

Lecture 6. Financial Management, Budgeting and Administration of International Projects

Lecture Plan

1. Principles of financial planning for an international project.
2. Budget structure: personnel, travel, equipment, subcontracting, other direct costs, indirect costs.
3. Eligibility of costs, co-financing, lump sums, unit costs, actual costs, and donors' financial rules.
4. Procurement, document management, financial control and audit in international projects.
5. Financial reporting, supporting documents, transparency and accountability in the use of funds.
6. Preventing financial risks, double funding and breaches of grant agreements.

1. Principles of Financial Planning for an International Project

Financial planning for an international project is based on a set of principles, adherence to which is a mandatory condition both for successfully passing the competitive selection process and for the trouble-free implementation of the project.

The principle of aligning the budget with the work plan. Each budget line must be clearly justified through its link to specific activities and work packages (examined in detail in Topic 3); a budget that does not correspond to the logic of the work plan is a typical basis for reviewers' comments.

The principle of realism and economy. Declared costs must correspond to market prices and to the actual needs of the project; both overstatement and unwarranted understatement of the budget reduce the quality of the application's assessment against the criterion of cost-effectiveness (examined in Topic 3, Section 5).

The principle of compliance with the donor's financial rules. Each donor (an EU programme, an international financial institution, a development agency) establishes its own rules on the eligibility of costs, which are mandatory and take precedence over the applicant organisation's internal financial procedures.

The principle of advance cash-flow planning. This takes account of the fact that donor funding is, as a rule, disbursed in tranches (pre-financing, interim payments, a final payment following approval of reporting), which requires the consortium to plan its own working capital in order to cover temporary cash-flow gaps.

The principle of allocating the budget among partners. The consortium budget is formed as the sum of the individual budgets of the partners, each of whom is responsible for their own costs and

reporting on them, while the coordinator consolidates the budget at the level of the project as a whole.

2. Budget Structure: Personnel, Travel, Equipment, Subcontracting, Other Direct Costs, Indirect Costs

The budget of an international project, irrespective of the donor, is structured according to unified cost categories.

- 1) Personnel Costs. As a rule, the largest budget line, covering the salaries of staff members engaged in the project in proportion to the time actually worked (person-months/person-days), calculated on the basis of a documented rate (the actual salary or a unified rate established by the donor) and necessarily supported by timesheets.
- 2) Travel Costs. Costs of transport, accommodation and subsistence for personnel travelling to take part in project activities (coordination meetings, conferences, field research); subject to limits set out in the donor's internal rules (class of air travel, maximum daily accommodation cost).
- 3) Equipment Costs. Costs of purchasing or leasing equipment required for implementing the project; for equipment intended for long-term use, as a rule only the proportion of the cost corresponding to depreciation over the period of use in the project is included in the project budget (where the equipment will continue to be used after the project ends).
- 4) Subcontracting Costs. Costs of engaging third parties to perform clearly defined tasks on a commercial (contractual) basis — as a rule subject to a cap expressed as a share of the total budget, and requiring compliance with competitive procurement procedures.
- 5) Other Direct Costs. Costs directly related to project implementation that do not fall into the preceding categories: consumables, publications, translation, audit, and the visualisation and dissemination of results.
- 6) Indirect Costs/Overheads. Costs that cannot be directly attributed to a specific project (the administrative costs of a partner organisation — office rent, utilities, accounting support); as a rule determined not on the basis of actual expenditure but by a unified flat rate applied to the sum of eligible direct costs (for example, 7% or 25%, depending on the programme).

3. Eligibility of Costs, Co-financing, Lump Sums, Unit Costs, Actual Costs, and Donors' Financial Rules

3.1. Criteria for the Eligibility of Costs

A cost is deemed eligible if it simultaneously satisfies the following criteria: it is incurred during the period of project implementation (with the exception of costs relating to the preparation of the final report); it is directly linked to the subject matter of the project and provided for in the approved budget; it is actually incurred by the beneficiary (and not by a third party outside the

established procedures); it is documented and identifiable in accordance with the beneficiary's accounting system; and it complies with the principles of economy, efficiency and effectiveness.

3.2. Forms of Cost Financing

Donors (EU programmes above all) apply several forms of financing, the choice of which is determined by the type of call:

- **actual costs** — reimbursement of costs actually incurred and documented by primary accounting records;
- **unit costs** — the application of a predetermined rate per unit of measurement (for example, a rate per person-day of staff time, or a daily subsistence allowance for travel), which does not require confirmation of the actual amount spent, only confirmation that the unit was used (for example, a day of travel);
- **lump sums** — payment of a pre-agreed fixed amount upon achievement of a defined result or completion of a defined milestone, irrespective of the costs actually incurred — a form increasingly applied in the new generation of EU grants (Lump Sum Grants) with a view to simplifying administration;
- **flat-rate financing** — applied predominantly to indirect costs, as noted above.

3.3. Co-financing

The co-financing rate determines the proportion of project costs covered by the donor's grant (for example, 80%), while the remainder (20%) must be covered by the applicant and partners from their own or other sources. Co-financing may take the form of a cash contribution or an in-kind contribution — resources provided free of charge (the working time of volunteers, the use of the organisation's own premises), which must be documented and valued according to an established methodology.

3.4. Donors' Financial Rules

Each funding programme is accompanied by a detailed regulatory document (for example, the Model Grant Agreement and the corresponding EU annotated rules) that sets out specific limits, procedures and exceptions; the consortium is obliged to study these rules before beginning financial planning, since they may differ significantly even between programmes of the same donor.

4. Procurement, Document Management, Financial Control and Audit in International Projects

4.1. Procurement within the Project

The procurement of goods, works or services within an international project is carried out in accordance with the principles of best value for money, transparency, equal treatment of suppliers,

and non-discrimination. For procurements exceeding established threshold values, donors require competitive procedures to be followed (requesting price quotations from several suppliers, or a tender), with mandatory documentation of the process by which the winner was selected.

4.2. Document Management

Proper document management involves the systematic retention of all financial documentation: contracts, invoices, payment orders, timesheets, certificates of completed work, and records of procurement procedures. Donors, as a rule, establish a mandatory document-retention period after the project ends (typically three to five years), during which the consortium is obliged to ensure that documents are accessible on request to the donor or to auditors.

4.3. Financial Control

Internal financial control is exercised by the consortium coordinator in respect of the consolidated project budget, and by each partner in respect of its own costs, and includes regular reconciliation of actual expenditure against the budget (budget-versus-actual analysis), the identification of deviations, and the timely notification of the Steering Committee.

External financial control is exercised by the donor, either directly or through authorised bodies, and may take the form of a desk review of submitted reports, an on-the-spot check, or a full financial audit.

4.4. Audit

An independent financial audit (Certificate on Financial Statements, CFS) is a procedure — mandatory for most grants exceeding an established threshold — for confirming the reliability of financial reporting by an independent certified auditor, whose opinion is appended to the project's final financial report.

5. Financial Reporting, Supporting Documents, Transparency and Accountability in the Use of Funds

5.1. Types of Financial Reporting

Financial reporting on an international project is, as a rule, submitted in the form of interim financial reports, which accompany technical progress reports, and a final financial report, which summarises the use of funds over the entire implementation period. Each report contains a breakdown of costs actually incurred by budget category, for each partner in the consortium.

5.2. Supporting Documents

Every cost declared in a report must be supported by an appropriate primary document: an invoice, a payment order, a timesheet, a boarding pass (for travel costs), or a certificate of acceptance of goods or services. The absence of a proper supporting document is grounds for the donor to

disallow the corresponding cost (a financial correction), even where the cost was actually and reasonably incurred.

5.3. Transparency and Accountability

Compliance with the principles of transparency and accountability, examined in Topic 4 (Lecture 4, Section 5), is given concrete expression at the financial-administration stage through the consortium's obligation to ensure a complete audit trail — the ability to trace every declared cost from the primary document to the final financial report — and readiness for independent verification at any time within the established document-retention period.

6. Preventing Financial Risks, Double Funding and Breaches of Grant Agreements

6.1. Typical Financial Risks of an International Project

The most common financial risks include: currency risk (fluctuations in exchange rates when converting costs incurred in a national currency into the reporting currency specified by the donor); the risk of delayed donor payments, which creates cash-flow gaps; the risk of costs being disallowed owing to insufficient documentary support; and the risk of exceeding limits within particular budget categories without timely approval of a reallocation.

6.2. Double Funding

Double funding is a situation in which one and the same cost (for example, the working time of one member of staff for one and the same period) is claimed for reimbursement simultaneously under two or more grant agreements. Donors classify double funding as a serious irregularity, which may lead to a requirement to repay funds under both projects, termination of the Grant Agreement, and the entry of the organisation into the European Commission's Early Detection and Exclusion System (EDES) (mentioned in Topic 4, Section 6). Prevention of double funding is ensured through a clear system for recording the working time of staff engaged in several projects simultaneously, and through the coordinator's internal control.

6.3. Mechanisms for Preventing Breaches of Grant Agreements

Systematic prevention of financial irregularities involves: developing an internal financial handbook for the consortium that adapts the donor's general rules to the practice of the specific project; regular training of partners' financial staff; the introduction of the “four eyes” principle (two-stage approval) for significant financial transactions; conducting periodic internal audits in advance of external checks; and timely consultation with the donor's project officer on ambiguous questions of cost eligibility.

Self-Check Questions

1. Why are indirect costs, as a rule, determined by a flat rate rather than on the basis of actual amounts?
2. Explain the difference between cash and in-kind co-financing, and give an example of an in-kind contribution.
3. What is the advantage of lump sums over actual costs from the point of view of the administrative burden on the consortium?
4. What documents must support personnel costs in an international project?
5. Why is double funding considered a serious breach of the grant agreement, even where both costs were actually incurred?
6. What internal-control mechanism minimises the risk of the erroneous approval of financial transactions?

Recommended Reading

1. Model Grant Agreement (Multi-beneficiary General MGA) and Annotated Grant Agreement. European Commission, Funding & Tenders Portal.
2. Financial Guidelines for EU external actions. European Commission, DG INTPA/NEAR.
3. EU Grants: How to manage your grant — Financial Management. Funding & Tenders Portal Online Manual.
4. Regulation (EU, Euratom) 2018/1046 (EU Financial Regulation).
5. Practice Standard for Project Cost Estimating. 2nd edition. Project Management Institute.