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# Aligning Budgets for Implementing Environmental Compliance Safeguards in USAID Development Food Assistance Programs



# Aligning Budgets for Implementing Environmental Compliance Safeguards in USAID Development Food Assistance Programs: A Toolkit

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**Prepared for:** US Agency for International Development, Office of Food for Peace (FFP), Bureau for Democracy, Conflict and Humanitarian Assistance (DCHA)

**Compiled and edited by:**

Emily Kunen, Environmental Advisor and AAAS S&T Fellow, DCHA, USAID  
Erika J. Clesceri, Bureau Environmental Officer, DCHA, USAID

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**Advisory.** *This Toolkit is advisory only. It does not constitute official USAID regulatory guidance or policy. Following the practices and approaches outlined in the Toolkit does not necessarily ensure compliance with USAID Environmental Compliance requirements, USAID budgeting requirements, nor host country environmental requirements.*

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**Development and Limitations:** This Toolkit has been developed based on the requirements for Food for Peace programs at the time of publication. It is expected to be of use for other USAID programs, but not all content is universally applicable.

**Comments and corrections:** This Toolkit is a work in progress. Comments, corrections, and suggested additions are welcome. Contact: Erika Clesceri, DCHA Bureau Environmental Officer ([eclesceri@usaid.gov](mailto:eclesceri@usaid.gov)) and Emily Kunen, DCHA Post-Crisis Environmental Advisor ([ekunen@usaid.gov](mailto:ekunen@usaid.gov)).

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## List of Acronyms

22 CFR 216	Title 22 of the Code of Federal Regulations Section 216
CDF	Community Development Funds
EMMP	Environmental Mitigation and Monitoring Plan
FFP	USAID's Office of Food for Peace
FFPMIS	FFP Management Information System
IEE	Initial Environmental Examination
ITSH	Internal Transportation Shipping and Handling
PERSUAP	Pesticide Evaluation Report and Safer Use Action Plan
PREP	Annual Pipeline and Resource Estimate Proposal

# I Introduction

Country and regional achievements in international development, generally, and food security, in particular, are dependent upon the sustainable management of essential environmental goods and services. Planning for and integrating environmental safeguards in USAID funded activities has been a long standing component of development assistance projects. Title 22 of the Code of Federal Regulations Section 216 (22 CFR 216) has regulated this since 1976 and USAID Implementing Partners have been working to ensure that their projects do no harm to the environment, communities, and people where they work ever since. In an effort towards continuous improvement in environmental protection, consultations with USAID's Office of Food for Peace (FFP) and its Implementing Partners to identify existing barriers have revealed that access to funds to implement and manage environmental safeguards is a limiting factor. While there is enthusiasm for the work, the question inevitably arises of *'how do we pay for this? Is there a special pot of money?'* In fact, USAID funds can pay for this, but to do so, these costs must be included in project budgets.

This toolkit serves as a resource for USAID staff and Implementing Partners throughout the iterative process of developing and refining budgets to ensure that environmental compliance requirements are identified early in project design and incorporated throughout the project cycle. Use of this toolkit is intended to guide users in identifying resources required, integrating environmental planning with project budgets, and ensuring transparency of budgets such that adequate funds remain available for environmental compliance requirements. This toolkit may be utilized for systematic development of environmental budgets as well as for facilitating the review of budgets for environmental safeguards by USAID staff.

This toolkit has been developed via expert input and extensive FFP and stakeholder consultation by FFP and the USAID Bureau for Democracy, Conflict and Humanitarian Assistance Bureau Environmental Officer through the USAID Global Environmental Management Support contract. While this toolkit has been developed with FFP funding, much of the content has relevance for other USAID offices and Implementing Partners. As such, much of the document refers to USAID broadly, but when referencing specific budgeting processes, the FFP specific situation is used.

## I.1 What is Environmental Compliance Budgeting?

Environmental Compliance Budgeting is the process that ensures adequate resources are available for implementation of environmental safeguards and that provides transparency to assure the funds remain available for these activities. That is, the process by which project budgets (from the proposal stage through each annual request for funds) transparently capture costs for environmental compliance requirements, which are an integral part of any project and must be duly paid for. Budgeting for environmental compliance is required by USAID's Operational Policies and FFP's solicitations for development programs, as described in Box 1.



## Box I. Environmental Budgeting Requirements in USAID Policy

Budgeting for environmental compliance is not just good practice, but also is incorporated into USAID policy and FFP project requirements. USAID's **Operational Policy for Environmental Procedures** (known as ADS 204) requires that "adequate resources" be allocated "for effective monitoring and mitigation to ensure compliance with 22 CFR 216 throughout the life of an activity." ADS 204 also requires that "appropriate mitigative measures are incorporated into the design and budget for the program or activity."

FFP solicitations also specifically reference the need for environmental budgeting. **FFP's FY2014 Request for Applications** contains the following language:

*"FFP requires that all projects have the necessary budget to achieve environmental compliance... As with budgeting for any project costs, a degree of budget planning must logically occur at both the **initial proposal development stage and the project IEE** developed later... Environmental budgeting items that were not integrated into the initial proposal's budget, which are identified during the subsequent development of the project IEE, **must be added prior to the signing of the final award.**"*

With respect to the actual budget included in the FY 2014 RFA states\*:

*"Applicants should consider salaries and fringe benefits, travel and transport, program supplies, other direct costs, etc. that are apparent at the time of project design and necessary for achievement of environmental safeguards and compliance... The budget narrative should explain how environmental safeguard costs are incorporated into line items of the detailed and comprehensive budgets."*

\*Although citing FY14 solicitations, this process applies to all solicitations going forward.

## I.2 When to Budget for Environmental Compliance Requirements

Budgets are developed and refined throughout the life of a project, from the proposal through annual requests for resources. Similarly, environmental measures should be considered at each of these stages and, as such, budgeting for environmental compliance requirements should occur throughout. Initially, project activities are not as well-defined as at latter project stages; quantities, scales, locations, and other aspects of activities begin as rough estimates. At latter stages, these activities become more well-defined and initial budget estimations are systematically replaced with real values based on actual prices, salaries, and activities. This exact system applies to environmental compliance budgeting; the same uncertainties need to be considered throughout the life of the project.

Four key project cycle stages for environmental compliance budgeting are:

1. **Proposal Stage:** Limited details about project costs are available in the proposal budget since project design is in its earliest stages and the environmental analyses have not been conducted, but funds should be identified in budgets for best estimated environmental costs.
2. **Initial Environmental Examination (IEE) Stage:** The IEE is a critical tool in environmental planning and will help refine environmental compliance budget estimates from the proposal stage. As of the FFP FY2014 project cycle, the IEE is initiated by the Implementing Partner upon receipt of the Issues Letter, and submitted to USAID, after award, in time for the initial M&E workshop.

3. **Subcontract Development Stage:** As subcontracts are developed, such as for fumigation service providers or for third party monitoring contractors, corresponding environmental compliance needs must be addressed within subcontract budgets.
4. **Annual Pipeline and Resource Estimate Proposal (PREP) Stage:** As additional funds are requested, and as costs associated with environmental management become clearer, budgets must ensure that funds needed to implement environmental safeguards are included.

Additionally, there are on-going opportunities to create and revise budgets as needs arise, such as during annual review processes. As such, it is important to think about budgeting for environmental compliance requirements on an on-going basis and to alert planning teams that unanticipated needs to review the budget may occur.

### **I.3 Who Should Use this Toolkit**

This environmental compliance budgeting toolkit is designed to be of use to both USAID staff and Implementing Partners. Further, within USAID and Implementing Partner organizations, this toolkit is targeted at staff involved in 1) project budget development and review, as well as, 2) project technical design and implementation. As with any other component of a USAID project, strong coordination among staff is critical for effective environmental compliance budgeting. This toolkit is recommended to be used to facilitate communication between budget and project design staff to improve the transparency of budgeting. This process also helps refine the environmental compliance plan, known as an Environmental Mitigation and Monitoring Plan (EMMP), by advancing dialogue between key project actors which inherently results in deeper consideration for the efficiency and effectiveness of environmental mitigation measures.

### **I.4 Toolkit Organization**

This toolkit is organized into the following sections:

**[Section 2: Developing Budgets for Environmental Compliance Requirements](#)** draws upon the processes for environmental compliance (see Annex I) and budgeting (see Annex II) to describe the process of **developing** a project budget for environmental compliance requirements.

**[Section 3: Reviewing Budgets for Environmental Compliance](#)** describes key considerations in **reviewing** a project budget for environmental compliance requirements.

**[Annex I: USAID Environmental Compliance Basics](#)** provides an overview of the environmental compliance process and key environmental analyses in FFP for staff not familiar with this process.

**[Annex II: Budgeting Basics](#)** provides an overview of the FFP budgeting process. This section is designed for staff on the project implementation or environmental compliance side who may or may not be familiar with budgeting basics, but are not familiar with the FFP budgeting process.

**[Annex III: Questions to Consider in Identifying Environmental Costs](#)** provides a list of questions to use in reviewing environmental compliance documents to identify materials and services needed. The questions are intended to help identify major costs, but are not on their own sufficient for identifying all costs.

[\*\*Annex IV: Checklist for Reviewing Project Budgets for Environmental Compliance\*\*](#) provides a simple checklist to use in the process of reviewing environmental aspects of budgets.

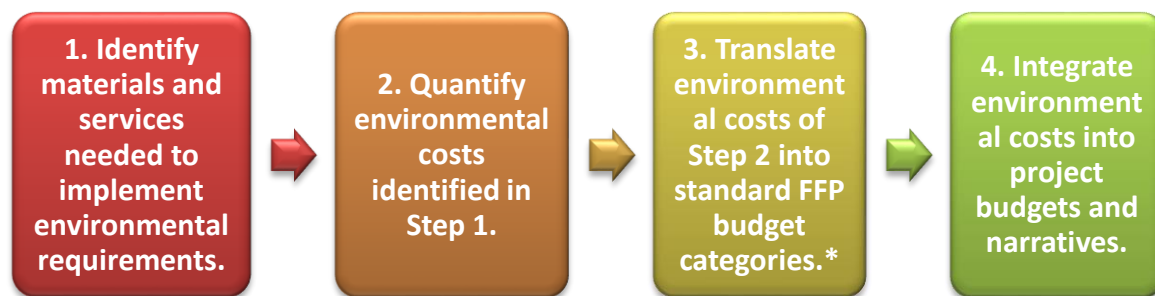
[\*\*Annex V: Example of Developing a Budget for Environmental Compliance Requirements: Road Rehabilitation\*\*](#) illustrates development of an environmental compliance budget for a hypothetical road rehabilitation activity, producing a FFP-formatted budget for the associated environmental costs.

[\*\*Annex VI: Object Class Categories and Environmental Costs\*\*](#) lists the Object Class Categories, which is one of the ways that budget items are categorized in project budgets along with examples of environmental compliance costs that would fall into each category.

## 2 Developing Project Budgets for Environmental Compliance Requirements

This Section explains the process of integrating the cost of environmental safeguards and compliance into a project's budget in four steps as part of the budget development process. Although shown as the four steps, illustrated in Figure 1, there are multiple ways to develop a budget that covers the cost of environmental compliance. ***What is critical is that the process is transparent to ensure that adequate funds are budgeted and remain available over the life of the project for implementation and monitoring of the required environmental compliance measures.*** The principles of budgeting for environmental compliance requirements can be incorporated into sustainability plans such that environmental costs continue to be budgeted for following the end of USAID project funding.

Figure 1. Developing Project Budgets for Environmental Compliance Requirements



*\*Note: It may be possible to combine Steps 3 and 4 into a single step, depending on the particular budgeting process. It is shown here as two separate steps for greatest clarity.*

Budgeting for environmental compliance requirements integrates the findings of the project level IEE<sup>1</sup> with the project budget<sup>2</sup> in a process that ensures adequate funding for environmental compliance requirements. ***This process will be iterative and involve close coordination between technical and budget staff.*** This process has the added benefit of refining the EMMP by advancing dialogue between key project actors, adding cost-realism to the EMMP. The steps listed here are widely applicable and would need to be adapted to organization- and project-specific systems and processes. [Annex V](#) provides an illustrative example of utilizing the four steps of this process for a road rehabilitation activity to highlight the intricacies of its application to particular mitigation measures.

<sup>1</sup> See [Annex I](#) for more information on the USAID environmental compliance process and key documents.

<sup>2</sup> See [Annex II](#) for more information on project budgets.

## Step 1: Identify materials and services needed to implement environmental requirements.

**Getting Started:** Depending on the stage of the project, a budget developer will need to start with either the current draft of the EMMP or, if an EMMP has not yet been developed, the Environmental Safeguards Plan. With these documents, the budget developer will identify aspects of the environmental compliance requirements with an associated cost. For example, a mitigation measure may be to train staff on environmental compliance requirements annually. Associated costs may include: staff time to develop, run, and participate in the training; transportation and per diem for attendees; rental costs for the training space; printing materials; etc. Common materials and services needed for environmental compliance requirements are shown in Box 2. Additionally, [Annex III](#) provides a list of questions that can help identify environmental costs. For example, will the project involve warehouse fumigation? If yes, budget for development of a Fumigation Management Plan and proper fumigation equipment.<sup>3</sup>

**Error! Reference source not found.** discusses environmental compliance budgeting challenges that arise particularly at the PREP stage of a FFP project.

### Box 2.3. Common Materials and Services Needed for Environmental Requirements in FFP Projects

- Staffing for implementing environmental safeguards, conducting trainings and community outreach, conducting environmental monitoring visits, etc. (See Box 7 for further discussion on staffing).
- Fumigation services.
- Environmental assessments for roads, irrigation, etc.
- Community environmental training, such as on fuel-efficient cooking practices.
- Mitigation and monitoring measures, such as water quality testing.
- Travel and transport for environmental monitoring.
- Equipment needed to meet environmental requirements.

### Box 3.2. PREP Stage Challenges

The Annual Pipeline and Resource Estimate Proposal (PREP) budget poses a specific challenge for environmental compliance budgeting. Often, by the time the first PREP is prepared for a FFP project, those who developed the initial environmental compliance budget may no longer be involved in the project. While budgeting for environmental compliance requirements may be included in the Proposal or IEE budget stages, these costs may not be apparent to those working on the PREP. Consequently, these resources could be assigned elsewhere at the PREP stage. This point underscores the importance of having clear, well documented, environmental compliance budgeting at early stages and having clear communication between staff implementing environmental safeguards and staff preparing budgets.

<sup>3</sup> A Fumigation Management Plan is a specific requirement resulting from USAID's Programmatic Environmental Assessment for Phosphine Fumigation of Stored Agricultural Commodity, which is available from: <http://www.usaidgems.org/fumigationpea.htm>.

**Refine:** While the IEE, EMMP, and other environmental compliance documents are important for environmental budgeting, looking at individual mitigation activities alone will not give the complete picture. There are overarching costs to consider as well. These overarching costs include, but are not limited to, environmental compliance management, development of project-specific field tools for environmental monitoring, reporting on implementation and monitoring results, staff trainings, complying with national laws (including obtaining permits), adaptive management, etc.

Additionally, one should consult the current year's Request For Applications IEE, existing Programmatic Environmental Assessments, and any conditions identified in the project IEE or annual Environmental Status Reports that may not be captured in the EMMP.

**Environmental Costs Need Not be Stand Alone:** Identifying environmental costs can be challenging due to natural overlap with costs from other individual sectors (e.g., water, agriculture, roads). For example, a field visit for the purpose of conducting an agricultural training may also involve environmental monitoring. In this case, the associated costs for transportation and staffing could be considered partially environmental but not entirely. There is no one right method for how to identify environmental costs as distinct from other costs. Rather, the importance of this exercise is that the materials and services necessary to meet environmental compliance requirements are identified in a transparent manner to assure that adequate budget is available.

## Step 2: Quantify environmental costs identified in Step 1.

Once the materials and services necessary to meet environmental compliance requirements are identified (Step 1), one must quantify these costs. There is no simple rule for how much environmental safeguards and compliance should cost, as discussed in Box 4, but what is important is that a logical process be used to determine a best estimate based on information available. All environmental costs must be allocable, allowable, reasonable,<sup>4</sup> accurate, and consistent, but, quantitative

### Box 4. How Much Does This All Cost?

*Isn't there a standard percentage of the total budget I can apply for all this work?? Yes and no...*

There is no one flat rate that can be applied to all FFP programs because of differences in activities, locations, staffing, etc. However, years of experience have shown that there certainly is a need for *some* percentage of the budget to be allocated and disaggregated for specific activities.

Over time, it may be possible to get data from Implementing Partners practicing environmental budgeting to identify best practices and associated costs to provide budget percentages for different project types. However, that data does not currently exist. As an Implementing Partner, you can help, by providing USAID with this data from your projects.

<sup>4</sup> Definitions for the cost principles of allocable, allowable, and reasonable can be found in 2 CFR 230: [http://www.whitehouse.gov/sites/default/files/omb/fedreg/2005/083105\\_a122.pdf](http://www.whitehouse.gov/sites/default/files/omb/fedreg/2005/083105_a122.pdf).

guidance on what values meet those criteria are not possible with a great degree of certainty across projects globally.

**Quantifying Environmental Costs is Iterative:** Early in the project, there will be many assumptions and estimates. Cost estimates will later be refined as activities are defined and prices become known with greater precision. The cost of a mitigation activity may help inform project design decisions as projects make trade-off decisions between costs and design options, which is further discussed in Box 5. The costs will depend on local prices, frequency and scale of activities, staffing requirements for implementation and monitoring, etc. Note that the EMMP does not typically identify issues of scale, which is important for quantifying each cost. Successfully completing Step 2 will require input from a wide range of staff, including field staff, staff across project activity areas, staff with knowledge of environmental compliance, and staff with knowledge of project budgets. Aspects of the project design and environmental requirements may be adjusted throughout these conversations as part of the iterative environmental compliance budgeting process.

### Box 5. Design Trade-Offs: Cost Implications

A single project will face many trade-off decisions between cost and environmental impact, which will continue to arise throughout the project and may be hard to predict. A common concern over tradeoffs can be illustrated by the question of whether it is preferential to build *80 kilometers* of road in a more environmentally sustainable, but more costly manner **OR** *100 kilometers* of road at reduced cost but with more negative environmental impacts?

There is no one right answer to this question. The answer depends on project-specific factors, keeping in mind that the basic regulatory requirement is to prevent adverse impacts that are unacceptable and that can be reasonably prevented or mitigated or that can outweigh the expected positive impacts.

Cost is not the bottom line in this decision process and it is well understood that higher quality and improved environmental impacts may have budget implications. However, to explain the higher costs, these tradeoff decisions must be made clear through the budget and budget narratives so that the decision making process is transparent, the budgets are consistent with the tradeoff decisions, and there are adequate funds available to implement the improved design.

Throughout the project cycle and successive iterations of the environmental compliance budgeting process, budget developers will want to ask the following questions:

- Do the environmental resource requirements and timing remain accurate relative to implementation timelines and actual interventions?
- Do the estimated costs of resources remain accurate?
- Have there been changes to the IEE or EMMP that have cost implications and necessitate changes for the upcoming and future fiscal years' funding?

**Variation Between Annual Budget Sheets:** Environmental costs must be quantified on an annual basis. Completing Step 2 requires some knowledge of in which years a particular activity will occur. For example, monitoring costs may occur regularly across all years of a project and therefore assigned the same annual cost. Conversely, completing an Environmental Assessment

takes a few months so the entirety of the cost for this activity may only be budgeted within a single year.

### **Step 3: Translate environmental costs of Step 2 into standard FFP budget categories.**

Each of the costs identified in Step 1 and quantified in Step 2 must now be classified<sup>5</sup> by Object Class Category,<sup>6</sup> line item (either as its own line item or integrated into another), Program Element, and funding source. It is possible to combine Step 3 with Step 4 and go directly from quantifying environmental costs to integrating those costs into project budgets and narratives. For clarity though, these steps are presented separately.

Information from this step will inform the FFP formatted budget and should be captured in the budget narrative and environmental safeguard plan in the proposal.

### **Step 4: Integrate environmental costs into project budgets and narratives.**

The environmental costs defined in Steps 1-3 are now integrated into the various program elements and line items of the final budgets to be submitted to USAID. In some cases, environmental costs may be inserted as **stand-alone line items**, where as in other cases environmental costs will become part of **integrated line items** in the detailed and comprehensive budget tables.<sup>7</sup>

For transparency, these costs must be clearly explained in the Budget Narrative. It is particularly important that environmental costs that appear as integrated line items are explained in the Budget Narrative.

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<sup>5</sup> See [Annex II](#) for an explanation of FFP budget template organization.

<sup>6</sup> See [Annex V](#) for a list of Object Class Categories with examples of environmental costs.

<sup>7</sup> A **stand-alone line item** for an environmental cost is a line in the detailed budget solely dedicated to that environmental cost. For example, a dedicated environmental compliance specialist will be listed as a single line item under the Object Class Category of Salaries, Sub-Awards, or Sub-Contracts, depending on how that person will be hired. Conversely, and **integrated line item** for an environmental cost is a line in the detailed budget that an environmental cost is a part of, but does not make up the entirety of the line item. For example, an engineer might be hired to work 50% time on engineering oversight and 50% time on environmental compliance. The line item for this staff person would be listed as the engineer's position, half of which is an environmental cost.



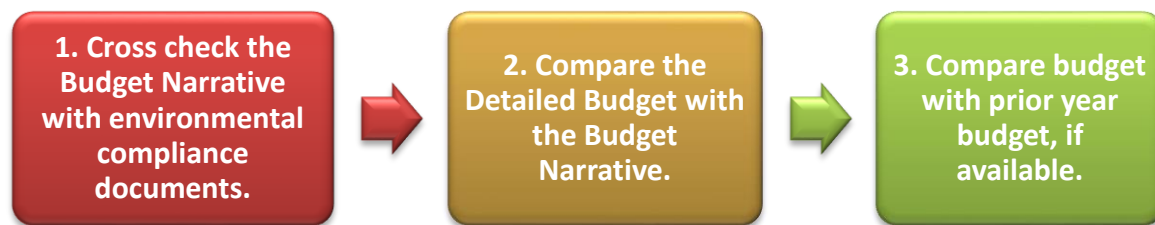
# 3 Reviewing Project Budgets for Environmental Compliance Requirements

This section is designed to assist in the review of a project budget for sufficient treatment of the environmental compliance requirements. Reviewing a project budget for environmental compliance requirements is a similar process to that of reviewing project budgets in any other area and draws on the steps for budget development outlined in [Section 2](#). A budget reviewer must gather information about planned environmental compliance requirements and determine whether the costs of those requirements are sufficiently reflected in the Budget Narrative and Detailed Budget.

## 3.1 Steps for Reviewing a Budget

Although there are many approaches to reviewing a budget, one approach is presented in the steps illustrated in Figure 2. The review process will be iterative with the budget development process; as gaps are identified in the review, budgets may be revised.

Figure 2. Approach to Reviewing Budgets for Environmental Compliance Requirements



[Annex IV](#) provides a checklist with guidance notes for conducting a budget review for environmental compliance requirements that captures these steps. To make the review most effective, it is advisable for the budget reviewer to consult with someone familiar with the environmental compliance requirements. A summary of the steps for reviewing a budget is included here:

### Step 1: Cross check the Budget Narrative with environmental compliance documents.

The Budget Narrative should clearly explain the environmental costs that are included in the budget and how those costs are integrated. To determine whether the appropriate environmental costs are in fact included, one should cross check the key environmental compliance documents: the Environmental Safeguards Plan in the proposal stage, the IEE and EMMP following the Monitoring & Evaluation Workshop, and additionally the Environmental Status Report at the PREP stage. Particular costs to look

for in this Step are additional assessments, staffing, field visits, and equipment and supplies. [Annex III](#) provides guidance questions that can assist with this step.

### **Step 2: Compare the Detailed Budget with the Budget Narrative.**

Step 2 consists of verifying that the environmental costs described in the Budget Narrative are in the Detailed Budget and that those costs are allocable, allowable, reasonable,<sup>8</sup> accurate, and consistent. Beyond the presence of the cost in a line item, the reviewer should consider the amount of the funding and its distribution over the life of the project.

### **Step 3: Compare budget with prior year budget, if available.**

Typically, the budget for the first year of a project will require greater effort to review than in subsequent years. After the first year, the following budgets can be reviewed largely through a comparison with the prior year's budget. Significant changes should be explained in the Budget Narrative and correspond to the Environmental Status Report's description of environmental compliance activities for the previous year and/or changes planned for the following year.

## **3.2 Reviewing Budgets Throughout the Project Cycle**

**Proposal Stage:** At the proposal stage, there is limited information about environmental compliance costs available as there is no IEE and the project work plan has not been fully developed, but environmental compliance needs are a component of the overall award budget. At this stage, a reviewer should consult the proposal's Environmental Safeguards Plan and cross-reference risks and needs identified in the Plan with the ability of the Proposal Budget to address the risks. The budget should include plans for further environmental analyses, plans for environmental management and staffing, and other budget implications.

**First Year Budget Following M&E Workshop:** Reviewing project budgets in the first year will necessitate greater review than in subsequent years because gathering information about planned environmental compliance occurs for the first time. Reviewers should consult the project's IEE and EMMP to check that planned actions to mitigate and monitor environmental risks are sufficiently addressed. There should be consistency between the EMMP, the Detailed Budget (including subcontractor budgets), and the Budget Narrative.

**PREP Budgets:** In subsequent years, budget reviews can focus on changes between budget requests for the coming year and the previous years' budgets. Changes in the budget for environmental compliance requirements should be reflected in the budget narrative and explained in the Environmental Status Report. Similarly, any changes in environmental compliance requirements that are described in the Environmental Status Report should appear in the Budget Narrative and Detailed Budget. Any changes should be well justified.

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<sup>8</sup> Definitions for the cost principles of allocable, allowable, and reasonable can be found in 2 CFR 230: [http://www.whitehouse.gov/sites/default/files/omb/fedreg/2005/083105\\_a122.pdf](http://www.whitehouse.gov/sites/default/files/omb/fedreg/2005/083105_a122.pdf).

# Annex I: USAID Environmental Compliance Basics

Title 22 of the Code of Federal Regulations, Part 216 (22 CFR 216)<sup>9</sup>, requires food assistance programs, as with other USAID supported development programs, to “ensure that the environmental consequences of [USAID] financed activities are identified and considered...and that appropriate environmental safeguards are adopted...” This regulation requires that all projects evaluate proposed activities to **identify and assess potential impacts**, as well as **develop measures to prevent, mitigate or compensate for them**, as appropriate. For more information on the USAID environmental compliance process, please refer to: <http://www.usaidgems.org/lop.htm>.

At the heart of the compliance process is the concept of *Environmentally Sound Design*, which consists of addressing environmental issues throughout the life of a project, from project design through close out. It requires identifying environmental risks and mitigating potential adverse environmental impacts. In this context, “environment” does not refer just to biophysical systems, such as the condition of wildlife habitats, but also to the environmental health of communities and individuals, such as the exposure to air and waterborne toxins. Mitigating potential adverse environmental impacts can be achieved through prevention, control, compensation, or remediation of the impacts.

The environmental compliance process and the budgeting process should be well integrated. This Annex describes the environmental compliance process for FFP projects with emphasis on two of the key documents as relevant for environmental compliance budgeting.

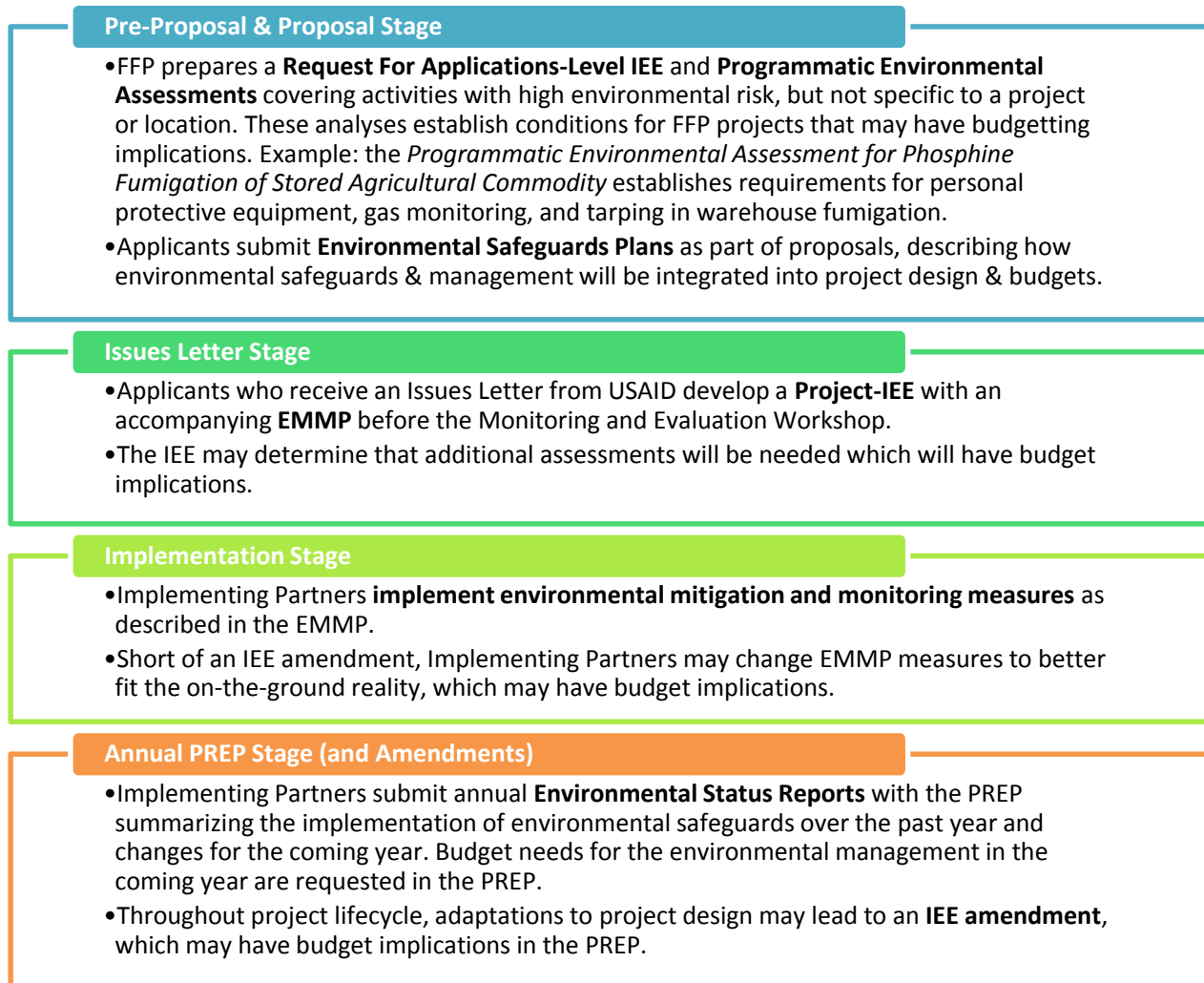
## **AI.I Overview: Environmental Compliance Process for FFP Projects**

A critical aspect for the success of identifying and mitigating potential adverse environmental impacts is the integration of the facets of the compliance process into the multiple stages of a typical project life cycle, i.e., from project design, through implementation and close out. Figure 3 describes environmental compliance activities throughout the life of a FFP project.

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<sup>9</sup> 22 CFR 216 is available in full from: [http://www.usaid.gov/our\\_work/environment/compliance/reg216.pdf](http://www.usaid.gov/our_work/environment/compliance/reg216.pdf).

Figure 3. Integrating Environmental Compliance into FFP Life of Project



The Project-IEE (here after referred to as IEE) and EMMP are explained in more detail in the following sections because of their significance as tools for environmental compliance budgeting.

## **AI.II The IEE: A Foundational Tool for Environmental Compliance Budgeting**

The IEE is an environmental review required of all USAID projects in which environmental risks associated with project activities in particular project locations are assessed to determine levels of risk of negative environmental impacts. Findings of the IEE result in “conditions” that a project must meet in order to mitigate risks. The IEE may also determine that additional assessments are needed, such as:

- **Pesticide Evaluation Report and Safer Use Action Plan (PERSUAP):** An amendment to the IEE for all projects that involve pesticides.<sup>10</sup>
- **Environmental Assessments:** More in-depth environmental reviews required for specific aspects of an overall intervention. Common activities in FFP programs requiring Environmental Assessments include road construction, large-scale irrigation, work in protected areas, etc.

The IEE also determines the types of risks and how to mitigate them, which will inform decisions about proper management and monitoring structures for a particular project.

### AI.III The EMMP: The Action Plan for the IEE

As part of the IEE, Implementing Partners develop EMMPs, which serve as the “action plan” for addressing the IEE findings. A typical EMMP consists of a table that lists, per activity, potential impacts, mitigation measures, monitoring indicators, methods of verification, and monitoring frequency.<sup>11</sup> EMMPs may also include a column for mitigation measure costs. An example EMMP is shown in Table 1.

Table 1. Illustrative EMMP Table

Activity	Potential Impact	Mitigation Measure	Monitoring Indicator <sup>12</sup>	Method of Verification	Monitoring Frequency
Landscaping, Planting Shrubs and Trees	Spread of invasive species	Select non-invasive, culturally acceptable species	Type of species used	Site photos, Visual inspection, Field reports	Once during planting
Potable Water Supply Improvements	Unsafe quality of drinking water (e.g., E.coli, Arsenic)	Follow water quality assurance plans & treat water	Water quality test results	Water quality tests, Field reports	Before water consumption and annually

The EMMP informs environmental compliance budgeting by identifying mitigation activities that will have an associated cost. Beyond the IEE, the EMMP should reflect the conditions established in any further environmental assessments, the Environmental Safeguards Plan from the proposal, and any Environmental Status Reports that have been submitted.

<sup>10</sup> More information on PERSUAPs is available from:

[http://www.usaidgems.org/Documents/complianceTopics/ST\\_Pesticides\\_Safer\\_UseCompliance\\_Cairo\\_10Oct2012.pdf](http://www.usaidgems.org/Documents/complianceTopics/ST_Pesticides_Safer_UseCompliance_Cairo_10Oct2012.pdf).

<sup>11</sup> More information on EMMPs is available from:

<http://www.usaidgems.org/Workshops/MalawiMay2013Materials/Chapters/STEMMP.pdf>.

<sup>12</sup> There is inherent confusion between the terminology ‘indicator’ as used in standard USAID environmental compliance and in monitoring and evaluation systems. In official USAID policy, an indicator “measures a particular characteristic or dimension of strategy, program, project, or activity level results ... Performance indicators are the basis for observing progress and measuring actual results compared to expected results.” The term Monitoring Indicator in the EMMP could be more accurately described as a Mitigation Implementation Indicator, specific to the mitigation measure and reflecting whether the mitigation measure is implemented and effective. Further information on the relationship between environmental monitoring and monitoring and evaluation at USAID is available from: <http://www.fantaproject.org/sites/default/files/resources/Environmental%20Considerations.pdf> and additional guidance is forthcoming.

# Annex II: Budgeting Basics

Each Implementing Partners has its own process for developing and adjusting budgets. This section describes the standard budgeting components for FFP projects, recognizing that there are many ways to produce these components. For additional information on USAID budgeting across the agency, please refer to the training at: <http://www.usaidallnet.gov/partner-learning/4/>.

## AII.I FFP Budget Format Overview

Similar to other USAID project budgeting processes, FFP budgets are comprised of three main sections:

1. Detailed Budget tables for each year of the project
2. Comprehensive Budget table
3. Budget Narrative

In order to have consistency within budget formats for FFP projects, USAID developed a suggested budget format. A template for this format is [available online](#) with Detailed Budget sheets for each year of the project and an additional sheet that automatically aggregates the Detailed Budget into a Comprehensive Budget overview sheet. **For complete understanding of the information presented in this section, it is recommended that the reader opens this template to review in parallel to reading.** A partial screenshot of a Detailed Budget sheet from this template is shown in Figure 4.

Figure 4. Partial Screen Shot of the 2014 FFP Detailed Budget

Detailed Line Items					Program Element 2					
					to select program element from dropdown menu...					
					ITSH Funds			Cost Share		
Object Class Category	Qty	Unit (Days, Mos., Trips, Etc.)	Unit Amt (US\$)	Total	No. of Units	Notes no. of units	Amt (US\$)	No. of Units	Notes no. of units	
<b>1. Salaries</b>										
<b>1.1 Field Staff</b>										
<b>1.1.1 Expatriates</b>										
				\$ -			\$ -			\$
				\$ -			\$ -			\$
				\$ -			\$ -			\$
				\$ -			\$ -			\$
				\$ -			\$ -			\$
				\$ -			\$ -			\$
<b>1.1.1 -SUBTOTAL: Expatriate Field Salaries</b>					<b>0</b>		<b>\$ -</b>	<b>0</b>		<b>\$</b>
<b>1.1.2 Local Staff</b>										
				\$ -			\$ -			\$
				\$ -			\$ -			\$
				\$ -			\$ -			\$
				\$ -			\$ -			\$
				\$ -			\$ -			\$

Source: FY 2014 Request for Applications Budget Template. A complete version can be downloaded from: <http://www.usaid.gov/documents/1866/fy-2014-rfa-budget-template#overlay-context=>.

Implementing Partners produce an accompanying Budget Narrative to describe the budget. Implementing Partners are also required to submit summary data from these sheets in the form of an Executive Summary Table, though this summary table is less relevant for environmental compliance budgeting and will not be discussed. FFP has an online portal, the [FFP Management Information System \(FFPMIS\)](#) where the budgets are uploaded.

As with any multi-year budgeting process, each section of the budget is first prepared during in the initial proposal and then further refined through discussions between the Implementing Partner and FFP. Annually, budgets are prepared for the coming year as part of the PREP process. For more information on PREPs, please refer to the training at the following link: [http://www.fsnnetwork.org/sites/default/files/ffpmis\\_prep\\_training\\_201304.pdf](http://www.fsnnetwork.org/sites/default/files/ffpmis_prep_training_201304.pdf).

The Detailed and Comprehensive Budgets and Narrative are further explained in the following sections, as relevant for environmental budgeting.

## **AII.II Detailed and Comprehensive Budgets**

This section will describe the Detailed Budget format, which is developed for each year of a project and aggregated into a single Comprehensive Budget. The FFP **Detailed Budget** sheets are organized by type of expense (or “Object Class Categories”<sup>13</sup>, such as Salaries, Travel and Transport, and Program Supplies), which are further divided into sub-categories. Annex VI provides more detailed information on Object Class Categories and how each relates to environmental costs. Each row within an Object Class Category is known as a “Line Item.”

Each budget line item is then further categorized by type of project activity, known as “Program Element.”<sup>14</sup> The **Program Elements** covering most FFP activities are shown in Table 2.

**Table 2. Program Elements Covering Most FFP Activities**

1. Agricultural Sector Capacity	8. Maternal and Child Health
2. Assistance and Recovery	9. Natural Resources and Biodiversity
3. Basic Education	10. Nutrition
4. Capacity Building, Preparedness, and Planning	11. Protection and Solutions
5. Civil Participation	12. Social Assistance
6. Family Planning and Reproductive Health	13. Strengthen Microenterprise Productivity
7. HIV/AIDs	14. Water Supply and Sanitation

<sup>13</sup> Object Class Categories are more generally known throughout USAID as “Class Categories.”

<sup>14</sup> The Program Elements listed in Table 2 are a subset of Program Elements established by the U.S. Department of State’s Office of Foreign Assistance. Projects may wish to draw on additional Program Elements from this list which can be found within the Standardized Program Structures and Definitions, available from: <http://www.state.gov/f/c24132.htm>

The line items are then sub-categorized by the FFP funding sources (or type of cash) in columns. Box 6 lists the funding sources that may be included, the most common being Section 202(e) Funds, ITSH funds, CDF, and Cost Share.

For example, under the Object Class Category of Salaries, there may be a line item for the Chief of Party. The total dollar value for this salary could be divided across each of the Program Elements, such as Agricultural Sector Capacity and HIV/AIDS, and then further identified as being funded by Section 202(e) funding. This process of categorizing each element of a budget (such as the individual salaries, office rent, road construction equipment, etc), is summarized in Figure 5.

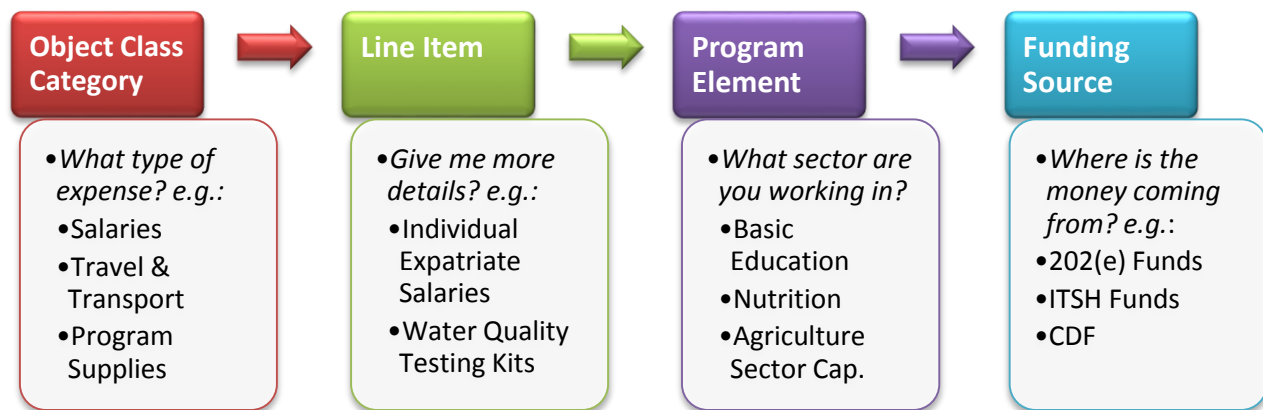
### Box 6. Funding Sources for FFP Programs

Sources of funding for FFP programs are:

- **Monetization proceeds** from the sale of FFP commodities, usually allocated to program implementation and management costs. (The majority of environmental costs will be allocated here).
- **Section 202(e)** funds to be used primarily for technical assistance, such as for expatriate management staffing, and limited according to legislation.\*
- **Internal Transportation, Shipping and Handling (ITSH)** funds for the inland transport, shipping and handling of FFP commodities.
- **Community Development Funds (CDF):** Development Assistance Funds from annual appropriations for the Foreign Assistance Act.
- **Cost Share** funds provided by the organization implementing the FFP project.
- **Other** funds, donor funds, or national government contributions, to be used to implement the program under the conditions attached to these funds.

\*See the most current FFP Information Bulletin for allowable uses of 202(e) funds. May be used instead of ITSH in countries where ITSH is not permitted.

Figure 5. Categorizing Budget Elements





The **Comprehensive Budget** is a sheet in the template which is a summation of all five years of Detailed Budget information. This is automatically populated within the template as the Detailed Budget sheets are completed.

### **AII.III Budget Narratives**

The Budget Narrative accompanies the Detailed and Comprehensive Budget and describes each cost, by line item, in sufficient detail to explain how the project funding will be spent. The Budget Narrative explains the rationale of the budget, including the purpose of each line item and how various line items differ. Where costs may be unexpected, the Budget Narrative should elaborate fully. This is key to the transparency of the budget. Writing a narrative with this level of detail ensures that the budget for environmental measures can be clearly identified and sufficiently detailed through the life of the project.

# Annex III: Questions to Consider in Identifying Environmental Costs

When initially identifying materials and services needed for environmental compliance requirements in the project, a budget developer should review either the Environmental Safeguards Plan (at the proposal stage) or the project's IEE and EMMP (once developed) to identify activities with associated environmental compliance costs. The following questions are recommended to be used in this process. These questions are intended to help identify major costs, but are not on their own sufficient for identifying all costs.

## 1. Do you need further assessments?

- Will the project involve the use of pesticides?  
→ *Budget for development of a PERSUAP and subsequent capacity building around pesticides.*
- Will the project involve warehouse fumigation and how often?  
→ *Budget for development of a Fumigation Management Plan and proper fumigation equipment.*
- Will the project involve large scale road construction, irrigation, or work in biologically sensitive areas such as Ramsar<sup>15</sup> wetlands?  
→ *Budget for development of an Environmental Assessment.*
- Will the project provide drinking water?  
→ *Budget for development of a Water Quality Assurance Plan and measures to implement it.*
- What are the local permitting requirements?  
→ *Budget for any additional costs of obtaining local permits.*

## 2. What staffing and training do you need?

- Considering project staffing and management structures,
  - Who will oversee overall project environmental compliance within the organization?
  - Who will conduct environmental monitoring across the range of sectors and how often?
  - Who will prepare reports on environmental activities for USAID?
  - Who will conduct trainings for environmental safeguards?
  - Who will build community capacity for environmental safeguards?
- Can the responsibilities identified in the preceding questions be covered by existing staff or are additional technical experts needed?
- Are trainings needed to build staff capacity? (consider both environmental staff and others)
- For responsibilities that can be covered by existing staff, what percentage of their time is needed for their environmental compliance responsibilities?
- Will the above responsibilities be undertaken by a consultant or a subcontractor?

*Box 7 contains further information on the importance of dedicated environmental staffing.*

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<sup>15</sup>Ramsar Convention: <http://www.ramsar.org>.

## Box 7. Dedicated Environmental Staffing

One critical line item for environmental budgeting is **dedicated environmental staffing**. Increasing evidence demonstrates that to comply with USAID environmental requirements and to do no harm to the local environment, there must be staff available to manage this aspect of the project, to implement environmental safeguards, to conduct trainings, do environmental monitoring, coordinate with other specialists such as climate change officers, etc. This may require positions that are full or part-time, expatriate or local, depending on the project.

### Case Study: The FFP SALOHI Program in Madagascar

The SALOHI Consortium, a CRS lead-partnership with ADRA, CARE and Land O'Lakes, hired an Environmental Technical Specialist to ensure compliance with USAID environmental requirements. This specialist supported SALOHI Consortium to implement their EMMP, monitor and evaluate environmental impacts of project activities, and to report on EMMP implementation to FFP.

The Terms of Reference for the consultancy solicited an ecologist, agronomist, or sociologist/socio-economist with an excellent understanding of environmental sciences, as well as experience in monitoring and evaluation of development programs in developing countries. The specialist was expected to have experience in analysis of environmental impacts of similar activities as under FFP, such as rural road construction and rehabilitation, irrigation system installation, water and sanitation, and agricultural activities. In-country experience was considered a great advantage. Lastly, the specialist needed a strong grasp of USAID environmental regulations and programs in Madagascar.

Under SALOHI, the Environmental Technical Specialist, who was hired part-time, designed user-friendly environmental monitoring checklist tools and led annual workshops to review and evaluate environmental monitoring data and discuss needed changes in the environmental management system. This specialist worked, on average, 100 days per year and traveled to all of the project sites.

### 3. What field visits do you need?

- How often will staff have to go to the field to manage environmental compliance?
- How often will environmental monitoring field visits take place? How many sites will be visited?
- How often will in-country travel be needed as part of trainings?
- What vehicles and other travel costs will be needed considering the locations of your field sites?
- Are there security costs associated with travel?
- *Will the above visits be combined with visits for other purposes?*

### 4. Equipment and supplies?

- What equipment or supplies are needed for environmental mitigation? (e.g., water quality testing kits or lab costs, vegetation for erosion control, costs of commodity waste disposal, etc.)
- If project involves warehouse fumigation, does the project or the fumigation contractor have the right tarps, gas monitoring equipment, and personal protective equipment?<sup>16</sup>
- What environmental monitoring equipment/supplies are needed? (e.g., water quality test kits)
- What supplies are needed to conduct environmental trainings?
- Are there additional reporting or administrative costs?

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<sup>16</sup> Information on health and safety requirements for fumigation in FFP projects can be found at: <http://www.usaidgems.org/fumigationpea.htm>.

# Annex IV: Checklist for Reviewing Project Budgets for Environmental Compliance

When reviewing a project budget for environmental compliance requirements, a budget reviewer should cross reference the Budget Narrative and Detailed Budget with the project environmental compliance documents to assess adequacy of the budget to cover environmental compliance costs. The following checklist is recommended to guide this review, although on its own may not be sufficient.

Question	Guidance Notes	Documents to Cross Check	Yes?	No?
<b>Budget Narrative</b>				
1. Does the budget narrative reflect the budget implications of management plan for environmental compliance?  → Does the budget narrative reflect staffing for environmental management? → Does the budget narrative reflect plan for further environmental analyses?	<ul style="list-style-type: none"> <li>A management plan will include the staffing, assessments, monitoring visits, etc. needed to assure implementation and monitoring of environmental mitigation measures.</li> <li>The Budget Narrative should be consistent with the environmental requirements established in environmental compliance documents, which may include further assessments, staffing, field visits, equipment and supplies, etc. (See <a href="#">Annex III</a>)</li> <li>A budget narrative that does not describe any budgeting for environmental impact related issues will need to be amended.</li> </ul>	<ul style="list-style-type: none"> <li>In proposal stage, Environmental Safeguards Plan</li> <li>Following M&amp;E Workshop, Environmental Mitigation &amp; Monitoring Plan</li> <li>At the PREP Stage, Environmental Status Report &amp; Environmental Mitigation &amp; Monitoring Plan</li> </ul>		
2. Does the budget narrative describe actions to comply with requirements for mitigating anticipated environmental impacts?  → Following the first year, does the budget narrative describe changes from the previous year based on lessons learned and implementation realities?				
<b>Detailed Budget</b>				
3. Do the detailed budgets, including subcontractor budgets, reflect the information described in the budget narrative with regard to environmental compliance requirements?  → Following the first year, do the detailed budgets reflect reasonable consistencies or variations from the previous year?	<ul style="list-style-type: none"> <li>All FFP budgets will require a level of funding allocated to the implementation of environmental requirements, as all FFP projects have the potential for environmental impact that can be mitigated.</li> </ul>	<ul style="list-style-type: none"> <li>Budget Narrative</li> <li>Previous year's budget</li> <li>Environmental Status Report</li> </ul>		

# Annex V: Example of Developing a Budget for Environmental Compliance Requirements: Road Rehabilitation

This annex explains the four steps of environmental compliance budgeting for a hypothetical road rehabilitation activity, producing a FFP-formatted budget for the associated environmental costs. The four steps are:

**Step 1: Identify materials and services needed to implement environmental requirements.**

**Step 2: Quantify environmental costs identified in Step 1.**

**Step 3: Translate environmental costs of Step 2 into standard FFP budget categories.<sup>17</sup>**

**Step 4: Integrate environmental costs into project budgets and narratives.**

Road rehabilitation is a common component of FFP funded projects. Environmental risks associated with road rehabilitation include erosion, water pollution, changes in water availability, deforestation, ecosystem degradation, human health and safety impacts, and changes to the local culture and society. Adverse impacts can be avoided or minimized though by applying environmentally sound design, construction, operation and maintenance practices. This example does not address a comprehensive set of environmental risks for road rehabilitation, but rather focuses on three potential direct environmental impacts.<sup>18</sup> It is of note that road rehabilitation may have potentially significant indirect impacts, such as increased deforestation and hunting, but this is not included as part of the example.

*“What is critical is that the process is **TRANSPARENT** to ensure that **ADEQUATE** funds are budgeted and remain available over the life of the project for implementation and monitoring of the required **environmental compliance measures**”*

An example EMMP for road rehabilitation is provided in Table 3 for the hypothetical first year of a project. As described in Section A.III, EMMPs include columns for an activity, its potential environmental impact, mitigation measures, monitoring indicators, methods of verification, and monitoring frequency. In this example, there is only one activity (road rehabilitation) so no activity column is shown.

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<sup>17</sup> Note: It may be possible to combine Steps 3 and 4 into a single step, depending on the particular budgeting process. It is shown here as two separate steps for greatest clarity.

<sup>18</sup> The list of potential environmental impacts in this table is not meant to be comprehensive for the environmental risks of road rehabilitation, but rather a subset of potential impacts for the purposes of illustrating the environmental compliance budgeting process. For a full description of environmental issues and best practices for road rehabilitation, please see USAID’s **Sector Environmental Guidelines: Rural Roads** ([www.usaidgems.org/bestPractice.htm](http://www.usaidgems.org/bestPractice.htm)) and USAID’s **Low-Volume Roads Engineering: Best Management Practice Field Guide** ([http://pdf.usaid.gov/pdf\\_docs/PNADB595.pdf](http://pdf.usaid.gov/pdf_docs/PNADB595.pdf)).

Table 3. Excerpts of an Example EMMP for Road Rehabilitation

Potential Environmental Impact	Mitigation Measure	Monitoring Indicator <sup>19</sup>	Monitoring Frequency	Method of Verification
1. Road location and design increase runoff and erosion, causing water pollution.	A. Conduct engineering study as part of activity design with engineering environmental impacts as part of it.	Presence of completed engineering study.	Prior to completion of design.	Review of design based on engineer's analysis.
	B. Ensure road is sufficient distance from water bodies to limit contamination from runoff.	Road location plan shows road distance from water bodies as sufficient.  Rehabilitated road location is in agreement with plans.	Review prior to completion of design and during and following construction.	-Review of design. -Visual inspection.
	C. Grade with in-slope, out-slope or cambered shape to improve drainage and prolong road life.	Grade of road shows in-slope, out-slope or cambered shape to improve drainage and prolong road life.	Review prior to completion of design and monitor daily throughout rehabilitation work.	-Review of design. -Visual inspection.
	D. Re-vegetate roadside slopes with soil-retaining vegetative cover (e.g., non-invasive bush species, vetiver, etc.) after	Roadside slopes are vegetated.	Following completion of each segment of road.	Visual inspection.

<sup>19</sup> There is inherent confusion between the terminology ‘indicator’ as used in standard USAID environmental compliance procedures and in USAID monitoring and evaluation systems. In official USAID policy (ADS 200), indicator “measures a particular characteristic or dimension of strategy, program, project, or activity level results ... Performance indicators are the basis for observing progress and measuring actual results compared to expected results.” The term Monitoring Indicator in the EMMP could be more accurately described as a Mitigation Implementation Indicator, which is specific to the mitigation measure and reflects whether the mitigation measure is being done, being done correctly, and with the desired effect. Further information on the relationship between environmental monitoring and monitoring and evaluation at USAID is forthcoming.

	upgrades and rehabilitations are completed.			
	E. Ensure community consultation.	Presence of community consultation records.	At least three times during design process.	Review of community consultation event records.
2. Borrow pits damage the environment due to removal of soil and vegetation.	A. Select existing borrow pit sites to minimize damage to the environment. Ensure responsible site selection for new borrow pits, considering wetlands, undisturbed areas, etc. Where a borrow pit exploits new locations near wetlands or undisturbed areas, further environmental review may be needed.	Borrow pit planned location show sufficient distance from potentially sensitive areas.  Borrow pit location is in agreement with plans.	Prior to selection and use of borrow pits.	-Review map of site location compared with land cover. -Visual verification that site matches plan.
	B. Backfill and restore borrow pits used for construction materials to prior-use state. This task may require heavy equipment and re-vegetation.	Borrow pits restored to prior-use state.	Following construction.	Visual inspection.
3. Improperly controlled or managed equipment can lead to oil or chemical leakage that may pollute soil or water.	A. Develop and implement an equipment maintenance plan.	Presence of equipment maintenance plan.	-Prior to equipment use and as planned throughout projects.	-Review of maintenance plan and records. -Visual inspection.
	B. Train equipment operators and maintenance personnel on proper vehicle use and maintenance, including speed limits and safe use.	Trainings conducted.	-Prior to equipment use.	-Review of training records.
	C. Develop a spill management plan, and train workers on the plan.	Presence of spill management plan.  Trainings conducted.	-Prior to the equipment procurement.	-Review of plan. -Review of training records.

**Step 1: Identify materials and services needed to implement environmental requirements.**

Completing Step 1 requires asking the question, *what materials and services are needed to achieve these requirements that have a cost? or, what do we need to buy?* The questions of [Annex II](#) are helpful in identifying these costs. Considering the mitigation measures shown in the EMMP of Table 3, the following materials and services of Table 4 can be identified:

**Table 4. Materials and Services Needed to Implement Environmental Requirements**

Potential Environmental Impact	Materials and Services Needed for EMMP Implementation (Environmental Costs)
1. Road location and design increase runoff and erosion, causing water pollution.	-Engineering expertise and roads engineering study. -Environmental expertise for environmental design (design review and overseeing implementation). -Site visits for monitoring. -Vegetation for revegetation activities. -Environmental assessment.
2. Borrow pits damage the environment due to removal of soil and vegetation.	-Time and staffing for environmental considerations of borrow pit selection. -Further environmental review of selected site. -Equipment for backfill and restoration. -Vegetation for revegetation activities. -Monitoring site visits.
3. Improperly controlled or managed equipment can lead to oil or chemical leakage that may pollute soil or water.	-Staffing for developing and overseeing the implementation of a vehicle maintenance plan and spill management plan. -Trainings for relevant staff in equipment operation and maintenance.

As shown in Table 4, the environmental requirements of the EMMP in Table 3 have a range of staffing, materials, travel, and trainings needs with associated budget implications. These will be referred to as “Environmental Costs.” Some measures to address different potential impacts have overlapping environmental costs. Also note:

- Depending on the project location and surrounding area, **additional analyses** may be needed such as an Environmental Assessment.
- There are specific **staffing** needs for both implementing and monitoring the mitigation measures. For example, an engineer will be needed for an engineering analysis. To review the design and oversee implementation, engineers with potentially different expertise will be needed. To monitor the implementation of measures, a certain number of site visits by project staff will be needed.
- For this example, the stage of the project cycle is not specified, but it is worth noting that depending on the **stage of the project** that the budget is being developed during, there will be more or less information on the scale and time associated with these needs.



Beyond what is shown in Table 4 for these specific mitigation measures, there are **overarching costs** that should also be considered include:

- Overall management of environmental compliance.
- Reporting on environmental compliance implementation and monitoring results to USAID.
- General environmental compliance trainings.
- Complying with national laws, including obtaining permits.

See the discussion in Section 2 for more information about overarching costs.

**Step 2: Quantify environmental costs associated with materials and services identified in Step 1.**

Once the materials and services needed for the environmental requirements are determined in Step 1 (i.e., the last column of Table 4 along with the overarching costs included in the bulleted list in the text following the table), dollar values must be assigned to them in Step 2. Completing this step requires some amount of assumptions and estimations and some amount of on-the-ground data. An illustrative table quantifying *some* of the costs from Step 1 are shown in Table 5. Step 2 requires getting information from a wide range of staff, including from the field, from various project activity areas, with knowledge about environmental compliance, and with knowledge about project budgets. Aspects of the project design and environmental requirements may be adjusted throughout these conversations as part of the iterative environmental budgeting process.

**Table 5. Quantifying Environmental Costs**

Potential Environmental Impact	Environmental Costs	Unit Costs	Unit	Year 1	Year 2	Year 3	Year 4	Year 5
1. Road location and design increase runoff and erosion, causing water pollution.	Civil and environmental engineering expertise.	\$4000	Months	4	1	0	0	0
	Roads engineering study. <sup>20</sup>	\$20000	Studies	1	0	0	0	0
	Environmental expertise for environmental design (design review and overseeing implementation).	\$1000	Month	12	4	4	4	4
	Site visits for monitoring.	\$800	Visits	12	12	2	2	2
	Vegetation for revegetation activities.	\$10	Seedlings	0	1000	0	0	0
	Environmental assessment.	\$12000	Studies	1	0	0	0	0
2. Borrow pits damage the environment due to removal of soil and vegetation.	Time and staffing for environmental considerations of borrow pit selection.	\$1000	Months	2	2	0	0	0
	Further environmental review of selected site.	\$12000	Assessments	0	0	0	0	0
	Equipment for backfill and restoration.	<i>Already considered in construction contracts, cannot be isolated</i>						
	Vegetation for revegetation activities.	\$10	Seedlings	0	400	0	0	0
	Monitoring site visits.	\$800	Visit	4	4	2	0	0
4. Improperly controlled or managed equipment can lead to oil or chemical leakage that may pollute soil or water.	Staffing for developing and overseeing the implementation of a vehicle maintenance plan and spill management plan.	<i>Included in Full Time Environmental Management Coordinator scope of work.</i>						
	Trainings for relevant staff in equipment operation and maintenance.	\$2000	Training	1	2	0	0	0

<sup>20</sup> A Roads Engineering Study should be well coordinated with, but distinct from, an Environmental Assessment, focusing on the engineering parameters.

The results shown in Table 5 are just one example of how the environmental costs of Table 4 may be quantified. There are **various levels of detail** for which these costs can be shown, depending on the stage of the project cycle, the extent of project design that has taken place, the available on-the-ground information, etc. It is up to the discretion of the environmental compliance budgeting team to get to the level of detail necessary to achieve a sufficiently accurate budget estimate. The objective is to ensure an adequate and transparent break down analysis of the environmental compliance costs for the road rehabilitation activity. A couple of key points emerging from this Step in this example are:

- In order to achieve transparency for adequate environmental compliance budgeting, it may not be necessary to quantify every environmental cost. There will be some costs that are too integrated. In this example, the environmental cost of Equipment for Backfill and Restoration to mitigate Potential Environmental Impact 2, is listed as “already considered in the construction contract, cannot be isolated.” Separating this cost from the rest of the construction contract would not be a meaningful exercise and pointing to where it is included elsewhere maintains the efficacy of the exercise. There is not one right answer of when to do this, but it is important that the process be systematic.
- In this step, it becomes clear that certain costs will later be combined, condensed, or integrated with other line items in the final budget (Step 4). For example, monitoring visits and community consultations are listed for multiple activities, but the same monitoring visit or community consultation may cover multiple mitigation measures. Similarly, vegetation is listed in multiple places; while the vegetation purchased for one activity cannot later be used in another, vegetation covering multiple activities can be condensed into a single line item. This process will be completed in Step 4.

**Step 3: Translate environmental costs of Step 2 into standard FFP budget categories.<sup>21</sup>**

Each of the costs of Step 2 (Table 5) must now be translated into the standard FFP budget categories of Program Element, Object Class Category, line item (either as its own line item or integrated into another), and funding source (see Annex II for more information on FFP budgets). This translation for the road rehabilitation example is provided in Table 6, using the results of Step 2’s environmental cost quantification.

**Table 6. Translation of Environmental Costs into Standard FFP Budget Categories**

Potential Environmental Impact	Environmental Costs	Standard FFP Budget Categories			
		Object Class Category <sup>22</sup>	Line Items	Program Element <sup>23</sup>	Funding Source <sup>24</sup>
1. Road location and design increase runoff and erosion, causing water pollution.	Civil and environmental engineering expertise.	-Salaries -Fringe Benefits	-Staff Engineer	Agricultural Sector Capacity	202 (e)
	Road engineering study.	-Subcontracts	-Engineering Subcontract	Agricultural Sector Capacity	202 (e)
	Environmental expertise for environmental design (design review and overseeing implementation).	-Salaries -Fringe Benefits	-Environmental Management Coordinator	Agricultural Sector Capacity	202 (e)
	Site visits for monitoring.	-Travel and Transport -Salaries -Fringe Benefits -Equipment >\$5,000	-Driver -Per Diem -Project Vehicle -Vehicle Use	Agricultural Sector Capacity	202 (e)
	Vegetation for revegetation activities.	-Other Direct Costs	-Seedlings	Agricultural Sector Capacity	202 (e)
	Environmental Assessment.	-Subcontracts	-Environmental Assessment Subcontract	Agricultural Sector Capacity	202 (e)

<sup>21</sup> Note: It may be possible to combine Steps 3 and 4 into a single step, depending on the particular budgeting process. This toolkit presents two separate steps for greatest clarity.

<sup>22</sup> A list of Object Class Categories is included in Annex V.

<sup>23</sup> A list of Program Elements is included in Table 2. As this example is for a single projects activity (road rehabilitation), only one Program Element (Agricultural Sector Capacity) is shown. Step 3 for a whole project would reflect all Program Elements in the project.

<sup>24</sup> A list of Funding Sources is included in Box 6.

2. Borrow pits damage the environment due to removal of soil and vegetation.	Time and staffing for environmental considerations of borrow pit selection.	-Salaries -Fringe Benefits	-Individual staff (e.g., Staff Engineer, Environmental Management Coordinator, etc.)	Agricultural Sector Capacity	202 (e)
	Further environmental review of selected site.	-Subcontracts	-Environmental Review Subcontract	Agricultural Sector Capacity	202 (e)
	Equipment for backfill and restoration.	-Sub-Award	-Equipment Rental	Agricultural Sector Capacity	202 (e)
	Vegetation for revegetation activities.	-Other Direct Costs	-Seedlings	Agricultural Sector Capacity	202 (e)
	Monitoring site visit.	-Salaries -Fringe Benefits -Travel and Transport -Program Supplies	-Individual staff (e.g., Staff Engineer, Environmental Management Coordinator, etc.) -Driver -Project Vehicle -Per Diem	Agricultural Sector Capacity	202 (e)
3. Improperly controlled or managed equipment can lead to oil or chemical leakage that may pollute soil or water.	Staffing for developing and overseeing the implementation of a vehicle maintenance plan and spill management plan.	-Salaries -Fringe Benefits	-Individual staff	Agricultural Sector Capacity	202 (e)
	Trainings for relevant staff in equipment operation and maintenance.	-Sub-Award	-Training sub-award	Agricultural Sector Capacity	202 (e)

The example provided here illustrates how the information from Steps 1 and 2 are translated into FFP standard budget categories in Step 3. Different projects may identify the same environmental cost (e.g., engineering expertise) as an environmental cost, but then categorize it differently because of the particular project structures. In this example, engineering expertise falls under the Subcontracts Object Class Category. In other projects though, this expertise may come from project staff and therefore would be budgeted in the Object Class Categories of Salaries, Fringe Benefits, etc. Similarly, specific studies, such as the Environmental Assessment or Engineering Study shown in this example, may be produced internally and categorized under Salaries and Other Direct Costs, or contracted out through Sub-Awards or Subcontracts. When costs are categorized as Subawards or Sub-Contracts, they are further detailed in the detailed budget for those particular Awards or Contracts.

**Step 4: Integrate environmental costs into actual project budgets and narratives.**

In this step, the environmental costs from Step 3 (Table 6) are integrated into the detailed project budget (see Figure 4), comprehensive project budget, and budget narrative.

**Table 7. Integration of Environmental Costs into Detailed Project Budget**

<i>Funding Sources for Fiscal Year 1</i>					
Detailed Line Items			Agricultural Sector Capacity		
Object Class Category	Unit	Unit Amt (US\$)	Section 202(e) Funds		Program Element subtotal
			No. of Units	Amt (US\$)	
<b>1. Salaries</b>					
<b>1.1 Field Staff</b>					
<i>1.1.1 Expatriates</i>					
Staff Engineer	Months	\$4,000	4	\$16,000	\$16,000
<i>1.1.2 Local Staff</i>					
Environmental Management Coordinator	Months	\$1,000	12	\$12,000	\$12,000
Driver	Months	\$800	12	\$9,600	\$9,600
<b>2. Fringe Benefits</b>					
Staff Engineer		30%	4	\$4,800	\$4,800
Environmental Management Coordinator		20%	12	\$2,400	\$2,400
Driver		20%	12	\$1,728	\$1,728
<b>4. Travel and Transport</b>					
<b>4.6 In-Country Ground Travel</b>					
Vehicle Use	Km	0.25	1200	\$300	\$300
<b>4.7 In-Country Per Diem</b>					
Expatriate Staff	Days	\$60	12	\$720	\$720
Local Staff	Days	\$40	96	\$3,840	\$3,840

<b>6. Program Supplies</b>					
Seedlings	Seedlings	\$10	0	\$-	\$-
<b>10. Sub-Awards</b>					
Environmental Trainings	Trainings	\$2,000	1	\$2,000	\$2,000
<b>11. Sub-contracts</b>					
Roads Engineering Study	Studies	\$20,000	1	\$20,000	\$20,000
Environmental Assessment of Road Rehabilitation	Studies	\$12,000	1	\$12,000	\$12,000
Additional Environmental Reviews	Studies.	\$12,000	0	\$-	\$-
Road Construction Work and Equipment Rental	Contract	\$400,000	1	\$400,000	\$400,000
<b>13. Equipment &gt; \$5,000</b>					
Project Vehicle	Vehicle	\$12,000	1	\$12,000	\$12,000
<b>TOTAL PROGRAM</b>				<b>\$501,616</b>	<b>\$ 501,616</b>

*\*This table shows only 202 (e) funds because the example covers a narrow scope of activity. For a real project budget, all funding sources for the project would be shown.*

The information in the table consolidates all of the information from the previous steps. This is the table that will be submitted from the Implementing Partner to FFP and which will be used for project budget decisions. Since much of the information from earlier steps is hidden in this last table, it is important to capture critical information in the budget narrative.

For example, Step 3 showed several sub-activities with Staff Engineer requirements which are combined into a single line item in Step 4. This engineer may be hired for 100% LOE for the project but only 33% LOE is needed for the environmental requirements. Merging the budget line item for the different responsibilities of this Staff Engineer risks that the 33% percent of the engineer's time that is intended for design and oversight to ensure environmental issues are addressed for road rehabilitation may "get lost" in the final Detailed Budget and consequently will not remain available when it is time for implementation. For this reason, it is necessary that this division of responsibilities be clearly identified in the Budget Narrative for this line item, as in the example below:

**Staff Engineer – Road rehabilitation**

One Staff Engineer ... This position will be responsible for design and oversight to ensure environmental issues are addressed for road rehabilitation (1/3 time LOE) and general management and oversight of road rehabilitation unrelated to environmental issues (2/3 time LOE) at an annual salary of \$48,000 USD for FY 1 and FY 4. Salary based on the Implementing Partner's standard expatriate staff compensation rates. Fringe and overseas allowances have been budgeted separately.



# Annex VI: Object Class Categories & Environmental Costs

As discussed in Section All.II Detailed and Comprehensive Budget, Object Class Categories are one of the ways that budget items (and therefore environmental compliance costs) are categorized in Detailed Budgets. The standard Object Class Categories for FFP budgets are listed here with further explanation and examples of environmental costs that would fall within them.

**Table 8. FFP Object Class Categories\* & Environmental Costs**

Object Class Category	Definition	Example Environmental Costs
<b>1. Salaries</b>	Salaries (compensation) for full or part-time expatriate, local field, and headquarters staff.	Staff time required for implementation and monitoring of environmental safeguards, e.g., an Environmental Management Officer, staff who prepare environmental compliance documents, time for environmental monitoring visits or to lead environmental trainings, etc.
<b>2. Fringe Benefits</b>	A set percentage applied to the staff salaries to cover employment benefits, such as retirement, insurance, etc.	See 'Salaries'
<b>3. Non-Employee Labor</b>	Consultants or others hired who are not staff.	Time required for implementation and monitoring of environmental safeguards, e.g., for preparation of environmental compliance documents, for environmental monitoring visits or to lead environmental trainings, etc.
<b>4. Travel and Transport</b>	International, regional, and in-country air travel and per-diem; transport of goods.	Expenses to bring staff to the field for development of compliance documents, training, environmental monitoring, etc. Cost to move materials to implement an environmental mitigation measure, such as fencing to protect a potable water source.
<b>5. Overseas Allowances</b>	Housing, dependent education, rest and relief, danger pay, etc.	See 'Salaries.'
<b>6. Program Supplies</b>	Materials used in the office, used for trainings when purchased at one time for occasional use, for construction, warehouses, or for project delivery (e.g., disposable testing kits, bandages, clothes).	Supplies or commodities procured to implement mitigation measures, e.g., water testing kits, culverts, fencing, seedlings, containers for medical sharps, etc.
<b>7. Other Direct Costs</b>	Any costs not detailed above, except indirect costs ("NICRA"), which are included for the overall program budget	Development, printing, and dissemination of educational or awareness materials such as posters, videos, radio broadcasts, etc. Legal fees around local environmental permitting.

<b>8. Staff Training</b>	Costs of conducting or attending trainings.	Training costs for staff in safe fumigation, fuel efficient cooking, environmental compliance, safer use of pesticides, etc.
<b>9. Sub-Awards</b>	Grants to other entities.	Program sub-awardee expenses for implementing environmental mitigation measures, trainings, community incentive awards, etc.
<b>10. Sub-Contracts</b>	Contracts to other entities.	Contracts for carrying out Environmental Assessments (e.g., for roads or irrigation), developing PERSUAPs, conducting ground water analyses, conducting trainings, etc.
<b>11. Equipment over \$5000</b>	Non-expendable equipment and materials.	Vehicles to be used for environmental monitoring field visits.

\*Note that this table does not include the following Object Class Categories because of their lack of explicit relevance for environmental compliance budgeting decisions: USAID Branding & Marketing, Indirect Costs, and OMB Circular A-133 Audits.