

BUDGETING

One in a series of briefs for civil society organizations, written from a funder's perspective, and intended to stimulate inquiry, rather than provide rigid instructions.

Budgeting

Tips for preparing a budget with an emphasis on its purpose, steps, and components.

Financial Systems

Tips for establishing an accountable and transparent financial system to build financial sustainability.

Grant Proposal Writing

Tips for developing and writing a proposal, including critical elements to facilitate project success.

Monitoring & Evaluation

Tips for reviewing and assessing progress towards objectives, identifying problems and strategies, and making adjustments to plans.

Project Development

Tips for developing and implementing a project and key questions to ask in the process.

Reporting to Funders

Tips for maintaining and strengthening your relationship with funders following a grant award.

Resource Mobilization

Tips for mobilizing resources closer to home to strengthen organizational capacity and deliver benefits to the community.

PURPOSE OF A BUDGET

A budget is a key management tool for planning, monitoring, and controlling the finances of a project or organization. It estimates the income and expenditures for a set period of time for your project or organization.

Your budget can serve a number of important purposes, including:

- Monitoring the income and expenditures over the course of a year (or a specific project time frame)
- Helping to determine if adjustments need to be made in programs and goals
- Forecasting income and expenses for projects,

including the timing and the availability of income (such as additional grant funds)

- Providing a basis for accountability and transparency.

For funders, a budget is also an essential tool and provides an understanding of your work. Funders view budgets to consider the following:

- How are you planning to use the grant funds?
- What are the other sources of funds for the work?
- Does the budget reflect local costs?
- Do the expenditures correspond to the activities?

- Does the budget fall within the guidelines of what the funder can support?
- What percentage of overhead expenses (such as salaries, rent, utilities) is included in the budget?

PREPARING YOUR BUDGET

Who should be involved in the process of preparing a budget?

Program and financial staff should work together to formulate a budget since budgets are based on objectives, action plans, and resources. Once a draft is in place, seeking input from your governing body (such as the board of directors or general assembly) is important. This input gives you an opportunity to develop a clear rationale for your budget, helps you identify if any budget items or expenses have been omitted, and draws on the board's expertise. By collaborating with financial staff, program staff, and your board, you can develop a budget that reflects priorities for the entire organization, helping to build unity in your sense of purpose.

What key questions need to be addressed?

Building on your planning process, you need to consider the following questions in preparation of creating your budget:

- What resources will be required to achieve your planned goals?
- Where will the funds come from?

- How will you raise the funds?
- How can your organization make use of in-kind or donated services?
- How will you raise the funds?
- How can your organization make use of in-kind or donated services?

What external factors need to be considered?

External influences that are not in your control may have an impact on the success of your efforts. Having alternate plans or rethinking your strategies should be a part of your planning. Some external influences that can affect your financial planning include (examples in parenthesis):

- Government or national policies and legislations (the Poverty Reduction Strategy that may affect the way governments address poverty)
- Natural disasters or epidemics (drought that affects the people you are working with)
- Political conditions (elections that may disrupt daily life or cause instability)
- Global economic forces (changes in global market prices for the commodity that farmers are producing)
- Local socio-economic factors (increase in price of fuel affecting your mobility)
- Availability of donor funds and resources (changes in funding priorities of funders)

When should you create your budget?

Begin convening financial and program staff several months before the start of your financial (fiscal) year. This should allow enough time for your group to address the questions above and draft a budget that can be reviewed by your governing board. For a budget that involves a new initiative, additional planning time may be required to develop your action plan and to determine if adequate resources can be raised to implement the project.

BUDGET COMPONENTS

Below are areas to consider when preparing your budget:

Income: Funders like to see a diverse source of revenue which shows that sustainability does not rely on one sole source of funding. The income could include product sales, government contracts, foundation grants, and individual contributions. In some cases, organizations may not have an income to report.

Expenses: Expenses should be itemized and include unit costs, for example, daily fees or travel for number of participants. Budget Headings: Make sure that the same budget headings or categories are consistent throughout

the organization, for both income and expense items. This will simplify your bookkeeping and help with reporting and financial reviews. Headings may include: staff salaries, rent, utilities, telephones, equipment, insurance, fuel, travel, fees for expert consultants, etc.

Currency: Be sure to note what currency and exchange rate you are using when presenting your budget to a funder. Some may require you to convert your currency in to the US dollars or other currency.

Notes: Keep notes to record the budgeting process. Notes explain how and why budget calculations are made. Combined with the budget, notes can serve as a clear guide for your organization's spending and decision-making. Budget clarity and notes also mean that as circumstances change, revisions to a budget can easily be made to reflect changing realities. It also helps in case the activity is audited.

Contingency funds: Include a line item that will incorporate fluctuation of costs or unexpected expenses.

In-kind (non-monetary) contribution: It is helpful to show the costs or services contributed

by your organization (such as salary for the program manager, or labor to construct a facility). Funders see in-kind contributions as evidence of the organization and community's commitment to the that could lead to sustainability.

STEP-BY-STEP: CREATING A BUDGET

These are some of the key steps to implement when preparing and monitoring your budget:

1. **Identify and plan your activities** for the period in question with your staff.
2. **Determine what each of your expenses** will be, by category. Use previous budgets or invoices as a guide. Assume an increase for cost of living, if comparing expenses from previous year.
3. **Estimate what your sources of income will be**, including earned income from sales or services, local funds, international funders and governments. Also consider in-kind services or donations, such as supplies or volunteer time.
4. **Analyze the difference between your income and expenses.** Make adjustments to balance your budget. Determine what expenses need to be reduced and how your may need to consider a different level of service.

5. **Develop a plan for the unexpected**, such as if funds do not arrive at the anticipated time, if there is a crisis, or if there are price fluctuations.
6. **Present your draft budget and cash flow statement** to staff, your governing board, or other key groups within your organization for inputs and endorsement. Being transparent about your budget with the key stakeholders helps to legitimize your organization.
7. **Make any changes and finalize your income and expenses budgets**, as well as the timing of your expenditures and income.
8. **Monitor the budget** as your project progresses.

ADDITIONAL TIPS

- ☑ **Present as accurate a budget as you can.** Purposefully underestimating your expenses because you think it will give you a better chance at receiving a grant can hurt your organization. This is especially true if you are unable to complete the activities due to lack of funds. Community members could become frustrated and lose faith in your organization's ability to deliver. Funders see this as a reflection of poor planning and budgeting skills.



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- ☑ **Cost estimates should be reasonable and accurate.** Inflating (or overestimating) your budget can also create a sense of mistrust with the funder and beneficiaries.
- ☑ **Ensure that the budget corresponds with the objectives of the project.**
- ☑ **When reporting back on your expenses to funders, report on any differences with the proposed budget and the actual expenses.** Make sure that what you spend is reasonable and is directly related to the original objectives of the proposal. For example, funders may question why you have spent funds on mobile phones or rent when the



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activity was to conduct a workshop. This expense may be legitimate, but have documentation and justification ready in case questions are asked. At the end of the grant period, funders may compare your budget to the actual financial statement to ensure financial compliance.

FOR MORE INFORMATION

For information on strengthening financial management systems of NGOs, see the website for Mango, Management Accounting for Non Governmental Organizations or www.mango.org.uk.



Marie Sophie Blanchet/International Finance Corporation



The Social Development Civil Society Fund (CSF) is one of the few global programs of the World Bank that provides direct grants to civil society organizations through the World Bank's Country Offices. CSF seeds and supports activities related to civic engagement that empower and enable citizens to take initiatives to influence development outcomes.

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Tips by Yumi Sera and Susan Beaudry, 2007