

## 2. Budgeting

Budget is a very important component of the project document. If it is prepared carefully, it can be integrated with the action plan. A clear budget will also help your accountants book expenditure under proper heads. This will allow you to monitor variances effectively.

This can be done only if expenses are booked under proper heads. Sometimes, expenditure is debited to account-heads depending on amount of margin left under the budget head. The nature of the expense is ignored. This results in distortion of the accounting reports.

If the partner proposes a reasonable budget, chances are that Sida will not make any cuts while approving the budget. This means that partners can start with realistic budget estimates. There is no need for ‘anticipatory padding’.

Unspent balances, within reason, can be carried forward and used in the next year. Sida hopes that by following this policy, partners will be able to time and implement activities according to ground realities. There will not be a need to ‘use up’ all the unspent funds before the end of the grant year.

Sida does not have a standard form for preparing budgets. **However, we can offer a few suggestions on a useful budget structure.**

### a) Budget Structure

There is a view that program persons and accountants have different expectations from a budget document. Program people hope that the budget will tell them how much is budgeted for a particular activity. Accountants want to know where an expense should be booked. Often such information is not clear from the normal budgets.

A possible way to solve this problem could be like this. First prepare a budget based on the program. This budget could be structured on a simplified logical framework. This budget could be useful in the following ways:

- ❑ It can help you visualise the planned activities;
- ❑ It can help you plan the resources needed for each activity and its components;
- ❑ It will help Sida understand your program and your requirement for funds;
- ❑ It can help your implementing team understand the work-plan and link it up with funds available.

A Program Budget would have the following headings – you can add or modify column per your needs and the size of paper used!

SI	Name of Program	Specific Objectives of this program	Logic / reasoning for each activity / item	Number of direct beneficiaries	Village / location where the activity will occur	Duration of activity	Budget Line Item Narration	Budget Line Item Calculation	Amount (Rs.)

A sample Program Budget’ is given on page 127.

After you have finalised this budget, prepare another summary budget. This will help your accountants book expenses under normal accounting heads. The ‘Accounting Budget’ is simply a reclassified Program Budget. Columns for the Accounting Budget could be as given below:

Ref.	Account Head	Program	Duration	Calculation	Amount (Rs.)

A sample ‘Accounting Budget’ is given on page 129.

At first glance, this appears to be additional work. However, single budgets in vogue these days try to be both the program budget and the accounting budget. These end up being neither. Program persons are not able to get enough information from these to help plan expenditure. Accountants also find it frustrating opening accounting heads, which look like program activities and are different for each Agency.

Secondly, if you use a spreadsheet program like Lotus 1-2-3, Excel or Quattro Pro, you could set up cross-references between the two budgets. Then if you make changes in the program budget, the accounting budget will get updated automatically.

### b) How much

Budget figures must be based on ground realities. When budgeting salary for a Sida supported project, you may wish to see what are the general salary levels in the region. Also the salary amounts budgeted should not be so high or so low that these would cause conflicts within the organisation.

Budgets for materials should be based on how much is likely to be used. Prices used in calculations must be realistic.

You also need to provide for the following:

### (1) Increments

People grow over time in terms of skills and experience. An annual increment is a normal expectation. If your organisation provides annual increments, you should increase the salary budget each year accordingly.

### (2) Accountant

Good accountants are difficult to find. It is even more difficult to retain them. One factor sometimes, is the lack of a salary budget for an accountant. Sida requires that its partners will find, employ and retain good, full time accountants. Such persons should have adequate training in accounts, and preferably a commerce degree. They should also have sufficient experience.

For this purpose, reasonable amount of salary should be budgeted. For budgeting the salary, you may want to look at what good accountants are paid by local businesses. Where the salary can be shared with other agencies, a proportionate amount should be budgeted in Sida proposal.

### (3) Audit fees



Independent audit of your Society or Trust is an essential requirement for public accountability. Sida requires that its partners will retain a good firm of Chartered Accountants for this purpose. If such a firm is available in a nearby place, its services will be more useful.

In order to do a proper audit, adequate professional remuneration is essential in most cases. Unfortunately, an audit fees component is often not included in the budget. It is suggested that where audit fees can be shared with other Agencies, a proportionate amount should be provided.

You should also provide an additional amount in the Budget for Sida audit certificate. Consult your auditors as to the amount of fees they would expect for the Sida Audit Certificate. Auditors should carefully consider their professional responsibilities and the scope of work involved in the Certificate before indicating their fees.

### (4) Inflation

When proposing a budget for the first time, remember that it may take some time before the proposal is approved. In the meanwhile prices will continue to rise. Keep this in mind when estimating budget amounts.

If the proposed budget is for more than one year, provide for inflation in the second and subsequent year also.

## (5) Chief Functionary

If you have a full-time Chief Functionary<sup>1</sup>, you may need to pay a salary to the person. There is no bar in the Income Tax Act on paying reasonable salary to an office bearer. Under the Societies Act, it is expected that an office bearer such as a Secretary or Treasurer will not be paid for *duties of a Secretary or Treasurer*. Your auditors can explain the intricacies of this law to you.

Sida suggests that reasonable and proportionate amount of remuneration for a full-time Chief Functionary should be budgeted, where required.

### c) Break-up

If you want to make a good budget, it is important to provide break-up of figures that are included. For example, salaries should be broken down by person (with role), rate per month, number of months. Amount for an exposure tour must be broken down into fare, food, lodging, incidental expenses – how you arrived at these items should be indicated – for example, ‘food for 20 persons @ Rs.75 per day x 4 days’. This exercise may appear to be time-consuming at first but will help avoid under-budgeting or over-budgeting. Finally if an item can not be broken down at all, say ‘lump-sum’.

Sida requires that all budget items will be broken down to the extent practical. Budgeted costs should correspond as closely to the activities as feasible.

### d) Variances

If you make a budget, variances will follow naturally. These variances should not be suppressed. An attempt should be made to book all relevant expenses under proper account heads. Sometimes, expenses are booked under a different head just because the budget under the proper head has been used up.

Variances would be calculated and reported, as discussed in the section on ‘Reporting to Sida’ (page 61). Past variances should also be used to revise budget amounts wherever required.

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<sup>1</sup> May be an office bearer