

Budgeting and Cost Eligibility Standard

Version 2021

This document is an annex to the Hempel Foundation Partnership Agreement. It provides guidance on budgeting and cost eligibility to partners who receive funding from the Hempel Foundation. It builds on Hempel Foundation's position that financial management should follow the principles of transparency, accountability and cost-effectiveness.

1. The budget

The budget shows the financial resources needed to implement the planned and approved activities. The purpose of the budget is to determine the cost of the engagement, control expenditures, measure performance through comparisons of actual cost against budget, and support financial accountability. The budget and work plan together provide the full overview of how project implementers plan to use funds for approved activities within the timeframe of the project.

2. Currency

- A grant is always **provided in DKK**
- The **expenditures are usually in a local currency**, or one used by the partner organization to implement the activities. It is often necessary to calculate the budget both in DKK and local currency, using a standard exchange rate
- The exchange rate is fixed at the date when funds are transferred to the implementing partner. The partner is responsible for tracking exchange rate fluctuations for the duration of the grant and managing their budget accordingly

3. Budget format

- It is the responsibility of the partner as the project implementer to develop a **detailed budget**
- The Hempel Foundation's **budget format** should be used. See annexed budget format.
- The **budget should be designed to reflect the structure and corresponding level of the outputs** of the results framework. It should be detailed enough to show the categories of inputs and budget items necessary to achieve the planned results
- The **budget should be output-based**. This means that budget items should be directly linked to the expected results. Output-based budgeting is achieved by linking all budget items to the output/result they support
- For multi-year engagements, the **budget should be defined for each financial year** of the project, and take annual inflation rates into account
- The budget can include up to a maximum of 15% **indirect costs** to cover organisational overheads such as financial and administrative support, with all remaining funding to be used for direct program costs. The indirect cost rate should not exceed the grantee's approved organizational indirect cost rate
- The budget must contain a **contingency** line item to cover unforeseen expenses and currency fluctuations. The contingency should not exceed 5% of the budget for total direct cost, excluding indirect costs. The contingency may only be used with written prior approval from the Hempel Foundation, following a written request by the partner organisation

4. Eligible direct costs

Costs are recognised in yearly financial statements for specific activities when the cost is: 1) Incurred during the implementation period of the engagement, 2) Necessary for the engagement, and 3) Supported by verifiable documentation.

Direct costs are expenses that are necessary for, and can be tracked directly to, the grant project. These costs will be scrutinised in the budget prior to grant approval to ensure alignment with the approved definitions, which include but are not limited to:

- **Personnel** - the cost (salary and benefits) of all staff directly involved with the project. This should include the role, time and salary for each staff member in individual line items
- **Consultants and Contractors** - hired workers who are not employees of the grantee, who directly work on the funded project. They should be identified by function or purpose (e.g., communication)
- **Travel** – travel related to activities funded by the Hempel Foundation should use economy class and take the most cost-efficient and feasible route possible, taking into account airline safety
- **Subgrants** - funds that are distributed to other individuals or organizations to conduct their own work that aligns with and supports the grantee’s overall grant activities and deliverables
- **Other Direct Expenses** - costs needed to complete the project, including but not limited to training, conferences, computers and software
- **Equipment and Capital Expenditures** - the costs of purchasing equipment or other assets that have a useful life beyond the grant period. Costs over \$5,000 should be itemized

5. Eligible indirect costs

Recognising that NGOs provide broader support to the project beyond the work covered by direct costs (e.g., financial and administrative support), funding can be provided for expenses that are necessary but cannot be tracked directly to the grant project. These are defined as indirect costs.

Our **indirect cost standard allows a maximum of 15%** of the budget to be allocated to indirect costs, with all remaining funding used for direct costs. The indirect cost rate should therefore be no more than 15%, but should also not exceed the grantee’s organizational indirect cost rate.

When **calculating Indirect Costs**, the partner should multiply the current indirect cost rate of your organisation (up to 15% maximum) by the direct cost of the project, minus these excluded items:

- **Subgrants**
- **Endowments**

Indirect costs cannot be charged by the lead partner for subgrants they provide to third parties, because the third party needs to charge their own indirect costs of up to 15% to the subgrant funding they receive. We do however allow financial, administrative and technical monitoring costs for subgrant management to be budgeted as direct program costs for the project.

The Hempel Foundation does not allow charging of indirect costs to endowments because they have a very different structure compared to project grants and are seen as an investment.

6. Ineligible costs

The following costs are considered ineligible (unless explicitly agreed by the Hempel foundation):

- Costs incurred outside the lifetime of the project
- Costs that are not necessary for the implementation of the project
- Costs not supported by verifiable documentation
- Losses due to fraud and corruption
- Purchase of land and buildings
- Costs of general fundraising that is unrelated to the specific project/programme
- Costs of gifts and donations
- Alcohol and tobacco