

## **Annex II: Direct and indirect cost functions**

### **Direct cost functions**

Direct costs are the costs of all necessary and reasonable inputs<sup>8</sup> associated with functions which are directly necessary to deliver a programme or project<sup>9</sup>. These functions include<sup>10</sup>:

#### **A. Project and grant management, technical delivery, quality control functions, visibility and communications**

- Overseeing and implementing in-country programme policies and quality control activities
- Overseeing the project and its operations and activities
- Designing, planning, implementing, controlling, adjusting and monitoring the specific activities required to deliver the project
- Providing technical expertise and assuring project quality
- Transporting goods, supplies and staff in relation to the project activities
- Managing the staff implementing the project activities
- Collecting performance and other data on the project activities
- Evaluating the outcomes achieved by the project
- Reporting on the activities and achievements of the project
- Communicating and publicising the project as appropriate
- Supporting partners and monitoring their activities in relation to the project
- Managing the grant(s) and other funding for the activities

#### **B. Human resources and security**

- Maintaining in-country human resources and security policies and systems
- Recruiting and inducting staff to implement the project activities
- Issuing project staff with contracts
- Monitoring project staff attendance, absence and sickness and ensuring that employment terms and conditions are applied correctly
- Handling staff problems, and vacancies within the project
- Training project staff
- Securing and guarding the project and its staff
- Maintaining in-country staff capabilities relevant to the country programme

#### **C. Compliance**

- Ensuring that the NGO can operate legally in the country or countries and that it complies with all relevant laws, regulations and in-country requirements
- Ensuring the project complies with other specific legal requirements relevant to its activities
- Ensuring that the project complies with all donor requirements
- Monitoring and auditing project partner finances
- Auditing the country operations, finances and financial systems (both internal and external)

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<sup>8</sup> staff salaries and other staff-related costs (such as social security), travel costs, lodgings, premises, warehouse and office costs including rent, utilities, and supplies, telephone and internet costs, goods, materials, food and non food items, and materials, transport, fuel, vehicles, equipment, hardware, software, depreciation of pre-owned assets, local partner costs, foreign exchange gains and losses directly related to transfers of funding for the programme or project, and other necessary and reasonable inputs

<sup>9</sup> Programmes or projects are defined as packages of activities that contribute directly to the mission of the agency. They can be humanitarian, development, advocacy or other mission-related projects or programmes. **Only the direct costs of the specific activities described in a proposal will be included in that proposal budget.**

<sup>10</sup> This list does not necessarily include every function that may be required to deliver a particular programme or project. All functions which are necessary and justifiable for the direct delivery of the programme or project may be included.

- Auditing the project operations, finance and financial systems (both internal and external audit)

#### **D. Finance, procurement, payroll, information technology and administration**

- Maintaining the in-country finance, procurement, payroll and administration policies, systems, controls and staff capabilities
- Maintaining the in-country plans, master budgets, and forecasts
- Maintaining the project financial records
- Controlling the project finances, processing project income, making project payments, and reconciling project accounts
- Paying project staff salaries, expenses and related costs
- Monitoring project partner finances
- Preparing project financial reports
- Procuring goods and services required for the project
- Storing and maintaining project goods, consumables and supplies
- Maintaining and upgrading IT systems and databases for the project
- Administering the project, including maintaining project records; booking accommodation, venues, and catering; cleaning; maintaining any project and country vehicles; insuring the project

#### **Indirect cost functions**

Indirect costs are the costs of all necessary and reasonable inputs<sup>11</sup> associated with functions which are necessary **to manage the agency as a whole**, provide oversight over **all** its activities and put into place the overarching policies, frameworks and systems that enable it to operate. It is not practicable to relate indirect costs to individual funding arrangements directly, but without the functions they represent, programmes and projects could not be delivered effectively, efficiently, on time, and safely.

These “enabling” functions include<sup>12</sup>:

- Maintaining the agency legally in the jurisdiction in which it is constituted
- Ensuring the agency’s overall compliance with applicable, laws, regulations and other requirements in its home country or countries
- Governing and managing the agency and ensuring that it is appropriately directed and well controlled
- Developing and maintaining the agency’s global strategies, plans, financial models and budgets
- Developing, maintaining and applying the organisational frameworks and policies required to enable the agency to operate globally, including but not limited to: risk management policy and framework, the procurement policy, the financial control policies and frameworks, the employment policies, the due diligence framework, other necessary compliance policies, the quality control policies and frameworks
- Maintaining the programme funding function including preparing funding proposals for specific programmes and projects
- Developing and maintaining the global systems required to ensure the effective and efficient delivery of the agency’s functions eg the underlying global communications network, security and communications platforms
- Preparing, reviewing and acting upon financial and operational performance reports for the organisation as a whole

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<sup>11</sup> staff salaries and other staff-related costs (such as social security), travel costs, lodgings, premises, warehouse and office costs including rent, utilities, and supplies, telephone and internet costs, goods, materials, food and non food items, and materials, transport, fuel, vehicles, equipment, hardware, software, depreciation of pre-owned assets, foreign exchange gains and losses related to the revaluation of pooled cash balances, local partner costs and other necessary and reasonable inputs

<sup>12</sup> This list does not necessarily include every function that may be required to deliver the required overarching policies, frameworks and systems of the organisation. All indirect cost functions which are necessary and justifiable may be included.