / program	1	2	3	4	5	6
51	Number of beds available to patients (ILULA)	1	2	3	4	5	6
52	Structure to accommodate offices, wards, stores etc.	1	2	3	4	5	6
53	Office stationery	1	2	3	4	5	6
54	Cleanliness of environment around the hospital	1	2	3	4	5	6
55	Availability of equipment (x-ray, other medical facilities)	1	2	3	4	5	6
56	Availability of qualified staff at your institution	1	2	3	4	5	6

PART IV

THESE ARE VARIOUS TECHNIQUES THROUGH WHICH CAPITAL BUDGETING IS DONE. LISTED BELOW ARE THE DISCOUNTED CASH FLOW TECHNIQUES FOR CAPITAL BUDGETING. IN COLUMN A CIRCLE THE NUMBER THAT INDICATES THE TECHNIQUE YOU ARE CURRENTLY EMPLOYING, IN COLUMN B CIRCLE THE NUMBER TAT BEST INDICATES THE TECHNIQUES YOU WOULD WANT TO KNOW MORE:

		A. THIS IS THE TECHNIQUE CURRENTLY BEING EMPLOYED				B. THIS IS WHAT I WOULD WANT TO KNOW THROUGH THIS TECHNIQUE			
		NONE AT ALL	VERY LITTL E	SOM E	VERY MUCH	NONE AT ALL	VERY LITTL E	SOM E	VERY MUC H
57	NET PRESENT VALUE	1	2	3	4	1	2	3	4
	INTERNAL RATE OF RETURN	1	2	3	4	1	2	3	4
	PROFITABILITY INDEX	1	2	3	4	1	2	3	4

## PART V

The people and publications that communicate to you about Capital Investment

Please circle the one answer that best indicates the place, publication or persons from which you get most of your information on the following topics.

I get most information on the following topics from:

N O	Topic Area	<u>No</u>	<u>From</u>	<u>From</u>	<u>Suppliers</u>	<u>TRA</u>	<u>Government</u>	<u>Donors</u>	<u>I do it</u>
		<u>information</u>	<u>Treasury</u>	<u>Treasury</u>	<u>of</u>		<u>reports</u>		<u>myself</u>
		<u>on this topic</u>	<u>ELCT -</u>	<u>ELCT -</u>	<u>equipment</u>				
			<u>ARUSHA</u>	<u>IRINGA</u>	<u>/products</u>				
58	Guidelines on how to do capital budgeting	1	2	3	4	5	6	7	8
59	Cash Flows	1	2	3	4	5	6	7	8
60	New equipment for the program or department or Hospital	1	2	3	4	5	6	7	8
61	Mistakes and failure of ELCT - IRINGA / ILULA Hospital.	1	2	3	4	5	6	7	8
62	How decisions are made - concern of capital investment	1	2	3	4	5	6	7	8
63	How program / dept performance is evaluated at your institution	1	2	3	4	5	6	7	8
64	Departmental / program account balance	1	2	3	4	5	6	7	8

## PART VI

### Satisfaction for using Capital Budgeting Techniques

This Section evaluates how satisfied you are on application of capital budgeting techniques. Please circle the answer which best indicates your opinion about the statements below:

<u>No</u>	<u>Topic Area</u>	<u>Strongly disagree</u>	<u>Disagree</u>	<u>Neutral</u>	<u>Agree</u>	<u>Strongly agree</u>
65	I generally get enough inputs of data for capital budgeting	1	2	3	4	5
66	Program's work are challenging enough for me	1	2	3	4	5
67	The quality of program service is so high	1	2	3	4	5
68	I feel the work I do prepares me well for future undertaking	1	2	3	4	5
69	I feel I can explain the overall goal of the program accurately	1	2	3	4	5
70	I feel the church administration is not very concerned with my welfare	1	2	3	4	5

## PART VII

### Personal expression about ELCT - IRINGA Programs /projects

Answer the "True", "False" or "don't know" for each statement.

<u>No</u>	<u>Topic Area</u>	<u>Don't know</u>	<u>False</u>	<u>True</u>
71	Most of ELCT - IRINGA head of programs do capital budgeting	0	1	2
72	Most of ELCT - IRINGA money for capital expenditure comes from donor	0	1	2
73	ILULA Hospitals generates most income from its internal operations	0	1	2
74	ELCT - IRINGA programs are headed by those who can plan and foresee future needs	0	1	2
75	ELCT - IRINGA has in health, education, and agriculture to sustain its people's well being.	0	1	2

**PART VIII**

Now I would like you to respond in your own words about your experience at ELCT - IRINGA / ILULA Hospital and what you like best or least about capital budgeting.

76.

From your knowledge of ELCT - IRINGA describe in one sentence to four of what you would say in the overall purpose of ELCT - IRINGA as an institution.

.....

.....

.....

.....
77.

What is the strongest part with capital budgeting techniques in ELCT - IRINGA programs/ projects

.....

.....

.....

.....
78.

What is the weakest part with capital budgeting techniques in ELCT - IRINGA programs /projects

.....

.....

.....

.....
79.

Name at least one thing that you would like to see change in ELCT - IRINGA.

.....

.....

.....

.....

## Results from the collected questionnaire (In %)

### Appendix B

Knowledge of practical aspects of discounted capital budgeting techniques- presented as percentage of total respondents.

	None at all	Very little	Some	Very much
6. Progress at present	4.80	4.80	57.10	33.30
7. Progress in future	0.00	4.80	4.80	90.50
8. Non program activities (present)	4.80	9.50	42.90	42.90
9. Non program activities (future)	4.80	9.50	19.00	66.70
10. Capital budgeting present	14.30	19.00	47.60	19.00
11. Capital budgeting future	0.00	4.80	14.00	81.00
12. Details of activities -present	4.80	52.40	42.90	0.00
13. Details of activities – future	0.00	0.00	9.50	90.50
14. Cash outflow increase present	14.30	38.10	28.60	19.00
15. Cash outflow increase future	9.55	4.80	23.80	61.90
16. Cash outflow decrease present	28.60	19.00	23.80	28.60
17. Cash outflow decrease future	19.00	14.30	33.30	33.30
18. Cash inflow increase present	4.80	38.10	28.60	28.60
19. Cash inflow increase future	0.00	0.00	19.00	81.00
20. Cash inflow decrease present	23.80	33.30	28.60	14.30
21. Cash inflow decrease future	23.80	23.80	14.30	38.10
22. Reasons increase/decrease pres.	14.30	33.30	38.10	14.30
23. Reasons increase/ decrease fut.	9.50	33.30	57.10	0.00
24. Income at present	33.30	14.30	28.60	23.80
25. Income in future	9.50	4.80	28.60	57.10
26. Equipments at present	19.00	38.10	19.00	23.80
27. Equipments in future	0.00	4.80	19.00	76.20
28. Failure at present	4.80	42.90	42.90	9.50
29. Failure in future	19.00	4.80	33.30	42.90
30. Risk at present	19.00	19.00	47.60	14.30
31. Risk in future	19.00	14.30	28.60	38.10
32. Depreciation at present	28.60	23.80	38.10	9.50
33. Depreciation in future	4.80	4.80	38.10	52.40
34. Working capital at present	28.60	38.10	23.80	9.50
35. Working capital in future	0.00	4.80	28.60	66.70

36. Performance evaluation present	28.60	23.80	38.10	9.50
37. Performance evaluation in future	4.80	0.00	23.80	71.40
38. Capitalization at present	0.00	9.50	28.60	61.90
40. Debt capital at present	33.30	33.30	28.60	4.80
41. Debt capital in future	23.50	14.30	33.30	28.60
42. Equity capital at present	28.60	38.10	28.60	4.80
43. Equity capital in future	9.50	14.30	47.60	28.60
44. Institutional problems present	14.30	23.80	23.80	38.10
45. Institutional problems future	28.60	9.50	19.00	42.90
46. Long term projection at present	28.60	23.80	42.90	4.80
47. Long term projection in future	4.80	4.80	33.30	57.10
49. Financial regulation at present	14.30	47.60	23.80	14.30
50. Financial regulation in future	0.00	4.80	33.30	61.90

## Appendix C

Knowledge about physical surroundings, equipments and facilities expressed as percentage of the total respondents

	Don't know	Very poor	Poor	Average
50. Computer	14.30	23.80	9.50	28.60
51. Beds	33.30	0.00	0.00	22.70
52. Buildings	9.50	14.30	0.00	33.30
53. Stationery	9.50	19.00	4.80	47.60
54. Cleanliness	14.30	4.80	0.00	19.00
55. Medical facilities	23.80	9.50	47.60	14.30
56. Qualified staff	4.80	9.50	4.80	66.70

## Appendix D

Knowing discounted capital budgeting method employed or what is needed more to improve skills expressed as a percentage of total respondents.

	None at all	Very little	Some	Very much
57(i). NPV Current	42.90	23.80	28.60	4.80
57(ii). NPV Future	0.00	0.00	19.00	81.00
57(iii). IRR Current	52.40	23.80	19.00	4.80
57(iv). IRR Future	4.80	0.00	23.80	71.40
57(v). PI current	52.40	19.00	28.60	0.00
57(vi). PI Future	0.00	0.00	28.60	71.40



## Appendix E

Source of information directing the decision making on capital investments and expressed as a percentage of total respondents

	Available Internally	Not informed	Treasury Arusha	Treasury Iringa	From Suppliers
58. Guidelines of cap.	4.80	47.60	14.30	28.60	0.00
59. Cash flows	14.30	23.80	9.50	42.90	0.00
60. New equipment	0.00	23.80	4.80	38.10	0.00
61. Mistakes/failure	9.50	33.30	33.30	23.80	0.00
62. Decisions on capex	4.80	33.30	9.50	52.40	0.00
63. Program performance	14.30	19.00	19.00	38.10	0.00
64. Account balance	19.00	38.10	0.00	42.90	0.00

## Appendix F satisfaction with the application Of DCF Techniques

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
65. Availability of data input	4.80	38.60	14.30	37.60	4.60
66. Challenges	0.00	19.00	19.00	38.10	23.80
67. Quality for program	0.00	28.60	42.90	23.80	4.80
68. Job satisfaction	0.00	9.50	33.80	28.10	28.60
69. Clarity of goal expression	4.80	0.00	23.80	57.10	14.30
70. Church benefits for workers	19.00	19.00	14.30	43.30	14.30

**Appendix G**

Knowledge about ELCT Iringa diocese programs as percentage of total respondents

	Don't know	Had no knowledge	Had knowledge
71.Prog./proj. apply disc. Capital budg.	42.90	19.00	38.10%
72.Donor income	4.80	52.40	42.90
73.Patient fees	19.00	9.50	71.40
74.Employee qualifications	9.50	38.10	52.40
75.Sustainability of programs	4.80	23.80	71.40

**Appendix H**

A. Purpose of ELCT Iringa Diocese                      B    Capital    budgeting    str ength

Comment	Percent	Comment	Percent
76(i). Do not know	14.30	77(i). Don't know	52.40
76(ii). Church work	85.70	77(ii). Administration	4.50
		77(iii).Strategic Planning	13.60
		77(iv).Cash flow est.	28.60

D .Changes in ELCT Iringa Diocese                      C.    Capital                      budgeting                      weakness

Comment	Percent	Comment	Percent
Commitment	4.80	78(i). Don't know	28.60
79(i). Training	38.10	78(ii). Programs/projects	4.80
79(ii). Change management styles	9.50	78(iii). Unrealistic budget	9.50
79(iii). Follow financial regulations	28.60	78(iv). Lack of skills	38.10
79(iv). Team work	14.30	78(v).Maintenance of assets	9.50
79(v). Don't know	4.80	78(vi).Working Capital	9.50

**EVANGELIC LUTHERAN CHURCH IN TANZANIA – IRINGA DIOCESE**

**APPENDIX I**

**BUDGET SUMMARY FOR THE YEARS 2002 - 2003**

IN TSHS. '000'

	Actual 2000	2002				2003			
Church Work		Total Expend	Local income	LMC Subsidy	Other O/S Income	Total Exp	Local Income	LMC Subsidy	Oth Inc
Established Parishes	39,009,128.00	36,000,000.00	36,000,000.00	-	-	39,600,000.00	39,600,000.00	-	
Planning & Development	2,353,500.00	6,300,000.00	3,000,000.00	-	3,300,000.00	6,300,000.00	4,200,000.00	-	2,100,000.00
<u>Buildings</u>	1,166,300.00	1,500,000.00	1,500,000.00	-	-	1,000,000.00	1,000,000.00	-	
<u>Information</u>	492,000.00	600,000.00	600,000.00	-	-	700,000.00	700,000.00	-	
<b>Sub-Total</b>	<b>43,020,928.00</b>	<b>44,400,000.00</b>	<b>41,100,000.00</b>	-	<b>3,300,000.00</b>	<b>47,600,000.00</b>	<b>45,500,000.00</b>	-	<b>2,100,000.00</b>

**PROGRAMS**

<u>Mission &amp; Evangelism</u>	5,261,650.00	19,000,000.00	7,880,000.00	11,120,000.00	-	18,000,000.00	7,880,000.00	10,120,000.00	
<u>Family Nurture</u>	2,110,755.00	19,540,000.00	2,150,000.00	5,890,000.00	11,500,000.00	13,418,000.00	3,570,000.00	6,848,000.00	3,000,000.00
Training	6,736,416.00	2,358,000.00	400,000.00	1,958,000.00	-	2,400,000.00	400,000.00	2,000,000.00	
<b>Sub-Total</b>	<b>14,108,821.00</b>	<b>40,898,000.00</b>	<b>10,430,000.00</b>	<b>18,968,000.00</b>	<b>11,500,000.00</b>	<b>33,818,000.00</b>	<b>11,850,000.00</b>	<b>18,968,000.00</b>	<b>3,000,000.00</b>
<u>Administration</u>	51,889,072.00	29,570,000.00	18,470,000.00	8,100,000.00	3,000,000.00	33,450,000.00	22,350,000.00	8,100,000.00	3,000,000.00
Motor vehicle fund	-	3,577,500.00	3,577,500.00	-	-	3,577,500.00	3,577,500.00	-	

Common work	2,502,933.00	2,753,000.00	2.753.000.00	-	-	2,753,000.00	2,753,000.00	-	
<b>Sub-Total</b>	<b>54,392,005.00</b>	<b>25,900,500.00</b>	<b>24,800,500.00</b>	<b>8,100,000.00</b>	<b>3,000,000.00</b>	<b>39,780,500.00</b>	<b>28,680,500.00</b>	<b>8,100,000.00</b>	3,000,000.00
<b>TOTAL</b>	<b>89,956,083.00</b>	<b>121,198,500.00</b>	<b>76,330,500.00</b>	<b>27,068,000.00</b>	<b>17,800,000.00</b>	<b>121,198,500.00</b>	<b>86,030,500.00</b>	<b>27,068,000.00</b>	<b>8,100,000.00</b>
Tumaini University IUC	-	486,366,673.00	463,826,673.00	22,540,000.00	-	538,866,673.00	516,326,673.00	22,540,000.00	
<b>GRAND TOTAL</b>	<b><u>113,467,174.00</u></b>	<b><u>607,565,173.00</u></b>	<b><u>540,157,173.00</u></b>	<b><u>49,608,000.00</u></b>	<b><u>17,800,000.00</u></b>	<b><u>660,065,173.00</u></b>	<b><u>602,065,173.00</u></b>	<b><u>49,608,000.00</u></b>	<b><u>8,100,000.00</u></b>

EVANGELIC LUTHERAN CHURCH IN TANZANIA – IRINGA DIOCESE

APPENDIX J

PROGRAMS FOR THE YEARS 2002 –2003

1. MISSION AND EVANGELISM

TSHS '000'

1 GOAL/ISSUE	2 OBJECTIVE	3 ACTIVITIES	4 INDICATOR	5 IMPLEMENTER	6 TIME		7 BUDGET & SOURCE	
					2002	2003	Local	External
Capacity building For Mission and Evangelism	Enable the Diocese to develop, strengthen and open new mission areas.	1. Visit Nomadic tribes and establish preaching points	1. # of established preaching points 2. # of people converted to Christianity	Coordinator MUWA program	6,000	6,000/=	4,000	8,000
		2. Train 60 Evangelist through the TEE program	1. # of trained Evangelist 2. # of preaching points/ stations ministered the TEE graduates	Coordinator TEE program	5,000	6,000	4,000	7,000
		3. Conduct 7 (Seven) seminars for parish pastors (one seminar for each district)	1. # Seminars conducted 2. # Pastors who have attended the seminars	Secretary for Mission and Evangelism	2,620	1,500	1,620	2,500

		4. Site visits to Mission Arrears and establishing preaching points	1. # of established preaching points  2. # of new parishes establishing  3. # of people converted to Christianity	Secretary for Mission and Evangelism	5,380	4,500	5,760	4,120
--	--	--	---	--	-------	-------	-------	-------

## 2. FAMILY NURTURE

TSHS '000'								
1 GOAL/ISSUE	2 OBJECTIVE	3 ACTIVITIES	4 INDICATOR	5 IMPLEMENTER	6 TIME		7 BUDGET & SOURCE	
Capacity building For Family Nurture	1. Enable Woman parishes to use modern techniques in planning, implementing, monitoring and, and evaluating income Generating Activities (IGA)	1. Provide training to 104 parish woman leaders (2 from each parish)	1. # of trained effective parish woman leaders	Secretary for Family Nurture	2002	2003	Local	External
					1,600	3,900	2,500	3,000
		2. Organize a study/tour to one of the ELCT Dioceses	1. # of effective and efficient income generating  programs owned and supervised by woman	Secretary for Family Nurture	1,200	0	200	1,000
	2. Train up Children and Youth in a Christian way of life	1. Train Sunday School, teachers	1. # of trained Sunday School teachers	Secretary for Family Nurture	500	650	650	500

		2. Top up salaries of Christian education and Bible knowledge teachers	Improvement of teachers morale		1,000	1,500	0	2,500
		3. Provide teaching materials	Improvement in Bible Knowledge examination results	Secretary for Family Nurture	400	350	250	500
		4. Youth camps	Positive behavioural Change in your life	Secretary for Family Nurture	950	1,000	950	1,000
Diaconic work	Rehabilitation of the Unprivileged children in Iringa Municipality	1. Provide accommodation and food to 30 less privileged children	# of children in the established centre	Secretary for Family Nurture	1,500	1,800	1,500	1,800

### 3. TRAINING

TSHS '000'

1 GOAL/ISSUE	2 OBJECTIVE	3 ACTIVITIES	4 INDICATOR	5 IMPLEMENTER	6 TIME		7 BUDGET & SOURCE	
Organizational Development	Provide education at the Level of diploma and Degree to 3 students (2 diploma – 1 degree)	1. Train two diploma (theology) students at Iringa college	# of trained Theologians	Training officer	2002	2003	Local	External
		2. Train one B. Div. Student at Makumira (last year)	# of trained Theologians	Training officer	2,158	2,100	300	3,958
					200	300	500	0



1 GOAL/ISSUE	2 OBJECTIVE	3 ACTIVITIES	4 INDICATOR	5 IMPLEMENTER	6 TIME		7 BUDGET & SOURCE	
		2. Provide clothing and medical care for the children (30)	# of garments bought / issued and # of children who have received the CLOTHES	Secretary for Family Nurture	2002	2003	Local	External
					100	100	0	200
		3. Provide them primary and secondary education, vocational training	# of children from the centre attending schools and vocational training centres	Secretary for Family Nurture	300	500	0	800
		4. Provide working tools to graduate of the centre	# of children who have received the assistance and have established their own businesses	Secretary for Family Nurture	490	948	0	1,438