

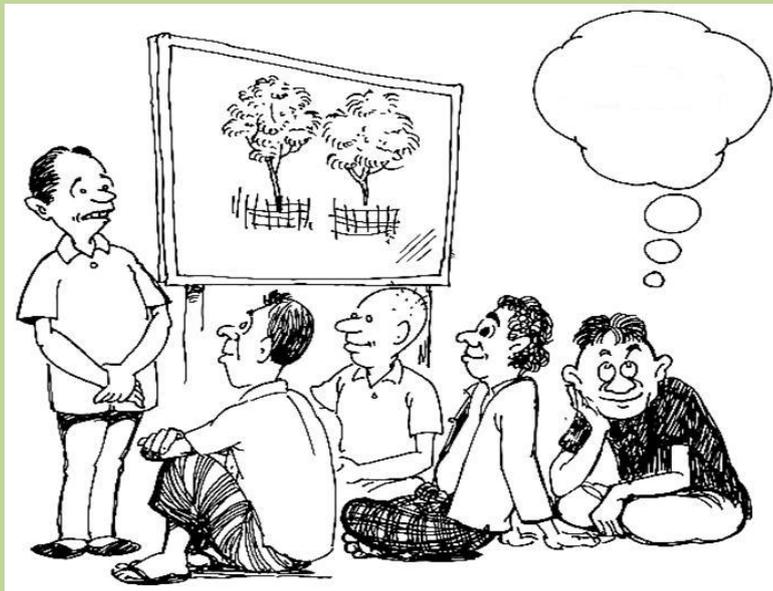
Financial Planning

Module



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Overview

Financial Planning module is about:

- how to develop a budget,
- how to obtain funding.

As you work your way through this module try to think about how this information relates to your own community.

Why we need financial planning?

When anyone decides to start a business they need to decide whether the business will be able to pay its bills, such as the telephone bill, the electricity bill and wages for the people who work there. To pay the bills, the business must get money from somewhere. Many businesses get the money they need to pay their bills by selling products. Other businesses and organisations get money from doing things for other people, like repairing cars, cutting your hair, looking after your health, helping people to learn etc.

A business that does something for you is called a **service business** and a community programme that does something for people is called a **service programme**. And we say the programme provides a service.

Examples of service programmes include:

- a tree planting programme
- a translation centre
- a training programme
- a community housing programme
- a community dental health programme
- a student hostel
- a child-care centre

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Nowadays, there is also increasing recognition of programmes that are half-way in between, i.e. providing a community service, but operating as a business. This mixed or hybrid model is often called **social enterprise**. Social enterprise actually takes many forms: it maybe a privately owned business that measures its success not only in terms of its profitability, but also its benefit to the community. Or it may be a business that is owned by the community and benefits the community by generating profit to be used for the benefit of the community. Or it may be a service business, operated by a community organization, and that tries to generate income rather than depend on grants.

Whatever the form of the business or service, they all require money to cover their costs. Where will it come from? That is one part of financial planning. What exactly will it be used for, i.e. developing the operating budget for the period ahead, that is the other part of financial planning.

How to Use the Module?

This module is arranged as a series of "**topics**", i.e. like chapters of a book. In each topic, you will find:

- Learning content for you to study
- Self testing activities with answers provided
- Reflection activities designed to help you to reflect (i.e. to think by yourself) how the content of the module relates to your own experience.

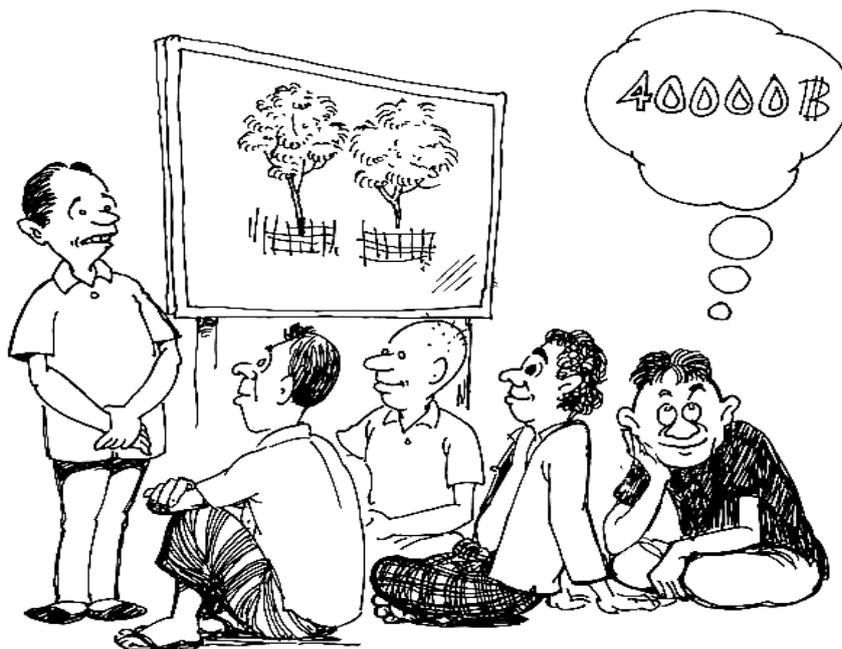
Topic 1 - Sources of Finance and Budget Cycles

Sources of finance

When people decide to start a business they often need to get money **before** they can start to sell or provide a service.

E.g.: if you decided to open a shop you would need to buy things before you started selling goods in your shop. You may need to buy building materials to build the shop or to renovate it and you may need to buy containers, scales, bags etc.

Similarly, to start a service programme you must have funding **before** the programme can operate.



Reflection activity 1.1

Think about your own community. Can you think of three service programmes operating in your community or that you have some personal knowledge of.



Self testing activity 1.1

Explain where you think you could get money from, if you wanted to open a shop in your local community.

Funding sources

There are a number of places you can usually go to get money to fund a community programme. Unfortunately it is often difficult to convince people to give you the money you need to start the programme. You must be well prepared with facts about the programme, including programme goals or objectives and justification (why the programme is needed by the community and what community needs the programme will meet) and the expected outcomes. You need to show that you have done the necessary preparation including financial planning.

Grants

Money obtained from government and non-government organisations (ngos) for running a community project is usually called a **grant**. This money is very useful for a community service programme because it does not have to be re-paid. There are, however, usually lots of rules that must be followed. We will talk more about this later.

In this module we will focus on non-government sources of funding for community projects. However, first of all, here is a brief summary of the situation regarding government and foreign government funding.

Government grants

In many countries it is often possible for community organisations to get funding from various government departments and agencies, to run community projects. Countries have different types of governments and therefore different systems of operation – you would need to find out whether there is a system in your country for getting government grants for community projects.

Foreign government grants

Many countries have foreign aid or assistance programmes. These programmes are run in different ways, sometimes through the Department of Foreign Affairs, sometimes by a special agency, e.g. DFID (the UK agency) AusAID (the Australian aid agency), USAID (the American aid agency), CIDA (Canada), DANIDA (Denmark) etc.

Sometimes these kinds of foreign assistance programmes take the form of assistance from one government to another government, but sometimes it is possible for a government aid agency to provide assistance directly to community projects in another country.

In order to find out which foreign governments are able to provide

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assistance for a community project, it is probably best to make an inquiry to the various embassies, which you know have foreign assistance programmes. The embassies would be able to tell you whether their foreign assistance can be made available to community projects and if so, what procedure you must follow in order to apply for funding.

Information of this kind is usually well known among managers of NGOs. It is also worth noting that in some cases the embassies themselves, through the Ambassador, sometimes have the power to provide funds to assist small projects in communities which are experiencing problems usually because of natural disasters.

International organizations

These are organisations which are run by governments of many countries together. The most important ones are the UN or United Nations Agencies. Many of these agencies also provide funds for community programmes e.g. the UN Development Programmes (UNDP), but more often the funding is provided to national governments or in partnership with national governments to carry out the community programmes. So these agencies, usually referred to as international agencies, are a potential source of funding, but not easy to access directly by community organisations.



Reflection activity 1.2

Think about your own country. Can you think of three organizations that provide grants to community service organizations and projects or that you have some personal knowledge of?

Non-government organisations

Non-governmental organisations grew out of the old practice common in most countries of groups of people assisting people in need. NGOs are groups of private individuals who organise themselves to work for the good of the community in various ways which they believe are good and useful. NGOs are non-government organisations which are involved in many different kinds of activities such as education, health, as well as providing direct 'relief' to those in need in a time of crisis.

Many NGOs raise funds directly from public donations as well as actually providing services to the public. Some provide services and submit proposals for funding to other funding agencies. Some NGOs are mainly funding agencies. An NGO can be small or large, funded by one or a few rich people or supported by the small donations of many. Many NGOs state that they do not get involved in politics and work with people regardless of ethnicity, sex or religion.

Most countries have many NGOs which are based inside the country and which provide community services.

In most countries, there will be many kinds of NGOs: NGOs which work only in that country and are run by the nationals of that country as well

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as international NGOs that have a branch working in the country and which employ foreigners as well as local staff.

National NGOs are often referred to as 'indigenous' or local NGOs. To make clear when we are talking about local NGOs as distinct from international NGOs, we often use the terms LNGOs (local) and INGOs (international). NGOs concentrate mainly on assisting local people in need. The projects they carry out reflect the priorities of their own management, the priorities of the countries and the communities they work in as well as the priorities of funders. Projects might include agricultural development, community development and health services etc. NGOs also often carry out awareness campaigns on social problems such as drug abuse, child prostitution, trafficking, HIV-AIDS etc.

There are very few local NGOs in Myanmar with enough funds of their own to be able to support projects; therefore, for LNGOs, international NGOs (INGOs) can be a very important source of funds for projects carried out in and by Myanmar communities.

International NGOs are usually larger, have access to larger funds (from their home country donors and governments) and some conduct very large programmes in many countries.



Reflection activity 1.3

Think again about your own community. Can you think of three Myanmar NGOs and three INGOs operating in your community or that you have some personal knowledge of.

Different kinds of NGOs

Community Service clubs

Service clubs include organisations such as Rotary or Lions. Their members are usually local business people and the clubs are social clubs, which also collect money to provide community facilities such as recreation equipment in the local community. Although these clubs were originally established in the USA, many have branches in other countries. Many foreigners (e.g. Americans or Australians), visiting different countries and who are interested in assisting local communities may be members of a service club and might be able to help persuade their club to help with funding for a project.

Trusts and foundations

Trusts and foundations are usually set up to carry out some particular kind of community work, sometime by wealthy individuals, sometimes by companies, sometimes with money that has been collected from the public for specific purposes. Sometimes they collect works of art and provide exhibitions and museums for the public. Sometimes Trust Funds are established to support cultural activities such as music; drama etc and sometimes they support scientific research activities. Sometimes governments also contribute to the establishment of trust funds and foundations.

Examples of large trusts and foundations are the Ford Foundation, the Rockefeller Foundation and the Soros Foundation in the USA, the Max Bell Foundation in Canada, the Mitsubishi, Honda and Toyota Foundations in Japan, the Tata Foundation in India, the Kuwait Fund etc.

Some trusts and foundations work within a single country, but many,

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such as the Ford Foundation and the Soros Foundation have programmes in many countries.

Some work primarily in connection with a single issue, e.g. The World Wildlife Fund, Greenpeace. Others, such as the Soros Foundation have many different programmes with different activities or concerned with different issues.

Non-religious charitable organisations

Probably the most famous non-religious charitable organisation is the Red Cross. Another is the Save the Children Fund.

Religious charitable organisations

There are an enormous number of religious organisations which are set up to do charitable work. Again some work primarily in the country where they were established, but some are very large and work internationally.

Examples of religious charitable organisations which work internationally are Church World Service, Baptist World Alliance, the Mennonite Central Committee, and the American Friends Service Committee.

International Relief and Development Agencies

There are a large number of international NGOs which focus on international emergency relief and community development work.

Some have direct connections with religious organisations, e.g. Dutch Inter-church Aid, Norwegian Church Aid, some have no religious connections. Examples are Care International and OXFAM.

In some cases these large international organisations have many independent branches in different countries, e.g. OXFAM (UK), OXFAM (Canada) which each have their own separate projects in many countries.

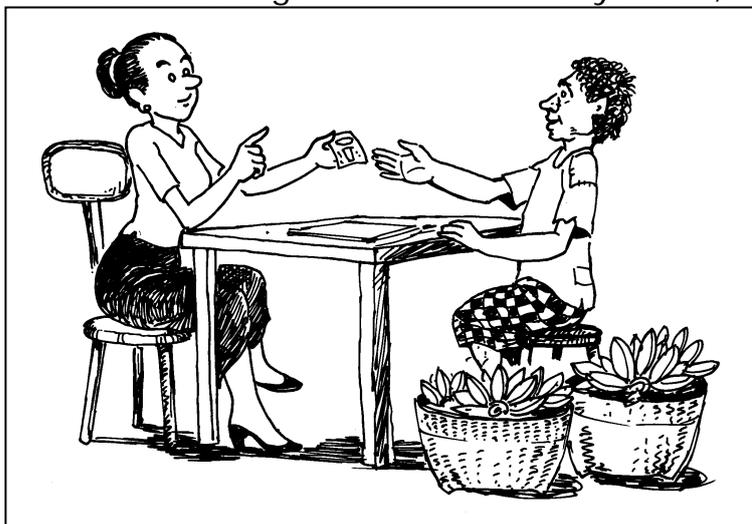
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There are a large number of international NGOs which specialise in providing emergency medical relief services and which may also support community health projects. Examples are Medecins Sans Frontieres (MSF), Aide Medicale Internationale (AMI).

There are also large international NGOs which focus on assistance to people in need, for example, the International Rescue Committee (IRC) and CAFOD (the Catholic Fund for Overseas Development).

Companies and corporations

Companies and corporations are business organizations. In many cases, though their business is manufacturing or trading etc for profit, companies and corporations can be a source of funding for community projects because they may see it as good for the company's public image.



In fact many companies establish or support trusts and foundations which do work for the good of the community precisely because that is good for public relations.

Money might be received as sponsorship from a company, but the company may need to be convinced that the sponsorship will help to give them a better corporate (business) image or will help to make sales that they would not otherwise make. Also, you are likely to find that there are many organisations trying to get sponsorship or support from corporations, so the competition will be very strong. Companies that do business in your community may be the most likely to be interested in providing funds for your community projects.



Self testing activity 1.2

List as many potential funding sources as you can for a proposed programme in your community to provide care for orphans.

Fundraising activities

Apart from external sources, your programme management team can sometimes use fundraising activities within the community and directly appeal to the public to make donations.



Reflection activity 1.4

Think again about your own community. What kinds of community fundraising activities are conducted to raise funds for community services or welfare activities?

Loans from banks and other financial institutions

These of course are also a possible source of funding – in the form of

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loans. The biggest problem with loans is that the money you get must be paid back with interest added. This may not be too much of a problem if the programme produces more money through sales or fees than it spends on paying bills.

E.g.: A community-owned store might make enough profit after the first year or two to pay back a loan.

However, a training programme or a tree-planting programme would be unlikely to be able to generate money to pay back a loan.

Organisations with a Cambodia focus

A number of international foundations have programmes through which they may be able to provide funds in support of projects run in or by Cambodia communities. As well, various organisations, some large, some small, have a particular interest in assisting Cambodia organisations and communities.

Examples are

- World Vision
- The Hope International Development Foundation
- World Concern International
- Swiss Aid International

In some cases, various INGOs in one country have established coordinating organisations through which to manage their work in that country.

A small number of INGOs raise funds for projects in particular countries including Cambodia, e.g. the UK-based World Vision. Some NGOs have developed a system where they themselves make submissions for funding to larger donor organisations and allocate these funds to small projects run in and by Cambodia communities (which may not have the experience to submit an effective application to a large organisation).



Reflection activity 1.5

Think again about your own community. Do you know of any NGOs or community organisations that have applied for funding from international funding agencies or INGOs?

Applying for funds

When applying for funds, be prepared to apply to many different funding sources. Remember, however, that most organisations providing funding provide grants for specific purposes. You need to find out which funding organisations are most likely to be interested in funding your kind of project. (This is dealt with also in the module 'Submission Writing'.)

Budget cycles

The word **budget** is used a lot these days. People are told to budget their money if they find it hard to pay the bills. Why? Because a budget helps us to understand where our money is coming from, what we are spending the money on and where the money is going.

A budget is a plan for managing finances, which outlines money coming in (income), and money going out (expenditure). Using a budget you can identify sources of income and expenditure which enables you to keep a check on your financial situation.

Just like businesses, government and non-government organisations have to develop budgets so that they don't waste the money they have. There

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are many things that governments want to spend money on, such as education and health, roads and welfare. However, in order to spend money, they also have to raise money e.g. through taxation.

Governments develop budgets so that they know how much they will have to get and how much they can spend. Of course, how much money they raise from what sources and how much they spend on each programme is a government decision. Budgets are an essential part of government.

Budgets are just as important to NGOs and serve exactly the same function, to allocate their funds effectively and keep track of their actual spending so that their spending matches their income.

The budget process, which begins with planning how money is to be raised, allocated and spent, is called the **budget cycle**.

In the second part of this topic we look at an example of a budget cycle in order to demonstrate how you need to think about your own financial planning and how it is necessary, if you are looking for grants funds from a donor organisation, to understand also how the donor's budget cycle works.



Self testing activity 1.3

Explain why it may be important for a community organisation to understand the budget cycles of different funding organisations.

A budget cycle

All organisations will carry out their budget process in ways which suit them. Non-government organisations all have their own distinct ways of budgeting reflecting where their money comes from and how they spend it. Government budget processes are extremely difficult to understand, but most governments follow more or less the same steps, though the timing will vary. As an example of the budget process we will look at a government budget cycle.

The budget period for our case study is from July 1st of one year to June 30th of the following year – **the financial year**. That is why you will often hear people talking about the 2009-2010 budget period or 2011-2012 financial year, because it is a period from July 1 of one year to June 30 the next year. (The period from the 1st January to 31st December is the **calendar year**.) Some organisations use a financial year which is the same as the calendar year. Some use a financial year which is convenient to them, e.g. beginning 1st April, ending 30th March.

The planning for our case study government department budget (financial year July to June) starts in December.

This is when the government departments start putting together their submissions (i.e. how much money they want to be given to spend on various things) for the following financial year starting in July. These submissions go before the Expenditure Revenue Committee of Cabinet (ERC) from mid February to mid April. When a department's submission is looked at by the ERC, the minister and the head of the department must convince the members of the ERC to allocate them the requested amount of money. The ERC hears all the submissions from all the departments and then makes decisions about how much money each department will get. This is the process of allocation.

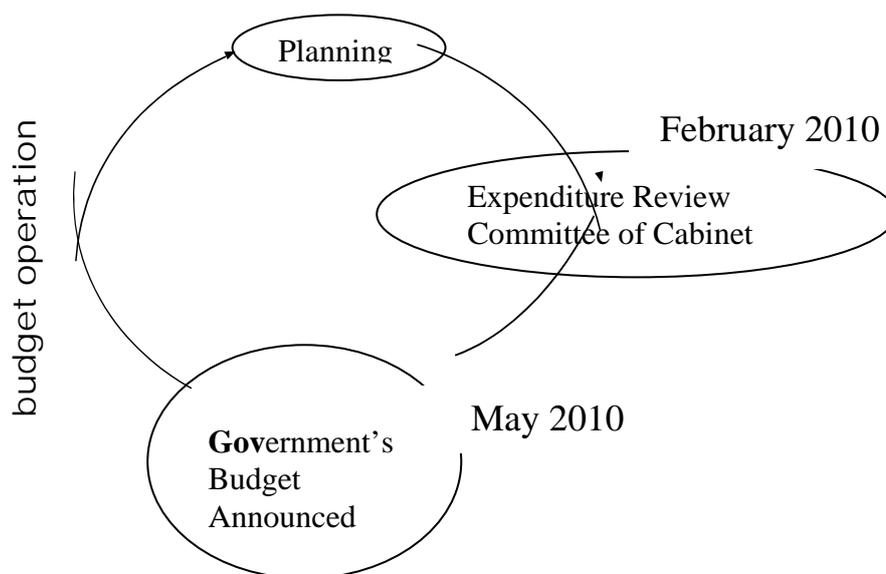
Meanwhile, the Treasurer or Finance Minister is also discussing with the government about what the government's income will be from various

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sources in the coming financial year, so that the government can decide whether it is necessary to e.g. raise taxes.

The budget is read out by the Treasurer on Budget Night which is before the end of the old financial year, so in this case probably in mid May.

Diagram of budget cycle



Each year there is a mid-year review of the budget that comes out in January. If you were to read this, or other comments that come out from time to time you will know that the budget is never exactly correct. In fact, sometimes the figures in the budget are very wrong because they are based on estimates of income and expenditure and these can be wrong. You might keep this in mind when you come to set your own budgets. The problem, of course, is that none of us can predict exactly what will happen in the future. So, if you manage to set a budget that is close to what actually happens you are either very clever or very lucky!



Self testing activity 1.4

In your own words, explain the steps in a government budget cycle, from planning to spending.

Community projects and funding agencies' budget cycles

You can assume that most sources of funding that you will be approaching to try to get funding for your community project will also follow a fixed annual budget cycle. They will probably receive submissions from their departments or programmes (i.e. different areas of activities), then allocate their funds to the different programmes. The different programmes will then decide how they will allocate funds they have received to different applicants for their various projects.

They may do this once a year or they may do it periodically. This will determine closing dates for applications (submissions) and how long it will take to get an answer from them about whether they can fund your project or not.

You too will go through a planning process for your project. When your project plan is completed and submitted to a funding agency, if the timing does not fit with the funding agency's budget cycle, you may have to wait a long time before your submission is even considered. The main thing to keep in mind is that the process of applying for and getting a grant is not likely to happen quickly. So you need to try to find out what is the best time to apply for the various funding agencies and get organised and get your grant application in on time.



Self testing activity 1.5

Imagine you are working with an international NGO, International Community Development (ICD). This NGO regularly (once a year, in September, gets a fixed amount of funding from a foundation, the Help Foundation. ICD provides funding for community groups in different countries to run community development programmes of two different kinds: community health and community education and are considered by the ICD health sub-committee and the education sub-committee. Applications to ICD close on 31st March. The executive committee meets in June to decide how much they will allocate for health and education activities and which proposed activities will be given funding. The budget is finalised in August and money is received from the Help Foundation in September. ICD health and education sub-committees inform the applicants of the results of their applications in October. Funds are distributed to successful applicants starting in October. Make a diagram of the ICD budget cycle.

Summary

This topic has provided information relating to sources of funding for community projects and about budgets and budget cycles. If you are going to work on behalf of a community or organisation planning a project, you must understand about sources of funds and about preparing budgets which show that you can manage the project.

Budgeting is a very important part of a community organisation's management work and in the next topic we will discuss how to prepare a budget.

Topic 2 - Developing a Budget

Glossary

This topic looks at developing a budget for a programme. We will be looking at the different parts of a budget and how the information is put together.

We will be using a number of words in this section that you may not be familiar with. These words are included in the glossary below and you should read them and their meanings carefully. That way, when you read the words in the text, you will know what they mean.

Assets

These are the items that a programme buys that are expected to last for more than 12 months. Assets are sometimes referred to as capital items.

Expenditure

This is the total amount of money used for expenses.

Expenses

These are the day to day costs that a programme has to pay.

Income

This is the money that a programme receives from all sources. This includes fundraising, sales, fees, grants and any other source.

Running costs / recurrent costs

These are other names for expenses. They are the day to day costs that a programme has to pay

Salary / wage

This is the money that a programme must pay to an employee for the work that they do.

Salary on-costs

These are costs that must be paid in relation to employees, in addition to the salary that is paid to an employee.

Suppliers

These are the people or organisations that sell goods or supply services to a programme.

Why develop a budget for a programme?

A budget is a plan for managing finances, which outlines money coming in (income), and money going out (expenditure). Using a budget you can identify sources of income and expenditure which enables you to keep check on your financial situation.

A budget is developed for several reasons:

a. Financial planning and monitoring

A budget is often developed because it forces the people managing the programme to think very carefully about how much money will be needed for their programme to go ahead. It would cause a lot of problems and considerable embarrassment if a programme was not able to pay its bills. Budgets also help programme managers and financial managers to ensure that programmes are not over funded (receiving too much money), which can be a problem when having to justify, at a later date, why so much of the allotted funds have not been spent.

By setting a budget, the people



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involved in spending the money know how much money has been set aside for each cost to the programme. This should mean that people do not spend money on things that are not included in the budget. It should also mean that people do not overspend on items in the budget.

E.g.: If there is \$1,000 in the budget for a computer then the programme should not buy one for \$2,000.

These tasks are all part of the monitoring process, which is an essential part of financial management.

It is very important that the people setting the budget are very careful to include all the costs to the programme and that the amount of money put in the budget for each cost is sufficient. It is a good idea to ask someone with experience in setting budgets for programmes, to help you.



Self testing activity 2.1

Explain what you think would happen if the programme manager under-estimated the costs involved in the programme.

b. Information for funding bodies

Budgets are also developed because funding agencies require proof that a realistic amount of funds have been applied for to enable the project to achieve its goals. They can check your figures to see that they are reasonable. In addition to this, a budget shows the funding agency that

you have thought carefully about your programme and are serious about your request.



Self testing activity 2.2

Explain what you think might happen if the funding agency looked at your submission for funds and found a number of errors in the calculation of the costs.

How do you develop a budget?

To develop a good budget you need to look at the sort of information that the budget provides. As an example look at the following budget, which was in Thai Baht approximately 33 Baht = US\$1 in 2009).

YOUTH NEWSLETTER PRODUCTION	
Operating and Asset Budget	
for the period 2009/2010	
Income	Baht
Subscriptions	54,000
NGO Grant	79,240
Total Revenue*	133,240
Expenditure	
Recurrent costs	
Insurance*	1,400
Printing Costs	20,390
Telephone	7,520

Wages	41,700
Postage	5,430
Travel	6,950
Total recurrent costs	83,390
Assets purchased	
Computer	37,000
Fax machine	8,550
Furniture	4,300
Total assets purchased	49,850
Total expenditure	133,240
Surplus/(Deficit)	Nil

The main items are the total revenue (income) and total expenditure. The Surplus / (Deficit) figure is calculated using the following equation:

$$\text{Surplus / (Deficit)} = \text{Total Revenue (income)} - \text{Total Expenditure}$$

If the total income is more than the total expenditure the programme will have a **Surplus**.

If the total expenditure is more than the total income, the programme will have a **Deficit**.

In the example, income exactly equals expenses so there is no surplus or deficit.

So, there are three areas to pay attention to when developing the budget for a programme. They are:

- **Income:** Where will the programme get its money from and how much will that be?
- **Recurrent costs:** How much money will the programme have to pay

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for the day to day running costs?

- **Asset Purchases:** What equipment will the programme need and how much will it cost?

Before we look at estimating the amounts in these three areas there are a number of other things to note about this budget.

Rounding off

The figures in the budget are our best calculation (guess) at what the incomes and expenditures will be. There is no need to try to guess to the last baht (or dollar or kyat etc.) Figures in our examples have been estimated to the nearest ten baht.

Accuracy

It is most unlikely that a budget for a programme would be as simple as the budget we have included. When you do the budget for your programme you must try to include all the expenses that the programme will have to pay otherwise you will have expenses but no money in the budget to pay for them.

Income

This is the money that the programme will receive from all sources. The **sales** figure of Baht 54,000 is the amount of sales that are expected to be made. It may have been calculated (estimated) on the sales figures of similar Youth Newsletter Production programmes in the past, or on information provided by people who have been involved in similar newsletter production programmes in other communities, etc.

The **grant** figure of Baht 79,240 is the amount of additional income needed from a donor to cover the expenses and make the surplus figure equal to Nil. The programme needs a grant because the income from sales is not enough to pay for all the expenditure. (In some cases, projects will have no income other than from the donor.)

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The total of the sales and the grant in our example is Baht 133,240. This is the total income because we do not expect to get money from any other source.

Recurrent costs

The recurrent costs are the day-to-day costs of keeping the programme running. They include wages, service charges (e.g. electricity and telephone) printing costs, postage etc.

Asset purchases

An asset is something that the programme will have for more than 12 months. This will include things like any motor vehicles, buildings, furniture, computers etc that the programme buys (owns) and will last for more than 12 months.

Surplus / (deficit)

If there is money left over then the programme has a surplus (of cash). If there is not enough money to pay all the bills then the programme has a deficit (of cash). This budget has no surplus or deficit. So, if we have calculated correctly there will be just enough money to pay the bills with nothing left over.



Self testing activity 2.3

Using the Youth Newsletter production programme budget (above), find the following information:

- The period the budget relates to
- The total income expected
- The total expenditure expected
- The amount estimated for wages

Assets

Now let's look at the three areas of the budget we talked about earlier. We will look at assets first.

Estimating the cost of assets

Asset purchases are usually a major part of the costs of the programme. If you are spending a lot of money you will want to know that you are getting value for money. Businesses try to get value for money by getting **quotes** for the expensive items they buy.

What is a quote?

People often ask a supplier how much an item will cost before they buy it. A quote is the answer the supplier gives telling you the price. Quotes can be verbal (i.e. when you speak to someone over the phone or face to face) or in writing.

Before you accept quotes for your programme make sure that you have it in writing. We get a quote so that we can get the best equipment possible for the price we can afford. The quotes become documents to be included with the accounts.

Most funding agencies require those organisations receiving funds to obtain at least 3 quotes when purchasing expensive items.

A business will normally get two or three quotes so that it can compare the price and choose the best one. One of the advantages of quotes is that if a supplier knows that you are getting quotes from other places

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they will give you the very best price they can. Another advantage of getting quotes is that the act of talking to people about prices and products actually helps you to decide exactly what it is that you want. If you are not sure what you want you can ask a lot of questions, which will help you to decide.

There are some important **rules** regarding quotes:

1. Cheapest is not always the best. Cheap things often break down more quickly. The cost of maintaining cheaper equipment might be too high. So, although the item is cheaper to buy, the money that is spent on it over a period of say 12 months might be much more than the cost of the more expensive item.

Think about the following two health programmes. One buys a new motor bike, which costs Baht 28, 000 for the health worker. The motor bike works perfectly. The other programme buys a secondhand one for Baht 18, 000. The secondhand model breaks down a lot and the health worker has to hire vehicles to see patients. The cost of repairs over the year totals Baht 7,000 plus vehicle hire for the year is another Baht 5,000. So the total cost for the secondhand model is Baht 30,000 in a year, i.e. more than the new one.

2. Make sure that the quotes are detailed and cover all the points that you want.

E.g.: If you need a motor bike with a basket on the front make sure that the quote states that the basket is included. Otherwise you might end up having to pay more money than you originally thought.

3. Ask about maintenance costs and the cost of spare parts.

E.g.: If you are buying a car, you will probably find that spare parts for a locally made-model are a lot cheaper than spare parts for an imported

one.

4. Availability of spare/replacement parts

E.g. If you need the item every day what will you do if a spare part takes three weeks to come from America or Japan?

5. Make sure that you get equipment that will do the job you need it to do.

E.g.: If you need a four wheel drive vehicle for driving along up-country roads it is no good getting a saloon car.

E.g.: if you need a computer you can carry around with you, get a laptop not a desktop.



Self testing activity 2.4

Imagine that you have been asked to get a quote for a photocopier. The salesperson tells you that it will cost 657,800 Kyat. What other questions would you ask the salesperson? (Think about the rules for quotes)



Self testing activity 2.5

Explain why it is good practice to get three quotes when purchasing an asset.

Tenders

When we discussed quotes before we said that they helped get the best equipment for the price we can pay. A tender is like a quote except that people or organisations tender to **do** things rather than sell things. In other words, when an organisation invites tenders, it is inviting providers to supply something. The tender may be to provide goods, e.g. some equipment, or it might be to provide a service, e.g. to supply and install equipment or it may be to provide a whole series of services, even a complete programme, e.g. a complete health care service.

Tenders are important to community organisations for two reasons. Sometimes a community organisation may have money available to establish some kind of community programme, e.g. a health programme. It might want to pay some experienced organisation to provide the service. Governments often follow this method, they invite experienced organisations to implement a programme and in order to locate the best provider, they call for tenders, and i.e. they ask interested organisations to offer their services. Examples of tenders would be the government calling for tenders to build roads or supply water or electricity or health care. Community organisations may sometimes want to do the same, if they have the money but not the necessary experience.

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Organisations who ask for tenders are called **purchasers** because they want to buy or purchase the service. When tenders are called for a programme or project, the organisations that are interested in trying to get the job are called **tenderers**.

The second reason tenders may be important for community organisations, is that sometimes a community organisation may want to be a tenderer. An example might be a community which has a number of unemployed people willing to work and the government wants a job of work done, e.g. clearing some land for a new building. If the government calls for tenders, the unemployed people can form an organisation which offers to do the work. Winning a tender can be an important source of income for some community groups or organisations.

So a community group or organisation can sometimes be a purchaser, while in other cases it may be a tenderer.

Information about the project or programme is provided in a document called a **tender specification**. This document describes what the job is, what needs to be done and what information the tenderer must provide.

How does the tendering process work?

Normally the purchaser prepares a tender specification and then invites tenders by putting up notices or putting an advertisement in the newspaper.

Interested tenderers then ask the purchaser for a copy of the tender specifications.

When the tenderers get the tender specification from the purchaser, they write a reply. The reply they write is called the **tender document** and should include the following information:

1. How the tenderer is going to do the job that the purchaser wants done.
2. The time frame - that is, when the job will start, when it will finish and when important parts of the job will be finished along the way

(milestones).

3. A brief history of the tenderer shows its capability and why it should get the job.
4. A budget showing how much it will cost the purchaser if the tenderer gets the job.
5. Any other issues that the purchaser wants answers to. These issues will be referred to in the tender specifications and these should therefore be read very carefully.

Using tender documents

Organisations must be very careful with what they write in tender specifications and documents. If an organisation's tender is accepted, it must do the work for the price in the tender document. It must also do the work **on time**. That means that if a tenderer makes a mistake and does not charge enough to carry out the job it could end up making a loss on the deal. Similarly, if a purchaser does not specify carefully exactly what service it wants the tenderer to provide, it could finish up with inferior equipment or services. Purchasers and providers involved in tendering must be very careful.



Self testing activity 2.6

In your own words, explain the purpose of tenders and why a tender document must be very carefully written.

Recurrent costs

The recurrent costs are the day-to-day costs of keeping the programme running, such as salaries, telephone bills, electricity bills, insurance costs and other recurrent costs. Salaries are often a major item in the budget and needs special attention.

Salaries (wages)

When you are putting together the plan for your programme, you should budget for all the costs that you will have. A major cost for most businesses, organisations and community programmes is the cost of employing people. People can be more expensive to hire than you think because in many cases you do not just have to pay salaries. In many cases there are other costs that may need to be paid to employees, such as holiday pay, sick pay, maternity or paternity leave, retirement fund contributions etc.

Another thing to consider is the cost of possible pay rises that might be necessary during the time the programme is running. This could add significantly to the costs of the programme. Similarly, if somebody goes on leave, you will have to pay them while they are on leave and you may also have to pay a temporary worker to do the job while the permanent employee is on leave.

You should decide how many people you need to employ and what each person will do. Then you can decide how much each person will be paid and what the extra payments which need to be made.

Things to remember:

a) *Rates of pay*

When you estimate salaries you need to decide what is the appropriate level of pay for each kind of job. In many countries there is also a minimum rate set by the government for various

kinds of work or negotiated between employers associations and trade unions. There may also be other payments that you must pay along with wages and which need to be included in the budget.

b) Extra allowances

In most cases you will also need to include provision for paying staff while they are on holidays and sometimes this means that while the employee is on leave a temporary worker must be hired to do the job. If the programme needs to do this the extra cost should be budgeted for.

There may be other costs e.g. contributions to retirement funds, health funds etc that might have to be paid if the programme employs a number of people or if it runs for a number of years. These all have to be included in the budget.

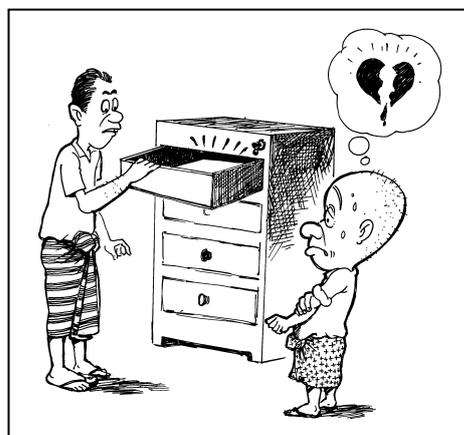
An example

A publishing programme is set up with a budget to cover salaries for a staff of six. Unfortunately due to the pressure of meeting deadlines it is necessary to hire additional staff to speed the job of typing/word-processing documents for publication.

There is no provision in the budget so the wages for the office staff are taken from office running costs.

This leaves the office running costs part of the budget short of funds for stationery, phone calls etc.

The same programme also finds that while it has budgeted for the staff salaries of the six original staff, it has not budgeted sufficient to cover a number of salary on-costs, especially with regard to employing



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replacements while the staff goes on leave. This means that employees feel that they are under pressure not to take holidays because the programme will run behind schedule.

- Both examples show the need for careful consideration of all the costs, some hidden, associated with running a programme.

If you do not take these costs into account you will find that there is not as much money to pay the bills as you thought. Your programme could run into serious financial trouble.



Self testing activity 2.7

Explain in your own words what is meant by 'salary on costs'. Please give an example.

Other recurrent costs

There are lots of other costs that you will have to pay when running a programme.

The sorts of costs will depend to some degree on the type of activity your programme is involved in. You must think carefully about these costs and try to include all of them in your budget. If you have been involved in a similar programme before you will have a pretty good idea of what the costs will be. However, if you have never done anything like it before you

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may find this difficult. You should try to find someone who has experience with similar programmes and ask them to look at what you have done. They will probably have some good suggestions.

Some of the recurrent expenses that a programme may have are:

- telephone
- electricity
- petrol
- motor vehicle maintenance if the programme owns a vehicle
- insurance
- stationery
- office maintenance expenses
- rent



Self testing activity 2.8

Now is an opportunity to really test your understanding.

Imagine your community has built 20 houses for teachers in several schools. It rents them to the teachers through the Teacher Housing Programme. Using the following information, prepare a budget for the Teacher Housing programme and ***calculate the amount of the grant that will be required so that income balances expenses.***

Annual Income:

rent from 20 houses @ 20,000 Kyat month

Grant from NGO to cover the shortfall

Annual Recurrent Expenses:

salaries – 200,000 Kyat

rent - nil

electricity – 40,000 Kyat

telephone – 285,000 Kyat

An example of costs

Let's think about an education programme. What sort of costs would it have?

The first thing would be to get a room or rooms to use as an office. Sometimes a community organisation will let the programme use rooms in its office building. But normally a programme will have to pay rent for offices. Next we have to equip the office. That would mean a computer, a desk, chairs and a filing cabinet. A photocopier and a telephone might be necessary. The programme will also involve a lot of travel to visit schools and students. That could involve buying a vehicle. All of these items are **assets**.

Expenses would include things like:

- salaries which would be a major expense of the programme
- telephone
- insurance in case of theft, fire or damage to the equipment or the building
- fuel and maintenance for the vehicle and registration and insurance for the vehicle.
- if the programme does not have its own vehicle there will be considerable travel costs or vehicle rental costs.

There are many other expenses that you could probably think of. Try to include everything.

How do I estimate recurrent costs?

To get accurate figures for your budget you must be able to estimate costs as accurately as possible. It is not good enough to just think of a number and write it down.

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If you have had experience in similar programmes before you will have some idea about what many of the costs are likely to be. If the programme has been running for a while then you should be able to have a look at previous budgets and compare them to actual month by month expenditures.

If you use figures from last year's budget you need to be careful that those costs are still accurate. You might have to add a percentage for inflation (i.e. price increase); otherwise the actual costs of the programme may turn out to be much greater than you have budgeted for.

There are some costs like rent and insurance that you can estimate accurately because you can ask people how much they will be and make an agreement to pay at a fixed rate, e.g. rent. For some items you can get a quote. But how will you estimate the monthly telephone charges?



Self testing activity 2.9

Explain why it is possible to estimate some recurrent costs more accurately than others.

Other recurrent costs

Costs like telephone, stationery, petrol and electricity are harder to estimate.

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You don't know how many phone calls will be made in a year or whether the calls will be local or long-distance. It is especially difficult if you don't have any experience in a similar programme. The best thing to do is to ask someone, who has had experience, for advice. In some cases you may be able to talk to a financial adviser. Nobody expects you to get the figure exactly right, but you need to try to get an accurate figure.

Electricity is another cost that is hard to get right, especially if the programme needs to use electricity for heating or cooling. You might have an especially hot summer and need to use more electricity than normal because the air conditioner is running all the time. In this case the electricity bills will be higher than normal. Again, you need to use the experience you have had in other programmes, or ask the people who sell air conditioners what the running costs are, or ask an adviser.



Self testing activity 2.10

Explain how it is possible to estimate recurrent costs that are not regular.

Submissions (proposals)

A **submission** is the set of documents that the programme sends to the funding body when applying for funds.

One of the documents that the funding body will need from the programme is the budget. Talk to representatives of various funding bodies if you can before you send in the submission.

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They will tell you whether they currently have any money available for grants and about the types of programmes that they fund. They may have priority target groups/issues e.g. health, youth programmes or programmes to aid communities in need.. If you know this you can send your submission to appropriate funding organisations and you can clearly outline in your submission how your project fits with their programmes and priorities.

Don't be afraid to ask the funding agency what information you need to send. They often have standard forms that you have to fill out. If you have any problems filling out the forms, ask them how to fill them out properly. When you are asking someone for money it is a good idea to do the paperwork the way they want.

We have already said that the budget for the programme must be detailed and accurate. You must make sure that the budget has a heading that tells the funding body what programme the budget relates to. The budget must also outline the timeframe.

Often agencies may require you to justify the purchase of assets, employment of staff and other major expenses.

The budget must include the three areas discussed earlier. They are:

- income - show all the estimated income for the programme from all sources and how much will be received from each source
- recurrent costs - show what recurrent costs the programme will have and how much each will cost
- asset purchases - list the assets the programme will buy and how much they will cost. If the funding body asks for the quotes, send them in as well. Keep a copy yourself. Make sure that you have your quotes in writing before you send in the budget. If required, make clear why certain assets to be purchased will be needed.

Summary

This topic has looked at what steps to take, and what information is needed to develop a budget. A budget, as you have seen, is a very complex and important document. It must be detailed and it must be accurate. If you make mistakes in a budget, there can be serious consequences.

If you are going to develop a budget for a programme you must consider assets, expenses and recurrent costs and you must ensure that your figures are correct. Do not forget to include the information required by the funding bodies – if you do not provide what they ask for, they will not consider your proposal.

Topic 3 - Applying for Funding

Process for applying for funds

This topic looks at the process of applying for funds for a service programme. It is most important that the submission you send to the funding agency is as clear as you can make it. Make your funding application look as professional as possible. It should be well set out and it should be clear to the funder what you are seeking the funds for.

When applying for funds you must consider the following things:

a. Justifying the need and identifying a suitable programme

The justification outlines the community need or needs that the programme will meet in other words what is the 'problem'. This section should if possible be supported by data about the community and the significance of this problem. Your proposed programme is your proposed 'solution to the problem'.

Once you have identified the service programme that you believe will meet the need you must write a brief outline of the programme. The outline should outline why you believe this programme is the best solution to the problem. (This is covered in more detail in the module *Programme Planning*.)

Here is an outline of a programme that will build a health facility in an imaginary community.

Name of the Community: Imagined Community

Name of the programme: Programme to establish village clinic

Outline of the programme:

Imagined Community has a high death rate amongst children (18%). Thirty one percent of parents receive basic health training. The needs assessment shows that parents in particular need some health facilities in the community. The community profile shows that 84% of all those who

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receive health education in the village must travel more than 40 km to the nearest health clinic. The major illnesses are malaria - 42 %, dysentery - 38% .The Imagined Community would like to develop a programme to establish a village health clinic as way to try to address these problems.

You can see in the above example that relevant statistics have been provided. These statistics identify the child death rate (percentage) of children in the community and the low level of parents in the community receiving basic health education. It also shows that there is no easy to access clinic in the immediate area. Statistics related to the major illnesses and distances people travel to access health facilities have also been included.

The target group has also been identified in the programme outline. In the example the programme is aimed at the parents of children in Imagined Community.



Self testing activity 3.1

Explain, in your own words, why it is important in your funding submission to outline why the programme is needed.

Let's take another example. *A programme to train people how to use a word processor and a spreadsheet on the computer.* Why would it be a good idea for such a programme to get funding? Here are some reasons:

- These skills are in demand in the business community.
- It will give members of the community skills that will help them to find jobs. (i.e. many people don't have skills and therefore can't get jobs)

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- The training programme will give members of the community more confidence when applying for jobs in the office and administration area, which will give them a better chance of getting the job, (i.e. many people lack confidence when searching for jobs).
- It will help to encourage other members of the community to develop these skills. It will help to create employment and give options for young people that they would not otherwise have (i.e. the programme addresses the problems of unemployment and lack of skills).

You can probably think of a number of needs (problems) in your community for which programmes could be developed that address these problems. A needs assessment is usually a good starting point (see module on Community Profiles and Needs Assessment).



Self testing activity 3.2

List two reasons you might give in a submission for having a community health programme.

b. Eligibility for funding

All funding agencies have guidelines outlining what sort of programmes they can provide money for. You must first of all select a funder that provides funds for your sort of programme, then ensure that you provide enough information in your funding application to show that your programme fits into their guidelines. If you do not, then you are unlikely to get the funding, no matter how much of a good idea your programme

is.

Ask the funding agencies that you have thought of approaching for information about their guidelines. They might have written information they can send you, or they may have the information on their website. Study it carefully and, if you have any questions, talk to people who have had experience in writing successful funding applications. If possible, speak directly to somebody from the funding agency.



Self testing activity 3.3

List three benefits in getting someone else to look through your submission before you send it to the funding body.

Preparing a detailed and accurate budget

To prepare a detailed and accurate budget to accompany the funding application, you must:

- justify the budget against the needs you have identified
- prepare accurate (as much as possible) financial estimates

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- prepare present the budget using the agency guidelines, if they exist, or a budget that is clear and complete if they do not.

Accurate financial estimates

We have spent a lot of time talking about accurate financial estimates. Make sure that your budget is as accurate and detailed as you can make it. This will show that you have carefully thought about the programme and have a very good understanding of how the programme would work.



Self testing activity 3.4

In your own words, explain why it is important to provide accurate financial estimates when applying for funds.

Strategies for getting the funding application approved

If you want funding for your programme to be approved, you need to convince the funding agency that the programme is needed in your community. You must also ensure that the programme you propose meets all the criteria used by funding agencies to approve programmes. Your funding application should be well set out and clear.

You must:

- demonstrate a need for the programme in the community
- ensure that the programme and the funding application meet all criteria as outlined by the funding agency.

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- ensure that the funding application includes all the relevant details about the programme
- develop an accurately costed budget for the programme
- ensure that the submission includes a time frame for the programme

Make sure that the person reading the application knows:

- who is applying for the funds e.g. contact name, address, organisation, telephone, and e-mail should be included.
- what the programme is for i.e. a brief statement of purpose and why you believe the proposed activities will be effective.
- why the programme is needed in your community
- what it will do to help your community
- provide a detailed budget that is fully justified and accurately costed.

Other strategies for getting a funding application approved

It may not be as easy as you think to get funding for your programme. Although you are confident that your programme is a great idea and that the community really needs the programme to go ahead, other people very likely have other ideas about what the community needs and why their ideas are better than yours.

The funding agencies will also have lots of other groups that are applying for funds and very likely their programmes appear to deserve funding as well as yours. So, the funding agencies will have to decide which programmes they will grant money to and which programmes will miss out. Naturally you will want your programme to be one which gets some money.

What else can you do to help support your funding application? Well, you can get as much community support as possible for your programme. This

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may involve:

- talking to local leaders and leaders of organisations, which have members and activities in your community and convince them that the programme is a good idea for the community
- getting local business people interested and enthusiastic
- respected community members. It will help if the funding agency can see that well respected members in the community think the programme should go ahead
- getting letters of support from such people to be included with your submission to the funder
- if you are applying for foreign government funding, then sending applications directly to that country's embassy might be a good way to start.



Self testing activity 3.5

State which of the strategies listed in the module you would use to help get funding for a community youth activities programme in your community. Explain why.

Summary

This topic has looked at what to do when applying for funds and how to give your programme the best chance of successfully obtaining funds. If you want to apply for funding for a service programme, make sure you provide all of the information required by the funding agency.

Self-testing Activities Answers

Self testing activity 1.1

You may be lucky enough to be able to get a loan from a bank. If not, you could possibly borrow from family or friends. It all depends on your own situation and what is available in your community.

Self testing activity 1.2

Your list may include religious organisations, local businesses, ordinary people in the community, foreign embassies etc.

Self testing activity 1.3

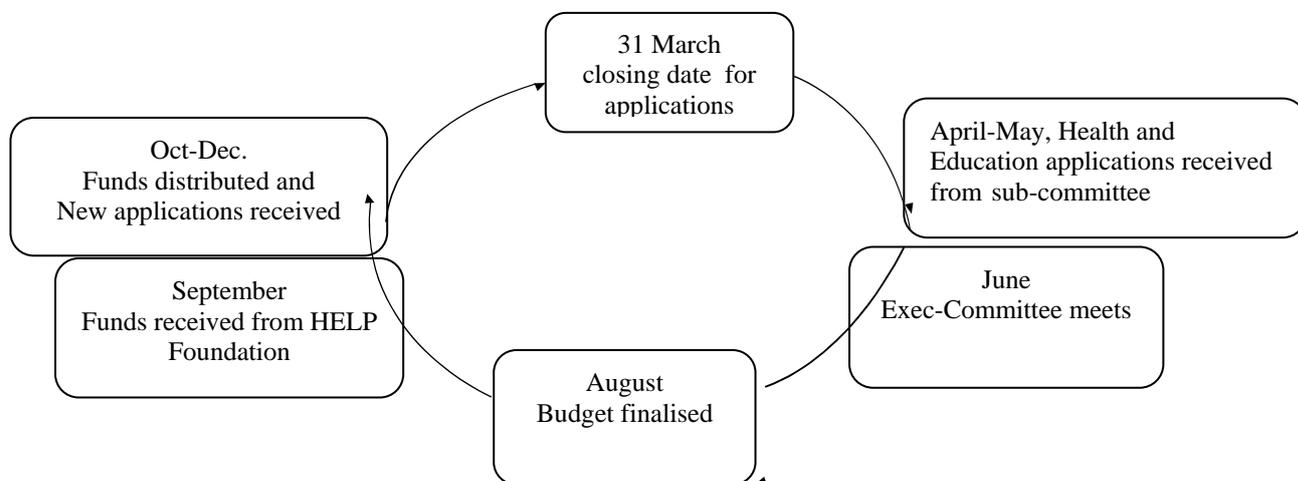
Community programmes need to know about the budget cycle of donor organisation so that they know the best time of the year to make their submission and to know also how long they must expect to wait for an answer and if successful, how long they will have to wait to actually receive the money.

Self testing activity 1.4

- The first step is to plan what money will be spent on and where money will be raised from. In a big organisation, e.g. a government, different departments will make submissions telling how much they need and what they want the money for. At the same time, the treasurer proposes what money will be raised from what sources.
- The second step is the consideration by decision-makers, of all of the different activities proposed and the allocation of money for the different activities. This allows the budget to be finalised including sources of income and how much total income will be needed as well as total expenditure.
- When this is finalised it can be publicly announced.
- The income collection and spending by the different departments then goes ahead and at the same time is kept under review (because the budget estimates may not be completely accurate.)
- The planning then begins for the next budget cycle.

Self testing activity 1.5

There are many possibilities here is one example.



Self testing activity 2.1

If the programme manager under-estimated the costs involved in the programme, the programme would spend more money than was allocated in the budget. The budget would then 'blow – out' i.e. there would not be enough funds to run the programme. Either the programme would have to be cut or stopped or more funds asked for. This would give your organisation a bad reputation and the funding body may not supply funding for your future programme.

Self testing activity 2.2

If the funding body looked at your submission and found a number of errors they may think that you have not considered your submission carefully enough and, as a result, they may refuse your request for funds.

Self testing activity 2.3

- | | | |
|----|--------------------------|---------------|
| a) | time period | 2009-2010 |
| b) | total income | 133, 240 baht |
| c) | total expenditure | 133, 240 baht |
| d) | amount allowed for wages | 41, 700 baht |

Self testing activity 2.4

Does this price include everything or are there extras you need that cost more?

Are spare parts easily available?

What is the purpose of the particular model? Is it the right one for your job?

Self testing activity 2.5

You should get three quotes when purchasing an asset because you may identify an enormous variation in costs and save the programme money by getting a good price. Getting quotes also shows funding agencies that you are committed to effectively managing the programme's finances, and using available money carefully.

Self testing activity 2.6

1. A tender is used to select the most suitable provider to carry out a specific job, within a defined budget.
2. If the tender document is not carefully written the purchaser could finish up with poor equipment and/or service. If the provider promises to do something which they cannot do for the price they quote in this tender, they may make a loss.

Self testing activity 2.7

Salary 'on costs' is the amount which an organisation must provide in the budget related to employees **other than actual salary payment**. An example would be the amount paid to a temporary worker while a staff member is on paid holiday; contributions to a retirement fund for employees.

Self testing activity 2.8

Now is an opportunity to really test your understanding.

Imagine your community has built 20 houses for teachers in several schools. It rents them to the teachers through the Teacher Housing Programme. Using the following information, prepare a budget for the Teacher Housing programme and ***calculate the amount of the grant that will be required so that income balances expenses.***

Annual Income:

rent from 20 houses @ 20,000 Kyat month

Grant from NGO to cover the shortfall

Annual Recurrent Expenses:

salaries – 200,000 Kyat

rent - nil

electricity – 40,000 Kyat

telephone – 285,000 Kyat

insurance – 20,000 Kyat

water – 12,000 Kyat

motor cycle registration and insurance - 7,000 Kyat

Purchase Price for Assets to establish office:

computer – 640,000 Kyat

furniture – 150,000 Kyat

motor-cycle - 400,000 Kyat

Total expenses **1,754,000** _____

The budget should be presented using the same format as the budget shown for the youth newsletter production. You must include relevant headings and the period covered by the budget.

The budget for the Housing Programme should look something like this.

<u>Income:</u>	<i>Kyat</i>	<i>Kyat</i>
Rent	400,000	
NGO grant	<u>1,354,000</u>	
<i>Total Revenue:</i>		<u>1,754,000</u>

Expenditure:
Recurrent costs:

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Salaries:	200,000	
Rent:	000	
Electricity:	40,000	
Telephone	285,000	
Insurance:	20,000	
Water:	12,000	
Motor cycle registration and insurance	7,000	
<u>Total recurrent costs:</u>		<u>564,000</u>
Assets purchased:		
Computer:	640,000	
Furniture	150,000	
Motor cycle	400,000	
Total assets purchased:		<u>1,190,000</u>
<u>Total Expenditure:</u>		<u>1,754,000</u>

Self testing activity 2.9

Some costs can be estimated accurately because they are regular (e.g. rent) or because you can get quotes. Others are hard to estimate because you cannot know what the level of usage will be e.g. electricity and telephone.

Self testing activity 2.10

You could estimate the cost of petrol for a vehicle by working out how many kilometres you are likely to travel each week and multiplying that amount by the number of kilometres you can travel per litre (as long as the price of petrol is stable!) e.g. 100 kilometres per week, use 10 Litres of petrol 31.85 Baht / per litre = Baht/WK 318.5 Bt or + 320 Bt/WK.

You could also estimate your insurance costs by getting a quote from the insurance company agent.

Self testing activity 3.1

In your funding submission you must outline why the programme is needed because you are trying to convince the funding body that the programme:

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- is worthwhile
- will benefit the community
- will be successful.

If you can't discuss these things you will not get funding because you have not shown the value of the proposed programme.

Self testing activity 3.2

Reasons given for having a community health programme might include:

- because a survey has shown that the community has health problems;
- because there is currently no effective health education programme or nearby health clinic; and
- because establishing a programme for health education and opening a local clinic would solve the community's problems.

Self testing activity 3.3

Three benefits of getting someone else to look through your submission before you send it to the funding body are:

- They can help you correct all spelling and grammar errors.
- They can check to make sure the figures and facts are correct.
- They can help ensure the submission makes sense and is easy to read.

Self testing activity 3.4

It is important to provide accurate financial estimates when applying for funds because:

- it proves you have considered the proposed programme's finances carefully; and
- it proves the proposed programme would be financially viable.

Self testing activity 3.5

To get funding approved for a community youth activities programme you could:

1. identify a funding programme which seems interested in community youth activities;
(This is because different donors are interested in different target groups and activities.)
2. provide a budget outlining all costs involved in the project. (Because it is necessary to show the funding organisation the budget is well thought out and properly costed. Remember, there will be many other project proposals and the funding organisation can only support the best ones.)
3. outline the benefits of the programme for the community. (Remember it is necessary to show that there is actually a need for the project in the community.)
4. outline strategies for achieving the programme's goals.
(Remember, it is necessary to show how the project can actually meet the need i.e. it can be successful.)
5. get letters of support for the programme from community leaders and organisations.
(This is because it will strengthen the proposal if you can show that there is community support for the project.)