HUMANITARIAN ACADEMY · HUMANITAIRES JOBS

Mini MBA Finance and Grants: managing donor money and financial health

Course handout · Week 2 : Building budgets: project, shared costs and organisational budget

A programme of exactly 3 months (12 weeks, 144 hours) to manage the finances of a humanitarian organisation and donor funds: NGO accounting and restricted funds, budgets and shared costs, cash and foreign exchange, budget monitoring and forecasts, eligibility rules, the grant cycle, partner funding, audits and fraud, financial health, full cost, reserves and diversification, governance and turnaround. Corrected numerical exercises, three monthly exams with case studies, and a verifiable diploma from the Humanitarian Academy.

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Week 2 : Building budgets: project, shared costs and organisational budget

Objectives

- Build a complete and defensible project budget, line by line, with justified unit costs.
- Allocate shared costs fairly and verifiably, and understand indirect costs and their recovery.
- Assemble an organisation's annual budget from its projects, and spot funding gaps.

The project budget: from activity to amount

A project budget translates the workplan into money. Each line follows the formula **quantity × unit cost × duration or frequency × share charged**, with a justification note (quotation, salary scale, history, market price). A budget without a basis of calculation is the first reason for rejecting a proposal and the first source of overspending.

The usual headings: **staff** (salaries, employer contributions, insurance, allowances, with the percentage of time on the project); **activities** (transfers, inputs, training, works); **equipment** (vehicles, IT, often subject to rules on ownership and disposal); **travel**; **office and running costs** (rent, communications, supplies); **monitoring and evaluation**; **audit**; **indirect costs**.

Example of a staff line. A project manager paid 2,400 USD a month, with 22% employer contributions, at 60% on the project for 12 months: 2,400 × 1.22 × 0.6 × 12 = 21,082 USD. You also need to plan for scheduled annual increases, end-of-contract indemnities due by law and the cost of recruitment.

> The most expensive mistakes: forgetting social charges, inflation on a project lasting more than a year, the exchange rate, bank charges, the final audit and closure costs (indemnities, asset transfer).

Direct costs, shared costs, indirect costs

Three categories, whose definitions vary slightly from donor to donor:

- **Direct costs**: clearly linked to a single project (the project's transfers, staff working 100% on it).
- **Shared costs** (or direct support costs): country office costs that serve several projects (rent, guarding, logistician, accountant, shared vehicles). They can be charged directly to projects, provided they are allocated using a fair and documented method.
- **Indirect costs**: costs of headquarters and central functions that cannot be attributed to a project (executive management, central finance, IT systems, audit of the organisation's accounts). They are covered by a flat percentage or a negotiated rate.

Common flat rates: often 7% with several European institutional donors, up to 15% as the minimum (de minimis) rate in the US federal rules since their 2024 revision (10% previously), higher negotiated rates for some organisations, and very low rates, sometimes zero, with some funds or foundations. The difference between these rates and the real cost of headquarters is a gap the organisation must fill with unrestricted funds.

The cardinal rule: **no double charging**. A cost covered by the indirect cost rate cannot also be charged as a direct cost to the same project.

Allocating shared costs

The **allocation key** must reflect actual use of resources, be applied consistently to all projects and all donors, and be verifiable. The usual keys:

Key	Suited to	Limitation
Staff time (timesheets)	Salaries of shared staff	Requires actual timesheets, not theoretical ones
Share of direct expenditure	Rent, security, office overheads	Projects with large transfers pay a lot
Number of project employees	Premises, IT, HR	Ignores differences in intensity
Kilometres or vehicle days	Shared fleet	Requires reliable logbooks

Example. Office shared costs: 30,000 USD a month. Direct expenditure for the month: project A 120,000 USD, project B 60,000 USD, project C 20,000 USD (total 200,000). With the direct expenditure key: A 18,000, B 9,000, C 3,000 USD. If project A includes 90,000 USD of cash transfers that hardly use the office, a key excluding transfers is fairer: base A 30,000, B 60,000, C 20,000 (total 110,000), giving A 8,182, B 16,364, C 5,455 USD.

The common problem is not the method, it is the **gap**: if a donor caps its share of shared costs or refuses a line, the uncovered share must be funded by another project (if its contract allows it and the key justifies it) or by unrestricted funds. It is never charged to another donor beyond that donor's actual share.

The organisational budget

The **organisation's annual budget** brings together three layers:

- **Secured funding**: signed contracts, with their share of expenditure planned for the year (a 24-month project started in July only brings part of its budget to the current year).
- **Probable funding**: proposals in advanced negotiation, weighted by their probability.
- **The organisation's fixed costs**: headquarters, country offices, core staff, systems, governance.

The key question is **fixed cost coverage**: do the shared and indirect costs recovered from projects, plus unrestricted funds, cover the fixed costs? **Example.** Headquarters fixed costs:

1,200,000 USD. Direct costs of secured projects: 9,000,000 USD, with an average indirect cost rate of 7.5%: 675,000 USD recovered. Expected unrestricted donations: 300,000 USD. Gap: 1,200,000 − 675,000 − 300,000 = 225,000 USD. The budget must show how to fill it (new contracts, cost reductions, fundraising) or decide to draw on reserves, and say so to the board.

The organisational budget is built in **scenarios**: base (secured contracts only), probable, and downside (loss of a major donor). For each scenario, the decisions to be taken and their deadline are identified: a cost reduction plan is decided months before the money runs out.

The budget in the donor proposal

The proposal budget is both a management tool and an argument. Donor reviewers look at:

- **Consistency** with the logical framework: each activity has its cost, each significant line serves an activity.
- **Realism** of unit costs (compared with market prices and other proposals).
- **Proportion** of staff and running costs relative to activity costs, which should be explained rather than hidden (a protection project has a lot of staff; a cash project a lot of transfers).
- **Compliance** with the rules (headings, ineligible costs excluded, indirect rate respected, co-financing if required).
- **Value for money**: cost per person and per result, economy measures.

The **budget narrative** explains the significant lines, the assumptions (exchange rate, inflation), the method for allocating shared costs and the co-financing. A good narrative avoids weeks of questions and later serves as a reference in the event of an audit.

> Never "inflate" a budget in anticipation of a cut by the donor: if the cut does not happen, you end up with overestimated lines that will be underspent, which damages credibility and can be interpreted as a lack of honesty.

Exchange rates and inflation in the budget

Most projects are funded in one currency (euro, dollar) and spent in another (local currency). The **exchange rate risk** is twofold: a depreciation of the local currency creates exchange gains (more local currency per dollar); an appreciation, or a rise in the contract currency against the accounting currency, creates losses.

Example. Budget of 500,000 EUR, accounts kept in USD. At the proposal rate (1 EUR = 1.10 USD): 550,000 USD. If the euro falls to 1.02 USD when the instalments are paid, the organisation receives 510,000 USD: 40,000 USD is missing to deliver the same programme. Many donors do not accept exchange losses as an eligible expense; you need to build in a prudent margin, monitor the rate and, if the gap becomes significant, renegotiate activities.

Inflation must be built in for any project lasting more than 12 months and in high-inflation contexts: year 2 prices are budgeted with a realistic rate (data from the central bank, the IMF or the cash working group). In countries with very high inflation, you can budget in a hard currency and plan a mid-term revision of unit costs.

The conversion rules (rate to be used for reporting: rate of the transfer received, weighted average rate, the donor's official monthly rate) are set by the contract. Ignoring them creates differences that become ineligible costs.

Exercise: allocating shared costs and measuring the gap

Situation. A country office has 45,000 USD of monthly shared costs. Projects (monthly direct expenditure excluding cash transfers): A 50,000 USD; B 30,000 USD; C 20,000 USD. Project B's donor caps its contribution to shared costs at 9,000 USD a month. At headquarters level: fixed costs 900,000 USD a year; annual direct costs of all projects 7,200,000 USD; average indirect cost rate 7%; expected unrestricted donations 150,000 USD.

Tasks. 1) Allocate the shared costs using the direct expenditure key. 2) What is the monthly gap caused by donor B's cap, and how should it be handled? 3) Calculate the headquarters' annual gap.

Answer. Base 100,000: A 50%, B 30%, C 20%, i.e. A 22,500, B 13,500 and C 9,000 USD. With the cap, B only pays 9,000: a gap of 4,500 USD a month, or 54,000 USD a year. It is not passed on to A and C beyond their actual share: it is funded by unrestricted funds, and better coverage is negotiated with donor B for the next contract. Headquarters: 7% × 7,200,000 = 504,000 USD recovered; 900,000 − 504,000 − 150,000 = 246,000 USD annual gap, to be filled by higher negotiated rates, new contracts, savings or unrestricted fundraising.

Key takeaways

- Each line: quantity × unit cost × duration × share charged, with a justification.
- Shared costs allocated using a fair, consistent and verifiable key; no double charging with indirect costs.
- A donor cap on shared costs creates a gap to be funded by unrestricted funds, never by another donor.
- Organisational budget: secured funding, weighted probable funding, fixed costs, in several scenarios.
- Plan for exchange rates, inflation, social charges, audit and closure costs.

Quiz

1. A salary of 3,000 USD a month, 20% social charges, 50% on the project for 10 months costs the project:
   A. 15,000 USD
   B. 18,000 USD
   C. 36,000 USD
   D. 30,000 USD
2. A cost already covered by the indirect cost rate is also charged as a direct cost to the same project. This is:
   A. Good practice
   B. Double charging, ineligible
   C. Mandatory
   D. Acceptable if the amount is small
3. A budget of 400,000 EUR planned at 1 EUR = 1.12 USD; instalments received at 1.05 USD. Amount missing in USD to deliver the same programme:
   A. 28,000 USD
   B. 20,000 USD
   C. 48,000 USD
   D. 7,000 USD
4. Headquarters fixed costs 800,000 USD; direct costs 6,000,000 USD at 8% indirect costs; unrestricted donations 200,000 USD. The gap is:
   A. 120,000 USD
   B. 0 USD
   C. 600,000 USD
   D. 280,000 USD
5. Inflating a budget in anticipation of a cut by the donor is:
   A. A recommended strategy
   B. Bad practice that damages credibility and creates underspends
   C. Mandatory for large donors
   D. Of no consequence

Quiz answers : 1. B · 2. B · 3. A · 4. A · 5. B