

Budget and Budget Narrative

Objectives

- Partner better understands the procedures for creating the budget and budget narrative documents
- Partner will have a clear understanding on the budget policies and will be more able to talk grantees through the process
- Grantee receives better guidance on how to create a well supported budget that meets their project needs

Course Content

1. What is the Purpose of the Budget?

The grant budget shows what the grantee plans to purchase with ADF funds during the life of the project. The budget would include what items will be purchased, what will be constructed, what training will take place, who will be hired, etc. The budget complements the project work plan by describing which resources will be used to carry out the various project activities.

2. What is the difference between the Budget and Budget Narrative?

- A. Budget- summarizes what purchases will be included in the grant and how much is planned to be spent. It is a one page chart with limited detail.
- B. Budget Narrative- provides greater detail on what specific goods/services will be purchased, breaks down what the budgeted amount will cover, and gives narrative support for the amount budgeted for each purchase. The Budget Narrative should be based on the budget format, but include a paragraph or list of cost breakdown under each item in the budget. It is usually 3-4 pages long.

3. Planning and Creating the Budget

A. Start the Budget Conversation

- Brainstorm with the grantee on what they would like to accomplish with the grant
- For each objective, what items or services would be helpful in reaching those goals
- Consider needs of the organization and the members or employees
- Try to come up with multiple options wherever possible (ex: If the grantee wants to pick up crops from the farmer

members consider buying a truck, hiring a service to pick up the crops for them, providing local drop off stations for the farmers, etc.)

B. Research Options

- Review ADF funding policies and remove any goods/services from the list that are not allowed to be funded by ADF
- Research goods/services on the list to find out what models are available and what technical specifications you will likely need. (i.e. Used or new, processing capacity, etc.)

For more information see: Technology Assessment Course

- Find out how much each item/service will likely cost
 - For any goods/services that have recently been covered by the grantee, review the grantee accounting records to find prices (i.e. salaries, electricity, rent, etc.)
 - If local vendors can provide the goods/services ask for quotes from one or more (i.e. farm inputs, computers, accounting services, etc.)
 - For goods/services less commonly available, the partner should help the grantee find potential vendors, talk to others in the industry and find out their suppliers, or contact local trade groups to see if they have a list of suppliers
 - For large or international purchases, the partner will need



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to help the grantee research potential vendors

- The budget should be based upon accurate and verifiable projections of project costs to be incurred.

C. **Determine the Final Budget**

- Based on the priority of the objectives, the options available, and the cost of goods/services, choose which items are most essential to include in the budget
- To preserve scarce resources, it is important that budgets not exceed the amount necessary to effectively and efficiently execute the project.

D. **Get Supporting Documentation**

- For items above \$3,000 go back and get quotes from more vendors until you have 3 pro-forma quotes

4. **Budget and Budget Narrative Structure**

A. All budgets should be in local currency.

B. ADF budgets have a standard format. To reduce time on reformatting all budgets and narratives should be created using that format.

C. Line Items

Each separate expense type will have a line item.

- designated by a number and a letter (“A.1,” “A.2,” “B.1”, etc)
- Line items are used in the management of the budget to track expenditures and provide both the grantee and ADF with information on the availability and utilization of the funds
- Each line-item must be clearly defined. This is so the grantee, partner, and ADF are all clear about what is covered in the grant. (It is also important so that when an independent auditor reviews the grant, they can determine whether a specific payment made by a grantee is or is not chargeable to that line-item.)
- All large cost items should have their own line item

- Individual services /goods the grantee plans to purchase do not all need their own line item. Lower cost items that contribute to the same event or purpose can be grouped together.

- Including too many items in a line item can lead to miscommunication or poor budget management.
- Having a line item for each item would result in a complicated budget requiring many shifts.
- For example the line item “Office Equipment” may include funds to buy a printer, a computer, and a telephone. Or the line item “Farmer Training” may include all aspects of the event such as hiring a trainer, notebooks and pencils, refreshments, and samples.
- An example of what NOT to do would be to include a vehicle, a desk, and a chair into a line item “Office Needs.” The vehicle is a large cost item that should have its own line item. Also, the vehicle and office furniture meet fundamentally different project needs and should be in separate line items for that reason.

- Line item titles should make it clear what expenses are included in the line item, but not be so specific that it does not allow for minor changes in the particular item to be purchased. The detailed information on the items should be included in the budget narrative instead.
- For example “Office Equipment,” “Truck,” or “Grain Processing Equipment” would be acceptable line items. However, “Training” or “Capital” would be too broad and “4x4 Nissan Pathfinder” would be too narrow.
- When too broad it leaves gaps for miscommunication on which types

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of activities ADF is funding: Does “training” include ADF required training, farmer training, and/or management training? And on what topics? Does “Capital” include all purchases of raw materials and assets? What components are actually covered by the grant?

- When too narrow, even minor changes will require a budget amendment which is a more process heavy grant action. If when the grantee goes to purchase the “4x4 Nissan Pathfinder” they find a better deal on a Ford Explorer would it change the intent or functionality of the purchase? Probably not.

D. Categories

Categories are the major division in the budget. Like line items are grouped together into one category.

- Categories are designated by capital letters beginning with “A”, “B”, “C”, etc
- Each major activity or classification of expenditure should have a separate category. For example a budget may include the categories:
 - A. Facilities
 - B. Working Capital
 - C. Equipment
 - D. Training
 - E. Administrative Support

Another example would be more activity oriented budget such as:

- A. Production Facility
 - B. Demonstration Farm
 - C. Training
 - D. Systems Improvements
- Category titles should make it clear what expenses are included in the category, but not be so specific that more than 5-6 categories are needed in the budget.
- ADF limits the grantee discretion in shifting funds between categories because it is assumed that changing the

balance of funds in a category will impact the ability to meet a project objective.

- Every additional category, consequently limits the grantees discretion in how to spend the grant funds.
- As a general guideline most EEI categories should not exceed \$65,000 unless a cost item is indivisible (such as a large piece of equipment or loan fund). Most EDI categories should not exceed \$30,000.

E. Budget Narrative

The Budget Narrative starts from the categories and line items in the budget and adds additional information under each line item. It is a critical piece of the understanding between grantee, partner, and ADF on what exactly the grant will cover and is the primary reference used by ADFW to reviews DRs.

- It should explain HOW the figures and amounts were calculated
- It is **NOT** the place to explain why the money is being requested-that belongs in the project application
- The research done to make budget decisions can provide most of this information. (See 3.B and 3.D above)
- It should explain what goods/services the money in that line item will be used for and for how long, as well as how that amount was reached
 - It may include formulas (e.g. \$200 per day x 30 days), or reference pro-forma invoices or other information concerning the cost of an item.
- If the line item is for an activity, the narrative should provide a breakdown of costs of what will be included in the activity.
- If the line item includes multiple goods/services, each good/service should be listed with the details of how the item was costed.

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5. General Budget Policies

A. Budget Limitations

- EEI grants have a maximum budget of \$250,000
- EDI grants have a maximum budget of \$100,000
- ADF uses Oanda.com to convert local currency budgets to US dollars on the date that the grant is submitted to Business Operations. Since the project development and review process takes months from start to finish, it is best to submit a budget less than the maximum to allow for exchange rate variances. This also prevents having to go back to the grantee late in the project to reduce their budget because it is over the maximum.

B. EDI Limit on “Capital Expenses”

Because the EDI is a capacity building grant and not a small EEI, there is a limit on the portion of the budget that can be used for production related expenses.

- Production related expenses cannot exceed \$25,000 for EDIs. ADF refers to this as the limit on “capital expenses” or “working capital expenses.”
- Recognizing that many capacity building changes require some inputs that would fall into a more typical definition of “working capital,” the definition of “working capital” can be a gray area. Consequently each budget is reviewed in context to ensure it complies with the policy.

(1) Items that are always counted as “working capital” include:

- (a) Office Furniture for existing staff
- (b) Operating costs already covered by the grantee
- (c) Raw materials
- (d) Production equipment
- (e) Vehicles

(2) Items that are borderline but are often excluded from “working capital” include:

(a) New services such as internet or electricity that the grantee is not already covering

(3) Items that are never counted as “working capital” include:

- (a) Training
- (b) Salaries for new staff hired to build capacity
- (c) Computers
- (d) Accounting software
- (e) Business Process Technical Assistance
- (f) Business or Marketing Plan

- Construction or building improvements are not funded in an EDI because EDIs are focused on improving skills and systems not increasing capital assets.

C. Options For Items that Don’t Fit in the Budget

If an item does not fit into the budget but is necessary for the project to be successful, the grantee and ADF can share the costs. Any cost sharing should be clearly noted in the budget narrative and in the application section on grantee contributions to the project. This is commonly done for:

(1) Salaries

- If a grantee intends to hire a new employee for a longer period of time than the grant budget will provide for, ADF funds can be used to pay salaries for a few years and the grantee can take over the expenses after that
- If the grantee wants to hire two positions and the budget only has funds to cover one, the grant can cover a percentage of each of the salaries each month and the grantee can cover the remainder.

(2) Construction

- If the costs of construction are too high to be covered in the budget, the budget narrative can be used to detail how ADF and the grantee will split the costs

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- It is also common practice to have the grantee commit to cover any construction cost overruns that may come up.
6. **Tips from the Experts**
- In cases where EDI applicants do not have any audited financials, it may be a good idea to include funds for an organizational audit so they will be more prepared for an EEI (not just an audit of ADF funds).
 - It is often a good idea to aim for a budget \$10,000-\$15,000 below the maximum, so that if challenges arise late in the project there is room to amend the budget and add funds to address the problem.
 - Double check for consistency and correct calculations. Avoid repeating numbers so if they change you do not have to fix them in several places

Handouts

Sample Budget

Sample Budget Narrative

Budget and Budget Narrative Course Notes