

How to analyse a budget

What is a good budget?

A good budget presents all costs linked to the implementation and management of a project in a precise, structured form, in the standard format of the Humanitarian and Stabilization Operations Department – COHS (see canvas to send to any partner wishing to submit a project proposal).

The budget should include **two main categories of expenditure: direct costs and indirect costs**. It must comply with a certain number of fixed criteria, but a degree of flexibility is needed to analyse the budget's coherence with the specific implementing context and the type of project.

The budget should be analysed based on several key criteria, including:

- **Balance between the different headings**, particularly the 70/30 ratio between programme or activity costs and support costs (calculated based on total direct costs, not the total budget);
- **The degree of detail** presented for each expenditure: What is each line for? What is the unit cost? How many units will be used? Over what period? Or is it a one-off expenditure?
- **The general coherence** of the budget and the budget lines with the concept paper : does the expenditure reflect the description of the activities as given in the concept paper? Is it appropriate with regard to the ambitions of the activities and the local context?

In line with the Grand Bargain commitments to harmonization between donors, **the CDCS draws on the budget form and guidelines of the European Commission** (DG ECHO) This guide essentially resumes the Commission's doctrine on the drafting and analysis of budgets.

Direct costs

These are spread between **two main headings**:

- **Programme or activity costs;**
- **Support costs.**

The balance between programme or activity costs and support costs is indicative of the coherence of the budget and the share of finance allocated to the beneficiaries. The **70/30 ratio, calculated on the total of direct costs**, should be used, meaning that support costs should ideally not exceed 30% of total direct costs. This ratio should be considered in the light of the context, specific constraints and nature of each project, maintaining the flexibility that characterizes the CDCS. Above all, this should be discussed between the CDCS and the NGO, which should justify support costs above 30% which could, if justified, be accepted by the CDCS.

The distinction between these two types of costs is clear in the budget form filled in by the NGO (two major headings in direct costs, and a formula displaying the ratio). It is therefore the NGO that initially divides budget lines between activities and support. This division can of course be discussed between the NGO and the CDCS.

Programme or activity costs

These are **costs linked to activities with the project's beneficiaries**. There are two main categories under this heading.

Staff costs: staff directly involved in activities (medical personnel at a healthcare centre, teachers and assistants at a school, workers, craftspeople, etc.) or in the overall implementation of the project (project manager, coordinator, etc.). At least two categories of staff should be distinguished: international staff and local staff. All payroll costs should be included (gross salaries, insurance, bonuses, allowances, etc.), as should costs linked to staff travel and presence (flights, taxis, accommodation, per diems, visas, etc.).

Goods, equipment and services required for implementation, such as: food, medicines and medical equipment, hygiene kits, construction materials, raw materials, organization of workshops or training (including compensation for participants), printing or publicity of outreach messages or activities, project promotion to beneficiaries and local stakeholders, supply of cash or vouchers and costs linked to their distribution, capacity building of local stakeholders under project activities, quality control, benchmark evaluations and post-distribution tracking required for project implementation, safety equipment, etc.

Support costs

These costs are **essential for the proper implementation of the project but not directly linked to activities benefiting the project beneficiaries**. There are several categories under this heading.

Staff costs: staff whose functions are not directly linked to implementation (administrative and financial staff, logistical staff, etc.). At least two categories of staff should be distinguished: international staff and local staff. All payroll costs should be included (gross salaries, insurance, bonuses, allowances, etc.), as should costs linked to staff travel and presence (flights, taxis, accommodation, per diems, visas, etc.).

Overheads: rent for local offices, accommodation for expatriate staff, water, electricity, telecommunications and Internet access, insurance, supplies, consumables, vehicle costs (fuel, rental, maintenance, etc.).

Equipment: purchase, rental and/or depreciation of vehicles, computer equipment, security equipment, etc., which is essential for local NGO operations but not directly linked to the activities.

Communication and publicity: banners, documents, stickers, publicity messages, etc., aimed at promoting the project, the partner and the donor to audiences not directly involved in the project.

Training and capacity building for local partners (organization of workshops) where this is not a fully-fledged activity linked to a project goal.

Monitoring and evaluation, internally (collection of data for benchmark or final study) and externally. Costs linked to internal monitoring and evaluation may be included in activity costs where they are essential for activity implementation (benchmark or post-distribution evaluation, monitoring linked to cash distribution, etc.; see above) but this must be stated by the NGO.

Bank charges, including fees from money transfer services, insurance and legal costs directly linked to the project.

Specialized services such as legal services or advice directly linked to the project, for example.

What are indirect costs?

These are “**management fees**” or “**administrative overheads**” which should, under CDCS doctrine, be equivalent to **10% of direct costs**.

There are many definitions of these costs. These are generally costs induced by the project’s implementation but that are not directly linked to it and cannot be linked to a specific activity or service. They include administrative overheads and headquarters costs for NGOs, for example. **NGOs are not required to detail these costs.**

For projects implemented by Expertise France, the EF-MEAE framework convention applies, with indirect costs set at 12%.

In the event of co-financing with other donors, indirect costs covered will represent 10% of direct costs financed by the COHS (and not the direct costs of the project’s total budget).

Budget amendments: “cost extensions” and “top-ups”

There are two main cases where implementing partners may request a **budget amendment**, which supplements but does not replace the initial grant agreement and involves disbursement of further funds:

- **Cost extension**: where the funds paid will not be sufficient to implement all planned activities, because of unforeseen circumstances (security situation, political situation, technical difficulties, etc.) and additional finance is required for them. This may or may not involve extending the project duration;
- **Top-up**: where it is relevant to amend or redirect certain activities, or to add further activities, either for the same duration or, most often, for an extended duration. This includes additional finance paid in year N+1 for a project initially financed under year N.

In both cases, a new grant agreement is not required, as only one or two aspects of the agreement need to be amended. **A budget amendment is therefore drawn up.**

The CDCS desk officer is responsible for dialogue with the NGO to agree the new implementation terms, which need to be set out by the partner in a **supplementary concept paper** and a **new budget, which should be presented in a document with the initial budget**, in order to show the changes alongside the initial disbursement.

A budget amendment is also required where one or more of the project’s budget headings varies by more than 20%. Where there is a variation between 10% and 20%, it must be justified by the partner and the CDCS desk officer can provide a certificate of non-objection (ANO) by email. A heading is understood as a subdivision in the budget (eg. I.1 Staff costs, I.2 Goods and services, etc.).

However, a **new grant agreement** is required where there is a **substantial change to the content of the initial agreement** (amendment of more than two aspects: nature of the activity, duration, target areas, budget, etc.).

Are there any exceptions?

The analysis of the budget needs to take several factors into account, including the nature of the activities, constraints linked to the implementing environment, the nature of the partner (NGO or agency, local or international actor, etc.). **Some flexibility is important**: the CDCS is a donor that needs to preserve its flexibility and adapt to the volatility of crisis situations.

For example:

Support costs may be higher where the CDCS finances the first establishment of an NGO in a given country or area, as we would be alone in covering support costs without the possibility of pooling them with other donors.

Staff costs may be high in certain projects which require a lot of human resources and limited equipment. This concerns dialogue, reconciliation, mediation, training and governance support projects, for example. In these cases, staff costs correspond to programme or activity costs and goods, equipment and services costs may be low compared to other projects.

Financial report

In the mid-term and final reports, the NGO should **detail the real execution of the budget in the initial budget form**, in order to present the variations between planned and executed budget.