

Fundraising and Budgeting Practices for SMEs

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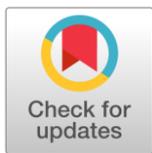
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Abstract: SMEs need to cultivate the spirit of budgeting irrespective of size and type of firm. This study discusses; fundraising techniques SMEs can adopt, outlines avenues for shopping money and details essential budgets that businesses can practice in order to compare, control, review, grow and measure performance periodically. The projected or budgeted statement of financial position is recommended for SMEs that intend to grow faster and compete with big (large) enterprises. Through qualitative research approach, data was extracted with the aid of search tool based on strata of keywords centered on the topic. The study lightens; entrepreneurs, investors and management spirit on the different fundraising techniques and avenues. For successful fundraising and budgeting practices, SMEs should adhere to sound and observable guidelines in order to be successful, sustainable, competitive, and to grow to big enterprises.

Keywords: SMEs Budgeting Practices, Businesses, Entrepreneur, Firms, SMEs Fundraising, SMEs.

1. Introduction

According to World Bank, (2014) Small and Medium Size Enterprises (SMEs) play an important role in delivery solutions. In most parts of the world, irrespective of country size, four categories of businesses are identified. These are; micro or very small businesses (mB or VSB), small businesses (SB), medium businesses (MB) and Large or Big enterprises businesses (LEB or BEB). While it is true that the categorization of these businesses varies from country to country and region to region based on the financial, political and regulatory landscape and the mindset of the principal business initiator(s) or entrepreneur(s). It is true that, irrespective of the nature and type of activity of the businesses; whether social enterprise, solicitors, advocates, attorney,

consultancy, commercial or non-commercial, banking or non-banking, multilateral agencies or non-multilateral agencies, they definitely fall in one of the various forms of firms. That is micro or very small businesses, small businesses, medium businesses, and large or big enterprises businesses. This study limits to SMEs businesses, thus excluding to deal with fundraising and budgeting practices of large (big) enterprises. The reason is obvious, fundraising and budgeting practices for big businesses are rather complex, complicated and exhaustive based on the business owners' mindset, financial, reporting, political and regulatory landscape of the country and region the enterprises are operating when compared to that of SMEs. However, this work is

imperative and should be relevant for all classes of businesses in the sense that what works for small will work too for big and in general, no large business started large. Most often, large businesses spring up from a single individual or a few groups of individuals that start(s) growing the business financially and materially to a big size and level. In this light this paper critically examines fundraising and budgeting practices for SMEs and make recommendations on areas that could require improvement and also highlights the way out of identifiable key challenges that could affect the fundraising mix and budgeting practices of SMEs. Thus, agreeing with [Hallsworth, \(2015\)](#) on the need to articulate the importance of budgeting and budgets to SMEs in providing future-oriented information which facilitates monitoring and control of business performance. Out of the many key challenges SMEs faced not all are knowledgeable on essential fundraising techniques and avenues and the basic budgets required to determine and measure performance. This paper assembles this information in the lines that follows.

1.0 Literature review

1.1 SMEs Classification

In most, reasonably all parts of the world, SMEs are defined based on the official or legal classification of them in their respective groups.

Officially, the [World Bank, \(2013\)](#) described enterprises with a maximum of 300 employees and 15 Million US Dollars in annual revenue and assets as Medium Enterprises. This definition ignores the existence of micro and small enterprises. While, on the other hand the Inter-American Development Bank delineates SMEs as businesses that have a maximum of 100 employees and less than 3 Million US Dollars in revenue ([Work Bank, 2013](#)).

Indicated on its website, the European Commission defined SMEs as businesses having less than 250 employed persons, annual turnover of up to 50 Million euros or a balance sheet total of no more than 43 euros as recommended by the commission on 06 May, 2003. The same Commission further categorized SMEs as; as Micro enterprises with less than 10 employees and a turnover of at most 2 million euros, Small enterprises or businesses with at most 49 employees and a turnover of at most 10 million euros and Medium Sized enterprises with at 249 employees and a turnover of at most 50 million euros. According to the Commission these definitions are important when assessing which enterprises may benefit from European Union (EU) funding programmes aimed at promoting SMEs, as well as in relation to certain policies such as SMEs specific competition rules.

In Cameroon SMEs are classified legally by law Number 2010/001 of April 13, 2010 on the promotion of Small and Medium Sized Enterprise under the surveillance of the Ministry of Small and Medium Enterprises, Social and Handicraft as follows.

1.2 SMEs Fundraising Avenues and Practices

[Nso \(2018\)](#) defined fundraising as seeking financial support for a charity cause or other enterprise. Fundraising is much more than just asking people for money. The true purpose of fundraising is not to raise money, but to raise donors and investors. ([Clarke, 2012](#)) pointed out that venture capital, which provides early finance to start-ups, forms an important source of long-term investment in young and innovative small businesses. Other avenues for SMEs to seek funds include; microfinance institutions – mostly practiced in Africa and Asia continents, family savings, friends and relatives, business angels and not forgetting own savings. SMEs also seek funds from banks in the form of working capital,

short term equipment or long-term loans or commercial sponsorship deals.

Table 1 Classification of SMEs in Cameroon

Type of Enterprises	Number of Employees	Annual Sales Revenue (turnover) in FCFA
Very Small (Micro)	At most 5	15 Million
Small Businesses	6 to 20	From 15 Million to 100 Million
Medium Sized	21 to 100	From 100 Million to 1 Billion

Source: Arranged from Republic of Cameroon Law No 2010/001 of April 13, 2010

In an earlier paper, Nso, (2018) affirmed that the cash position of any business is a reflection of its cash management techniques.

In the wake, some crowd funding firms and initiatives have jumped in, to close the fundraising gaps. In advanced countries such as the United States of America and United Kingdom, governments have stood in to fund SMEs initiatives. The latest inclusion in the fundraising mix of SMEs have been local and international civil society organizations and foreign country embassies notably the Embassy of the United States of America in Yaoundé, Cameroon, Canadian High Commission in Yaoundé Cameroon, British High Commission in Yaoundé Cameroon and the SWISS Embassy Agency in Yaoundé, Cameroon.

Generally, funds could be raised from direct mails, events sponsorship, grants schemes and request or through online and social media platforms requesting for a voluntary transfer of a fixed sum as donations to fund a genuine project, idea, business initiative or cause. Online lending platforms do exist.

1.3 SMEs Budgeting Practices

Zor, Linder and Endenich, (2018) articulated that SMEs play an important role in the gross national product and employment in most emerging markets and they agreed that

little is known about their budgeting practices. On the other side of the toss coin, Maduekwe and Kamala, (2016) stated that failure to budget has been identified as one of the main causes of SMEs failure. Their study seeks to determine the extent to which SMEs in the Cape Metropolis use budgets. Their findings revealed that most SMEs use budgets and pointed that the three most frequently used budgets are sales budgets, purchases budgets and cash budgets. This tally with (Nso, 2018) though he went further to include Income and expenditure budget as the fourth basic budget class for SMEs to prepare. On the method of budgeting, Maduekwe and Kamala, (2016) found out that, the most frequently used method of budgeting by SMEs is fixed budgeting. Their study further revealed that SMEs used budgets for monitoring, measuring business performance, future planning and control purposes and that budgets were perceived to be effective but lack of top management support and qualified personnels are among the major factors that hinder SMEs from using budgets. Akande and Oluwaseun, (2014) affirmed that, budgets highlight areas where actual performance deviates from the budgeted performance, for an appropriate corrective measure to be taken. To them budgets facilitate management decision making process and are able to isolate problem areas that need urgent attention, an approach that results in effective problem resolution cited (Dima, 2013). To add, Hill, (2015) conceded that budgets facilitate

coordination and alignment of different departments within a business towards common objectives by providing a bigger picture of the desired objective pursued by SMEs. Through the quantification of desired objectives, budgets minimize confusion and create a common understanding of business objectives, thus enabling easy communication (Hill, 2015). Kelly, (2015) admitted that budgets provide a useful standard and benchmark for evaluating employee performance and for rewarding good results to motivate employees while, Dima, (2013) held that budgets facilitates delegation of tasks to subordinates by senior managers. Further, Dima, (2013) concluded that top management are freer to perform strategic roles when tasks are budgetary delegated to subordinates.

1.4 Aim

The aim of this paper is to discuss fundraising techniques available to and the various type of basic budgets that SMEs can prepare to compare actual performance periodically.

2.0 Methodology

Having justifiably taken side with Warue and Wanjira, (2013) that, there is a phenomenon of poor budgeting processes among SMEs. Questionnaires intended to be thrown randomly to small firms on fundraising and budgeting practices were sidestepped as preliminary effort to canvas their conversance with the topic through an oral interview became abortive, admit a huge debate on; if there is a difference between fundraising techniques and avenues as they viewed as same and the much central types of basic budgets they should prepare to compare actual results and better manage their businesses, they are limited. Thus, the qualitative research approach used here is inductively designed to draw insights from previous researches on familiar matter(s)

using a normative tool to subjectively select appreciable samples.

The sample type is made up of previous researches or articles on related or familiar matter of analysis and discussions, selected through the application of a stratified random sampling technique using the topic centered keywords (e.g. SMEs fundraising, SMEs budgeting practices, SMEs budgeting processes, SMEs financial management etc.) to search and extract secondary data using a Google search engine functionality on internet web. The keywords form part of each strata pool search. The researcher didn't see the need to focus on the size of each strata as in a qualitative research, what matters is quality and not quantity, and a well refined few sizes is better than a large sizeable cluster without concrete valuable proposition. In a similar illumination, there is less importance on representation in a qualitative research method as opposed to quantitative research averred (Bryman, 2016). Thus, without a hypothesis and / or quantifiable objectives the paper ignores the presentation of the secondary data collected, the same illuminating circumstances that favoured the choice of an inductive research design. In line with the essential aim of the study; to identify or fabricate key fundraising techniques and budgeting practices points and give them illumination under the discussion section, a descriptive style is applied on feasible, insightful and bold key fundraising techniques and budgeting practices points under the analysis and discussion part.

3.0 Analysis and Discussions

This paper section insightfully discusses feasible, insightful and bold key fundraising techniques and budgeting practices ideas or concepts;

3.1 Fundraising Techniques

The various methods that SMEs can raise funds include;

i) - Cost Cutting: All businesses preached about cutting cost as an importance aspect of sound financial management. Hoque and Ulku, (2017) endorsed that financial management is a crucial aspect for SMEs survival. The way cost cutting is practice is such that businesses pay for cost or price items based on their ability to pay not with respect to their budgets and as such no one sees cost cutting as a fundraising technique. If businesses budget for costs and make it as a rule of thumb that actual incurred cost must be less by a few dollar cents of the budgeted cost. It becomes obvious that few dollars would be saved. This would be the easiest and most convenient way to raise funds by SMEs. Jindrichovska, (2013) encouraged SMEs, to always look for ways to reduce cost.

ii) - Maximize sales revenue: Businesses that apply the prudence accounting concept (Nso, 2016) in their accounting practices are much aware of the risk of overstating anticipated revenue and profit. Because of this risk, businesses that draft sales budget only state the least probable optimistic sales figures while in reality the actual sales may be better than the budgeted by a few dollar cents. The few dollars generated constituted a fundraising source for SMEs.

Secondly maximizing sales revenue requires an understanding of the SMEs internal rate of return (IRR). Jindrichovsk, (2013) in the study with the title financial management in SMEs recommends SMEs to apply evaluation techniques like IRR. Borrowed funds is costly and are associated with interest rates ironically the IRR for borrowed funds. Maximizing sales revenue calls for ensuring that the return on sales which constitute the IRR for SMEs sales income is higher than the IRR for borrowed funds. It would be this level that SMEs sales revenue are maximized.

iii) - Offer competitive pricing: Marketing, pricing and accounting notions to offering

competitive pricing calls for prices that can attract more buyers than competitors' offers and or prices in relation to quality, popularity and product cost of the products to be sold. Offering competitive pricing in terms of fundraising technique globalizes all these to including offering products at the price that it would contribute to funds or SMEs cash base. This means that not a price that would contribute to a positive contribution to sales ratio only but price that would contribute to a positive contribution to funds or cash ratio. Thus, the extra contributed funds or cash becomes a fundraising source.

iv) - Constitute cash and liquid reserves: This is a traditional accounting and financial practice that businesses constitute reserves. Pro fundraisers crusaders call that the reserves should not just be accounting reserves as evident in most businesses' financial statements but in cash and liquid reverses saved in banks and held in risk free liquid and interest-bearing investments, thus constituting a fundraising source for SMEs.

v) - Customer and Supplier Friendly: The way SMEs manage customers and suppliers; they can be readily available funds donors at no cost or at least cheaper than bank loans in time of need. Friendly and understanding suppliers can supply goods on credit with less pressure on payment deadlines. These goods would be sold to generate funds for the SMEs. On the other hand, friendly customers can pay for goods in advance. This is common with manufacturing SMEs which may need cash to acquire materials to meet production targets. Cash from customers and suppliers constitute a fundraising source.

vi) - Environment Friendly: SMEs with well refined value propositions products, activities and events that contribute positively to changing their community and environment are likely to attract commercial and non-commercial donors and sponsors to their activities. Take for instance an environmentally friendly manufacturing SMEs is awarded a tax exemption and reduction incentives just as businesses offering tax

deductible donations to social and community advancement civil society and non-governmental organizations.

vii) - Know Funders and be Funders

Friendly: It is imperative for SMEs to maintain and update regularly a database of contacts of donors and periodically celebrate and acknowledged funders and even send them brief letters to apprise how sustainable their funding has been.

viii) - Determine the Fundraising Expected Budget:

Raising funds take time, efforts and resources. It is worthwhile that SMEs know how much time, efforts, contacts, funders / donors and resources they required to raise a budgeted amount of dollars. A SME needs understand that they are not the only ones seeking funds. Competition for funding is severe and tough. Even the donors themselves do seek funds. Your SMEs need get their messages and plan right. You must demonstrate in your message and plan why you deserved funding. It is imperative to decide on firsthand the channels you are going to use to sale your fundraising plan; will it be through sales letters, newsletters, magazines or the social online media. It is important to plan to target right avenues in shopping for funds. When these points are cleared, the SMEs need to assemble them in a fundraising proposal consisting of; executive summary, the SME's organizational information, the problem the SME is to resolve with the funds, solutions to the problem, expected outcome, notable fundraising targeted sources, accounting and financial reporting, the SMEs budget and its utilization headings, and any supplementary information. Many funders and donors at the initial stage of gathering fund seekers information, don't allot much time on reading, so SMEs would have to keep the fundraising proposal short, comfortably one-page writing. This also make it very easy to be shared and communicated to the targeted donors using any media, with the possibility of the donors passing, transferring and forwarding the proposal to the next possible audience of donors and invite them to join fund the SME initiative.

3.2 Fundraising Avenues

SMEs can shop for funds from; banks, microfinance, venture capitalists, equity firms & investors, investment banks, capital market, friends, family members, business angels, fundraising sites, civil society organizations and NGOs, development agencies, foreign embassies and governments. These are the boutiques where firms can raise money or funds and should not be cogitated as the techniques of raising funds for SMEs. Fundraising Avenue refers to the place to get money while fundraising technique is the method utilized to get money.

The key challenge in accessing fundraising avenues is deciding on the suitable avenue. The suitability of the fundraising avenues will depend on the cost, time and amount to be raised and these depend on whether the funding is;

i) - Refundable without interest: Meaning the SME would refund the funders in a future date without interest.

ii) - Refundable with interest: In this case the SME would refund funders that donated dollar amounts on lending terms.

iii) - Equity investment: Funders under this category would love to have shares in the SME and be paid dividend on their funds invested in the business.

iv) - Non-Refundable: Funders that fall in these categories are charitable and love the sustainability of the SME. It is imperative for the SME to demonstrate continuously to this category of funders that the SME is sustainable as a firm and to the environment. Funders under this category want to be convinced that their dollars donated were productively utilized.

3.3 Budgeting Practices

Warue and Wanjira (2013) avowed that budgets are the foundation and manifestation of a business plan and action. A budget is a

complete quantitative plan for receiving and using money and other resources over a specified future time period. Budgeting is the act of preparing a budget (Nso, 2018). There are various and many types of budgets that businesses draft in practice but they are not basically specific to SMEs. The main challenge for all businesses in preparing budget is in predicting out the future. Not all businesses do rightly with precision, only spirit filled businesses dare to predict well the future. In conjunction with the spirit awareness, SMEs need maintain some basic budget if there are going to be competitive, sustainable and emerge as reference businesses in their communities. In alliance with; Merchant and Manzoni (1989) and Warue and Wanjira (2013), the size and type of the SMEs would influence greatly a better budgeting process. There basic budgets SME firms should practice include; sales budget, purchase budget, cash budget, capital expenditure budget and income and expenditure budget.

i) - Sales Budget: This is the budget that gives the product of the projected quantity to be sold at a specific budgeted selling price. The sum total of the various product offers quantity and unit price gives the sale budget for the budgeted period.

ii) - Purchase Budget: This budget gives the product of the projected quantity of material, good or product at a specific budgeted buying price and to including the costs associated with the acquisition of goods and materials such as transportation, carriage in and associated overheads costs. The sum total of the various components of this budget gives the total purchase budget for the period for an SME.

iii) - Capital Expenditure Budget: This is a specific budget to cover planning of non-trading activities. Most SMEs ignore this budget, for it not being directly linked with buying and selling of the SMEs products. Some SMEs that dare to recognize the budgeting of non-trading products like equipments, include them in the purchase budget. This mismatch is enough to cause budgetary discrepancies for

the SME. However capital expenditure budget is imperative for businesses. In big businesses it is easily thought of as expansion, property, plant & machinery and investment budgets while, for SMEs they easily forget that buying a lorry to transport goods instead of using a public or hired car as they most often do is a capital expenditure that requires adequate planning by the SME. Lack of a formal accounting or an organized accounting procedure by the SMEs made this budget cumbersome to manage as it has to deal with periodic depreciation for the life span of the lorry. Here are a few hints for SMEs, good just to keep things simple with a straight-line depreciation on the cost of the lorry for the expected time to be taken to replace the lorry with a new one. The importance of this budget could not be over highlighted (Jindrichovska, 2013) cautioned SMEs not to make hasty decisions about purchasing huge fixed assets.

iv) - Cash Budget: This budget gives a picture of the total cash receipts over the total cash disbursed or paid out. A good cash budget consists of four sections (Nso, 2018). These sections are; cash receipts or inflows, cash disbursements or outflows, cash excesses or deficits sections and cash financing sections. The last section – cash financing – deals with projected borrowings and repayments during the budgeting period. The cash budget helps firms to predict the optimum level of cash to have in order to be successful. This optimum level concise with this being requirement affirmed by Liapis, (2010) that firms should have.

v) - Income and Expenditure Budget: Most SMEs do ignore the income and expenditure budget. It most evident in SMEs that do the sales and purchase budgets. They simply consider the net offs between sales and purchase budgets to be their profit or loss budget. For SMEs that do not have non trading administration cost that will be correct. But for the SMEs with non-trading administrative it won't be correct. For instance, not all business taxes are attached with the selling or purchasing price of the goods and taxes need to be paid to the government. The transport,

printing, office or shop rents, salaries and electricity costs etc. need be budgeted before they are incurred by SMEs.

Table 2: Guidelines for a successful SMEs fundraising campaigns

S/N	Guidelines	Explanation
1	Draft a plan and budget	Draft a fundraising plan, budget and agree on the amount to be raised and the duration of the fundraising campaign and designate a staff to champion and be responsible for the campaign and all stress on all round organization involvement by all the staff of the SME
2	Identify the fundraising techniques to use	Identify the techniques to raise funds and decide on which to use.
3	Agree on fundraising avenues	Decide on where the funds will be raised. That is decide on the suitability of the funding avenues to shop for funds
4	Choose the communication channels	Choose the channels which to deplore and communicate the fundraising campaign wisely e.g. website, newsletters, magazines, newspaper, social media, sales letters, gift letters, fundraising sites, party, gala, graduation ground, family and community meetings, church, school opening, birthday event, book launch or any social event etc. etc.
5	Take stock	Take stock of the decided channels participation, success rate, donors or funders donation rate and amount raise in previous similar events. Ask questions on why the campaign was successful or failure, what lessons learned. It is imperative too to seek the advice of the fundraising mentor or educator to review plans and proposals
6	Prepare a fundraising proposal	Prepare a one page or at most two pages fundraising proposal note to be communicated to donors and funders. The proposal should consist of; executive summary, the SME's organizational information and contacts, the problem the SME is to resolve with the funds, solutions to the problem, expected outcome, notable fundraising targeted sources, accounting and financial reporting, the SMEs budget and its utilization headings, any supplementary information and how to donate. Information on how to donate is very important as not all donors could donate on the spot by cash, some would prefer other means of donating. Also, the SME should be willing to accept both cash and / or kind donations like equipment and business idea, contacts and relations.
7	Execute the campaign plan	Execute the fundraising campaign and review and evaluate the campaign and offer thank you and appreciation letters to donors and (non-donors too if you can, in future they could favour you with their donations.)

Table 3: Guidelines for a sound SMEs Budgeting Practices

S/N	Guidelines	Explanation
1	Design a budget system and Identify budget types	Design a budget system by identifying budgets the SME will need and get the templates or someone help you with them. Let the templates enhance compares, monitoring and control with items detail, budgeted amount and control. If an SME can afford a budget software or tool the process and practice becomes easier.
2	Know which budget to start with: Startup budget	SMEs should always start with a budget from the start date of thinking the business idea, start of business, and start of month and business financial year. Thus, in budgeting always make sure your budget predicts both profit and loss for all starting initiatives. This means that to the SMEs and most businesses the income and expenditure budget is the most important. Thus, your start up budget show be a reflection of an income and expenditure budget. For SMEs that prepares unit budgets like sales, product, capital expenditure, cash and unit project budget, the income and expenditure budget would be the last to prepare after the units' budget have been prepared.
3	Decide and design an accounting system that matches the SME budget process	Decide and design an accounting system that matches the SME's budget process to facilitate budget implementation, review, monitoring and control.
4	Prepare financial reports and statements that reflect the SME budget process	There is no need for SME to products accounts that have no bearing on the budget. The essence of financial report is to help assess performance and make comparism either with previous years or in relation to the budget to improve the business management.
5	Compare the budget results	Compare the budgeted amount for the items against the actual amounts, take note of the variations and the budget resulting gain or loss and draw up decision points on where improvement is needed in and by the business.
6	Review the Budget system	Review the entire budgeting system and adjust to match and reflect the SME business realities.

In short, the Income and Expenditure budget deals with both the trading and non-trading incomes and expenditures of the SMEs. It is imperative for SMEs to note that Income and Expenditure budget is different from sales, purchase, cash and capital expenditure budgets in that it is not a single line budget

and it's a comprehensive budget that gives an overall picture of the SME trading and non-trading cycle and it helps predict whether or not the SMEs will be profitable or losable in a given business period.

Suggestions

A successful SMEs fundraising campaigns and maintaining a sound SMEs budgeting practices require SMEs to adopt and adhere to some sound recommended guidelines. These guidelines are tabularized in Table 2 and 3.

4. Conclusion

The above-mentioned basic budgets (sales, purchases, capital expenditure, cash, and income and expenditure) that SMEs should prepare in order to help them predict and manage their performance. It is imperative to note that the various types of budgets that SMEs prepared can help in designing and maintaining a good accounting system that will make it easy for the preparation, review, control and reporting of the SMEs budget and periodic financial reports. It is imperative for SMEs that can afford should be able to prepare and keep a budgeted Balance sheet or statement of financial position. SMEs that can prepare these budgets; sales, purchases, capital expenditure, cash, income and expenditure and balance sheet or financial position, would definitely be purposeful and serious to grow from SMEs to a big enterprise within a couple of years. It is obvious that taxes payment and taxation is a burden to SMEs because of lack of appropriate basic financial budgets and accounting practices.

For SMEs to have successful fundraising campaigns their need to plan, budget for the campaign, agree on the fundraising targets or minimum amount to be raised and prepare a fundraising proposal to be communicated to the appropriate fundraising avenues.

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