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THEME 2:

PROJECT PROGRAMMING FOR MAINSTREAMING POVERTY-ENVIRONMENT



MODULE 4:

POLICY MEASURES AND FINANCING AND BUDGETING PROGRAMS, PROJECTS AND ACTIVITIES



180 minutes



Module OBJECTIVES:

By the end of this module, you are expected to:

- Begin an understanding of the term “policy measure”, its value and how it is cost;
- Develop an understanding of the budget process in local governments, and
- Apply knowledge and skill in budgeting and financing policy and interventions, programs and projects

Module SESSION AND ACTIVITIES:

Session 1:

UNDERSTANDING BASIC CONCEPTS and PROCESSES ON POLICY DEVELOPMENT

Activity 1: Defining some concepts on policy development

Activity 2: Sharing of experiences in policy development by participants

Session 2:

WORKSHOP ON BUDGETING AND FINANCING MEASURES, PROGRAMS, PROJECTS, ACTIVITIES AND INTERVENTION



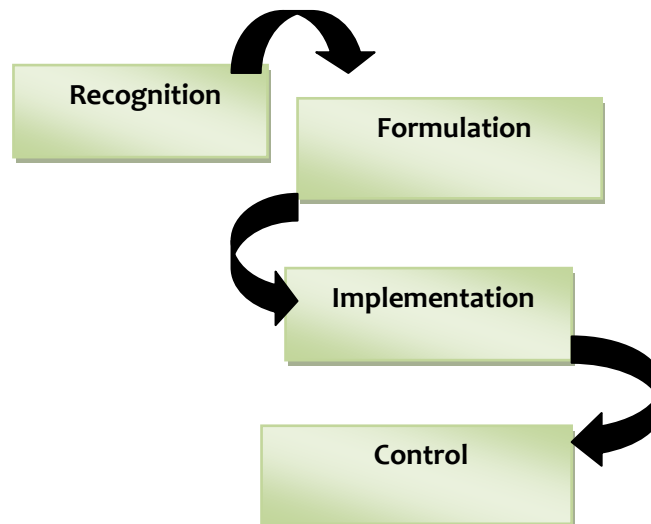
Session 1: UNDERSTANDING BASIC CONCEPTS AND PROCESSES ON POLICY DEVELOPMENT

Key concepts or terms that you need to be familiar with:

- **Policy**
A set of interrelated decisions taken by a political actor or group of actors concerning the selection of goals and the means of achieving them within a specified situation where these decisions should, in principle, be within the power of these actors to achieve (Jenkins, 1978)
- **Policy making**
It is a long-term, interactive and multi-stakeholder process to develop a framework to implement a certain policy, and to evaluate and modify its implementation on a regular basis.
- **Policy document**
Any document that maybe constructed around goals or pillars (e.g. sustainable growth, good governance, reduced vulnerability) or be based on priority sector programs. The document can also include cross-cutting issues and present implementation strategies or targets.
- **Policy measures**
These are specific interventions that support implementation of policy or sectoral or public reforms that address development and environment issues.
- **Policy instrument**
A tool or mechanism used as a means to accomplish a policy goal. Policy instruments can be categorized as economic, regulatory, expenditure and institutional
- **Policy life cycle**
Typically involves four stages: recognition, formulation, implementation, and control. Each of the stages carries a certain amount of political weight, which varies over time. A more detailed discussion of the cycle's stages is presented below.

WHAT ARE THE STAGES IN POLICY LIFE CYCLE?

The typical policy life cycle has four stages: recognition, formulation, implementation and control. Each of these stages carries a certain amount of political weight, which varies over time. It should be noted that the following four stage cycle is a simplified view of a highly complex and often contentious political process.



- I. **Recognition:** Early perception of an environmental problem, usually based on the result of scientific research observation, followed by dissemination and popularization of information by the media
- II. **Formulation:** This is a stage of rapidly increasing political weight. The public and the media are now aroused, and debate about different policy options to address the problem occurs in numerous political circles
- III. **Implementation:** At this stage, the policy has been determined, and the focus moves to implementation. Public concern and political weight decline. Over time, greater attention may be given to policy evaluation to assess whether the policy achieves its objectives and solves the environmental problem.
- IV. **Control:** By this stage, years have passed since the early recognition of the problem, the problem has been partially solved and it is under control. Public awareness and support have improved, and the public often forgets that there ever was a problem as new problems are recognized and new cycle begun.

WHAT ARE THE MAIN STEPS IN DEVELOPING POLICY MEASURES?

1. **Identify measures (during preparation of the policy document)**
 - Propose measures based on the goals, targets and implementation strategies identified in the policy document
 - Include generic policy measures in the policy document
2. **Develop measures (following preparation of the policy document)**
 - Define more specific attributes of the policy measures
 - Identify the objectives of the measures
 - Define the scope, time frame and geographical coverage

3. Cost measures

- Cost each measure based on the attributes defined in the previous step; for example, the time frame of the measure enables accounting for factors such as the effects of inflation or possible currency devaluation
- Establish how much is being spent on similar measures to validate the cost estimate
- Set a variance of the estimated cost
- Assess the absorptive capacity of the implementing agency

4. Prioritize measures

- Take into consideration pro-poor implications, benefit-cost ratios and cost-effectiveness
- Consider existing and planned measures or activities of the government and development actors to identify opportunities for collaboration and avoid overlap; make use of donor coordination meetings to facilitate this step

5. Select measures

- Select the interventions that are most appropriate (e.g. policy or public reform or infrastructures) and most likely to succeed
- Bear in mind cost-effectiveness, benefit-cost ratios and pro-poor implications
- Describe the specifics of the intervention, as far as they are developed, in sector strategies or plans and other materials such as program documents
- Develop a follow-up plan for the budgeting and implementation process

SAMPLES OF POLICY MEASURES

Policy Measures

- **Sustainable land and natural resource management:** nationwide land reform; revision of access rights, control and benefit-sharing of water, forests or natural resources; establishment of a governance and legal system for forest management; community-based management; reforestation
- **Sustainable agriculture:** terracing; intercropping; more efficient use of fertilizer; more efficient irrigation and rainwater harvesting; improved storage and transportation
- **Disaster management:** early warning systems; risk management programs; participatory preparedness programs;
- **Climate change adaptation:** strengthening capacities in climate projections; alternative grazing systems; forestation using adequate species; integrated coastal zone management
- **Sustainable energy:** renewable energy generation; energy efficiency measures; sustainable transport alternatives

Environmental policy measures by category

- **Command and-control regulations** (standards, bans, permits and quotas, zoning, liability, legal redress, flexible regulation)
- **Direct provision by governments** (environmental infrastructure; eco-industrial zones or parks; national parks, protected areas and recreation facilities; ecosystem rehabilitation)
- **Engaging the public and private sectors** (public participation; decentralization; information disclosure; eco-labeling; voluntary agreements; public-private partnerships)
- **Using markets** (removing perverse subsidies; Environmental taxes and charges; User charges; Deposit-refund systems; targeted subsidies; Self-monitoring (such as ISO))
- **Creating markets** (Property rights; Tradable permits and rights; Offset programs; Green procurement; Environmental investment funds; Seed funds and incentives; Payment for ecosystem)



Session 2: WORKSHOP ON BUDGETING AND FINANCING MEASURES, PROGRAMS, PROJECTS, ACTIVITIES AND INTERVENTIONS

WHAT IS A BUDGET?

A budget is a financial plan. It is a projection (forecast) of what will happen financially if certain strategies and decisions are implemented. This is something we all do from time to time. For example, if you plan to buy a new car with a bank loan, you will want to know how much the loan repayment instalments will be. This helps you to construct a financial plan which includes determining the extent of the loan that you can afford. This type of planning is very much a budgeting activity.

By developing budgets, business managers set income and expenditure targets to be achieved. The business manager can constantly compare actual financial outcomes with targets in the budget and take corrective action if the targets in the budget are not being met.

Budgeting has three different purposes:

- A forecast of income and expenditure
- A tool for decision making
- A means to monitor project performance

BUDGETING PRINCIPLES

1 Be conservative

Don't budget on the basis that everything will turn out as expected. Build in a safety factor by tending to **underestimate your income** and **overestimate your expenses**. A

common strategy in developing a budget is to insert an additional expense called "contingencies" which allows for unforeseen expenses.

2 Consult other people in setting a budget

One person may be responsible for the compilation of the budget but one person should not be responsible for all the work involved. Budgeting requires teamwork. The task of budgeting should be split and allocated among those individuals who have the best chance of knowing what expenditure is likely to be needed and what income is reasonable to expect. Involvement by many people in budgeting might slow the process down, but the answer is far more likely to be accurate and dependable.

3 Allow plenty of time

Budgeting is not an activity that is completed in a few hours. A good budget may be worked on for several weeks if not months, adding and changing figures as new information comes to light.

4 Excellence in documentation

It is very important that the author(s) of the budget strive to produce documents that can be read and understood by anyone. If figures are not clearly labeled even the author will, as time passes have trouble understanding where the figures come from and how the calculations were made. It should be assumed that budgeting workings will be:

- Circulated to many different people who may have lower levels of financial literacy
- Useful again in a year's time when the budgeting process begins again. Unless workings are well labeled it may be difficult to remember.

DIRECT AND INDIRECT COSTS

Every expense incurred by your organization will either be:

1. A **direct cost** - a cost that is directly attributable to a service, event, program or other activity carried out by the organisation
2. An **overhead (indirect cost)** - a cost that cannot be directly attributed to a service, event, program or other activity.

Direct Costs

During the budgeting process you will have to look closely at every event, program and service that you intend to provide and work out every direct cost

Examples of direct costs include:

- Trophies
- Hire of staff specifically for an event or program
- Travel costs associated with attending or providing a service, event or program
- Advertising and other promotion costs that specifically relate to an event or program
- Costs of hiring venues/ facilities for events and programs
- Costs of hiring or purchasing equipment for an event or program

Overheads - Indirect Costs

There will be many costs incurred by an organization that cannot be directly attributed to specific events, programs and services. It may well be the case that the organization's overheads are proportionately greater than direct costs. Therefore it is extremely important to ensure that the budgeting process takes account of all overheads.

Examples of overheads include:

- Lease of the office (and office equipment if applicable)
- Administration and secretarial salaries
- Office costs such as telephones, postage, photocopying and general printing (i.e. association newsletters) for administrative reasons
- Depreciation of equipment, motor vehicles and buildings etc.
- Audit costs
- Insurance
- Building maintenance

Providing a reasonably good forecast of the total cost of overheads will depend on:

- Accurate financial records of previous years
- Understanding the factors that tend to increase overheads i.e. engaging more employees, moving to bigger premises, increasing the number of members of the organisation, etc.

In real life the budgeting process is so complex that it must be divided up into smaller more manageable portions and allocated to many individuals who might have specific knowledge of the organization's programs.

WHAT IS A PROJECT BUDGET?

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.

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.

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.

▪ **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.

Usually the budget office'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**

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.

WHAT ARE THE METHODS IN ESTIMATING BUDGET?

- **Analogous**
 - This technique uses the actual costs of a previous, similar project as 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.
 - This method is 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**
 - This is used 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 (work breakdown structure) 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**
 - This technique requires estimating each activity and the cost of each input and adding them up to get the project total. It starts with a fixed number of activities and the estimate calculates the total budget.
 - 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**
 - This technique uses 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.



Points of Reflection

1. Reflect on the following questions related to your participation in policy making in your local government:

- How have you been involved in policy development?
- How did you proceed in making a policy in your sector/agency? Who are involved in the process?
- What factors contributed to the level of participation of stakeholders (if there's any)?
- Can anything be done to improve the system and manner of policy development in local governments?

2. Before you begin the small group workshop, consider the following reflection points:

- Identify the project requirements such as labor, materials and equipment, etc. Consider also the staff that will perform specific tasks and how long the tasks will be performed.
- 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.



EXERCISES

1. Based on your experience or observation, state at least two projects, interventions or measures that have been funded from the share of the national wealth in your locality? What considerations (factors) have been taken into account to get them funded?

Write your explanations here.

2. In your opinion, which department or unit should lead in the mainstreaming effort in your area? Consider the most important processes in mainstreaming-policy development and budgeting in identifying the lead agency or unit.

The facilitator might ask you to share or submit your answers to these questions at the end of the session.



YOUR NOTES:

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