1. Background

UMN is a unique organisation. It is an INGO but works only in Nepal and does not have a headquarter outside of the country as most other INGOs would. UMN's major donors are Christian faith based organisations from around the world some of whom have been associated with UMN since its establishment in 1954. There are about 30 donor organisations and some of them provide large funding and some provide small funding. UMN also receives funding from individual donors but it is only about 1 to 2% of our total income. UMN's projects vary in size as some are big projects and some are small projects and we have projects from 40 to 50 in a year of various sizes.

UMN does not have a headquarters as such and all the functions that would normally be done by headquarters are done by UMN in Nepal. Those are functions such as fundraising, establishing and ensuring good systems and structures, developing policies, etc. As a result, the cost of such functions also need to be borne by UMN.

2. Common Costs

UMN has a common support structure for all the different projects that it implements. UMN does not recruit separate or project specific support staff/team for individual projects like most other INGOs would (except in exceptional cases like the earthquake response programme) but the cost of these support teams are proportionately distributed to all UMN projects. This provision is there in UMN's Financial Management Framework (FMF) as well in Section 7.1.4.

UMN will not make gains or surplus from the contributions it takes from projects for the support structure. In fact, in the past there have been deficits which were covered by UMN's reserves fund. The table below lists UMN's current Common Costs:

Sn	Common Costs	Description
Programmatic Common Costs		
1	Programme Partner Management	This includes the costs of Programme and Funding Management Teams. The objective of the Programme Partner Team (PPT) is to provide overall leadership and management of the programme team including Clusters. The PPT ensures the achievement of UMN's strategic programme objectives, adapts and develops programme strategy, and builds technical and management capacity for the long term to ensure UMN is effectively contributing to the transformation of the lives and communities of the Poorest people living in poverty (PPLP). The objective of the Funding Management Team is to provide overall coordination and leadership for funds management within the organization including the sourcing of new funds and to ensure that there is sufficient financial support for the organisation to fulfill its objectives.

2	Monitoring, Evaluation and Learning	This includes the cost of Partner Support Team (PST). The objective of the PST Team is to integrate learning into all UMN's work, and to use that learning to inform and influence policy and practice, and to ensure technical excellence in the design and implementation of UMN's programmes. The other objective is also to enable UMN, partner organisations and target communities to embrace UMN's cross cutting issues of gender, conflict sensitivity, and environment and climate change issues in all their development work. The cost of individual project surveys and evaluations are budgeted under individual projects and are not covered by this. The cross cutting component is fully funded by specific donors.
3	Computer Replacements	Computers for the whole organization are purchased from this budget.
Non-programmatic Common Cost		
4	Administration including Audit Expenses	This includes the following teams' costs. The Teams' objectives are as follows: • Core Cluster Deficit – The cost of core clusters is normally covered from project funding. However, there can be sometimes when the whole core cluster cannot be fully covered from project funding. The administration will cover core cluster deficit whenever needed. Core cluster are the local presence in our working areas which enable us to achieve our strategic objectives of community transformation by helping us understand the local context, building relationship with the local stakeholders and building the capacity of our local partners so that they become more equipped and capable in addressing the problems of their communities • Human Resources - To better attract, retain, and develop strong, resilient, innovative, functional, and connecting teams of people known for demonstrating UMN's mission, vision, and values, and to proactively address internal and external changes. • Communications - To create and promote good will by planning, preparing, producing and promoting printed, audio-visual and web-based materials that will enhance UMN's image and encourage support, both with internal and external audiences. • Information and Technology Services - To plan and coordinate, design and implement innovative ICT solutions that help accomplish UMN's strategies and plans. As well as be responsible for customizing, deploying and maintaining Windows Server, Desktop Operating Systems and Enterprise Collaboration system for entire UMN.

		• Finance - To provide strategic direction to and oversee all financial aspects of UMN's work to ensure transparency, accountability and effective use of resources in the outworking of UMN's Vision and Mission. • Audit Expenses - This includes costs related to UMN's internal and external auditing. If a donor requires project specific auditing, then that cost is added to that specific project.

3. Common Costs Sharing

All UMN's projects do not have the same annual cycle as we need to follow donor's annual cycle. Majority of them fall under two categories; (1) July to July that fits with UMN's financial year and (2) January to December that is as per the Gregorian calendar. There are a few projects that do not fit both of the above cycles.

3.1. Budgeting of Common Costs

The following process is followed for budgeting Common Costs in all Projects:

a) The total income for the planning period is estimated. This is done on the basis of long-term multi-year budgets sent to donors and as per donors' indication of the future funding.
b) There are some donors who fund our Common Costs. The deficit budget for Common Costs after taking into account the designated donor income is estimated.
c) The weightage (in percentage) of all Common Costs is calculated by dividing the deficit in Common Costs by total estimated income i.e. (b) divided by (a).
d) Then the weightage percentage is applied in almost all project budgets for sharing the cost of the Common Costs while project budgeting. Following is the weightage percentage of Common Costs for the financial year 2023/24.

Sn	Common Costs	Method used for charging	%
Programmatic Common Costs			
1	Programme Management	This cost is shared proportionately in all projects as per the project size.	3.84%
2	Monitoring, Evaluation and Learning	This cost is shared proportionately in all projects as per the project size.	3.27%
3	Computer Replacement	Before the start of the financial year, the organizational need for the computers is ascertained and the cost for this is shared proportionately in all projects as per the project size.	0.27%
Non-programmatic Common Costs			
4	Administration including Audit Expenses	This cost is shared proportionately in all projects as per the project size.	9.7%
Total			17.8%

3.2. Charging of Common Costs

The same method is applied for charging of Common Costs which is also allowed by UMN's Financial Management Framework in Section 7.1.4.

a) The charging in projects is done on a quarterly basis in all projects as per the actual expenses of Common Cost teams for the quarter using weightage percentage of the project which is obtained by dividing the annual project budget by total annual budget of all projects. This is the new system that has started from the third quarter of 20-21 for July to July projects and from the first quarter of 2021 for the Jan to Dec projects. In the past, this used to be done as per the expenses of the project budget and not per the expenses of the Common Cost teams themselves.
b) The new system will help UMN know of any potential surplus or deficits in advance in the common costs budget line items and help UMN plan accordingly.
c) UMN will not make surplus in any Common Costs lines but if there are deficits, it will be covered by UMN's reserves funds.

3.3. Exceptional Cases

The above process of budgeting and charging the Common Costs in project budgets is subject to donors' requirements/limitations. Whereas most of our donors accept the above process of budgeting certain percentage of the grant to cover the Common Costs, few donors do not allow us to use our calculated percentage.