

Fact Sheet number V: The budget

Introduction

Ultimately, an organisation needs to have a well-balanced budget, in which costs are covered by a number of resources. This limits dependency on one source and ensures that the organisation can still continue operating should one or more sources of income dry up. To make a budget is one of the most important parts of your fund-raising efforts. In this sheet we have put together different suggestions and information on how to make a budget for your project proposal. In sheet number VI we will go further into the financial management of your organisation.

The budget can be a very difficult part of the proposal. Remember that every activity and input must have corresponding items in the budget, and the more you can contribute yourself, the better.

1. General rules for making a budget

A budget has two parts: 'expenses' and 'income'

Income:

Many people forget to mention this part. It's important to show which other resources are available to finance your project. Donors are more willing to fund projects for which the finances are already partly provided. Also in-kind contributions (use of computer facilities, office) can be mentioned here. If for example you want to make a publication, you should also mention the expected income from the sale of it. Perhaps you are partly investing the organisation's money to start with the project or you are already sure of receiving part of the budget from another donor.

Expenses:

First make a very detailed list of expenses for your own use. Then break it down into different items in a way that's clear to the donor (like: salary, rent, materials, travel, communication, equipment, training, publications, etc.). The detailed calculation should be available in case the donor asks for it.

It is common rule to include part of your running costs in a project proposal.

Planning a work budget for short, medium or long term involves estimating the costs that your organisation will incur over a certain period. Appropriate financing for each cost item is then identified. Not only must the

source of financing be identified; the type of financing needs to be suitable for the activity and for the financial situation of your organisation.

Costs must also be real and as practical as possible. If you include a computer in your budget, for example, first check prices to get a good idea of how much it will cost.

Be sure to include the less obvious costs as well, such as administrative costs (rent, staff time, etc.), insurance, as well as a budget for monitoring, reporting and evaluation. All of these activities take time and money.

But don't be too precise - projects never turn out exactly as they were planned, so keep some space for miscellaneous costs (usually about 5 - 10% of the total). When things turn out differently from what you expected, inform the donor about this. If the project still largely matches up with the expected results, donors usually don't mind if the figures in the budget are slightly different, as long as the total amount of money doesn't increase. Ask for what you need, not more but certainly not less.

Some NGOs tend to ask for too little money, which means that they are unable to finish the project or have to ask for more when they're half-way. Others ask for too much, because they want to cover regular costs such as office rent and staff through a project grant.

Sometimes it is difficult to estimate how much something will cost. Try to be as accurate as possible and ask like-minded organisations for advice. If you have done a

similar project before, look how much that cost.

If you pay people for their work, salaries are probably the main part of the budget. So it is important to see how much staff-time is being spent on the project and to make it as efficient as possible.

Before sending out the proposal with the budget, ask somebody to check all your calculations. Usually people make more mistakes than they expect, and it doesn't make a good impression of how serious you are towards the donor if there are already mistakes in the budget. Furthermore, it may lead to difficulties during the project and in the report.

It can be useful to add an explanation to the budget. For example you can put "general overhead costs" and add underneath what this includes. You can also refer to the proposal. Don't specify the budget too well, but specify enough.

Some general hints about the budget:

- Specify: do not ask for too little or too much; too little may make it impossible to achieve your aims because of money problems or because your donor doesn't take you seriously. Too much may implicate a rejection by the donor because your budget is not realistic and makes them suspicious. They can also request you to give back money which is leftover. Being realistic is a proof of your credibility.
- Make sure that you include all activities in the proposal in your budget. If something doesn't cost anything, explain this clearly in the "explanation to the budget".
- Many donors will first look at your budget, if they think it's exaggerated for one reason or another, they won't even read the rest. So make sure there's a balance between overhead and project costs, make sure that less important items (like travel expenses) in
- your budget doesn't cover more than 50% of it, etc.
- It usually helps if you can show that you raised already part of the budget.

- Who are your other sponsors? By whom have you been financed before?
- Cost should be related to real costs. For example a publication should not cost more than an average book in the same category.
- Specify items. Don't say "printed materials", but split it up in stamps, office materials, printing costs, etc.
- Many groups ask for 10% miscellaneous costs. This is all right as long as your budget is not too high. If miscellaneous costs approach \$5.000 it becomes a bit ridiculous and you can better use a 5% miscellaneous.

2. RAFAD

RAFAD (*Recherches et Applications de Financements Alternatifs du Développement*) is an international organisation which provides services to NGOs in the field of fund-raising, financial management and 'creative bookkeeping'.

Vision: financial support to Southern NGOs should be more than just grants; little producers in the South should be given access to bank credit in local currency, in order to finance the enterprises and economic activities they have created to promote their own development and avoid the usual dependence on aid.

RAFAD works for and with associations, federations, rural and urban producer organisations, aid agencies, banks in North and South and intermediary organisations.

Objectives:

- To accompany the capitalisation of development organisations: guidance and advice, training, information, fund raising.
- To create relevant mechanisms and financial tools with special emphasis on international and local guarantee funds.
- To innovate and transmit the experience among the partners of the network and inform the international aid agencies.

The idea behind RAFAD, is that it is very important for NGOs to build up their own capital and in the long run become

independent of external financing. The main advantage of this is of course that one is independent of the donors' criteria. To realise this idea, RAFAD is developing credit-systems and other clever tricks such as making use of fluctuations of money rates, keeping money in Europe instead of in countries with high inflation rates until it's actually needed. Sometimes it is even cheaper to pre-pay projects through micro-credits and repay them with the money from the grant which has meanwhile been invested elsewhere.

RAFAD considers the fact that donors refuse to help NGOs to build up their own reserve-capital as one of the main problems between donors and NGOs. The result is that NGOs need to find money from other sources and sometimes have to use very creative ways of bookkeeping to ensure their future. One possibility is that the NGO starts its own "parallel-fund" with the aim of supporting the NGO in question.

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RAFAD also works with local representatives in Bolivia, Burkina Faso, Burundi, Ecuador, Guatemala, Nicaragua, Peru, Rwanda and Senegal. Contact addresses can be found on the RAFAD-website:

<http://homepages.iprolink.ch/~rafad/contact.htm>

Some general tips:

- Keep track of your expenditure. Give all workers a budget for phone, fax, photocopying, travel and insist they write down how much they spend.
- Create a reserve fund for overhead costs and put this in the bank.
- Reserves can be used to solve temporary cash-flow problems. For the medium to longer term, reserves can be used as a cushion in times of financial crisis, when expected income does not come. Sufficient reserves indicate that the

organisation's financial situation is stable, create donor confidence, and can be invested by the organisation to generate additional income from interest payments.

Appendix: description of how to make a budget

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Expenses

1. Salary and wages (specify salaries of the project co-ordinator, project-executor and support staff)
2. Travel (specify international, national and local transportation-costs; in case you want to organise a workshop, add the travel costs of participants)
3. Equipment (explain why you need to purchase this equipment for this specific project; no computer or jeep for a small project)
4. Specific project-costs (workshop, tree-nursery, education materials, demonstration-farm, etc.)
5. Printed materials (printing costs, copying, pictures)
6. Communication (telephone, fax, e-mail, postage and delivery)
7. Translation (from national into local language; translation might be needed for a publication you want to bring out or during workshops you want to organise)
8. Rent (part of your annual office-rent)
9. Taxes
10. Insurance
11. Other (specified)

12. Miscellaneous (5 - 10%)

Income

1. Foundations
2. Government grants
3. Income through sale of your products
4. Membership fees
5. Individual donations
6. Other (specify)

Explanation to the budget

Every point in your budget may need an explanation, especially if it concerns large amounts. For example, specify how many staff are working on the project, how many hours (full-time or part-time, etc.). Specify to whom you pay tax, specify your insurance, travel, rent (for a car or an office, or a special machine, etc).