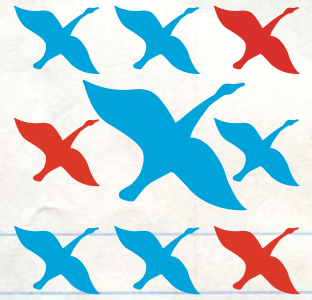


WILDE GANZEN



ONTWIKKELINGSSAMENWERKING

# PI-DOC 6: BUDGETING AND FINANCIAL MANAGEMENT



PI-DOC 6



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**This document is about budgeting and financial management of projects owned and implemented by your organization and co-financed by a Private Initiative (PI) from the Netherlands**

The aim of the document is to offer concrete tools, instruments and tips related to budgeting and financial management, in order to make it easier to implement and manage the project.

Good financial management starts with a good budget. Therefore, the first part of this document deals with how to make a budget. The second part is about financial management. Because this is a short document, we can only explain the most important elements of financial management. To go into detail we recommend the book mentioned at the end of this document, or one of the many other publications on the subject.

## Budgeting

Budgeting is defining the costs of planned activities. Each project aims to achieve a goal and to implement activities. For these activities you need to have means available. These means are:

- human resources,
- physical resources,
- money

An adequate budget shows the costs of the different principal and secondary activities.

## Making a budget

You can make a budget by taking the following steps:

- Step 1. Make an activity plan (including a time schedule);
- Step 2. Describe the means (human and physical) necessary for each activity;
- Step 3. Define the costs of each of those means;
- Step 4. Total all costs and you know how much money is needed.

**STEP 1: MAKE AN ACTIVITYPLAN**

Each project has an aim. To achieve this aim, you need to implement activities and deliver results. Each activity is divided in sub-activities. This is necessary to be able to make a budget and a time schedule. The time schedule tells you *when* you will need a certain amount of money (the liquidity plan).

For example:

<b>Project aim</b>	Increased number of women that become literate		
<b>Results</b>	1. Literacy program is made available	2. Centre for literacy is equipped	3. Etc.
<b>Activities</b>	1.1 Develop a curriculum 1.2 Offer evening classes 1.3 Sensitize men	2.1 2.2 2.3	
<b>Sub activities</b>	1.1.1 Make an inventory of existing material 1.1.2 Compose a curriculum	2.1.1 2.1.2 etc.	
	1.2.1 Make teachers available 1.2.2 Develop a poster/announcement		
	1.3.1 Hire motivators 1.3.2 Travel costs		

**STEP 2: DESCRIBE THE MEANS NECESSARY FOR EACH ACTIVITY**

In each project you will make use of *physical* resources (fuel, computer, stationery, bricks, beds, blackboards, etc) and *human* resources (men or women that will give hours to the project and need to be paid). Before allocating means to (sub)activities, you need to have an overview of all means necessary in the project, the units in which they will be expressed, and the unit costs.

**STEP 3: DEFINE THE UNIT COSTS OF EACH OF THE MEANS**

The commonly used means:

Means	Unit	Price per unit (€)
<i>1 physical resources</i>		
... resource 1...	Km	€ 0.20/km
... resource 2...	Liter	€ 20
... resource 3...	Lump sum	€ 10
... resource 4...	Piece	€ 5
<i>2 human resources</i>		
... resource 5...	Daily wage	€ 45

For most of the means it is easy to describe them in units. However, for some of the means it is more difficult to express them in one unit. For example stationery. In this case it is easier to express it in lump sum (total cost).

**Suggestion:**

Have someone explain to you how to work with Microsoft Excel – a handy software to make budgets and for accounting.

**STEP 4. DEFINE THE COSTS PER ACTIVITY**

Once you know the units and the corresponding prices, you are able to describe per sub activity the means necessary to implement it.

An example:

Costs allocated to an activity				
Activity	Necessary means			
(details)	unit	quantity	price p/unit	total costs
1.1.1 inventory materials	days	8	€ 45	€ 360
1.1.2 compose curriculum	days	14	€ 45	€ 630
		30 wk; each		
		wk 2	€ 45	
1.2.1 teacher	days	evenings = 15		€ 675
1.2.2 poster/announcement	units	60	€ 5	€ 300
1.3.1 extension	days	2	€ 30	€ 60
1.3.2 travel costs	km	100	€ 0.20	€ 20
Etc.				

When all items are calculated, it is possible to total the costs of each activity and eventually of each result.

**Other costs:**

In addition to the means allocated directly to an activity, there are also other costs. The budget will be complete taking into consideration also the following:

- Investment costs, like fittings and furniture, cars, building. These costs are only made once. On investments you will write down (depreciation), for example, the value of a car diminishes during the implementation of the project.
- Operational costs, these are running costs you will have during the entire project, such as salaries, rent, office costs, communication.
- Costs made for monitoring and evaluation of the project. Because it is too difficult to calculate these costs, it is common to allocate to them a percentage of the total budget.
- Unforeseen costs; this money is reserved, in case you will need it. So this is not an extra budget!

	Unit		Costs (€) per unit	Total costs in €
<b>1. Activities</b>				
<b>1.1 Activity 1: Develop a curriculum</b>				
Sub act. 1.1 Make an inventory of existing material	day		45	360
Sub act. 1.2 Compose a curriculum	day		45	630
<b>1.2 Activity 2: Offer evening classes</b>				
Sub act. 2.1 Make teachers available	day		45	675
Sub act. 2.2 Develop a poster/announcement	poster		5	300
<b>1.3 Activity 3 Sensitize men</b>				
Sub act. 3.1 Hire an motivator	day		30	60
Sub act. 3.2 Travel costs	km		0.20 / km	20
<b>SUB TOTAL ACTIVITIES</b>				<b>€ 2.045</b>
<b>2. Investment costs</b>				
2.1 Furniture and fittings	lump sum		10.000	10.000
2.2 Car	piece		25.000	25.000
2.3 Means	lumpsum		500	500
<b>SUB TOTAL INVESTMENTS</b>				<b>€ 35.500</b>
<b>3. Operational costs/office costs</b>				
3.1 Salary staff	month		250	3.000
3.2 Office rent	month		200	2.400
3.3 Office costs (stationery)	lump sum		1.000	1.000
3.4 Maintenance costs car	lump sum		1.000	1.000
3.5 Communication	lump sum		250	250
3.6 Publicity	lump sum		250	250
<b>SUB TOTAL OPERATIONAL COSTS</b>				<b>€ 7.900</b>
<b>TOTAL 1 + 2 + 3</b>				<b>€ 45.445</b>
Monitoring and evaluation				2.272
Unforeseen costs				2.272
<b>GRAND TOTAL</b>				<b>€ 49.990</b>

***Please note!***

Translating activities in money terms is a process of thinking, discussing, negotiating. Financial limitations – money is always scarce – force the project to set priorities and to make choices.



**Examples of changes in the project plan or budget:**

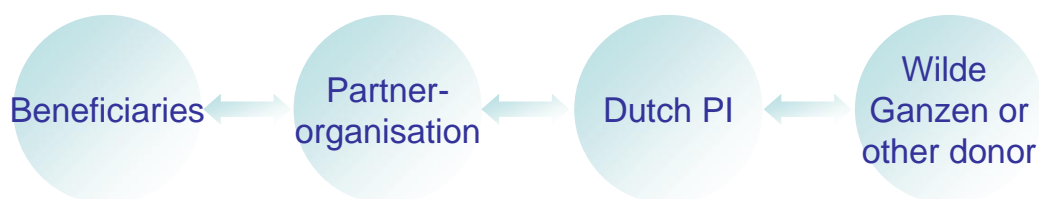
*Adaptation of the project:* the project aims at kids aged 4-12 years old. During implementation it became preferable to focus on children aged 6-12.

*Change in activities:* a training course in a village involves only women. During implementation it became clear that it was necessary to involve the men also.

*Changing the budget:* in the project budget you reserved € 100 to print a flyer, but a partner organization offered to do this for free. You can now use the € 100 for a different activity.

At the end of each project year an audit is executed. An audit is a financial evaluation. In the agreement with your donor you can find the rules and procedures for this audit.

**Overview of the different organizations involved:**



A Dutch Private Initiative collaborates with your organization: the Project Owner. The activities that are being undertaken by the Project Owner serve the beneficiaries (target group). The role of the Dutch PI is to raise funds, in cooperation with Wilde Ganzen.

Basically your organisation is responsible for drawing up the budget and to have a good financial management. The PI can support you, for example by advising on how to make a budget or how to write a (financial) progress report.

In small organizations bookkeeping is often done by the treasurer. He is responsible for receiving and spending money; making a (annual) budget; keeping the accounts; making the annual accounts and the final statement.

**TWO PAIRS OF EYES**

In each healthy organization Financial matters are checked by two pairs of eyes. The bookkeeper or treasurer provides the figures; the project manager and the board of the organization checks them. In this way there is maximum openness concerning the finances of the project.

**FURTHER READING:**

*Project management for non-profit organizations, a practical guide for managing developmental project* - Mensah Frimpong, October 2003 (ISBN: 0-620-31111-8)







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