

WHY DO WE NEED A BUDGET?

A budget is one of the foundational documents for planning and managing your organization's activities. It will allow you to see whether you have the resources to complete your proposed projects, and will also force you to think through how you will actually carry out your programs.

Transparency is a core principle in human rights, and it begins within our organizations. Your organizational budget and your financial reports must be available to your staff so that they understand the financial situation of your organization and can help to monitor that funds are spent appropriately. In some countries, nonprofit organizations are required to have their annual budgets, and any changes to that budget, approved by their board of directors.

GLOBAL VS. PROGRAM BUDGETS

A **global budget** is a comprehensive organizational budget that includes everything that your organization does. This will include administrative expenses such as rent, utilities, and printing, as well as costs for specific programs.

A **program budget**, on the other hand, provides a view of just one of the organization's programs. When you apply for grant funds, your donors usually ask to see a budget for the program. Some may also ask to see your organizational or global budget.

Since global budgets can get very cumbersome (especially as your organization grows), it is sometimes preferable to have separate program budgets to work with on a regular basis. This handout will show you how to create both.

SETTING UP THE SPREADSHEET

Once you have finished the Strategic Plan (see [How To Create A Strategic Plan](#) and [Template | Logic Model](#)), you can fill in the organizational budget, putting your Actions—that is, your activities for the coming year—under “Program Costs.” These costs should correspond to the Actions in your Strategic Plan as well as your Timeline.

We recommend you include the following columns when you set up your budget:

- Expenditures | List each item on a separate line
- Calculation or Units/Cost per Unit | Explain how you calculate each cost
- Need | the total amount needed

You may also want to include a separate column for each source of income that is confirmed, and one at the end showing the total balance that you still need to raise.

You can create the budget manually with pen and paper, or you can use computer software. Microsoft Excel is an excellent tool for simplifying the calculations. For a free version, visit www.openoffice.org. A spreadsheet will help you keep things more organized, and reduce the possibility of calculation errors. See [Template | Global Budget](#) and [Template | Program Budget](#) for a detailed Excel chart you can adapt for your organization.

At Asia Catalyst, our global budget includes a column with the costs we applied for in each grant proposal, but we format that column in *italics* to remind us that this income is not yet confirmed. We do this so that if we are applying for multiple grants to support a single project, we can see which items still need funds, and in this way we also avoid raising more for a specific item than we need. Once the proposal is granted, we make any changes required by the donor to the budget and change the column from *italics* to regular font so that we can see we now have this money to spend. We check the budget every time we need to spend funds.

About the calculation column: this is a column that lists exactly how you came up with each cost. It is very important to be specific. For instance, if the total amount we're budgeting for rent is \$6,000, the "calculations" column says "12 months x \$500/mo." If we're budgeting \$720 for office supplies for one year, the "calculations" column says "\$60/month x 12 months." This makes it easier to remember and update the number later if we find out our calculations were not correct. It also clarifies to our donor how we arrived at each amount.

The reason to spend the time going into such detail in the beginning is that later on, your estimates of what things cost may change. You want to make it as easy as possible to go back and remember how you came up with each number without having to recalculate it again each time you look at the budget—or worse, to constantly bug your colleagues with questions like, "what on earth were we thinking when we allocated only \$1,000 for hotel rooms?" If your budget is detailed enough in the beginning, you can easily see what you were thinking.

For each expenditure, you should take the time when you draft your budget to research what the likely cost will be. This may involve calling some companies and doing some research online. This is how it could look in your budget:

Expenditure	Calculation	Need
Rent	12 months x \$500/mo.	\$6000
Office supplies	\$60/month x 12 mos.	\$720

Another way to do this is to break the calculation into two columns, so that you have only one set of numbers in each column. In this approach, instead of a "Calculation" column, you would have a "Units" column and a "Cost Per Unit" column. Here's an example:

Expenditure	Units	Cost per Unit	Need
Rent	12 months	\$500	\$6000
Office supplies	12 months	\$60	\$720

Depending on your preference or needs, you can use one style or the other.

EXPENDITURES

The two major categories in your expenditures column are **administrative expenses** and **program expenses**. What's the difference?

Administrative expenses include expenses that are shared across all of your programs. This includes the rent for your office, office utilities, salary for the bookkeeper or administrative assistants, and so on. Most donors prefer to see administrative costs that are less than 20 percent—ideally 15 percent or so—of your total project budget. In the real world, few of us are able to meet this arbitrary percentage—so when you actually apply for funds, you may need to leave a few admin expenses off your proposal in order to keep this category low.

Program expenses are any funds that you only spend on this project. That includes program staff such as a person you hire just to help with this program, things you buy for the project (such as a computer or supplies), travel for this program, and space you rent just for the program.

PROGRAM EXPENSES

The largest expenditure in your program expenses may be program staff. Let's say you're going to hire a program officer to work on the project. Her salary, health insurance, and any other benefits should all go in the program section of your budget.

If her supervisor is a program director who supervises other projects as well, then you should estimate the average number of hours a week the program director will spend supervising this program officer. Perhaps it's going to mostly be about one day a week, except when there's a big meeting or workshop, when it will be forty hours. You can estimate about ten hours a week as an average. In that case, the program director is spending 25 percent of her time supervising this project, and 25 percent of her salary, health insurance, and social security should go into the program section of your budget.

If you are planning a conference or workshop, here are some costs you'll need to include. Remember to include budget amounts for staff in each of these categories as well.

1. **Travel for participants.** Estimate the airfare. In the calculation column, put [the estimated airfare x number of participants].
2. **Ground transportation.** Each participant may need to take a taxi to get to and from the airport—especially if the airport is in another town. In the calculation column, put the [allowance per person x number of participants]. You may want to reimburse people based on how much they actually spend, but you can also just tell each participant what their ground transportation allowance is and give each person the same amount.
3. **Accommodations.** Estimate what a hotel room will cost for one night, how many people will stay in each room, and in the calculations column, put the [estimated cost of the room x number of rooms x number of nights]. If you don't know what a hotel will cost, look online or call a few hotels and ask them. Remember people may need to arrive a day early if your workshop starts in the morning. If participants want to stay longer than you have budgeted for them to stay, they will need to pay for those nights themselves. Book hotel rooms that are comfortable, but be frugal.
4. **Per diems.** Anyone who is traveling for a program should get a per diem allowance, or be reimbursed for items such as meals, water, internet, and taxis that they would only have to spend money on when traveling for your program. It's best if your organization has a policy on how much you pay for per diems, and pay everyone the same amount. At Asia Catalyst, we have a policy that all staff and program participants are given a \$50/day per diem and \$80/night for hotel rooms when traveling, regardless of who they are and where they are traveling. (This is relatively low for a U.S.-based organization, as you will see if you visit the U.S. State Department's recommended per diems by location, here: http://aoprals.state.gov/web920/per_diem.asp.)

A word about per diems. A per diem is not payment for someone's time. The purpose of a per diem is to keep staff and participants from having to spend their own money in order to participate in your program. It is unprofessional to ask others to pay for these costs out of their own small incomes.

Once you have settled on a per diem and hotel rate policy for your organization, put the [amount x number of people in the program] in the calculations column.

Additional things to include	Things NOT to include
<p><i>If you are running workshops:</i></p> <ul style="list-style-type: none"> • Visas • Meeting room fees • Group meals • Coffee/tea breaks • Cost of a projector • Interpreter's hourly rates <p><i>If you are producing a research report:</i></p> <ul style="list-style-type: none"> • Design and layout • Editing • Translation (of drafts and final draft) • Printing • Shipping/postage (to send to donors, supporters, etc.) 	<ul style="list-style-type: none"> • Miscellaneous or unidentified expenses <p><i>There are often unexpected costs in a project, but you should try to plan for everything in detail when drafting a budget. Donors, bookkeepers, and auditors will never allow you to have a "miscellaneous" category because it's a red light signaling possible fraud.</i></p> <ul style="list-style-type: none"> • Bribes <p><i>Although this may be common practice in many countries, bribes are not a legitimate expense for NGOs.</i></p>

ADMINISTRATIVE EXPENSES

Your administrative expenses are the "overhead" costs—the cost of running the organization that is sponsoring the program. To figure out how high administrative expenses will be for each project, you should estimate what percentage of the organization's resources the project will require. (It will be a lot easier to figure out the percentage if you have created an annual strategic plan and this program is one part of that strategic plan. But even if you don't have such a plan, you can still develop a rough idea of what percentage of everyone's time it will take to run the project from beginning to end.)

Let's say you estimate the project will take about 25 percent of your organization's total staff time and resources. The administrative expenses for the project can then each be broken down to 25 percent of the total annual administrative costs. In other words, if your organization's office rent for one year is \$6,000, then in the "calculations" column you can put "\$6,000 x 25%" and in the needs column you can put \$1,500.

Expenditure	Calculation	Need
Rent	12 months x \$500/mo. = \$6000 x 25%	\$1500
Office supplies	\$60/month x 12 mos. = \$720 x 25%	\$180

Other expenditures to include in the administrative expenses section can be: telephone, Internet service, utilities, photocopies, computer hardware, computer software, payroll expenses (if you use a payroll company), insurance costs and other employer liabilities (e.g. workers compensation insurance for employees) and bank fees (if you're sending or receiving money by wire transfer, you will definitely need to include a hefty sum in this category).

How about administrative staff? This may include bookkeepers, the cost of an annual audit, office assistants, and the executive director. How do you include these in the project budget?

Here's how we do it: Individual administrative salaries are allocated based on the amount of time each individual will spend on the project (for our executive director, usually about 10 percent, unless she's really involved in implementing the program). Other costs, such as audit and so forth, can be split up using the same percentages that you use to budget other administrative costs.

SAMPLE GLOBAL BUDGET

Administrative expenses	Calculation	Need	Generous Foundation	Request from Family Trust	Balance
Executive director	\$50,000/yr x 10%	\$5,000	0	\$5,000	0
Rent	12 months x \$500/mo. = \$6000 x 25%	\$1,500	\$500	\$1,000	0
<i>Subtotal - admin</i>		<i>\$6,500</i>	<i>\$500</i>	<i>\$6,000</i>	<i>0</i>
Program expenses					
Program officer	\$40,000/yr x 100%	\$40,000	\$5,000	\$15,000	\$20,000
Report translation	\$5,000 flat fee	\$5,500	0	\$5,500	0
Report design	\$1,000 flat fee	\$1,000	\$1,000	0	0
Report printing	1000 copies x \$5 each	\$5,000	0	\$2,500	\$2,500
Postage	\$1000 copies x \$2 each	\$2,000	0	\$1,000	\$1,000
<i>Subtotal - program</i>		<i>\$53,500</i>	<i>\$6,000</i>	<i>\$24,000</i>	<i>\$23,500</i>
Total Budget		\$60,000	\$6,500	\$30,000	\$23,500

This is how our imaginary budget looks, with a grant from Generous Foundation and an application for additional funding from Family Trust. It's good to show your potential donor that you have some grant funds raised already, and that even if you don't raise the balance still needed, you can proceed with the project if you just get their grant. Note also that the total admin costs in this budget are only \$6,500, or less than 20 percent of the total project cost of \$60,000.

Very Important. Before you send this off as part of a grant proposal, do some research and make sure to find out what your donor likes to see in a project budget. Unfortunately, each foundation has its own budget form. Larger foundations and government donors often have specific ways that they want you to break down costs, rules about things like per diems, and guidelines on how much you can spend on certain things. Some donors won't cover specific categories (such as travel expenses) at all.

For more of the Nonprofit Survival Guide, visit:
www.asiacatalyst.org