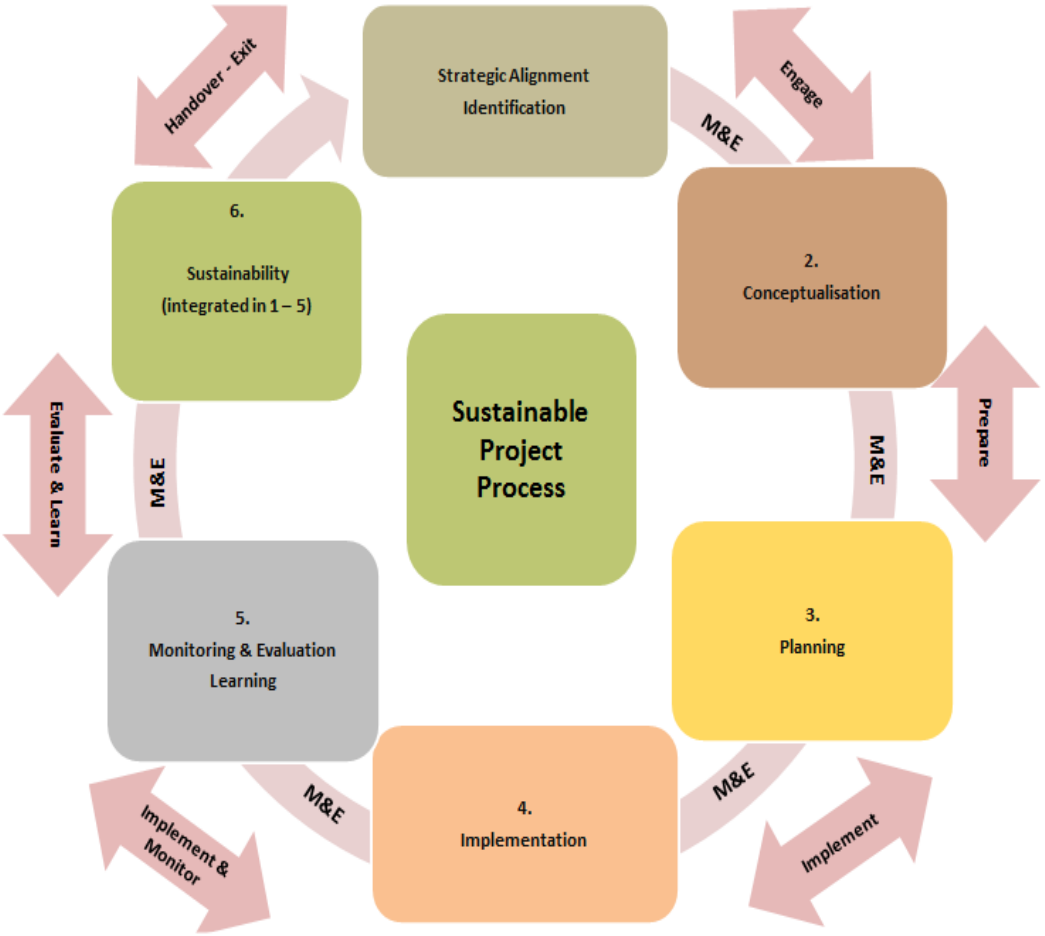
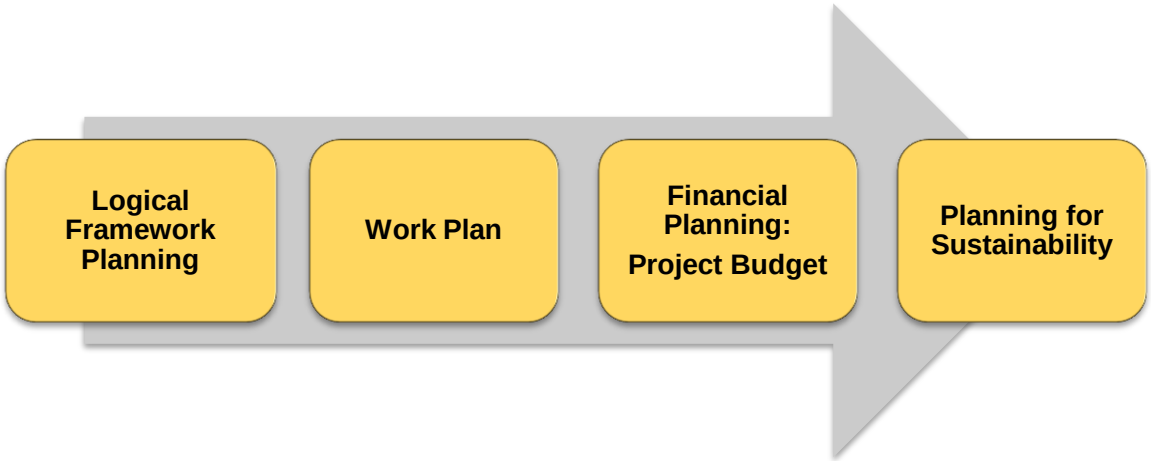


Planning Steps



1. Project Planning Overview

During the planning phase, all the preparation that has been done during stage 1 (Strategic alignment and Identification), stage 2 (Conceptualisation), stage 3 (planning and budget of this stage) and stage 5 (M&E planning) is the input for the final project plan. By the end of the planning stage, the entire project is defined in detail and the necessary steps have been taken to ensure sustainability.

Planning of development projects has a different format from private sector projects which are profit driven. There is often a difference in terminology and concepts e.g. a development project wants to achieve results, whereas a private sector project has to make a profit. Development Agencies often work with service providers and consultants form the private sector, which requires a "translation" of terminology and sometimes a marriage of expectations, beliefs, values and attitudes. [1]A special toolkit is available to guide the implementation of infrastructure development projects as part of development work.

Although Monitoring and Evaluation planning is also part of the planning phase, it is dealt with as a separate "phase" for practical purposes. M&E is linked to every part of the project life cycle.

The logical framework is the basis used for Project Management for Sustainability.

[1] Thinkplan toolkit – think,plan,do, know

PLANNING 3

Who is involved	What happens	Decisions made
Key Stakeholders Board of Directors Executive Management, Chief Operations Officer, Programme Managers Project Managers	The project logic, monitoring plan, evaluation plan as well as exit strategy is complete.	➢ Project Plan approved ➢ Project budget approved

Tools and Guidelines	Where to find
Project Proposal	Tool 8
Project Appraisal	Tool 9
Logical Framework	Tool 5
Resources and Learning	
Development Agency Plan of Operations	Resource 5

Documents at end of this stage

1. Logical frame
2. Project Plan

2. Sustainability Milestones During this Project Life Cycle Stage 3

A[2] project is sustainable when the beneficiaries continue to experience benefits beyond the period of project funding. This means that planned benefits should be sustainable beyond the life of the delivery of the project services

Sustainability principle[3] Institutional Sustainability	**Critical Milestone achieved before continuing to the next project stage**
1. Applying the logical framework and Results based method ensures effective results based project and programme management	
- Focuses on results or effects: Clear formulation of aims, use of measurable indicators and clear attribution of outputs	
- Focus on learning and information management with the involvement of all stakeholders	
- Transparency and accountability: The Log frame planning encourages clear formulation of outcomes and goals, gives precise definition of quantifiable targets and therefore enhances transparency and accountability between all stakeholders.	
2. Development of an Exit strategy during project planning	

[2] Spreckley, F., 2006: Local Livelihoods
[3] International Fund for Agricultural Development (IFAD), 2009, Tango International

3. Sustainability Quality Standards

[4]Assessment Criteria

	A. Relevant	Completed
	Sustainability	
	The project meets demonstrated and high priority needs	✓ Stage 1&2
1	Consistent and supported of Government policies and priorities (and relevant sector programmes)	✓ Stage 1&2
2	Key stakeholders and beneficiaries are clearly identified, equity and institutional capacity issues analysed and local ownership demonstrated	✓ Stage 1&2
3	Problems have been appropriately analysed	✓ Stage 1&2
4	Lessons learnt from experience and other projects have been assessed and incorporated in strategic planning	✓ Stage 1&2

	B. Feasibility -	
	Sustainability	
	The project is well designed and is likely to deliver tangible and sustainable benefits to the target groups	✓
5	The objectives (overall objective, purpose and results/outputs) and operational plan (activities) are clear, logical and address clearly identified needs	✓

[4] Europe Aid Guidelines 2004 P 35

PLANNING 3

5.1	The projects' overall objective is clearly linked to a relevant programme objective (how the project is likely to contribute to a long term development outcome)	✓
5.2	The project's purpose clearly specifies a direct benefit(s) that the target group(s) will derive from the implementation of the project, and is consistent with the analysis of problems facing the target group(s)	✓
5.3	The project's results/outputs describe tangible improvements to services, facilities or knowledge that will directly support achievement of the project's purpose	✓
5.4	A feasible plan of work pan(set of activities) is described which will allow project results to be delivered over a realistic time frame	✓
5.5	The project design is not overly prescriptive, and allows for necessary changes to work plans to be made during implementation.	✓
6	**The resource and cost implications are clear; the project is financially viable and has a positive economic return.**	✓
6.1	The resources (such as staff, equipment, materials etc.) required to implement the project are clearly described, including an analysis of resource contributions from each of the primary stakeholders (e.g. local communities, partner government institutions and other funding partners)	✓
6.2	Project investment and operating costs are described and analysed in sufficient detail, including the financial contributions of the different stakeholders	✓
6.3	Recurrent cost implications are estimated, and an assessment made of the local capacity to meet these costs at the end of the project investment phase	✓
6.4	An appropriate level of Financial and/or economic analysis of the project's costs and benefits is provided, which shows that the project is financially viable and has a positive economic return.	✓
7	**Coordination, management and financing arrangements are clear and support institutional strengthening and local ownership**	✓
7.1	Management responsibilities are clearly defined (including responsibilities of different stakeholder groups) build on the analysis of institutional arrangements and capacity, and promote local ownership and capacity building	✓
7.2	The arrangements for coordinating the work of different stakeholders are clearly described and practical to implement and allow project managers to access support from senior decision/policy makers (PSC - Project steering committee)	✓

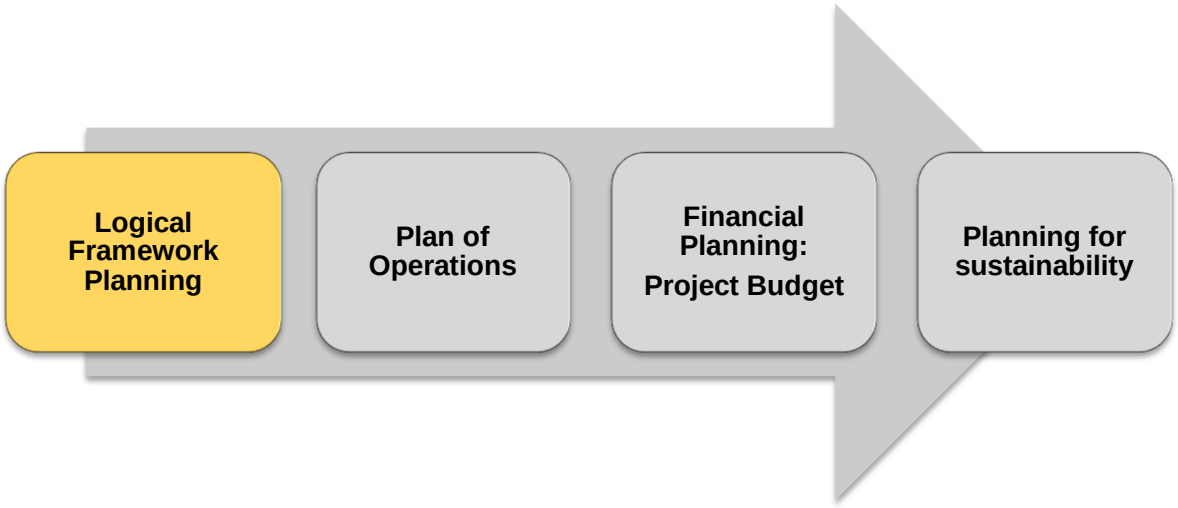
PLANNING		3
7.3	Arrangements for regular review, operational and work planning and budgeting "fit" with local systems and support the ability of managers to respond to lessons learned and changing circumstances on the ground	✓
7.4	Financial management arrangements are clearly specified (in particular for providing an adequate level of overall internal control) and promote accountability and transparency.	✓
7.4	Audit arrangements are clearly specified (including responsibilities and coordination arrangements where various stakeholders are involved0	✓
8	**The Monitoring/Evaluation and accountability system is clear and practical**	
8.1	The project's Log frame Matrix includes a set of indicators and sources of verification (namely for the purpose of results) which will allow management information to be collected and used in a cost effective manner	Not in this stage M&E stage
8.2	Adequate resources are included within the project design to support the implementation of the performance measurement (M&E) system	
8.3	Roles and responsibilities for collecting, recording, reporting and using the information are clearly described, and build on /support existing systems(capacity building)	
8.4	The information needs of target groups are given adequate priority, and include providing the means by which they can voice their opinions and concerns (local accountability)	
8.5	Effective anti-corruption monitoring tools and audit requirements are proposed/in place	
9	**Assumptions/Risks are identified**	
9.1	Assumptions in the (draft) log frame Matrix highlight key factors outside the direct control of project managers which have the potential to impact negatively on the project (risks)	✓
9.2	The importance of different risks is assessed, including the degree of negative impact they may have on achieving objectives	✓
9.3	Arrangements for managing risks are clear	✓
10	**The project is (likely to be) environmentally, technical and socially acceptable and sustainable**	
10.1	An appropriate level of environmental impact analysis has been carried out, and the scope of further studies determined	✓

10.2	The project is technically feasible, meets relevant industry standards and uses/introduces technology that is appropriate to the needs of target groups	✓
10.3	Gender analysis has been carried out, and the project has a clear strategy to ensure benefits are appropriately shared by women and men	✓
10.4	The project has a clear strategy to ensure benefits are appropriately targeted at identified vulnerable groups (youth, poor, women, disabled people)	✓

Summary of final steps during Previous Phase: Conceptualisation

- Project Concept and proposal approved
- Peer review team has given input
- Project proposal ready for the planning input required during the next phase.

This phase:
Project Planning and Finalisation and approval of Project Plan



Step 1 : Results Oriented Planning : Preparing the Log frame

1. Strategy analysis to identify the scope of the project

This part of step 1 is part of the pre-planning of a project and sometime a challenging and difficult exercise to sift through many options to decide on the best implementation strategy. Often compromises need to be made to ensure that stakeholder interests, political factors and practical constraints (e.g. resource availability) are balanced.

The following criteria are recommended to help determine what should and should not be included in within the scope of the project. This selected implementation strategy helps formulate the first part of the logical framework (Overall objective, purpose and potential results)

- Expected contribution to key policy objectives, such as poverty reduction or economic integration
- Benefits to target groups – including women and men, young and old, disabled and able, etc.
- Complementarity with other ongoing or planned programmes or projects
- Capital and operating cost implications, and local ability to meet recurrent costs
- Financial and economic cost-benefit
- Contribution to institutional capacity building
- Technical feasibility
- Environmental impact

The results of the stakeholder, problem, objectives and strategy analysis (Stage 1- Identification), are used as the basis for preparing the Logical Framework Matrix.

2. The Logical framework in project design

The matrix is a summary of the project design and will include the project Overall Objective, Purpose and Results. Activities, means and costs are excluded and will be described separately within the plan of operation in a Gantt chart format. It is, however, important to clearly link activities to planned results.

3. [5]The Logical Framework for operational design

The **logical Framework** is a process and means of organising information about the project plan in a way to ensure that the project is well planned, complete and logical. The results of the logical framework analysis is summarised in a table called the log frame. The process is iterative, so it is normal to go back and redo certain steps as discussions progress and participatory and usually takes place in a workshop.

The **operation design** describes how inputs and activities will result in outputs delivered by the project and its partners, and how the operation designers believe these outputs will, in turn, result in desired outcomes and impacts.

The logical framework ensures that activities are linked to the impact so that everything that is being done in a project has a **purpose.**

The relationship between each of these levels is described in a logical framework hierarchy for the operation and represents a hypotheses concerning how the operation, starting with the initial resources or inputs that are available, will bring about the desired results. When a results based approach to design is used, the desired outcomes or impacts are identified first, then the outputs needed to achieve those outcomes, and then the inputs and activities needed to deliver those outputs.

The logical framework is particularly useful in the work of Development Agencies to group sets of closely related project results, activities and inputs into project components/programme.

[5] Impact Monitoring Guide, GIZ, El Salvador, 2006/2007; and Results Based Monitoring: Guidelines for Technical Cooperation, GIZ Eschborn 2008

The logical framework approach produces a matrix which combines the concepts of results based management (RBM); results based operation design and M&E.

The table below summarizes the concept of the results chain logic as a planning tool and M&E framework.[6]

[6] See **Impact Monitoring Guide**, GTZ, El Salvador, 2006/2007; and **Results-based Monitoring: Guidelines for Technical Cooperation**, GTZ Eschborn 2008

NT Terminology	Results Chain and impact hypothesis	
Impact (Overall goal)	**Indirect effect**	The broad development impact to which the project contributes – at national or regional level. Represents highly aggregated results (many times, long term effect, or macro-level effects) which can no longer be attributed to the interventions (“attribution gap”). The intended changes in this level are the product of many different factors
	Attribution gap	
Outcome (Project purpose)	**Direct effect**	Represents the set of short and medium term results, directly caused by the intervention of the project, or more precisely, through the good uses of its products and services. In this manner, the direct effect represents the benefits for the beneficiaries (participants) of the project
	Good use of product or service	Describes the manner in which recipients make use of the product. For that, it is necessary that the following questions be answered: Who are the users? How do they use the products? To what extent? What profit do they derive from the use of the product?
	Limit of the environment under management control	
Outputs (Results(	**Products and services**	The direct/tangible results (goods and services) that the project delivers, and which are largely under project management’s control
Activities	**Activities**	The tasks (work programme0 that need to be carried out to deliver the planned results

General Sequence of Completion of the logical framework[7]

Project Description	Indicators	Sources of Verification	Assumptions
Overall Objective			
1	**8**	**9**	
Purpose			
2	**10**	**11**	**7**
Results			
3	**12**	**13**	**6**
Activities			
(optional inclusion into matrix)	**Not included**	**Not Included**	**Optional inclusion**
4			**5**

What the operation will do: What it seeks to achieve	**How performance will be measured**		**Factors outside management control and that may affect project performance**
Logical Framework hierarchy	Performance indicators	Means of verification	Assumptions and risks
Impact = Overall Objective	Impact Indicators		
Outcome = Purpose	Outcome indicators		
Outputs = Results	Output indicators		
Activities			

4. Steps in the preparation of a log frame

[7] EU Project Management

4.1. Review the **project concept, problem analysis and theory of change**

The groups should be prepared to discuss whether the project results will adequately address the problems identified and make adjustments

A typical project will have 3-5 main results. A more complex or multi-location project may have up to 8 main results. If more results have been identified, the project's main results should be simplified.

4.2. **For each result, identify the main outputs and activities necessary to deliver the result.** Results are changes that the development agency is trying to influence, but does not have direct control over. It is important to know if the identified outputs and activities will influence the result.

4.3. **For each result, identify 1-2 indicators which will measure progress towards the result.** A small number of indicators are preferred measuring changes at the level of results, rather than outputs or activities. Repeat this step until 1-2 indicators have been chosen for each project result.

4.4. For each result, identify any **assumptions and risks.**

Assumptions are external factors that have the potential to influence (or determine) the success/sustainability of a project, but lie outside the direct control of project managers. It is part of the vertical logic of the logical framework: Once the activities have been carried out, and if the assumptions at this level hold true, results will be achieved (and same for the next levels)

A **risk i**s a condition under which the project operates which may cause problems for the project's implementation and delivery of results. Serious risks may prevent project implementation and if there is no mitigation strategy, then it is questionable as to whether the right conditions for the project to proceed

3. The main contents of the Logical Framework Matrix

What the operation will do: What it seeks to achieve	How performance will be measured		Factors outside management control and that may affect project performance
Logical Framework hierarchy	**Performance indicators**	**Means of verification**	**Assumptions and risks**
Impact -	**(Impact)**		
The higher objective to which this operation, along with others, is intended to contribute	Indicators (increasingly standardised) to measure programme performance	The programme evaluation system	Risks regarding strategic impact
Outcome	**(Outcomes)**		
The outcome of an operation; The changes in beneficiary behaviours, systems or institutional performance caused by the combined output strategy and key assumptions	Measures that describe the accomplishment of the outcome; the value, benefit and return on the investment	People, events, processes and sources of data for organising the operation's evaluation system	Risks regarding programme level impact
Outputs			
The actual deliverables; what the operation can be held accountable for producing	Output indicators that measure the goods and services finally delivered by the operation	People, events, processes, sources of data- supervision and monitoring system for validating operation design	Risks regarding design effectiveness
Activities	**Inputs/resources**		
The main activity clusters that must	Budget by activity, monetary, physical	People, events, processes, sources	Risks regarding implementation and

be undertaken in order to accomplish the outputs	and human resources required to produce the outputs	of data – monitoring system for validating implementation processes	efficiency

The log frame consists of a matrix with four columns and four (or more) rows, which summarise the key elements of a project namely:

- The project's hierarchy of objectives
- The key external factors critical to the project's success (Assumptions)
- How the project's achievements will be monitored and evaluated (indicators and sources of verification)

Each of the 4 columns in the Logical Framework is described in the table below. The first and fourth columns articulate operation design and assumptions, while the second and third columns outline the M&E performance measurement indicators and means in order to test whether or not the hypothesis description in the operation design holds true.

Column 1	**Column 2**	**Column 3**	**Column 4**
Operation design and assumptions	**M&E performance measurement indicators**	**M&E performance measurement indicators**	**Operation design and assumptions**
This column outlines the design or internal logic of the operation It incorporates - a hierarchy of what the operation will do (inputs, activities and outputs) and - what it will seek to achieve (purpose and goal)	This column outlines how the design will be monitored and evaluated by providing the indicators used to measure whether or not various elements of the operation design has happened as planned.	This column specifies the source(s) of information or the means of verification for assessing the indicators	This column outlines the external assumptions and risks related to each level of the internal design logic that is necessary for the next level up to occur.

4. How to check for the design logic in a logical framework

To check the design logic of the logical framework, review and test the internal and external logic (columns 1 and 4, respectively) and the feasibility of the operation's logical framework.

Test the logic beginning with inputs and move upwards towards the impact using an “if” (internal logic) “and” (external logic) “then” (internal logic at the next level) logic test.
Where necessary, adjust the logical framework to overcome logic flaws or unfeasible/unlikely relationships among various levels of the logical framework hierarchy.

- If we wish to contribute to the **overall objective**, then we must achieve the **purpose**
- If we wish to achieve the **purpose**, then we must deliver the specified **results**
- If we wish to deliver the **results**, then **the specified activities** must be implemented and
- If we wish to implement the **specified activities**, then we must apply identified **inputs/resources**

Specifically check that the following conditions hold:

- Inputs are necessary and sufficient for activities to take place

- Activities are necessary and sufficient for outputs that are of the quality and quantity specified and that will be delivered on time.

- All outputs are necessary, and all outputs plus assumptions at the output level are necessary and sufficient to achieve the outcome.

- The outcome plus assumptions at the outcome level are necessary and sufficient to achieve the impact.

- The impact, outcome, and output statements are not simply restatements, summaries or aggregations of each other, but rather reflect the resulting joint outcome of 1level plus the assumptions at that same level.

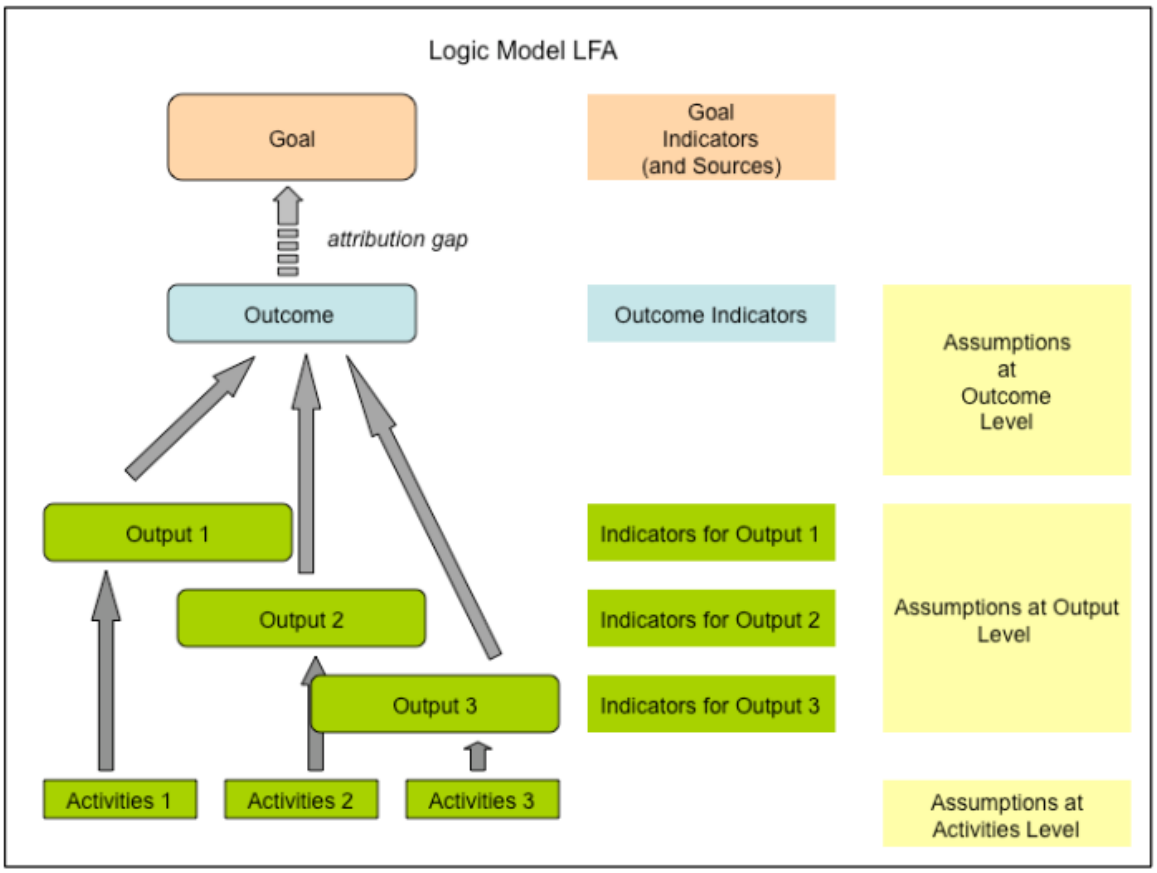
- Each results hierarchy level represents a distinct and separate level, and each logical framework element within a results hierarchy level represents a distinct and separate element.

- The impact, outcome, activities, inputs and assumptions are clearly stated, unambiguous and measurable. Impacts and outcomes are stated positively as the results that the programme wants achieve.

- Outputs are stated positively in terms of service/product delivery.

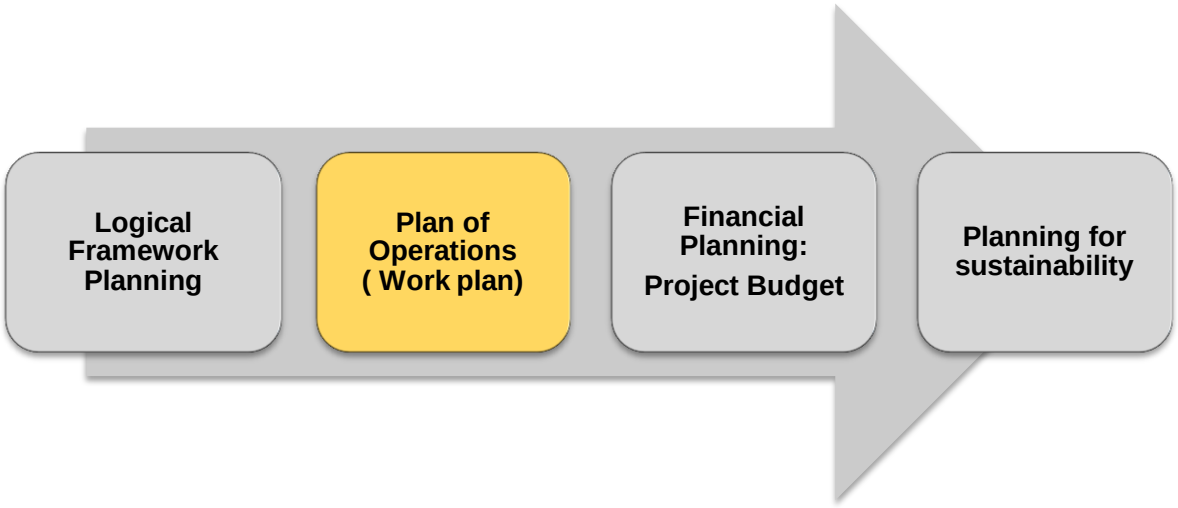
- The assumptions are stated positively as assumptions, rather than risks, and they have a very high probability of coming true.

- The means of verification for each indicator (column 3) are sufficiently documented, stating the source of the data needed to assess the indicator (be sure that sources of secondary data
are in a useable form).



Output from Logical Frame planning

- **Log frame template is complete**
  The operation design describes how inputs and activities will result in outputs delivered by the project and its partners, and
- How these outputs will result in desired outcomes and impacts.
- The logical framework ensures that activities are linked to the impact so that everything that is being done in a project has a purpose.
- **Next step: Developing a results based Monitoring plan**



Step 2: Develop a plan of operations

Activity, resource and cost schedules

1. Purpose of a work plan (activity schedule)

An Activity Schedule is a format for analyzing and graphically presenting project activities. It helps to identify their logical sequence, expected duration, any dependencies that exist between activities, and provides a basis for allocating management responsibility. With the Activity Schedule prepared, further specification of resources and scheduling of costs can be undertaken.

Both Activity and Resource Schedules need to be drafted during the feasibility before implementation. The activity schedule is also important to determine the feasibility of the project - this information feasibility cannot be adequately assessed, particularly in terms of cost-benefit analysis. The level of detail required will depend on the nature and scale of the project, its stage in the project cycle, and expected implementation modalities.

During the planning stage, activity specification should be indicative, as it is usually inappropriate to try and specify too much detail, particularly when project implementation may not commence until a year or more after design work (due to the time it takes to approve financing, conclude a financing agreement and, as required, contract consultants).

Activity Schedules should be clearly linked to the delivery of project results (as specified in the Log frame matrix), as should the resource schedules and budget.

2. [8]Steps in the preparation of an activity schedule

The first year's activities may be specified in more detail (within a week to a month of expected timing) while subsequent years scheduling should be in quarterly or monthly detail. These longer term schedules are estimates that would be revised once implementation starts and should continue to be reviewed and revised during implementation as actual implementation may influence activities in turn.

Step 1 List main activities

The main Activities identified through the Log frame analysis are a summary of what the project must do in order to deliver project results. These can therefore be used as the basis for preparation of the Activity Schedule which helps to specify the likely phasing and duration of key activities.

Step 2 Break activities down into manageable tasks Work Breakdown Structure

- This step may not be appropriate until financing is approved and the project implementation stage has commenced (although it is also part of planning and therefore dealt with it here)
- The purpose of breaking Activities down into sub-activities or tasks is to make them sufficiently simple to be organized and managed easily.
- The technique is to break an Activity down into its component sub-activities, and then to take each sub activity and break it down into its component tasks.
- Each task can then be assigned to an individual, and becomes their short-term goal. The main skill is in getting the level of detail right. The most common mistake is to break the Activities down into too much detail. The breakdown should stop as soon as the planner has sufficient detail to estimate the **time** and **resources** required, and the person responsible for actually doing the work has sufficient instructions on what has to be done.
- This is where individual planning of tasks by project implementers starts.

[8] EU project management guide : Steps in the preparation of a resource schedule

Step 3 Clarify the sequence and dependencies

Once the Activities have been broken down into sufficient detail, they must be related to each other to determine their:

- **Sequence:** in what order should related Activities be undertaken?
- **Dependencies:** is the **Activity** dependent on the start-up or completion of any other Activity? -

Dependencies may also occur between otherwise unrelated **Activities** that will be undertaken by the same person (i.e. the person may not be able to complete both tasks at the same time).

Step 4 Estimate Start-up, Duration and Completion of Activities

Specifying the timing involves making a realistic estimate of the duration of each task, and then building it into the Activity Schedule to establish likely start-up and completion dates. However, it is often not possible to estimate timing with great confidence. To ensure that the estimates are at least realistic, those who have the necessary technical knowledge or experience should be consulted.
The most common problem arising in the preparation of activity schedules is to underestimate the time required. This can happen for a number of reasons:

- Omission of essential Activities and tasks failure to allow sufficiently for interdependence of Activities
- Failure to allow for resource competition (i.e. Scheduling the same person or piece of equipment to do two or more things at once)
- a desire to impress with the promise of rapid results

Step 5 Summarise scheduling of main activities

Having specified the timing of individual tasks that make up the main activities, it is useful to provide an overall summary of the start-up, duration and completion of the main activity itself

Step 6 Define Milestones

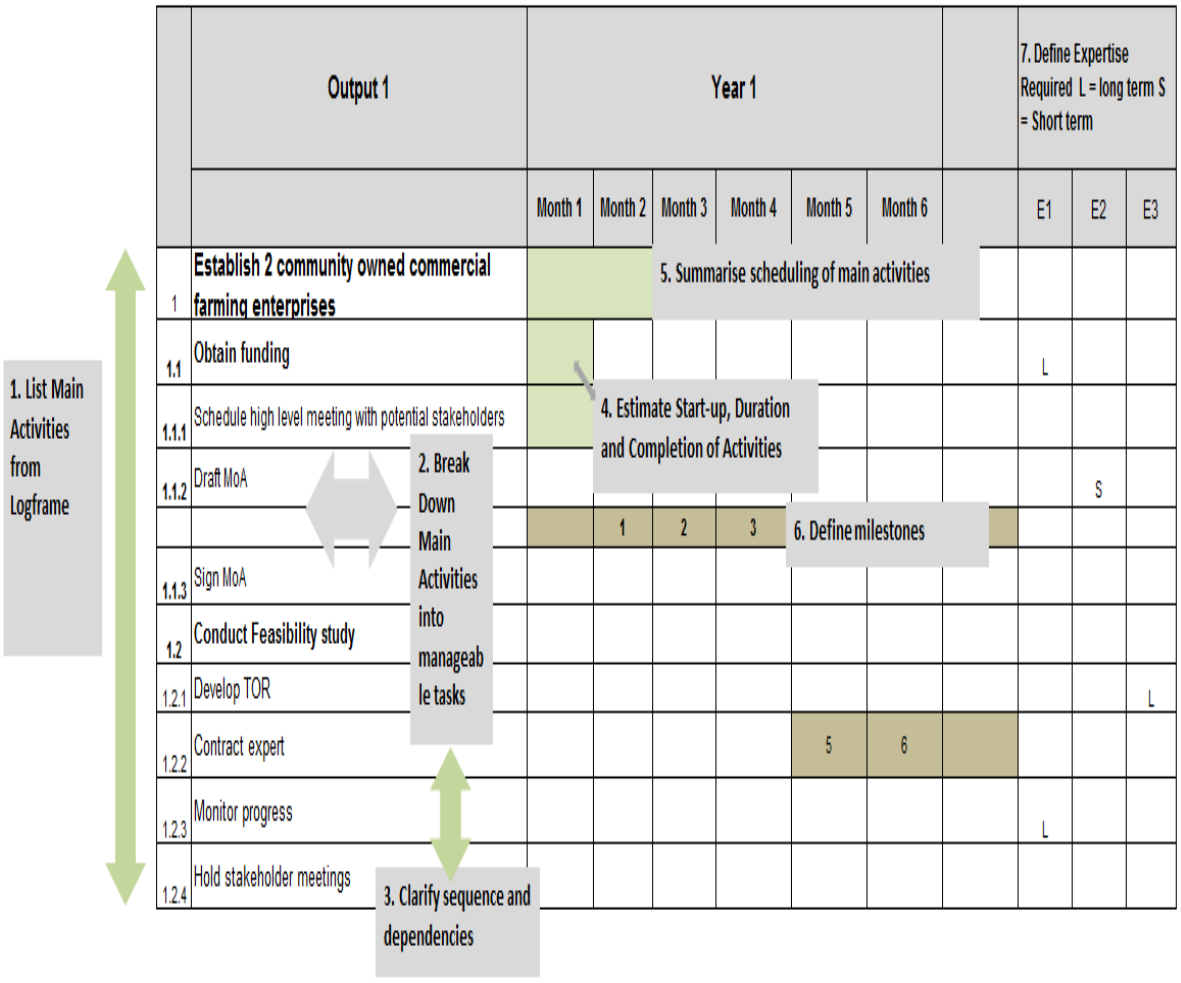
Milestones can provide the basis by which project implementation is monitored and managed. They are key events that provide a measure of progress and a target for the project team to aim at. The simplest milestones are the dates estimated for completion of each Activity – *e.g. project management toolkit completed by 15 November 2014.*

Step 7 – Define Expertise

When the tasks are known, it is possible to specify the type of expertise required. Often the available expertise is known in advance. Nonetheless, this Provides a good opportunity to check whether the action plan is feasible given the human resources available.

Step 8 – Allocate Tasks Amongst Team members

This involves more than just saying who does what. With task allocation comes responsibility for achievement of milestones. In other words, it is a means to define each team member's accountability to the project manager and to other team members. Task allocation should therefore take into account the capability, skills and experience of each member of the team. When delegating tasks to team members, it is important to ensure that they understand what is required of them. If not, the level of detail with which the relevant tasks are specified may have to be increased.
The sheet below illustrates the steps.



An Activity Schedule is also known as a work breakdown structure (in project management terminology)

3. Preparation of a resource and cost schedule

Cost estimates should be based on careful and thorough budgeting. It will have significant influence over the investment decision at project appraisal and subsequently on the smooth implementation of the project if the go-ahead is given. Again, the list of activities should be copied into a resource schedule form. Each activity should then be used as a checklist to ensure that all necessary resources/inputs required under that activity are provided for.

Budgeting of management activities should not be forgotten at this stage.

Once the Activities have been entered into the schedule, the resources necessary to undertake the Activities must be specified. As there will be a need to aggregate or summarise the cost information, the resources should be allocated to agreed cost categories.
For example, in Figure 38 the activity of establishing a Monitoring MIS unit requires Equipment and Salaries and Allowances. *The Units, Quantity Per Period*, and estimated *Unit Cost* should then be specified. If entered on a spreadsheet, *Cost per Period* and *Total Project Cost* can be calculated using simple formulae.

Project costing should allow the allocation of costs between the different funding sources so that each party is clear about their respective contributions. The code for ***Funding Source*** can then be used to sort all costs and to determine respective totals. Those providing funding for the project are likely to have cost codes for each established cost category. By specifying the ***Cost Code*****,** costs can again be sorted to determine total cost by cost category.
It is now possible to ***schedule cost*** per planning period using simple formulae to multiply the annual quantity by the unit cost.

Once ***Total Costs*** have been calculated, it is important to remember that the implementing Development Agency may be required to meet any recurrent costs of maintaining service provision beyond the life of the project. *Recurrent Costs* may be covered (fully or partly) through increased revenue that has been generated through project Activities. Whether or not this is the case, it is important that the net recurrent cost implications of the project are clearly specified so that the future impact on the implementing agency's budget can be determined.

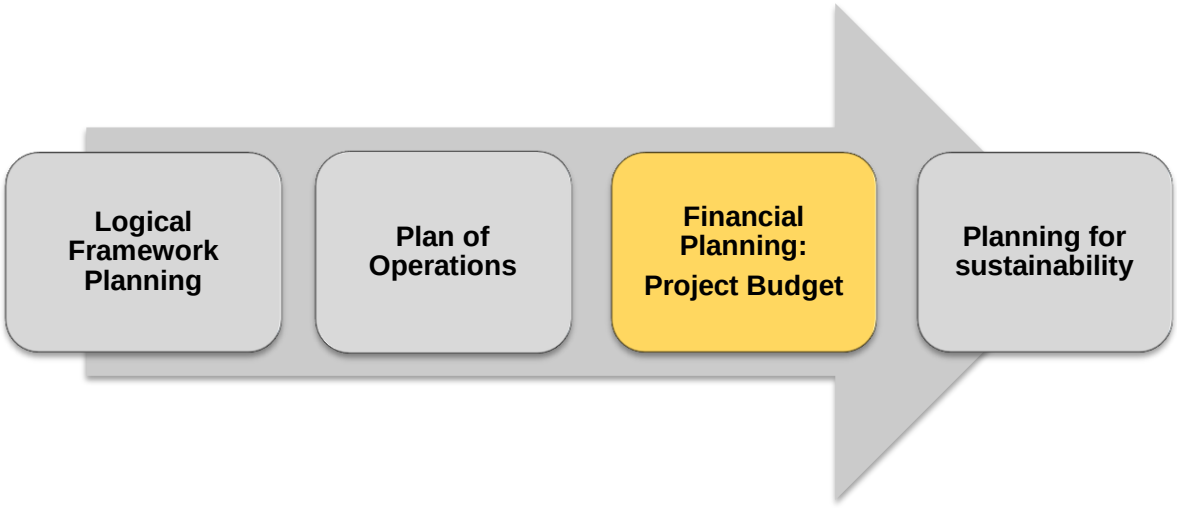
Recurrent costs may be recovered fully or partly through increased revenue that has been generated through project Activities. Whether or not this is the case, it is important that the net recurrent cost implications of the project are clearly specified so that the future impact on the implementing development Agency's budget can be determined.

Budget Template

Template Budget Plan					
Step 1	**Step 2**	**Step 3**	**Step 4**	**Step 5**	**Step 6**
Fill in Budget headings	Specify number of units	Specify unit cost	Specify unit cost per quarters	Specify the totals	Identify funding sources

Budget headings	**Unit**	**Cost per unit**	**Quantity and cost per quarter Year 1**				**Project Totals**	**Funding Sources**	**Recurrent Costs**
			Q1	**Q2**	**Q3**	**A4**			
E.g. - Revenue - Office Cost - Admin - Salaries - Overheads - Professional fees									
Total Revenue									
E.g. - Capital - Building costs - Furniture - Fittings - Land - Other									
Total Capital									
Total Revenue and Capital									

	Funds payment schedule	**Annual budget**	**Annual recurrent cost**
	Step 7	**Step 8**	**Step 9**



Step 3 Project Budget

Overview

This toolkit provides guidelines on how to go about developing and monitoring a budget. It will help you with an overall Organisational budget as well as with a budget for a specific project. It includes tools for estimating costs as well as tips for ensuring that your budgets meet the needs of your project(s)

Budgeting is the key to financial management. The toolkit will help you plan, develop and use budgets effectively. If you have a sound understanding of the principles of budgeting, you will be well on the way to sound financial management. If you use this toolkit in conjunction with other toolkits, as indicated, you will increase the capacity of the organization to manage its finances effectively.

1. What is a budget?

A budget is a financial plan. It is a projection (forecast) of what will happen financially if certain decisions are implemented and actions undertaken over a certain period of time.

A project budget is a prediction of the costs associated with a particular project. These costs include labour, materials and other related expenses. A project is broken down into specific activities, with costs assigned to each activity. The sum of the activity budgets equals the project budget.

2. Why a budget – purpose

Once a budget has been set, it provides a financial framework for the decision making process: Is the proposed course of action something we have planned for or not? Do we have the financial resource to fund the proposed course of action?

The purposes therefore of a budget are to:

- Determine the estimated cost of doing something
- Inform resource allocation decisions
- Assess the financial consequences of alternative scenarios
- Control costs
- Measure performance through the comparison of actual costs against budget
- Enable the measurement of the comparative performance of different projects
- Enforce financial accountability

Once the budget is in place, it enables the actual project performance to be measured against the budget.

3. Roles and responsibilities

3.1. Project Manager

Responsibility	Programme Manager Project Manager
1. Prepare project budgets in accordance with these procedures and also with the reference to other relevant policies and procedures such as the Time Management Policy	
2. Obtain advice and input on budgets from project finance staff	
3. Submit budget proposals to donors/stakeholders	
4. Negotiate budget proposals with donors	

5. Ensure agreed budgets are correctly reflected in donor contracts	
6. Identify and secure co-funding where it is a condition of the donor contract	
7. Develop and agree budgets with implementing partners	
8. Enter budgets into the financial system	
9. Monitor budget performance	
10. Request budget modifications from donors when necessary	

3.2. Finance Department

	Responsibility	Function
1.	Advise on and review budget concepts and proposals	
2.	Review budgets and sign them off as part of the contract clearance procedure	
3.	Ensure budgets have been correctly entered into the finance system	
4.	Develop project budgeting tools and train programme staff on their use	
5.	Provide support to programme staff on all aspects of the budget process	
6.	Monitor budget performance and alert project managers if budgets are not being adhered to	
7.	Prepare interim and final reports for donors with budget comparisons	
8.	Staff/Consultant budgetary issues	

4. Budgeting Principles

- The budget must **reflect the activities to be performed**. The starting point should therefore be to consider the planned project activities and consider all the costs necessary to perform the activities.

- The budget should **reflect the total project lifecycle** and be divided into appropriate time periods (e.g. years) so that it is clear as to when expenditures are planned to be incurred**.**

  It is usual for long-term projects and organisations to prepare a budget which makes projections for several years at a time. While it is usually only the budget for the coming year that is really quite accurate, the projections for the following years gives some indication of the levels of funding that are likely to be needed. Some allowance is usually made for inflation for subsequent years, as well as for the anticipated activities which may differ from the first year. A three-year budget should be based on a three-year plan.

- The budget should be **realistic.** It should be based on a realistic assessment of expected costs. It should neither be inflated nor should costs be underestimated. It should be based on real cost data to the extent possible, e.g. actual staff costs, price lists for standardised goods or services, quotatio3s from suppliers, or past experience.

- The budget should be **comprehensive** in that it should include all costs necessary for the delivery of the project.

- The budget should be **transparent.** The budget should be simple to understand with clear links between the activities to be performed and the associated costs.

- The budget should be built from first principles with unit costs and quantities clearly shown.

- Budget **assumptions should be clearly stated**.

- The budget should be **accurate**. It should not contain arithmetic errors.

- The budget should be **timely,** i.e. developed early on as part of the project planning process to allow for assessing alternative scenarios and to assist in the establishment of a cost effective project plan.

- The budget should be **flexible**, e.g. it should be possible to modify the budget if new information is obtained or project plans are revised.

- The budget should demonstrate **value for money.**

- The budget should be **results based** with clear linkages between costs (inputs) and results

- Contributions in kind (not money, but goods) should be included as a note to the budget Although they are not part of the budget, they reduce budget costs and so should be indicated

Checklist for draft budgets				
This checklist may be used to assess the completeness of either a project concept budget or a project proposal budget.				
Project name				
Total Value				
Staff time : Value and %				
Management Fees/indirect cost %				
1.	Budget	N.A.	Project Manager	Key Partner
1.1	Does the budget match the described scope of work?			
	Does the budget include itemized costs for :			
	Communications			
	Finance support			
	Reporting support			
	Audit			
	Monitoring and Evaluation			
1.2	Is there sufficient provision for staff? Include project administration, legal etc. costs			
1.3	Is there sufficient provision for indirect costs/overheads (This could be covered by a flat fee e.g. % of total budget or shown as direct costs e.g. office, staff etc. or a combination of both methods			
1.3	Is Co-funding planned? If yes, has it been identified			

5. Budgeting Structure and Operational plan

Budgets need to be built following a standard structure that represents a logical breakdown of the work to be performed. The fundamental budget unit is the activity budget. Each project activity should have its own budget, and when consolidated these budgets make up the project budget.

The project budget hierarchy is:

Activity 1	**Expenses**
Activity 2	**Expenses**
Activity n	**Expenses**

The budget structure should also include a link between project activities and component results so that the costs associated with delivering component results can be traced.

Contribution to component result 1 (Outcome)	**X %**
Contribution to component result 2 (Outcome)	**X %**
Contribution to component result 3 (Outcome)	**X %**

Projects that are funded by more than one donor would require a further analysis (who is funding what)

Budget development

5.1. Estimating Costs

The project input (which could include people, information, equipment, skills) mostly have costs attached. These are the costs which would need to be estimated in order to develop a project budget.
The cost estimate helps determine realistically what it will cost to implement the operational plan. The operational plan is the plan of the actual work. In the project planning cycle, the operational planning starts with strategic planning (Goal – how to address a specific problem/need). In order to achieve the goals, a set of activities need to be done to achieve the planned impact. These activities are contained in the operational plan and needs to be budgeted for. A budget is based on what you plan to do. Operational cost will happen when the work is done (direct costs).

Direct costs are costs that can be directly attributed to a project activity. Many direct costs (but by no means all) are costs that would only be incurred if the project goes ahead. However, application of this principle is likely to lead to a too narrow set of costs being defined as direct costs, and although it may be a useful consideration, it is best to apply the principle of attribution as the key determinant of whether something can be budgeted as a direct cost or not.

For example, a person may be recruited for the sole purpose of implementing a project, in which case the costs are clearly direct, but similarly, existing staff may be allocated to a project. Since the time they work on the project can be tracked through time sheets their costs can be directly attributed to the project and treated as a direct cost.

The cost estimation categories are:

Operational costs is the direct costs of doing the work e.g. the cost of hiring a venue, or of printing a publication, or of travelling to the sites where fieldwork needs to take place. Here you would include materials, equipment, transport and services.

Organisational cost is the costs of the Organisational base, including management, administration and governance. Once you have decided on the best Organisational set-up to support your operational plans, you will incur the Organisational expenses on a regular basis – even if you do not carry out your plans or have activity levels as high as planned.

Staffing costs are the costs for your core staff – the people involved in management, the people doing work that cuts across projects. (These costs can be included as a category under "Organisational costs".) These costs include their salaries and any benefits such as medical aid or pension fund payments for which the organisations is responsible. You can "charge staff costs out" to the various projects on which the staff members work.
If your programme manager is going to spend 15% of his/her time providing management support to the head of the same project, then 15% of the time and benefits can also be charged to the project. If someone's time can be directly attributed to a project, it should be budgeted as a direct cost.

The following functions should be considered when budgeting staff time:

- Project staff – i.e. those staff responsible for delivering the bulk of the project activities
- Specialists, e.g. communications, policy, gender

- Project management / coordination
- Time of senior management if they have a specific role to play in the project
- Project monitoring
- Project finance staff (donor reporting)
- Project administration staff
- Legal staff for review of the contract

Capital costs are costs for large "investments" which, while they may be necessary because of a project or projects, will remain Organisational assets even after the projects are over. Vehicles and equipment such as computers and photocopiers fit here. They may be used by all projects, or they might only be required for a specific project. Depending on how you intend to use the equipment, you might budget for it under operational costs or under Organisational costs.

Other costs:

- Costs of workshops, meetings,
- Consultants
- Project specific communications, e.g. publications, website development and maintenance
- Knowledge Management (KM) – capturing outputs and lessons learnt
- Project evaluations
- Project audits
- Project equipment, e.g. computers and licenses, cameras (if purchased for a specific project)
- Project vehicles (if purchased for a specific project)

Overhead expenses

Other costs which can be potentially treated as direct costs:

Depending on the nature and size of a project, it may be possible to treat certain costs as direct costs which would otherwise be treated as indirect cost

Office rent and utilities – where space is dedicated to the management of a project (i.e. the office space used by project staff) the cost of that space may be treated as a direct cost .In such cases the cost of office space and services must be based on a robust and fair cost allocation mechanism used to distribute costs to all projects and activities being carried out by the office concerned. In cases where the office is opened purely for the purpose of implementing a single project all the office costs can be treated as direct costs.
Office costs would be: office rent, utilities (electricity, heating, ventilation), cleaning, security, building maintenance.

Vehicle usage: where vehicles not purchased for the sole purpose of the project are used for project implementation, the cost of the vehicles can be treated as a direct cost on the basis of planned usage (expected number of kilometers). A log book must be maintained and the cost per kilometers determined based on either the cost of purchasing/running/maintaining the vehicle divided by the estimated total kilometers that the vehicle is envisaged to complete over its useful life, or an acceptable local standard rate.

Telephone: where the cost of telephone calls can be tracked by project the cost can be treated as a direct cost.
Photocopies: same principle as telephone costs.

Indirect cost

Indirect costs are those costs that cannot be directly attributed to a project activity.

Categories of indirect costs

	Office rent and utilities (if it is not possible to attribute them to a specific project)
-	office rent
-	utilities (electricity, heating, ventilation)
-	cleaning
-	security
-	building maintenance

	Vehicle and equipment costs
-	Vehicle depreciation and running costs
-	Equipment depreciation and maintenance
-	Implementation, maintenance and operation of central systems (finance, HR etc.)
-	Software licenses
	Communication costs
-	Telephone
-	Internet
	Services
-	Financial services – transaction processing, treasury (not project finance services which should be treated as a direct cost)
-	HR services
-	IT services – help desk
-	Reception
-	Insurance
-	Document management and storage
-	IT Services and infrastructure
	Financial control and oversight
	Tools and frameworks
-	Project cycle management frameworks
-	Risk management
-	Processes and procedures
	Management infrastructure
-	General Management
-	Expert staff
	Corporate
-	Governance
-	Institutional capacity building
-	Corporate communications and branding
	Knowledge management
	IT infrastructure and services
	Project development (if not possible to budget as a separate activity)

	Research and Development
-	Consultation, needs assessment, feasibility studies, planning processes
	Capital Goods and Replacement

Contingency budgeting

When developing a budget there is always an element of uncertainty which need to be taken into consideration. There is always a risk that costs will be higher than budgeted and that some cost have been overlooked. In addition there may be monetary factors such as inflation and exchange rate fluctuations which cannot be foreseen at the time of budget preparation. To cover these risks a contingency should be budgeted. This should not exceed 10%.

Time frame

The time frame of the budget should match the time frame of the project. Expenditure should cover all stages of the project. In particular, cost relating to **Project planning** and development, should be budgeted as a separate activity from Project implementation. **Project closure** costs would include project evaluations, reviews, lessons learnt and knowledge capturing.

6. Budget revisions and modification

A project budget is a living document. The best made plans normally require modification during the course of their execution. A budget is no exception. Modifications may range from just moving figures between lines, or changing the timing of expenditures, to full scale revisions.

From the time of creating a high level budget concept to the time of agreeing a detailed project budget with, a budget may be changed many times. This will be an iterative process which will go hand-in-hand with the development of the project plan. Once a contract has been signed, budget modifications will be governed by the contract.
Large scale projects may include a further development stage after the donor contract has been signed. During this stage, the activities will be further scoped and the project plan and related budget refined.

As project implementation progresses, budget modification may be required to adjust for changes to the project plan or because new or better information becomes available.
There will always be a certain degree of variation between budgeted costs and actual costs. Minor variations will not normally trigger a budget modification. Project contracts normally allow for overspends and underspends on individual budget lines, provided certain limits are not exceeded, e.g. 10%, and provided the total budget is respected.

Budget modifications will be triggered by:

- Changes to the project plan
- A re-appraisal of certain costs or resource requirements
- Variances in actual expenditure incurred compared to budget
- A change in the value of the donation

Budgets may be revised:

- During the budget proposal process
- During the first stage of a project
- During the course of project implementation

7. Budget monitoring

In summary, actual expenditure needs to be monitored on an ongoing basis and compared to budget. Budget variances may be a result of either overspends or underspends
Budget variances may reflect either a timing difference, e.g. expenditure was incurred ahead of the date foreseen, or the fact that actual costs were lower or higher than the budgeted amounts. In all cases the reasons for the budget variances need to be investigated and understood. Budgeting is not an exact science. There will always be variances. The important thing is to understand the reason for the variance and take action to ensure that expenditure is brought under control.

Stages in monitoring a budget

I. **Prepare or receive the information comparing the budget with 'actual'**

A comparison of the budget to 'actual' income and expenditure is normally prepared monthly or quarterly. It is sometimes called a budget and actual statement. The information is usually put together by finance staff and received by those responsible for the budget as soon as possible after the end of the period.

II. Monitor the income and expenditure regularly

Those responsible should identify the difference between each budget and actual income and expenditure items - the variance - and be able to explain the reason(s) for this. It is helpful to focus on the higher differences in percentage variance. If the information is prepared or reviewed by different people, ask them to add notes to the figures to explain the variances. There could be many reasons for a difference between budget and actual, for example:

- An invoice has not been processed for an item already received;
- Timing differences where the actual shows an activity as happening in one month only, but where the budget shows, for example, the total amount divided over twelve months;
- A payment in advance could have been made and included, although the goods or service have not yet been received;
- The budget was incorrectly prepared.

III. Take action

Based on the information, action may need to be taken. There are the following possibilities:

- Take no action if the actual income or expenditure is temporarily incorrect, but will right itself in the next period. Ensure that it does;
- Predict what will happen if the current trend continues for the rest of the budget period;
- Take action to ensure that an income or expenditure item reverts to what was expected in the original budget. It might be necessary, for example, to reduce costs, to cut back on a planned programme, to increase fees and charges or to follow-up on an expected grant that has not been received;

- Consider obtaining permission to 'vire' for under/over budget items. This means that an under spending on one budget item, for example travel, is transferred to an overspending on another budget item, for example salaries, at some point during the year. If virement occurs it will simply 'tidy up' the budget and actual statement. Permission to do this is usually needed from a donor or senior manager. Virement will usually happen no more than once or twice a year;
- Inform people what is needed in order to keep within the budget;
- Monitor the budget and ensure that any action has been effective

8. Cost Benefit Analysis (CBA)[9]

Cost Benefit Analysis information is provided here for Programme and Project Managers as background to the concept. However, it is a specialised field and Development Organisations would normally outsource this to an expert consultant in the field.

Cost Benefit Analysis is an analytical technique used to evaluate and assess the costs of a project relative to its benefits over a given period of time. This analysis assists in determining the suitability of different decisions based on financial data presented in the projects annual financial statements

A Cost-Benefit Analysis is undertaken by first determining the net cash flows of the project (i.e. subtracting the total benefits – all forms of income – from the total costs – all capital and operational expenditure incurred).

Given that the benefits of a project frequently occur only after expenditure is completed, it is necessary to translate both benefits and costs into a present value in order to be compared in a benefit-cost analysis. All of the costs and benefits are also adjusted for inflation. The net present value (NPV) calculation further applies a discount rate to adjust for the reduced value of future Rands. This discount rate is normally set to represent the cost of borrowing money from a private lending institution, after adjusting for inflation. We can distinguish between financial CBA and economic CBA.

Financial analysis looks at costs and benefits with regards to individuals and organisations.

[9] IUCN.org Project Conceptualisation p 27

Economic analysis looks at cost and benefits with regard to the economy (society) as a whole.

- Project development benefits from the early application of economic analysis and therefore development project concepts are expected to present some key elements of CBA.
- Environmental costs and benefits are systematically identified, but may be assessed based on existing information, reviews of relevant literature, stakeholder discussion, expert opinion.

It is not necessary to collect new quantitative data, but desk research and expert opinions should be used to paint as detailed a picture as feasible given available information. Where possible, quantitative estimates of costs and benefits should be provided, but where this is not possible, qualitative data and analysis is acceptable. Preliminary estimates may be refined successively during the development of the project.

The
quantitative terms,
Costs associated with the project should include the following elements:

- Costs associated with proposed project activities and how these costs are distributed across stakeholders
- Investment/capital costs
- Recurrent/operating costs
- The opportunity costs of project activities, i.e. The income that is foregone as a result of choosing to undertake the project activity rather than the most profitable alternative
- Activity
- Environmental costs/externalities associated with damage/degradation to biodiversity and ecosystem services

The description of benefits is likely to be more challenging depending on the types of benefits expected. The degree to which it is possible to quantify and value benefits will depend on how tangible benefits are, whether they are traded in markets and have prices and how well we understand the relationship between the ecosystem, the project interventions and the changes in the provision of ecosystem services attributable to the project. It is helpful to classify the types of benefits we would expect from our Development Agency projects whose aim is to achieve Spatial Economic Development.

9. Terminology

	Meaning	Examples
Accruals	Adjustments made to the actual income and expenditure for items referring to the budget period but not yet received or paid. The adjustment helps to give a 'like with like' comparison with the budget.	Rent is in the budget for 6 months, but is compared with actual rent paid for 4 months only. An accruals adjustment is made to add the extra 2 months' expenditure (which has not yet been paid), to the actual figure for comparison purposes.
Budget and actual statement (Other names are also used for this statement)	Produced regularly (usually monthly or quarterly) to compare the budget from the beginning of the year to date with actual income and expenditure.	A statement is produced after 6 months to compare the budget with 6 months' actual income and expenditure.
Capital budget	A forecast for long term items, such as buildings, vehicles, machinery and the organisation's income to fund it. Prepared separately from the	Three new vehicles are purchased next year and are included in a capital budget. Also included is a grant to fund them provided by a donor partner
Cash budget (Cash flow forecast)	An addition budget showing when the money will come in and go out and the anticipated bank/cash balance at the end of each month.	The cash budget for March indicates that at the end of the month the bank account will be overdrawn.
Limiting factor(s)	The reason(s) why all objectives cannot be fulfilled.	Lack of skilled staff to implement a programme.

Revenue budget	Budget for on-going income and expenditure, covering items such as fees and charges, grants, rent, salaries and travel.	The budget for an organisation's recurring income and expenditure.
Seasonalising (or profiling)	Placing the budgeted income or expenditure item in the month when it will be received or spent rather than dividing the total by, for example, 12 months and putting that amount in each month	Rent paid twelve months in advance in January. The whole amount is placed in January
Variance	The difference between budgeted and actual income or expenditure	If budgeted expenditure for travel is R1000-00 and actual was R400-00 then the variance is R600-00
Virement	Transferring (with permission) an amount from one budget item to another	R5000-00 not needed for training in the current year's budget is transferred (or "vired") to training.

[10]Cost Benefit Analysis	Cost-Benefit Analysis (CBA) is an analytical technique used to evaluate and assess the costs of a project relative to its benefits over a given period of time. This analysis assists in determining the suitability of different decisions based on financial data presented in the projects annual financial statements A Cost-Benefit Analysis is undertaken by first determining the net cash flows of the project (i.e. subtracting the total benefits – all forms of income – from the total costs – all capital and operational expenditure incurred). Given that the benefits of a project frequently occur only after expenditure is completed, it is necessary to translate both benefits and costs into a present value in order to be compared in a benefit-cost analysis. All of the costs and benefits are also adjusted for inflation. The net present value (NPV) calculation further applies a discount rate to adjust for the reduced value of future Rands. This discount rate is normally set to represent the cost of borrowing money from a private lending institution, after adjusting for inflation.

10. Budgeting and Cost Benefits Analysis Acknowledgements:

- Toolkit on Budgeting by Janet Shapiro
- toolkits@civicus.org
- IUCN Project Budgeting Guidelines
- Financial Management for Development, Accounting and finance for the non-specialist in development organisations, John Commack. Oxford.
- Bond publications: Networking for international development Guidance notes series 7
- IUCN Project Conceptualisation
-

11. Additional reading:

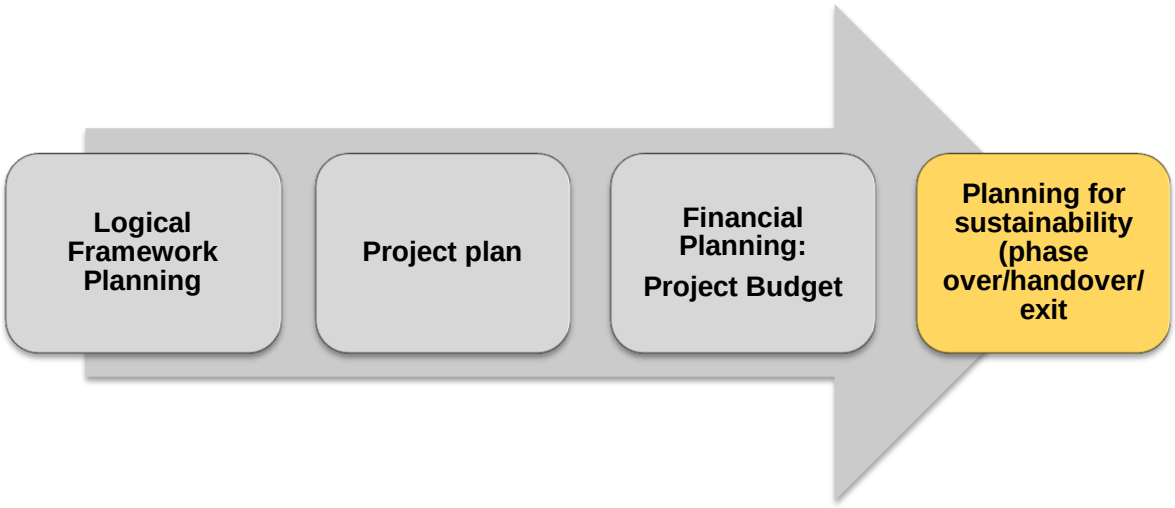
Financial Management for Development, Accounting and finance for the non-specialist in development organisations, John Commack. Oxford.

[10] Aspire Sustainability study

Checklist for draft budgets

This checklist may be used to assess the completeness of either a project concept budget or a project proposal budget.

Project name				
Total Value				
Staff time : Value and %				
Management Fees/indirect cost %				
1.	Budget	N.A.	Project Manager	Key Partner
1.1	Does the budget match the described scope of work?			
	Does the budget include itemized costs for :			
	Communications			
	Finance support			
	Reporting support			
	Audit			
	Monitoring and Evaluation			
1.2	Is there sufficient provision for staff? Include project administration, legal etc. costs			
1.3	Is there sufficient provision for indirect costs/overheads (This could be covered by a flat fee e.g. % of total budget or shown as direct costs e.g. office, staff etc. or a combination of both methods			
1.3	Is Co-funding planned? If yes, has it been identified			



Step 4 [11]Project Sustainability (phase over/handover/exit)

Communication plan

A communication plan facilitates effective and efficient communications with the various audiences having a major stake in the project. It describes how project communications will occur. A good communication plan generally includes the following elements:

- Communication objectives
- Target audiences
- Key content for the communications
- Communication method and frequency

Good two-way communications among all stakeholders is key for the success of the project. Good communication forestalls surprises, prevents duplication of effort, and can help to reveal omissions and misallocation of resources early enough to permit corrections.

Who is Involved

Project Manager
Development Agency
Project Stakeholders

Result

this information is included in a separate section of your project plan often referred to as the “Communication Plan.”

[11] OECD 2012 Promoting pro-poor growth: the role of empowerment

Recommended actions and strategies
The table below lists the steps for developing a project communication plan:

	Focus on the following	Questions to ask
1	Communication objectives	What are you hoping to achieve with your project communications? Look at the objectives established for the project.
2	Target audiences (internal and external) and the makeup of each audience	Who do you want to communicate with? Refer to the roles established for the project. Consider a broad range of stakeholders.
3	Purpose of the communication for each audience	Why are you communicating with them? Think about what your audience would like to know from their perspective - “What’s in it for me?”
4	Key communication messages and the content of the message	What do you want to say? The content should address the reason the audience will be interested in the project.
5	Information sources	Where will you find the information you need to collect for your communications? Some information may be from official sources, and other information will be created as part of the project and stored in the project repository.
6	Frequency of the communication	How often do you want the communication to be delivered? Weekly, bi-weekly, monthly, at the end of a stage, etc.
7	Format and delivery mechanism for the communication	How does the target audience prefer to receive this information? Report, phone, website, meeting, formal presentation, etc.
8	The messenger	Who is the responsible communicator? Who prepares and distributes or presents the communication? Usually the project manager and project Development Agency (“owner”) are the main communicators, but the size of the project may require the assignment of a role of project communicator.
9	Communication milestones and measurements of success	How will you know if your plan is working? - Establish some simple performance indicators and evaluation measures to determine if the communication plan is effective. Example – use of a Meeting Evaluation form after a meeting.

Phasing Out

Empowerment processes function through projects and programmes, building capacity and transforming relationships.
Development Agency's responsibility in phasing out funding and support includes transparency, inclusion, predictability, obligation and sustainability.

Handing over and exiting, also called "phasing over", should be an integral part of project planning, design and implementation. Sustainability must focus on both technical skills and institutional change in relationship[s, strengthening social capital, bargaining power and local government. Development agencies should work with a clear exit strategy from onset and emphasise capacity building of project participants and local partners, as well as look for synergies among projects, governments and funding institutions. The role of Development Agencies in knowledge management and transfer & dissemination of learning is part of the phasing over approach.

During the Sustainability stage, good practice in phasing out is further discussed.