

How to develop a Project Budget for Funding Proposals

Through working with NGOs and social enterprises, I've noticed that those organizations that routinely get the full funds for their projects, can use a variety of methods to develop budgets for their funding proposals. This helps them avert future cash flow problems. Here are four methods I've seen used by organizations in South Africa.

Organization-based budgeting

You present your donors with a **portion of all the costs that are relevant to the proposed project**. This may take the form of a percentage of each line item or type of cost that the project requires.

Your donors will then choose, or enter negotiations around, the line items, and the proportion of these line items, that they want to fund.

Skilled fundraisers are able to focus the conversation on how the project will achieve its impact and how all the proposed costs are necessary to do this.

This is the most common method I've seen used by organizations in South Africa.

Output-unit budgeting

You identify **the key outputs** of the proposed project. Outputs are the immediate result of the activity of an organization.

Then you calculate the **'full cost'** or 'true cost' to achieve these outputs. This includes hidden costs such as depreciation and financial charges.

The next step is to divide the true costs of a project by these key outputs. This will result in a **unit cost**.

Finally, **consider whether it is appropriate to add a profit margin** or surplus onto your unit cost. This all results in a unit price. This included surplus can help to build reserves and subsidize the costs of other activities.

Outcomes-based budgeting

This method is similar to output-unit budgeting method, but you focus **on outcomes** instead of outputs. **Outcomes are positive and intended changes in the world that are directly caused by the organization**. I believe this is the best measure of how effective an organization is.

This is **the most complex of the costing methods**. It takes a lot of time and effort to identify and cost an outcome that is meaningful and within your organization's ability to achieve.

You also need to demonstrate that **any positive changes in this outcome are primarily as a result your work** and not external influences.

Activity-based budgeting

This method involves calculating a **charge-out rate** for each employee who is **directly involved** in the project. Non-profit organizations tend to multiply this rate by a factor of x3 or x4.

Your project budget will **only include two types of costs**. The first is the time allocation and charge-out rates of employees who are directly involved in the project. The second are the direct costs paid to external suppliers (or even beneficiaries in the case of costs like stipends). It is best to leave out indirect costs since these are absorbed by the former.

This will result in a more **action-oriented budget** which aligns with project activities.

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