

Guide to model budget for grant policy framework DIETS program

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1. Introduction

There are several advantages to having a standardized model budget. Project budgets often lead to discussion, especially about which costs are eligible for requesting subsidies from the Dutch Ministry of Foreign Affairs (MOFA). Furthermore, different activities carried out by one and the same organization cannot be easily compared if different formats and definitions of cost types are used. Sometimes, several departments make different financing agreements with the same implementing organization and apply and accept different indirect cost percentages. For these reasons, a standardized model budget has been designed in order to prevent misunderstandings.

In the context of the DIETS Program grant policy framework, the budget model as described in the following chapters must be used to draw up the program activity budget. Other layouts will not be accepted.

2. Model budget

The model budget consists of the following cost categories and subcategories.

I.	Direct staff costs
	A. Staff costs
	B. Local staff costs
	C. Consultants and advisers
II.	Other direct program costs
	A. Activity costs
	A.1. Coordination costs consortium
	B. Costs of consortium partners and local NGO costs
	C. Activity-related travel costs
	D. Project office costs (if applicable)
	E. Equipment and investment costs
	F. Monitoring, evaluation and auditing
III.	Subtotal I+II (=min. 85% of V)
IV.	Overheads / indirect costs (=max. 15% of V)
	A. Costs of support staff (not included in I and II)
	B. Not directly allocable administrative costs
	C. Other not directly allocable costs
V.	Subtotal III+IV
VI.	Contingencies
	A. Max. 4% of V
VII.	Grand total = V+VI

The activity budget must be based on the theory of change and the activity plan. The activity plan defines the type and duration of the activities and necessary interventions in relation to the intended results and required resources.

The standardized budget model is not only used as obligatory template for drawing up an activity budget, the layout of the standardized budget model also forms the basis for the annual financial statement (which is audited). In this financial report, a narrative explanation must be added for each cost category.

The activity budget contains three overviews:

- budget per year
- budget per result area*
- budget per country*

**The division of costs by result area and country is also based on the activity plan.*

Model budget, by year

	Year 1	Year 2	Year 3	Year X	Total
I. Direct staff costs					
A.1 Staff costs knowledge institute(s)^					
A.2 Staff costs all other consortium partners					
B.1. Local staff costs knowledge institute(s)^					
B.2 Local staff all other consortium partners					
C. Consultants and advisers					
Subtotal I					
II. Other direct program costs					
A. Activity costs					
A.1 Coordination costs consortium					
B. Costs of consortium partners and local NGOs					
C. Activity-related travel costs					
D. Project office costs					
E. Equipment and investments					
F. Monitoring, evaluation and auditing					
Subtotal II					
III. Subtotal of I+II					
IV. Overheads/ indirect costs					
A. Costs of support staff					
B. Not directly allocable administrative costs					
C. Other not directly allocable costs					
V. Subtotal of III+IV					
VI. Contingencies (max. 4% of V)					
VII. GRAND TOTAL (=V+VI)					

^ Please refer to section 3.4 of the grant policy framework of the DIETS program. The section elaborates on the indirect costs, which are set at a maximum of 15% of the total amount of direct and indirect costs. For staff costs of knowledge institutes an exception to this maximum percentage **may** be made. In case participating knowledge institutes work on the basis of an integral cost system or the Dutch WNT norm¹ (Standards for Remuneration Act), the direct staff costs of the participating knowledge institute have to be presented separately from the other consortium partners in cell I-A and I-B. In section 3.4, Example 2 is included.

¹ www.government.nl/topics/senior-public-sector-pay/documents/publications/2015/09/28/standards-for-remuneration-act-the-netherlands

Model budget by result area:

	Result 1	Result 2	Result 3	Result X	Total
I. Direct staff costs					
A.1 Staff costs knowledge institute(s)^					
A.2 Staff costs all other consortium partners					
B.1. Local staff costs knowledge institute(s)^					
B.2 Local staff all other consortium partners					
C. Consultants and advisers					
Subtotal I					
II. Other direct program costs					
A. Activity costs					
A.1 Coordination costs consortium					
B. Costs of consortium partners and local NGOs					
C. Activity-related travel costs					
D. Project office costs					
E. Equipment and investments					
F. Monitoring, evaluation and auditing					
Subtotal II					
III. Subtotal of I+II					
IV. Overheads/ indirect costs					
A. Costs of support staff					
B. Not directly allocable administrative costs					
C. Other not directly allocable costs					
V. Subtotal of III+IV					
VI. Contingencies (max. 4% of V)					
VII. GRAND TOTAL (=V+VI)					

[^] Please refer to section 3.4 of the grant policy framework of the DIETS program. The section elaborates on the indirect costs, which are set at a maximum of 15% of the total amount of direct and indirect costs. For staff costs of knowledge institutes an exception to this maximum percentage **may** be made. In case participating knowledge institutes work on the basis of an integral cost system or the Dutch WNT norm² (Standards for Remuneration Act), the direct staff costs of the participating knowledge institute have to be presented separately from the other consortium partners in cell I-A and I-B. In section 3.4, Example 2 is included.

² www.government.nl/topics/senior-public-sector-pay/documents/publications/2015/09/28/standards-for-remuneration-act-the-netherlands

Model budget by country:

	Country 1	Country 2	Country X	Total
I. Direct staff costs				
A.1 Staff costs knowledge institute(s)^				
A.2 Staff costs all other consortium partners				
B.1. Local staff costs knowledge institute(s)^				
B.2 Local staff all other consortium partners				
C. Consultants and advisers				
Subtotal I				
II. Other direct program costs				
A. Activity costs				
A.1 Coordination costs consortium				
B. Costs of consortium partners and local NGOs				
C. Activity-related travel costs				
D. Project office costs				
E. Equipment and investments				
F. Monitoring, evaluation and auditing				
Subtotal II				
III. Subtotal of I+II				
IV. Overheads/ indirect costs				
A. Costs of support staff				
B. Not directly allocable administrative costs				
C. Other not directly allocable costs				
V. Subtotal of III+IV				
VI. Contingencies (max. 4% of V)				
VII. GRAND TOTAL (=V+VI)				

^ Please refer to section 3.4 of the grant policy framework of the DIETS program. The section elaborates on the indirect costs, which are set at a maximum of 15% of the total amount of direct and indirect costs. For staff costs of knowledge institutes an exception to this maximum percentage **may** be made. In case participating knowledge institutes work on the basis of an integral cost system or the Dutch WNT norm³ (Standards for Remuneration Act), the direct staff costs of the participating knowledge institute have to be presented separately from the other consortium partners in cell I-A and I-B. In section 3.4, Example 2 is included.

³ www.government.nl/topics/senior-public-sector-pay/documents/publications/2015/09/28/standards-for-remuneration-act-the-netherlands

Key points:

- Budgets by cost category and by result area should be presented at total level and per country. A financial narrative/explanation must be included giving an insight as to how these costs have been setup.
- The indirect cost percentage is explained in section 3.2.
- Multiyear budgets must allow for inflation and annual salary increases as laid down in the collective labour agreement.
- Individual budgets from consortium partners are combined by the lead party into an overall budget. The use of a standardized model budget by consortium partners is explained in section 5.
- Budgets may be adjusted annually in the light of the progress of activities and new circumstances, provided the budget holder's explicit permission has been obtained. The proposal to adjust the budget must be compatible with the ministry's intended results and acceptable in the light of the activity's circumstances.

3. Explanatory notes on individual cost types

An explanation of the cost categories and the cost types in each category is provided below.

3.1. Direct costs

3.1.1. Staff costs

A. Staff costs

Direct staff costs are the actual costs for head office staff and posted staff that can be allocated to an activity. Staff costs that cannot be allocated to the activity are classified as indirect staff costs, which are part of the overheads/indirect costs (see chapter 3.2 for an explanation).

Staff costs are charged on the basis of actual costs. Costs relating to leave, absence from work and overtime must be authorised before they can be charged to the donor. Commuting allowances are subject to the ceilings laid down in the collective labour agreement.

The following costs types can be classified as staff costs:

- Gross salary, including holiday allowance, contributions to pension and social insurance schemes, that can be allocated to an activity.
- Costs relating to the posting, including the foreign posting allowance, rent allowance and relocation allowance. Job allowances, labour market-related allowances and deputation allowances will be paid only on the basis of a reasoned, written internal decision by the organisation.
- Education and training costs are reimbursed based on actual costs, as laid down in the collective labour agreement.
- A number of hours will be planned for each staff member involved in an activity. The actual time spent and recorded will be monitored.

Calculation of productive days

The daily cost of a member of staff is calculated by dividing the total cost of a staff member by their productive days per year.

The number of productive hours is calculated as follows. The number of working days in a week (five) is multiplied by the number of weeks in a year. As a rule, this produces approximately 260 workable days depending on the year. The number of workable days (260) is then multiplied by the number of hours per day, as laid down in the collective labour agreement. There are 7.2 hours per day in a 36-hour week, 7.6 hours per day in a 38-hour week, and 8 hours per day in a 40-hour week.

The number of workable days is then multiplied by the number of workable hours per day to produce the annual total of available hours. Annual leave, average sickness absenteeism in hours and public holidays that fall on a working day are then deducted from this total to produce the number of workable hours.

A percentage of indirect hours is then deducted from the total; 10% of the total hours per working week is an acceptable deduction⁴. These hours relate to meetings necessary to implement the activities, time to take courses, departmental activities, etc. This is work that must be performed to implement the activities financed by MOFA. After allowing for these hours, the calculation produces the annual number of productive hours. As a rule, total workable hours per year exceed total direct productive hours by a factor of 1.11.

⁴ 10% is also considered an acceptable standard for indirect hours in the Central Government Fees Guide 2019.

In case of a 36-hour week, the calculation is as follows:

Number of working days	261	days
Number of public holidays on a working day	6	-/-
Number of productive days	255	days
Number of productive hours (255 x 7,2)	1.836	hours
Leave (in hours)	167	-/-
Sickness absence (in hours) (5%)	92	-/-
Number of workable hours (1)	1.577	hours
Indirect productive hours (10%)	158	-/-
Number of direct productive hours (2)	1.419	hours

There are two ways to calculate the hourly rate per staff member:

1. Hourly rate based on workable hours

If the organisation bases the hourly rate on the number of workable hours, it will divide the staff member's gross salary by more hours than it would if it based the hourly rate on the number of productive hours. If the organisation has used the number of workable hours to calculate its budgeted rates, the hourly rate can be multiplied by a factor of 1.11 in order to cover all costs incurred by the staff member. The application of the multiplication factor may not lead to the total costs charged to donors exceeding 100% of the costs.

2. Hourly rate based on productive hours

If the organisation bases its hourly rate on the number of productive hours, the rate will generally be higher than a rate based on the number of workable hours, as the number of productive hours allows for training courses, travel during work time, etc. In that case, the hourly rate is an all-in rate and a multiplication factor is not applied to the staff costs as there is a risk of payment exceeding 100% of the actual costs or of unauthorised overtime being paid.

B. Local staff costs

The salary level of local staff must be consistent with local practice. Organisations have guidelines to determine the level of local salaries.

C. Consultants and advisers

The cost of consultants and advisers is based on the contractually agreed hourly rate and number of hours, including office costs if applicable. Contracting must be preceded by an appraisal of offers stating rates and number of hours. The maximum hourly rate is €187 excluding VAT.⁵ The rates of local consultants and advisers must be in line with local price levels.

The following website provides an indication of local price levels: <https://www.numbeo.com/cost-of-living/>

3.1.2. Other direct program costs

A. Activity costs

Costs incurred pursuing the agreed project objectives, e.g. specific training and capacity building programs for the fund's beneficiaries. E.g. additional coordination costs as lead partner for the cooperation within an alliance (see Chapter 5).

B. Costs of consortium partners and local NGOs

The costs of consortium partners and local partners and implementing organisations, where applicable.

⁵ <https://www.topinkomens.nl/actueel/nieuws/2018/09/12/algemeen-bezoldigingsmaximum-2019-vastgesteld-op-%E2%82%AC-194.000>

C. Activity-related travel costs

Travel costs that may be claimed are determined by the applicant's travel expense policy. Expenses are reimbursed on the basis of actual costs or, if there is a travel policy, on the basis of agreements on fixed allowances for daily expenses with the exception of accommodation, which is reimbursed on the basis of actual costs. As a rule, flights are made in economy class.

D. Project office costs

Project office costs are costs incurred by a local country office. They include:

- *rent;*
- *maintenance costs and office supplies to carry out the project in full or in part;*
- *IT equipment specifically for the project office.*

Costs concerned are charged to the activity on the basis of actual cost and are pro-rated where applicable if the project office also carries out for other donors than MOFA.

E. Equipment and investments

The cost of equipment related directly to the implementation of the project activities, such as:

- *movable property, e.g. inventory;*
- *cars purchased, rented or leased for the project;*
- *supplies;*
- *IT equipment.*

The purchase of movable property, supplies and IT equipment must be in line with the activity plan. IT equipment may be purchased only after requesting and appraising several quotations. Purchases must be made in accordance with the applicant's procurement policy. Reimbursement will take place on the basis of actual procurement costs and do not take depreciation and/or residual value into account. The amount of project-related equipment costs depends on whether the equipment is purchased, rented or leased and the reasons for an investment decision.

F. Monitoring, evaluation and auditing

External monitoring and project audit costs are direct costs charged to the activity and reimbursed on the basis of actual cost, subject to the following conditions:

- Terms of reference must be drawn up and one or more quotations must be requested.
- Project audits must establish whether expenditure and receipts are regular and accurate.
- Evaluations must assess the extent to which results formulated before the start of the activity have been achieved.
- Special investigations of an activity may be reimbursed only with the prior approval of the contracting authority, i.e. the MOFA budget holder. Special investigations include fraud and corruption investigations and investigations of the assumptions made in the program's terms of reference.

3.2. Indirect costs

Indirect costs are explained in section 3.2.2. They are allocated pro rata to different donors and activities managed by the organisation that is financed by the ministry.

The actual percentage **may not exceed 17,64% of the direct costs**, which equals **15% of the total amount of the direct and indirect costs** and is based on the total **actual** indirect costs incurred by the organisations. This maximum percentage applies to the total costs of all consortium partners combined. Possible exception to the 15% rule concerns staff costs of knowledge institutes participating as consortium members. Participating institutes may present staff costs based on an integral cost system or on tariffs agreed upon by the national government. On the basis of the Dutch Standards for Remuneration Act (WNT), maximum hourly rates are set at €

193,- (WNT 2020). It concerns an integral hourly rate consisting of direct staff costs and a surcharge for indirect costs not directly relating to the activity.

For knowledge institutes applying an integral cost system or rates agreed upon by the national government, additional (separately calculated) indirect staff costs will not be reimbursed.

3.2.1. Allocation of direct/indirect costs

For the allocation of costs to either direct or indirect cost categories, a so-called mapping process will be applied, using the definitions from this document.

It may occur that some organisations apply an intermediate category of indirect costs, the 'program delivery costs'. In this case, this category can be included in part III of the model budget presented in section 2.2. Program delivery costs and indirect costs **together may not exceed the maximum percentage presented in section 3.2.**

An example is provided in the box below.

Calculation of the indirect cost percentage

An organisation with annual costs of €100 million wishes to submit a grant proposal using the budget model at hand. After mapping its general ledger accounts it shows that €88 million can be allocated as direct costs in the general ledger accounts and €12 million as indirect costs. An indirect cost percentage of 12% can therefore be used when drawing the activity budget. Since this does not exceed the 15% rule, it may be applied.

If a general ledger account comprises both direct and indirect costs, a best estimate should be made of their pro rata allocation. In this example, €80 million can be posted as 100% direct costs, €12 million as 50% direct costs and €8 million as indirect costs. Direct costs therefore amount to €86 million and indirect costs €14 million. The indirect cost percentage is therefore calculated at 14%.

The same system can be applied if the organisation works with program delivery costs, bearing in mind that these costs are recognised as indirect costs that may not exceed the percentage indicated in section 3.2. Program delivery costs are reimbursed on the basis of actual costs.

3.2.2. Definitions of indirect costs

A. Costs of support staff (board, management, finance, HR, IT, administration and other support roles)

All costs that cannot be allocated directly to the activities, such as:

- salary costs of management and staff in support roles, including financial affairs, IT, administration and other support staff that cannot be allocated to an activity/program;
- travel expenses (in accordance with the organisation's policy) that cannot be allocated to the activities financed by the ministry.

B. Not directly allocable administrative costs

Insurance

All types of insurance required for the applicant's normal business operations that cannot be allocated to the activity, such as:

- directors' liability insurance;
- liability insurance;
- property insurance, if applicable;
- statutory motor vehicle insurance;
- insurance relating to the employer's statutory obligations to employees;

- travel insurance;
- measures to cover financial risks, such as hedging. Policies and procedures must be in place to prevent speculative transactions.

Audit and notary costs

All audit and notary costs related to the applicant's normal business operations that cannot be allocated to specific activities.

Consultancy and legal costs and other general expenses

All consultancy and legal costs related to the organisation's normal business operations that cannot be allocated to specific activities. Non-recurring legal costs arising from, for example, a reorganisation are not indirect costs and are not reimbursed.

Subscriptions, contributions and memberships

Subscriptions, contributions and memberships related to the organisation's normal development cooperation activities are recognised as indirect costs.

C. Other non-allocable costs

Office costs

All costs necessary to provide a good, clean and safe working environment consistent with the standards an employer might reasonably be expected to satisfy, such as:

- rent (if not a direct cost);
- general costs and in-house emergency staff costs;
- utilities;
- building maintenance costs;
- cleaning and security costs;
- communication costs;
- office supplies;
- other organisational costs.

IT licences and systems

The cost of the regular maintenance of an ERP system such as SAP or Oracle (financial administration) and operational management systems that cannot be allocated to specific activities.

Translation costs

Translation costs related to the organisation's normal operational management of **its activities**. Non-recurring large translation assignments relating to a reorganisation are not indirect costs and are not reimbursed.

Depreciation

Costs relating to the depreciation of:

- accommodation;
- ICT equipment and systems;
- other fixed assets.

Depreciation costs can be charged only if the costs concerned have not been financed from an activity. If depreciation costs are charged, the organisation must comply with the consistency principle, which must be examined as part of the regular audit of the annual accounts. The depreciation period depends on the nature of

the asset. Depreciation costs relate to assets necessary to run the organisation that cannot be allocated to specific activities.

Integrity policy and enforcement

Every organisation must adopt an integrity policy as well as integrity procedures, including the appointment of one or more integrity advisers, whistle-blower regulations and the option of initiating an internal or external investigation into reports of alleged breaches of integrity and inappropriate conduct. The cost of introducing and maintaining this system is recognised as an indirect cost.

3.3. Non-eligible expenses

Expenses which are not eligible for financing under the Diets program grant policy framework concern general costs not (directly) related to the grant application submitted. Examples of non-eligible expenses are:

- PR and marketing
- Research & Development
- Investments

4. Contingencies

It is possible to include a percentage for contingencies in the budget. The percentage will depend on the expected uncertainty of the nature of the policy field and the context in which operations are carried out. In general the maximum percentage to be used is 4% of the total amount of all direct and indirect costs. Use of the contingencies item requires prior approval of the budget holder.

5. Model budget within consortia

Consortia are partnerships involving two or more parties where a legal relationship is established with one of the partners, which acts as the lead partner. The lead partner is the formal recipient of the grant.

Each consortium member drafts its own budget and submits this to the lead partner. Regardless of the layout used by the consortium partners, the lead partner combines all input received on the basis of the standard budget model included in this guide. The end product is one total budget of all partners combined for the activity for which MOFA is requested to finance.

For consortia submitting a grant application, agreements may already have been made in the context of coordinated relationship management, for example:

- the lead partner (grant recipient) has a coordinated relationship management agreement with MOFA;
- one or more consortium partners has/have a coordinated relationship management agreement with MOFA.

In both situations, the organization having an agreement for coordinated relationship management with MOFA applies the ***agreed budget model for its own organization including the agreed percentage for indirect costs (and if applicable program delivery costs)***.

For those partners not having an agreement with MOFA regarding the budget model, it is advised to use the budget model associated with this grant policy framework. For the calculation of their individual indirect costs, these organizations make their own calculation based on the principles of the budget model (actual costs) and use this percentage in their individual budget. After all, MOFA only provides grants on the basis of actual costs.

This implies that the lead partner is not allowed to apply the percentage for indirect costs (and if applicable Program Delivery Costs) agreed for the coordinated relationship management to the budgets of the consortium partners.

As a result, the overall percentage of indirect costs in the overall budget for the consortium is a weighted average of the percentage of all individual indirect costs .

If the role of lead partner entails additional costs (e.g. for coordinating the partnership), these are budgeted and accounted for under cost category “II Other direct program costs”. After all, these costs can be regarded as actual costs arising from the implementation of the activity and thus can be regarded as direct costs. These coordination costs could be budgeted under “Other direct program costs”, cost category “A - Activity costs” in the budget model. For the sake of visibility, these coordination costs should be included in a separate budget line.