straight to the POINT

Budgeting Basics

Taking into consideration implementers' limited time and resources, the tools in Pathfinder International's *Straight to the Point* Series provide clear, concise guidance on a variety of issues related to program design, implementation, and evaluation.

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What Is a Budget?

A budget is a tool that expresses activities in financial terms.

A budget shows the money you need to spend to carry out your planned activities. The money you need to spend is called *expenditures* or *costs*. The money you need to make/receive is called *income*.

Why Is a Budget Important?

- **A budget makes you think specifically about how much it will cost to pay for the activities you are planning** versus how much money you actually have. The process of making a budget may make you realize that your plans are not realistic. This gives you a chance to rethink your activities and avoid financial problems in the future.
- **A budget tells you when you will need certain amounts of money** to carry out your activities.
- **A budget lets you compare how much you think you will spend** (projected costs) to how much you actually spent (actual costs).
- **A budget promotes financial honesty, responsibility, and transparency.** A budget lets everyone see how much money has been received and spent, and compare this to the original plans. Then they can ask informed questions about differences between the two.
- **You cannot raise money from donors without a budget.** Donors use budgets to decide if what you are asking for is reasonable and well planned.

Characteristics of a Good Budget

- **Budgets cover a defined set of activities.** This means that each individual project should have its own budget. However, you should also combine all of the budgets into one overall operations budget—it is important to see the big picture.
- **Budgets state the time period covered.** You should make an annual budget and a budget that covers the whole life of a project. However, dividing the budget into months or quarters may make it easier to monitor.
- **Budgets are *realistic* about expected income and expected costs.** Managers often under- or overestimate costs. The financial problems that result from this can have a negative effect on program implementation, beneficiaries, and staff morale.
- **Budgets include indirect costs.** In addition to including direct costs (e.g., salaries, supplies), the budget must include indirect costs. These can include costs like pensions, insurance, and overhead (e.g., administration, services shared among various programs like internet, telephones, rent).
- **Budgets should be made in the donor's currency and then translated into local currency.** This will make it easier to follow and implement.
- **There should *always* be more than one person making and monitoring the budget** to ensure accuracy, transparency, and accountability.

How to Make a Budget—Step by Step

1. **Study your agreement with your donor carefully.** Donors often have particular requirements about when money should be spent and what it should be spent on.
2. **Review your plans.** Review the activities you will do, when you will do them, and what resources you will need (human, financial, etc.). Program staff and financial staff should work on this process together. Your budget and your plans for activities must match exactly—everything you are planning must appear in your budget.
3. **Gather the information you need and make sure it is up to date.** You will need information about all kinds of income and expenditures (e.g., staff salaries, rent, donations, grants, past costs). You need to get information from all financial staff and project managers regarding their expenses.
4. **Create your budget.** Follow the directions to the right. See also the sample budget on page 3.
   - Follow donors' guidelines. Donors often require that you submit your budget in a specific format. If you do not do so, you could lose funding opportunities.
   - Involve other staff members in the budgeting process (e.g., program, administration, finance staff).
   - Present your budget clearly, so that it is easy for everyone to understand.
   - Specify the dates covered by the budget.
   - Include notes explaining budget items or calculations, when needed. For example, if certain funds have not yet been received, make a note.
   - If you have access to a computer, making and monitoring your budget will be easier, but even without a computer, you can budget effectively. If you don't have a computer, you must pay extra attention to checking your calculations.
5. **Check your math.** Make sure that your figures are correct by having one or two other people review your calculations.
6. **Compare your income to your expenditures.** If they do not match, you need to rethink your plans.
7. **When the budget is complete, share it with other staff.** Orient them on what they have to do to follow the budget.

YOUR BUDGET WILL HAVE 3 PARTS:

1. **Detailed Budget Spreadsheet** *(a table breaking expenditures down by category, including smaller items that fall under each category)*
   - List each category (e.g., General Administration) in one column and the amount of money budgeted for it in a second column. See page 4 for suggested cost categories you can include in your budget. If your donor requires particular categories, use them.
   - Write descriptions of specific items under each of the larger categories and the amount of money budgeted for each of them (e.g., internet goes under General Administration).
   - Find the sub-totals by adding up the costs within each category.
   - Add up all the sub-totals. The result is your total budgeted costs.
2. **Summary Budget Spreadsheet** *(a table breaking expenditures down only by category without including smaller items)*
   - List each category (e.g., General Administration) in one column and the total amount of money budgeted for it in a second column.
   - Add up all the cost categories. The result is your total budgeted costs.
3. **Narrative** *(a text)*
   - Write a text explaining each part of the budget, justifying why each expenditure is necessary to implement your project. Together, the spreadsheet and narrative give you a complete picture of the financial needs associated with carrying out your planned activities.

Sample Budget

Below is an example annual budget for a project. It is ***not*** meant to be a complete or realistic budget—it is just meant to give you a rough idea of what your budget might look like.

Kibera HIV Alliance – Hope and Health Project Budget

Period: January 1, 2013 – December 31, 2013 | **Exchange rate:** 1 US$ = 85 Kenyan shillings (Ksh.)

COST CATEGORIES	KSH	US$
SALARIES		
Project director (20% time) @ Ksh. 3,450/mo. x 12 mo.	41,400	484
2 project coordinators (40% time) each @ Ksh. 2,760/mo. x 12 mo.	66,240	775
Project accountant (20% time) @ Ksh. 2,760/mo. x 12 mo.	33,120	387
Sub-total—Salaries	**140,760**	**1,646**
FEES		
6 external trainers to train peer educators (PEs) @ Ksh. 10,000/wk. x 6 wk.	60,000	702
Sub-total—Fees	**60,000**	**702**
GENERAL ADMINISTRATION		
Internet @ Ksh. 2,900/mo. x 12 mo.	34,800	408
Telephone @ Ksh. 2,500/mo. x 12 mo.	30,000	350
Sub-total—General Administration	**64,800**	**758**
SUPPLIES AND EQUIPMENT		
Stationery and office supplies @ Ksh. 6,000/mo. x 12 mo.	72,000	842
1 new laptop	44,000	515
2 new bicycles @ 4,200 x 2	8,400	98
Sub-total—Supplies and Equipment	**124,400**	**1,455**
TRAINING		
10-day initial training for new PEs:		
• Transport and lunch for 2 internal facilitators @ Ksh. 1,000/d. x 10 d.	20,000	234
• Meals and accommodation for 30 PEs @ Ksh. 1,000/d. x 10 d.	300,000	3,510
5-day refresher training for old PEs:		
• Transport and lunch for 2 internal facilitators @ Ksh. 1,000/d. x 5 d.	20,000	234
• Meals and accommodation for 10 PEs @ Ksh. 1,000/d. x 5 d.	50,000	585
Sub-total—Training	**390,000**	**4,563**
Summary		
Salaries	140,760	1,646
Fees	60,000	702
General Administration	64,800	758
Supplies and Equipment	124,400	1,455
Training	390,000	4,563
TOTAL COSTS	**779,960**	**9,124**

Cost Categories and Descriptions

Below are suggested cost categories and smaller cost items you could include in your budget to organize your expenditures. These are only examples—you must make adjustments to suit your organization's specific situation and needs. Your donor may require that you break the budget into a particular set of cost categories, which may be different from these. Under each cost category, include the smaller cost items that fall under it.

- **Salaries:** Wages and salaries paid to full- or part-time employees (including field staff or community-based workers).
- **Benefits:** Insurance, retirement, and health schemes, allowances, pensions, and all other benefits required by law. These benefits are usually paid only for full employees (i.e., not consultants, volunteers, or seasonal workers).
- **Fees:** These are fees for services paid to professionals such as consultants, trainers, lawyers, or other temporary staff. They can also be paid to people providing a special service (e.g., making a presentation).
- **General Administration:** All office-related expenses needed to keep an organization running (e.g., postage, telephone, fax, internet, bank charges, utilities, rent, photocopying, staff recruitment costs).
- **Travel:** Supervisory travel, field visits, staff meetings, fuel costs, travel costs (e.g., bus fare, train tickets, taxis), and per diem/pocket money. Note: It is better not to include travel costs related to training here.
- **Supplies and Equipment:** Office supplies, clinic supplies, office furniture and equipment, computers, printers, software, bicycles, cars, cleaning supplies, supplies for community-based workers (e.g., bags, uniforms, or registers).
- **Training:** Costs of travel and per diem/pocket money for all participants, trainers, and staff attending a conference or workshop; costs of venue (meeting rooms and hotel), equipment rental, training materials, registration fees, shared meals (e.g., tea breaks and lunches), special events (e.g., opening reception).

Monitoring Your Budget

Making your budget is the first step, and monitoring it is the second. Keep a record of all your actual income and expenditures. Use documents like receipts, cash books, invoices, photocopies of checks, and staff timesheets to monitor your expenditures. Every expenditure must have a piece of documentation to support it.

Each month compare the records of what you are receiving and spending to your original budget and plan. This will help you see if you are spending more—or less—than you planned in any category. You need to avoid both over- and under-spending. These comparisons will help you see if your project is on track from a spending perspective. If not, you need to know why. Then you have to determine if you need to slow down, speed up, or shift spending. You can do this for individual cost categories and for overall spending.

If you need to make changes to your budget, you must first consult your donors and explain the situation. Be sure to discuss all changes with other staff as well.

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This tool was created by Pathfinder International with partial support from the Positive Action for Children Fund. Visit Pathfinder's website to find more *Straight to the Point* tools that will help you build your organization's capacity.

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