

All About Grant Budget; Grant Contract Terms and Conditions

Session Layout

1. Common Cost Allocation: continuation from Session 4
2. Budget, budget cycle, budget types; sample project budget
3. Grant contract terms and conditions
4. Challenges and tips for grant management

Part 1: Common Cost Allocation (Continued from Session 4)

3 Pieces in Shared (Common) Costs

1. Common Cost Pool / Category: Program staff, Support/Admin staff, Facilities, Leadership & Governance.

2. Allocation Method / Driver / Base

- Direct Allocation Method (percentage of direct costs): simple and easy to implement.
- Time allocated/spent: Program, HR, Finance & Compliance staff.
- Headcount: Resource Mobilization, IT, Capacity Building, General Comms, Office supplies.

- Square footage: rent, utilities, maintenance.
- Usage: vehicle.

3. Full Cost Recovery: such that Expenditure (costs) = Income.

Percentage of Direct Costs Allocation Method

1. Identify Total Common Costs at the beginning of financial year (or as part of budgeting).
2. Identify Total Direct Costs: estimate the total direct costs for all programs/projects for the period.
3. Calculate the Common Cost Rate = $\text{Total Estimated Common Costs} \div \text{Total Estimated Direct Costs} \times 100\%$.
4. Allocate to Programs/Projects: $\text{Program's Direct Costs} \times \text{Common Cost Rate}$.

Worked Example

- Estimated Annual Common Costs = INR 5,00,000
- Estimated Total Annual Direct Costs (all programs) = INR 1,00,00,000
- **Common Cost Rate = $(5,00,000 \div 1,00,00,000) \times 100\% = 5\%$**
- **If Program A has direct costs of INR 25,00,000, its allocated common cost = $25,00,000 \times 5\% = \text{INR } 1,25,000$**

Other Allocation Methods / Drivers / Base

The "base" is the yardstick used to split a shared cost proportionally.

Method	Measured by	Typical use
Time / Effort	Timesheets or % of hours worked	Salaries of staff working across projects
Headcount	Number of staff per project/department	IT support, HR services, common training
Square Footage	Floor area occupied by each team	Office rent, electricity, housekeeping

Method	Measured by	Typical use
Transactions / Usage	Count of invoices, calls, km driven	Finance processing, vehicle & fuel costs

Worked Illustrations

Illustration 1: Allocating Salary by Time

A Program Coordinator's ₹50,000 monthly salary, split by her signed timesheet.

Project	Share	Amount
Livelihoods Project	45%	₹22,500
Health Project	35%	₹17,500
Admin & Overhead	20%	₹10,000

How the split works

1. Maintain a signed monthly timesheet recording hours per project.
2. Convert hours to a % of total working time for the month.
3. Multiply gross salary (₹50,000) by each project's %.
4. Post each amount to that project's ledger. Keep the timesheet as audit evidence.

Illustration 2: Allocating Rent by Floor Area

₹1,20,000 monthly office rent for 3000 sq ft area, split across the project teams occupying the space.

Formula: Project sq ft ÷ Total sq ft × Total Rent

Project	Area	Share	Rent / month
Project A	1,200 sq ft	40%	₹48,000
Project B	900 sq ft	30%	₹36,000
Project C, D and so on			

Illustration 3: Allocating IT Costs by Headcount

A ₹36,000 annual software & IT-support bill, split across 30 staff by project headcount.

Team	Staff	Share	IT Cost/yr
Education Project	12	40%	₹14,400
WASH Project	9	30%	₹10,800
Livelihoods Project	6	20%	₹7,200
Admin Team	3	10%	₹3,600

Even shared software licenses need a rational, documented basis. Headcount is simple, defensible, and easy to audit.

A Sample Monthly Allocation Worksheet

How one NGO documents its shared-cost split across three funded projects.

Shared Cost	Basis	Educ ation	WASH	Liveliho ods	Total
Program & Leadership salary	Timesheet %	₹18,000	₹15,000	₹12,000	₹45,000
Office rent	Sq. footage	₹16,000	₹12,000	₹8,000	₹36,000
Utilities, HR, Finance, Compliance, IT support	Headcount	₹4,800	₹3,600	₹2,400	₹10,800
Vehicle & fuel	KM logged	₹6,300	₹8,100	₹3,600	₹18,000
Total Allocated		₹54,100	₹46,200	₹32,000	₹1,32,300

Keep timesheets, floor plans and vehicle logs on file as audit trail for donors and auditors.

Sample CCA Policy Document Structure

1. **Purpose & Scope:** Why the policy exists and what it covers.
2. **Definitions:** Direct cost, shared (common) cost, cost pool, allocation base (method, driver).

3. **Cost Classification Rules:** How to decide if a cost is direct or shared.
4. **Shared Cost Pools:** The organisation's specific shared cost pools.
5. **Allocation Method(s):** Direct / step-down / reciprocal / ABC, as adopted.
6. **Compliance Ceilings:** FCRA 20% cap, CSR 5% cap, donor-specific limits.
7. **Roles & Approvals:** Who prepares, reviews and signs off allocations.
8. **Review & Revision:** Frequency of review and amendment procedure.

Part 2: Budget, Budget Cycle and Budget Types

Budget Basics

A grant budget translates program goals into estimation of revenue (income) and expenses for a specified future period (project period).

It is the financial blueprint of the project plan. One needs to budget the plan and not vice versa.

Budget is a Planning Tool (workplan-cost numbers), Decision making tool (resource allocation), Control & Compliance Tool (ceiling) and Accountability document (report to donors).

A budget covers quantitative, qualitative and cost aspects.

The Purpose of Budget

- Framework for donor: done in a grant
- Statement of reasonable estimation of costs for interventions/activities and funding sources to meet the costs in a grant proposal/award.
- Segregates costs: direct/common/indirect or OH costs, cost matching/sharing (co-financing) for multi-donor grants, in kind.
- Enables recognition: activity, group, period, income, expenditure, deficit, surplus
- Enables course correction

The Budget Cycle

1. Planning
2. Formulation
3. Approval
4. Implementation
5. Monitoring
6. Review & Revise

A continuous loop: lessons from monitoring feed directly into next year's planning.

Principles of Good Budgeting

- **Realistic:** Draws from past data, verified prices and honest needs assessment
- **Participatory:** Built with input from program, finance and field teams
- **Transparent:** Assumptions and cost heads are documented and explainable
- **Flexible:** Allows for reasonable revision as circumstances change
- **Mission-aligned:** Reflects strategic priorities and donor agreements
- **Comprehensive:** Covers every cost head: direct, shared, indirect/contingency

Steps in Budget Formulation

1. Review the strategic plan and annual work plan
2. Consult program, finance and field teams
3. Estimate costs by activity and cost head
4. Project income from all funding sources
5. Reconcile projected expenditure with income
6. Submit for management and board approval

Step 1: Needs Assessment & Program Planning

Why it comes first: A budget built without real programme needs is just a guess. Needs assessment ensures every rupee traces back to a planned activity and outcome. It feeds directly into cost estimation.

- Align the budget with the annual work plan and logframe
- Identify target beneficiaries, geography and activities
- Assess staffing and resource requirements per activity
- Factor in inflation and local/seasonal price variation

Step 2: Roles & Responsibilities in Formulation

1. **Program Team:** Drafts activity and possibly cost estimates
2. **Finance Team:** Consolidates inputs, checks compliance & arithmetic
3. **Programme / Executive Director:** Aligns the draft with strategic priorities
4. **Board / Governing Body:** Reviews and formally approves the final budget
5. **Donor (where applicable):** Approves donor-specific line items and formats

Step 3: Estimating Costs

Direct Costs

- Programme staff salaries & benefits
- Training, workshops and capacity building
- Materials, supplies and equipment for activities
- Travel and field visit costs
- Direct beneficiary support / transfers

Indirect / Overhead Costs

- Administrative and support staff salaries
- Rent, utilities and office maintenance
- Statutory audit and compliance fees
- Office equipment and IT infrastructure
- Communication, banking and bank charges

Step 4: Projecting Income Sources

- **Institutional grants:** Foreign and domestic foundations, multilaterals
- **CSR contributions:** Corporate social responsibility partnerships
- **Government schemes:** Central and state grants-in-aid
- **Individual giving:** Retail donations and crowdfunding

- **Earned income:** Fee-based services and consultancy
- **Corpus / interest:** Reserve funds and investment income

Step 5: Budget Approval Process

Draft by Finance → Review by Program Heads → ED / CEO Review → Board Approval → Donor Approval* → Budget Circulated

**Required when grant agreements mandate donor sign-off on the budget.*

Budget Monitoring & Budgetary Control

Budget Monitoring is a process that:

- Records actual expenditure versus budget estimates at the line/activity level in books
- Measures variance using a budget variance report to ascertain positive/negative deviations
- The workplan delivered helps budget monitoring at a particular point of time
- Tally software can set up budget and record expenditure, so the variance report is real time.

Budgetary Control is the process to:

- Evaluate results of budget monitoring, i.e. actual income and expenditure versus original/revised (realigned) budget through variance report
- Deviation/tolerance triggers action
- Budgetary control ensures timely action/approvals, i.e. budget realignment, reallocation, NCE

Variance Analysis: Budget vs Actual

- Compare actual income & expenditure to budget periodically: monthly or quarterly
- Calculate variance, in value and as a percentage, for each line item
- Investigate significant variances, typically above 10 to 15%
- Document reasons for variance and agree corrective action
- Report variance analysis to management and donor

Cost Head	Budget	Actual	Var %
Salaries	24.0L	23.4L	- 2.5%
Program me	18.0L	20.7L	+15 %
Travel	4.5L	3.9L	- 13%
Admin	6.0L	6.1L	+2%

Figures in ₹ Lakh, illustrative.

Budget Types

Activity Budget

Organized by ACTIVITY or program component.

Groups all costs needed to run one activity, combining staff time, travel, and supplies into a single total.

- Pro: Shows the true cost of each program activity
- Pro: Preferred by program managers & grant reports
- Con: Same expense type repeats across activities

Examples

- Training Workshops: staff + venue + materials
- Community Outreach: staff + travel + printing
- Monitoring & Evaluation: staff + travel + data tools
- Supply Distribution: staff + transport + supplies

Example activity totals: Training workshops \$18,400; Community outreach \$12,900; Monitoring & evaluation \$9,300; Supply distribution \$24,200.

Line Item Budget

Organized by the TYPE of expense, across the whole program.

Groups all costs by category (salaries, travel, supplies) regardless of which activity they support.

- Pro: Simple to prepare and track spending
- Pro: Familiar format for auditors & donors
- Con: Doesn't show true cost per activity

Categories: Personnel / Salaries; Travel & Transport; Equipment & Supplies; Rent & Utilities; Communications.

Example line items: Personnel salaries \$45,000; Travel & transport \$8,200; Equipment & supplies \$6,500; Rent & utilities \$5,100.

Which Should You Use?

	Line Item Budget	Activity Budget
Organized by	Expense type (salaries, travel, supplies)	Program activity or component
Best for	Financial reporting & compliance	Program planning & grant proposals
Easy to see	Total spend per category	Total cost per activity
Common users	Finance teams, auditors	Program managers, donors

Many NGOs combine both: activities grouped at the top, each broken into line items underneath.

Other Budget Types

- **Incremental budget:** Next year's budget is based on marginal changes to the current year's budget, used as a base to which incremental amounts are added to determine new budget amounts.
- **Value Proposition Budgeting:** Focuses on allocating the ideal amounts of financial resources that provide the highest value to the customer. Also called Priority or value budgeting.
- **Zero-based budgeting (ZBB):** Based on efficiency and need at that point rather than budget history. Formulation starts from scratch and only includes essential operations and expenses; no expenses are automatically added to the budget. Cost rationalization.

- **Performance based budget (PBB):** Considers input of resources and the output of services. The goal is to link funding to results delivered, thus also called Outcome based budgeting.
- **Fixed Budget:** Not modified for variation in actual activity and costs.
- **Flexible budget:** Budget changes in response to activity level and costs.

Budget Justification Note

A separate Word document to explain the budget numbers.

- For each activity in line, provide complete details so that it can be referred to for direction and validation during implementation
- Provides narrative clarification of each budget item, demonstrating the necessity of the costs and how they relate to the program activity
- Provide justification for calculation of the estimated costs. Note that the estimation should be based on real costs

Sample Budget

Project at a Glance

- **Implementing organisation:** Example NGO
- **Donor:** Example Donor Agency
- **Currency:** INR (₹)
- **Project duration:** 12 months

Calculated-line assumptions

- **Staff benefits rate: 12%.** Percentage of salaries: social security and health insurance
- **Indirect cost rate: 7%.** Percentage of direct costs; should follow the donor's rules

Total Budget: ₹3,40,85,920

The donor is asked to fund 96.6% of the project.

Item	Amount
Total project budget	₹3,40,85,920
Donor amount	₹3,29,29,600
Co-funding / other sources	₹11,56,320
Total direct costs	₹3,18,56,000

Funding split: Donor 97%, Co-funding / other 3%.

How the Budget is Calculated

Every line follows the same simple logic.

1. **Total cost:** No. of units × Unit cost × Duration / Frequency
2. **Donor amount:** Total cost × Donor %
3. **Co-funding:** Total cost minus Donor amount, covered by the NGO or other sources
4. **Calculated lines:** Staff benefits and indirect costs are driven by the rates on the assumptions above

Budget Summary by Category

Budget category	Total cost	% of total	Donor amount	Co-funding / other
1. Personnel	₹1,30,09,920	38.2%	₹1,22,17,920	₹7,92,000
2. Consultants & Professional Services	₹8,58,880	2.5%	₹8,58,880	₹0
3. Travel & Transport	₹7,83,200	2.3%	₹7,83,200	₹0
4. Equipment	₹10,56,000	3.1%	₹10,56,000	₹0
5. Supplies & Materials	₹10,04,960	2.9%	₹9,73,280	₹31,680
6. Training & Workshops	₹11,52,800	3.4%	₹11,52,800	₹0
7. Sub-grants to Partners	₹47,52,000	13.9%	₹47,52,000	₹0

Budget category	Total cost	% of total	Donor amount	Co-funding / other
8. Direct Program Activities	₹66,00,000	19.4%	₹66,00,000	₹0
9. Communication & Visibility	₹5,80,800	1.7%	₹5,80,800	₹0
10. Monitoring, Evaluation & Learning	₹8,53,600	2.5%	₹8,53,600	₹0
11. Office & Operating Costs	₹12,03,840	3.5%	₹8,71,200	₹3,32,640
12. Shared (Indirect) Costs	₹22,29,920	6.5%	₹22,29,920	₹0
Total Project Budget	₹3,40,85,920	100.0%	₹3,29,29,600	₹11,56,320

Detailed Budget Lines

Budget line	Unit type	# of units × Unit cost × duration	Total cost	Donor %	Donor amount
1. PERSONNEL					
1.1 Project Manager	Person-month	1 × ₹3,08,000 × 12	₹36,96,000	100%	₹36,96,000
1.2 Field Officers	Person-month	3 × ₹1,58,400 × 12	₹57,02,400	100%	₹57,02,400
1.3 Finance & Admin Officer	Person-month	1 × ₹1,32,000 × 12	₹15,84,000	50%	₹7,92,000
1.4 Driver	Person-month	1 × ₹52,800 × 12	₹6,33,600	100%	₹6,33,600
1.5 Staff benefits (social security & health)	% of salaries	12% of salaries	₹13,93,920	100%	₹13,93,920
Subtotal			₹1,30,09,920		₹1,22,17,920
2. CONSULTANTS & PROFESSIONAL SERVICES					
2.1 Baseline survey consultant	Consultant-day	20 × ₹22,000	₹4,40,000	100%	₹4,40,000
2.2 External financial audit	Lump sum	1 × ₹2,64,000	₹2,64,000	100%	₹2,64,000

Budget line	Unit type	# of units × Unit cost × duration	Total cost	Donor %	Donor amount
2.3 Gender & safeguarding expert	Consultant-day	8 × ₹19,360	₹1,54,880	100%	₹1,54,880
Subtotal			₹8,58,880		₹8,58,880
3. TRAVEL & TRANSPORT					
3.1 Vehicle fuel & maintenance	Month	1 × ₹39,600 × 12	₹4,75,200	100%	₹4,75,200
3.2 Staff per diems (field)	Person-day	60 × ₹3,960	₹2,37,600	100%	₹2,37,600
3.3 Air travel: monitoring visits	Round trip	2 × ₹35,200	₹70,400	100%	₹70,400
Subtotal			₹7,83,200		₹7,83,200
4. EQUIPMENT					
4.1 Laptops	Item	4 × ₹79,200	₹3,16,800	100%	₹3,16,800
4.2 Motorbikes	Item	3 × ₹1,93,600	₹5,80,800	100%	₹5,80,800
4.3 Solar power kit	Item	1 × ₹1,58,400	₹1,58,400	100%	₹1,58,400
Subtotal			₹10,56,000		₹10,56,000
5. SUPPLIES & MATERIALS					
5.1 Hygiene kits	Kit	500 × ₹1,320	₹6,60,000	100%	₹6,60,000
5.2 Training materials	Kit	400 × ₹704	₹2,81,600	100%	₹2,81,600
5.3 Office stationery & consumables	Month	1 × ₹5,280 × 12	₹63,360	50%	₹31,680
Subtotal			₹10,04,960		₹9,73,280

Budget line	Unit type	# of units × Unit cost × duration	Total cost	Donor %	Donor amount
6. TRAINING & WORKSHOPS					
6.1 Community training: venue & refreshments	Participant-day	400 × ₹1,056 × 2	₹8,44,800	100%	₹8,44,800
6.2 Trainer fees	Trainer-day	10 × ₹13,200	₹1,32,000	100%	₹1,32,000
6.3 Participant transport reimbursement	Participant	400 × ₹440	₹1,76,000	100%	₹1,76,000
Subtotal			₹11,52,800		₹11,52,800
7. SUB-GRANTS TO PARTNERS					
7.1 Local CBO sub-grants	Sub-grant	4 × ₹10,56,000	₹42,24,000	100%	₹42,24,000
7.2 Partner capacity-building support	Partner	4 × ₹1,32,000	₹5,28,000	100%	₹5,28,000
Subtotal			₹47,52,000		₹47,52,000
8. DIRECT PROGRAM ACTIVITIES					
8.1 Cash transfers to households	Household-month	150 × ₹5,280 × 6	₹47,52,000	100%	₹47,52,000
8.2 Community awareness events	Event	12 × ₹44,000	₹5,28,000	100%	₹5,28,000
8.3 Livelihood starter grants	Grant	60 × ₹22,000	₹13,20,000	100%	₹13,20,000
Subtotal			₹66,00,000		₹66,00,000
9. COMMUNICATION & VISIBILITY					
9.1 Radio spots	Spot	120 × ₹2,200	₹2,64,000	100%	₹2,64,000

Budget line	Unit type	# of units × Unit cost × duration	Total cost	Donor %	Donor amount
9.2 IEC materials printing	Piece	2000 × ₹132	₹2,64,000	100%	₹2,64,000
9.3 Visibility items	Item	10 × ₹5,280	₹52,800	100%	₹52,800
Subtotal			₹5,80,800		₹5,80,800
10. MONITORING, EVALUATION & LEARNING					
10.1 Data collection platform	Month	1 × ₹8,800 × 12	₹1,05,600	100%	₹1,05,600
10.2 Mid-term review	Lump sum	1 × ₹2,20,000	₹2,20,000	100%	₹2,20,000
10.3 Final external evaluation	Lump sum	1 × ₹5,28,000	₹5,28,000	100%	₹5,28,000
Subtotal			₹8,53,600		₹8,53,600
11. OFFICE & OPERATING COSTS					
11.1 Office rent	Month	1 × ₹70,400 × 12	₹8,44,800	70%	₹5,91,360
11.2 Utilities & internet	Month	1 × ₹22,000 × 12	₹2,64,000	70%	₹1,84,800
11.3 Bank charges & insurance	Month	1 × ₹7,920 × 12	₹95,040	100%	₹95,040
Subtotal			₹12,03,840		₹8,71,200
12. SHARED COSTS					
12.1 Shared costs	% of direct costs	7% of direct costs	₹22,29,920	100%	₹22,29,920
Subtotal			₹22,29,920		₹22,29,920

Part 3: Grant Contract Terms and Conditions

Grant Contract: General Terms

- MOU versus grant contract/agreement distinction
- Recitals/Preamble
- Definitions
- Grant amount and purpose (including prohibited/disallowed use)
- No Pledge
- Complementary funding
- Designated contacts for various aspects of the grant
- Conflict of interest and ethical conduct
- Confidentiality
- Term and termination
- Notice of Changes
- Compliance with laws
- Indemnity
- Publications and Licenses
- Visibility, Publicity
- Force Majeure
- Relationship of parties
- Governing Laws
- Notice
- Waiver
- Severability: any clause not enforceable does not make other clauses non-enforceable
- Assignment/Delegation
- Acknowledgement: understand and consent
- Counterparts
- Entire agreement
- Arbitration

- Jurisdiction
- Remedies: injunctive relief from court

Grant Contract: Operational Terms

a. Scope of Work b. Deliverables c. Budget d. Eligible Costs e. Grant Disbursement/Reimbursement f. LogFrame and Work Plan g. Basis of accounting h. Separate Books of Account for the project i. Separate Bank Account for Grant Funds j. Bills and Vouchers kept separately and defaced with mention of project k. Limit on Cash Expenditure l. Treatment of interest m. Procurement rules n. Program/Financial reporting: often there are templates for interim and final reports o. Input Tax credit p. Monitoring/Evaluation Audit q. Recovery r. Treatment of Fixed Assets: templates in case FA are not allowed to be retained automatically s. Income generated from project activity t. Sustainability u. Closure of grant v. Record and retention

Part 4: Challenges and Tips for Grant Management

Grant Management Challenges

1. Building consistent long-term relationship with grantor
2. Turnover and lack of experience of key grant staff
3. Use of technology
4. Non-robust program and finance MIS
5. Timely decisions
6. Audit findings and reputational loss

How to Manage a Grant Effectively

Managing a grant is about maximising impact through:

1. A thought-out project plan

2. Transparency
3. Robust financial management system and practices
4. Monitoring mechanism: physical and financial progress
5. Compliance with grant terms and conditions
6. Final reporting and audit
7. Grant closeout
8. Impact and Sustainability

Tips

1. In the grantor relationship, communication is key; be honest
 2. Create a grant/project calendar
 3. Create a resource library/repository
 4. Review before submitting a proposal: a mentor
 5. Collaborate
 6. Be on top of your costs while budgeting
 7. Never say die: never give up or think only others will get it
 8. PAVE: Performance, Accountability, Value, Empathy
 9. What is your unique story? Don't just chase funding
 10. Objectivity vs Subjectivity
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Revision #1

Created 2026-10-14 06:34:10 UTC by Pooja

Updated 2026-10-14 06:38:25 UTC by Pooja