



# Project Management for Development Organizations

Doing the Right Projects,  
Doing the Projects Right

## The Project Budget

A project budget is the total sum of money allocated for the particular purpose of the project for a specific period of time. The goal of budget management is to control project costs within the approved budget and deliver the expected project goals.

Our definition of a successful project is one that meets four success criteria: that the project's scope is delivered on schedule, it is delivered within budget and, once delivered, it meets the quality expectations of the donor and beneficiaries. For project managers to be truly successful they must concentrate on meeting all of those criteria.

Budgeting serves as a control mechanism where actual costs can be compared with and measured against the budget. The budget is often a fairly set parameter in the execution of the project. When a schedule begins to slip, cost is proportionally affected. When project costs begin to escalate, the project manager should revisit the Project Plan to determine whether scope, budget, or schedule needs adjusting.

To develop the budget, the applicable cost factors associated with project tasks are identified. The development of costs for each task

should be simple and direct and consist of labor, material, and other direct costs. The cost of performing a task is directly related to the personnel assigned to the task, the duration of the task, and the cost of any non-labor items required by the task.

## Estimating the Budget

The project manager is responsible to estimate the budget required to complete project activities. The Project Manager should allocate all costs to project activities, and all aspects of the project, including the cost of internal and external human resources, equipment, travel, materials and supplies, should be incorporated. The budget should be much more detailed and more accurate than it was on the project proposal. In the case the project manager starts her job with a contracted budget, the project manager needs to review the assumptions made during the project proposal stage and verify that the agreed scope can be accomplished in the contract budget.

The Project Manager can use manual or automated tools to generate the budget estimate. The budgeting tools may be simple spreadsheets or complex budget estimating tool. For historical purposes, and to enable

Project Budgeting is performed at the initial stages of project planning and usually in parallel with the development of the project schedule. The steps associated with budgeting are highly dependent on both the estimated lengths of tasks and the resources assigned to the project.

the budget to be refined, the Project Manager should always maintain notes on how this budget was derived. Cost estimating checklists help to ensure that all preliminary budgeting information is known and all bases are covered. The Project Manager must also include in the budget the cost of both the human resources and the equipment and materials required to perform the work. The method by which staff and products will be acquired for the project will directly affect the budgeting process.

A number of constraints, financial, political, and organizational, may dictate the methods by which resources such as personnel, equipment, services and materials are acquired. The Project Manager needs to be aware of existing resources acquisition policies, guidelines, and procedures. In addition, the preferences of the beneficiaries and/or the donor representatives may influence acquisition decisions. Information from similar past projects can be used to gain an understanding of budgeting strategies; those that were successful and applicable may be considered for implementation on the current project.

Once all project requirements have been documented, the next step is to determine the costs of each requirement which will result in the creation of the project budget. A cost estimate, which is the process to approximate the costs that the project will spend to get or use the project resources

Budget estimates are obtained from the people responsible for managing the work efforts. They provide the required expertise to make the estimate and provide buy-in and accountability during the actual performance of the activities. The team members identify people or labor categories required to perform the work and multiply the cost of the labor by the number of hours or days required to complete the task, as discussed in schedule management. Determining how long the task performance takes is the single most difficult part of deriving a cost estimate. The labor costs should factor in vacation time, sick leave, breaks, meetings, and other day-to-day activities. Not including these factors jeopardizes both schedule and cost estimates. Non-labor charges include such items as material costs, travel, computer equipment, and vehicle costs.

As with developing a project schedule, documenting assumptions made while developing the project budget are critical to the success of the project. Without a clear documentation of these assumptions, tracking the budget is not only difficult but risky.

The projects' Work Break-down Structure (WBS), scope statement, historical information, resource information, and policies are inputs used to determine the resources for the project. The main output is a list of resources requirements that provides the basis for budget estimating and budget controls, and provide valuable information to the project resource management process.

## Estimating Techniques

There are four basic methods to estimate a budget: analogous, top-down, bottom-up and parametric estimating.

Analogous, this estimate technique uses the actual costs of a previous, similar project for the basis for estimating the costs of the current project. This method is generally less costly than others, takes less time but is less accurate. Analogous estimates are most reliable when a previous project is similar in the objectives and activities to the current

one. Additionally the people preparing the estimates must have the required expertise to determine if certain activities will be more or less expensive on the new project.

- Top-down estimate, it is a budget estimate when the total project budget is known and the project needs to know the costs of each individual activity, in this scenario the project determines the number of activities or outputs the project can produce with a given budget. A fixed budget is broken down using the WBS to determine the number or quantity of activities that can be achieved with the budget. The project may decide to reduce or increase certain activities or reduce the number of WBS levels to fit the budget limitations. Top down uses actual budgets from activities in similar past projects.
- Bottom Up estimate requires estimating the individual activities and the cost of each input and adding them up to get the project total. A detailed WBS is needed to determine all the activities in the project and determine all required resources such as personnel, equipment and materials. Staff responsible for an activity or with expertise in a specific area develop the estimates of the lowest level of the WBS and all estimates are added to create estimates for each higher level of the WBS and finally for the entire project. In this technique the estimate starts with a fixed number of activities and the estimate calculates the total budget.

Parametric estimates use standardized parameters that define the costs of an activity or task for a specific rate or output. For example the costs of training one person are a rate that can include people, material and equipment costs that once it is multiplied for the required number of people that need to be trained, gives the total budget for the activity. For this example the parameter may include the type of location, length of the training. Parametric model is quite popular in construction projects, costs can be estimated based on square meters of construction to arrive at the total cost for a building. The accuracy of this method depends on the data available and whether or not the model can be scalable to different conditions.

## Budget Control

Monitoring and controlling the project budget ensures that only the appropriate project changes are included in the budget baseline, that information about authorized changes are communicated and corrective actions are taken by those in charge. The action of budget control is also a process of managing the budget.

*Controlling the budget is a critical responsibility of the project manager, and it is equally important that the organization defines the roles and responsibilities of all parties involved in budget control.*

Usually the finance department's responsibility is to record, track and monitor the budget from a cost accounting perspective and generates reports for the organization management and the donor as part of compliance requirements such as ensuring the correct accounts are properly used and recorded.

Budget management is the process by which costs or expenses incurred on the project are formally identified, approved and paid. Purchase order forms are completed for each set of related project expenses such as consulting services, equipment and material costs. Depending on the authorization level the purchase order forms are approved by the project manager and recorded by the finance unit for tracking, donor reporting and auditing purposes.

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These series of articles focuses on concepts and practices related to development projects. It is our hope that the ideas and methodologies presented here prove useful to anyone who is engaged in managing projects in the broader development community, and helps bring sustainable benefits to the communities and beneficiaries who need it the most.

The Millennium Development Goals aim by 2015 to reverse the grinding poverty, hunger and disease affecting billions of people.

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