

Money Where It Counts

A Protocol for the Harmonisation of Cost Classification, Cost Charging and Financial Reporting for donors and not-for-profit agencies

Draft

A. Aim

The Money Where It Counts (MWIC)¹ Protocol sets out a new, harmonised and simplified approach to cost classification, cost charging and financial reporting for international funding of not-for-profit agencies. It is a collaborative initiative between not-for-profit agencies working internationally², which have come together to make these proposals.

The complexity and cost of the current approach to cost classification, cost charging and financial reporting is unsustainable given the growing humanitarian financing gap. By signing up to this Protocol donors and not-for-profit agencies will make the delivery of humanitarian aid and development more efficient and fit for purpose.

This Protocol sets out the harmonised and simplified cost classification definitions and cost charging methodology proposed under the Money Where It Counts Initiative. It includes a standard proposal budgeting and reporting template. It also sets out the commitments of agencies and donors operating under MWIC.

B. Background

In order to gain the visibility and scrutiny over costs that is needed to discharge their responsibilities, donors to the programmes delivered by international not-for-profit agencies have developed their own approaches to cost classification, cost charging and financial reporting, setting out eligible costs that they will accept, ineligible costs that they will not accept, cost charging systems that they permit, and their own budget and financial reporting templates.

This poses several problems for the humanitarian and development sector and international grant-making in general. Boston Consulting Group estimated a potential gain of 2.3 million hours annually if harmonised and simplified solutions are implemented across the humanitarian sector³.

. The issues arising for both donors and NGOs are as follows:

- There is poor transparency over the costs of activities for donors. Agencies naturally seek to ensure that they can adequately fund all the expenses associated with activities, and adopt different approaches to costing and cost charging in donor proposals and reports. Donors have no single way to review costs and gain a full understanding of the resources needed and expended to deliver the activities.
- Each donor has its own approach and system. Compliance with multiple approaches to budgeting and reporting is expensive, and diverts funds away from the missions they seek to address.
- The lack of a consistent approach makes streamlining and automation of cost recording and charging processes challenging, creating another obstacle to improved efficiency.

¹ Building on the work done by NRC and Boston Consulting Group since 2015

² This Protocol has been drafted for the funding of not for profit agencies working internationally. However, with some adaptations, it could also be applied by local organisations and their donors.

³ Money Where it Counts project conducted by BCG and NRC 2017

- It is difficult for donors to compare budgets across different agencies.

The Grand Bargain, endorsed by more than 50 donors and aid organisations, aims to reduce the humanitarian financing gap by improving the delivery and efficiency of aid. Under the Grand Bargain, donors committed to harmonising reporting requirements, and implementing agencies committed to more transparency, amongst other things. MWIC is an important contributor to the commitments of workstreams 1, 4 and 9 of the Grand Bargain and is among the objectives of the IASC's humanitarian financing results group.

C. Summary of the Protocol

In summary, the Protocol conventions are as follows:

1. **Cost classification by function:** all costs are classified as direct costs, indirect costs or ineligible costs. Direct and indirect costs are classified in accordance with the functions that they resource. Both are required and legitimate costs of programme or project activities.
2. **Fully costed proposal budgets:** proposal budgets transparently show the full estimated direct and indirect costs required to deliver the proposal activities. Any co-financing or unrestricted funds assigned to the proposal by the applicant agency are also shown transparently in calculating the funding request to the donor.
3. **Charging full, actual direct costs:** the full actual direct costs of the activities are charged to the funding arrangement once it is in place. This can be on the basis of two methods: direct charging of costs in accordance with use or consumption by the funded activities; and apportionment of pooled direct costs.
4. **Direct cost pooling for efficiency, transparency and value for money:** agencies strive to adopt the most cost-efficient approach to delivering the funded activities. Where it is most cost-efficient, the resources necessary to deliver the funded activities are maintained through continuing in-country structures, or shared in other ways between different projects or programmes. In these instances the direct costs are transparently pooled and apportioned between the funding arrangements which they benefit, using a consistent, objective, and fair apportionment method.
5. **Charging indirect costs:** agencies incur a range of costs for functions that enable their activities to be delivered globally. These include the overarching policies, frameworks and processes required to manage and oversee projects in programmes in any location. These costs, which are legitimate indirect costs of funded activities, are charged in full, in accordance with an annual rate calculated transparently from the agency's audited annual accounts, and verified periodically.
6. **Budgets and financial reporting:** budgets and financial reports are in accordance with a standard and simplified template. Optional annexes showing detailed financial information transparently are also available and can be requested by the donor. Pooled direct costs and indirect costs are shown clearly on the template, as is co-financing or unrestricted funds utilised.
7. **Full transparency:** under this Protocol agencies prepare a Cost Classification and Cost Charging Statement setting out their approach under MWIC, and the rationale (as per the template in Annex I).

D. Principles

The following are the major principles underpinning the MWIC Protocol:

1. Activities are fully costed and the full cost of their delivery is transparent. Where costs are co-financed by donors or supported through unrestricted funds allocation, this is shown clearly.
2. Costs charged under the Protocol are necessary, reasonable and justifiable to deliver the funded activities, and are charged fairly, transparently and consistently.
3. Donors agree to pay the full, legitimate, direct and indirect costs of activities.

4. Agencies maintain careful and prudent controls, scrutiny and oversight over costs, and accept and address challenges by donors in that regard.
5. Cost charging and financial reporting approaches are simplified and harmonised to ensure that as much funding as possible is channelled directly towards humanitarian and development goals.
6. The financial monitoring of projects and funds is more effective and efficient, because of the completeness, clarity and transparency of the approach set out in this Protocol, enabling more focused oversight over the key elements of financial performance and a clearer assessment of finances than is possible currently.
7. Agencies document their approaches and the underlying rationale in a transparent Cost Classification and Cost Charging Statement which is made available to all donors under the Protocol.

E. A harmonised and consistent cost classification system

Under this Protocol, agencies and donors use standard cost classification categories, as follows:

1. **Direct costs:** the necessary and reasonable costs incurred in delivering a specific programme or project⁴. These costs arise directly because of the activities required to implement the programme or project are 100% directly charged, allocated or apportioned to the funding arrangement for that programme or project.
2. **Indirect costs:** the necessary and reasonable costs incurred to manage the organisation 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 charge indirect costs to individual funding arrangements in accordance with direct use or consumption, but without the functions they represent, projects and programmes could not be delivered effectively, efficiently and safely.
3. **Ineligible costs:** certain specific costs are ineligible for funding under MWIC. These are as follows:
 - a) Losses or provision for losses due to fraud and corruption
 - b) Purchase of land and buildings (unless explicitly agreed in the funding arrangement)
 - c) Interest/debt servicing costs (unless the funds are paid in arrears)
 - d) Disallowed costs from activities funded through funding arrangements
 - e) Costs of raising unrestricted or unearmarked funds
 - f) Costs of gifts and donations
 - g) Alcohol costs
 - h) Entertainment costs

Based on their programme approaches and aims, agencies have different organisational structures and geographic presences. Direct costs and indirect costs definitions constitute all the necessary and reasonable inputs required to undertake the *functions* necessary for the related activities, wherever they may be located or sited within the agency. Under this Protocol agencies map their entire cost base against these categories, in order to ensure that only the direct costs of the relevant activities are included in proposal budgets, and that the agency's indirect cost rate is calculated accurately without double funding of costs.

Annex II contains the defined direct cost functions and the indirect cost functions under this Protocol.

F. A fair, accurate, simplified and transparent cost charging system

Under the MWIC Protocol, agencies operate a fair, accurate, simplified and transparent cost charging system. The key elements of cost charging under MWIC are as follows:

⁴ 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.**

Cost charging to individual funding arrangements

Agencies charge relevant costs to each individual **funding arrangement** they have in place. A funding arrangement can be a grant, contract or a single corporate or individual donation, funding a set of activities proposed to and accepted by the donor. More than one funding arrangement may be linked to the same set of activities, and in such cases, the costs of the activities will be charged to each of the funding arrangements in place.

Charging direct costs to funding arrangements

Agencies charge direct costs to funding arrangements using two different methods:

1. Directly charged costs method
2. Pooled direct costs method

While both directly charged costs and pooled direct costs represent direct cost functions which are necessary and reasonable to deliver the specific funded activities in the programme or project, the methods of charging them to funding arrangements differ.

Directly charged costs

Directly charged costs are charged to funding arrangements in accordance with the **use or consumption** of the resources which they represent. Where 100% of a particular input is utilised by the activities under one funding arrangement, the cost is 100% directly charged. Where the cost of a particular input is utilised by activities funded by more than one funding arrangement, for example two or more grants managed in one field office, the cost will be allocated to the funding arrangements in accordance to the actual use of the resource by the funded activities.

For directly charged costs (ie both 100% directly charged, and allocated), supporting documentation and audit evidence will include both:

- Third party evidence for the cost (eg an invoice, or a staff contract) and
- A clear link to the activities funded by the funding arrangement, demonstrating the use of the resource by these activities (for example, a goods delivered note or record, or a staff timesheet). In some cases a calculation is required to allocate costs between funding arrangements, but in these situations, the agency must be able to provide evidence for this allocation, which is related to the actual use of the resource.

Examples of directly charged costs allocated in accordance with actual use are as follows:

- A project finance staff role working on the transaction processing, financial control and financial reporting of more than one programmes or projects, funded by more than one funding arrangement, where the actual staff cost is charged to the relevant funding arrangements based on a completed and signed timesheet
- A shared vehicle where the fuel and other vehicle running costs are charged to activities funded by different funding arrangements in accordance with actual use as evidenced by logbook/mileage records
- Field office costs which are allocated and directly charged in accordance with the headcount for the different programmes and projects using the office.

Pooled direct costs

In order to deliver on programme or project activities effectively, efficiently, safely and on a timely basis, many agencies maintain resourced direct cost functions in the countries in which they operate. Indeed,

often resource-sharing is the most efficient way to deliver projects and programmes. For example, this can include a country structure and key permanent posts which are directly necessary to deliver programmes. A continuing in-country resource can be the most effective and efficient way to deliver these necessary functions to programmes and projects.

In these situations, agencies may pool direct costs in order to apportion them to individual funding arrangements.

The Protocol conventions for apportioning direct pooled costs are as follows:

- Pooled costs cannot be as readily charged using evidence of actual use as directly charged costs, but are just as necessary for the delivery of the project or programme.
- Where direct costs have not been directly charged to the relevant funding arrangement, agencies pool them for apportionment to the activities to which they relate.
- All pooled direct costs are supported by third party documentation evidencing the full amount of the cost pooled.
- Under this Protocol, agencies are encouraged to avoid waste and use cost pooling and apportionment where the collection of evidence of actual use is cumbersome and difficult and does not add value to the cost charging approach and to donors' assurance of probity and legitimacy of costs.

Under this Protocol, the pooled direct costs apportionment method meets the following requirements:

Use of a suitable apportionment key

- The pooled direct costs are apportioned in accordance with an apportionment key, to all the programmes and projects using the resources represented by the cost pool.
- The key is applied consistently and is fair, objective and justifiable as an appropriate driver for the pooled costs which it is being used to apportion.
- Under this Protocol agencies may use a multi-factorial apportionment key. Agencies may also use more than one apportionment key for different cost pools, if they deem this to be a more suitable cost driver.
- The apportionment approach, the key(s) and the rationale are transparently documented and explained, and consistently applied⁵ between donors and between time periods.

Apportionment to benefiting projects only

- Costs are apportioned from a cost pool only to projects, programmes and activities which have benefited from the pooled resource; in other words, no project or programme will be apportioned costs from a pool from which it does not benefit.
- Agencies may have more than one cost pool in a country, depending on how they group and manage their funding arrangements and resources. In all cases however, a cost pool will be apportioned only between activities that utilise it.

Full cost apportionment based on supported and evidenced actual costs

- The pooled direct costs apportioned are the actual costs incurred, not estimates or budgeted costs.
- The supporting documentation for these charges include the distribution of the cost pool(s) by the apportionment key. Also, each cost in the pool(s) is supported by clear evidence (for example, payroll

⁵ The Protocol will be consistently applied across all an agency's funding arrangements when it has been implemented in full by the agency. There will be a transition period during implementation, and in any pilot of the Protocol, when the approach will be applied by the agency to the funding which has been transitioned to the Protocol, but not for other funding. In these circumstances the Protocol will still be applied consistently to all the funding within the transitional arrangements or pilot.

records, invoices) to demonstrate that it relates to a direct cost function, as per the definition in Annex II to this Protocol.

- Under this Protocol agencies budget and apportion the full share of direct pooled cost. Where they subsidise or co-finance any pooled costs, this is shown transparently on the proposal budget and financial report.

Transparency of direct pooled costs

- Each agency documents its approach to charging direct costs in its Cost Classification and Cost Charging Statement, including an explanation of its apportionment key and the rationale for the key.
- Agencies transparently disclose the amount of pooled costs charged to the funding arrangement and the size of the relevant pool(s) in the financial report.
- All costs in any pool from which a charge is apportioned to a funding arrangement are fully supported by third party evidence. Full transaction lists for any cost pool are available to donors on request under MWIC. Third party evidence of pooled costs can be audited as part of a programme or project audit if required by the donor.
- Each agency commissions an independent review of its cost pooling and apportionment system under a standard Statement of Work. The review results and report are available to all donors under MWIC. The review will be repeated whenever an agency makes a material change to its cost pooling and apportionment system, or every five years, whichever is earlier. The apportionments of costs to funding arrangements themselves will be tested each year as part of the agency's organisational audit, or as part of a project audit if required by the donor.

Charging indirect costs to funding arrangements

Each agency calculates its own indirect cost rate in accordance with a standard calculation based on its actual costs in its last complete financial year, and charges this rate to all funding arrangements under this Protocol. Annex III contains a Cost Analysis template enabling the annual calculation of the indirect cost rate.

Under this Protocol, the indirect cost rate charged includes the cost of the indirect cost functions of the agency applying for the funding. The rate is calculated annually from the last set of audited financial accounts of the applying agency, using a transparent calculation. Agencies may make adjustments to the calculation, for example, if the last year's accounts contains a significant distorting item, and if they do this, they will explain this openly in their Cost Analysis (annex III) and Cost Classification and Cost Charging Statement (annex I) under this Protocol.

The indirect cost rate is calculated and expressed as a percentage of the total direct costs of the agency each year. The rate is calculated to ensure that the indirect costs which relate to ineligible activities such as unrestricted fundraising are excluded from donor proposals.

Agencies commit that under this Protocol there will be no "double financing" of direct and indirect costs, and that costs will be included either as direct or as indirect, depending on the function they resource, but not as both. Ineligible costs are excluded from both direct cost budgets and the indirect cost calculation.

Where the applying agency implements programmes through a sister organisation in its global family (for example through a federation) and pays inter-federation fees or transfers to sister organisations, it adjusts its indirect cost rate calculation to exclude any proportion of this inter-federation funding which is used by the entity to fund direct or ineligible costs.

Each agency commissions an independent review of its indirect cost rate calculation every year under a standard Statement of Work . The review results and report are available to all donors under MWIC.

Where the funding application is from a consortium of independent agencies under MWIC, each agency includes its own indirect cost rate in its own costs, as calculated under this Protocol.

G. Simplified and transparent budgeting and financial reporting

Under this Protocol, proposal budgets and financial reports will be prepared using the same transparent and simplified template, attached as Annex IV.

Budgeting and financial reporting template

- Only the direct costs of the specific activities to be funded are included in the proposal budget and the financial reports
- Direct costs are categorised into a range of comprehensive cost categories
- The funding arrangement's share of pooled direct costs is shown as a line in the template
- The funding arrangement's share of indirect costs, as per the agency's calculated indirect cost rate is shown as a line in the template.

Under this Protocol, donors will have full transparency over the funding arrangement's share of pooled direct costs, including:

- the total value of the cost pool(s) to which the funding arrangement belongs, for the period of the report
- the amount of the pooled direct costs charged to the funding arrangement, and the proportion this comprises of the total cost pool(s)

Financial narrative

Under MWIC, proposal budget and financial reports are accompanied by a short financial narrative, including a statement of compliance with this Protocol. The agency's Cost Classification and Cost Charging Statement is also included.

Assigning costs to outcomes or results

Under this Protocol, indicative percentage allocations to the results or outcomes of the activities detailed in the related narrative proposal are included in proposal budgets and financial reports as shown in Annex IV. A summary of the underlying assumptions and rationale for the percentage allocations will be provided in the financial narrative.

Proposal budgets

The following conventions apply to proposal budgets under the MWIC Protocol:

- Proposal budgets include the full direct costs required for the activities to be funded, together with the full indirect cost in accordance with the applying agency's calculated indirect cost rate as per section F. Budgeted costs are shown in accordance with the MWIC cost classification system.
- Directly charged costs are budgeted as accurately and completely as possible.
- Pooled direct costs are estimated consistent with the agency's pooled direct cost charging method, to give an accurate and fair estimate of the new funding arrangement's share of the cost pool(s) to which it will belong.
- No costs associated with indirect cost functions will be included in the budget as direct costs.

- Alongside the standard MWIC budget template, donors may require applicants under MWIC to submit a more detailed budget showing the budget breakdown for each high level cost category. If so required, agencies will submit the detailed budget in a format of their choosing. This enables significant efficiencies by allowing agencies to use their own detailed budget formats for submissions. Such detailed budgets will reconcile back to each of the high level cost categories in the MWIC template.
- Under this Protocol, agencies will seek permission from donors to vire budgets *between* the high level cost categories in the MWIC template, where these virements amount to 10% or more of either category⁶. Permission will not be required for budget virements *within* a high level category, or between reporting categories when the amount is less than 10% of both categories.
- Each proposal budget submitted will include a signed statement by the agency confirming adherence to the MWIC protocol, alongside the agency's Cost Classification and Cost Charging Statement.

Financial reports

The following conventions apply to financial reports under the MWIC Protocol:

- Agencies prepare financial reports in accordance with the MWIC template for funding arrangements under this Protocol. Donors set the required reporting dates for reports and communicate them to agencies at the start of the funding arrangement.
- A number of optional annexes will be available to donors, should they wish to include them in the reporting requirements:
 - a) **Transfer of assets from/to other grants:** list of assets with an economic value of more than \$5000 that are transferred from previous project(s) or that will be transferred to later projects or for general use by the agency
 - b) **Personnel:** list of all international and national functions with information on contract and salaries
 - c) **Detailed financial information:** breakdown of costs within each high level reporting category, in the agency's own internal format, reconciling to the costs shown against each high level category in the financial report
 - d) **Downstream partners' costs:** breakdown of the total costs of downstream partners into the high level cost categories.
 - e) **Pooled direct costs:** an additional report listing the costs in the cost pools to which the funding arrangement belongs, by categories to be defined by each agency.

Co-financing and subsidies

Where other funding arrangements supporting the proposal activities are in place, or are expected to be place, the co-financing element will be shown transparently in the proposal budget and the financial report, as outlined in the template in Annex IV.

Agencies may choose to allocate unrestricted funds to support the activities proposed in a funding arrangement, for example by funding a portion of the indirect costs, or a portion of the pooled direct costs. In such instances, this will be shown transparently on the face of the proposal budget and in the financial report, as per the template in Annex IV.

⁶ Donors may give more flexibility under this Protocol by requiring formal requests for virements of more than 10%. Each donor will specify their own threshold, which will be no less than 10%.

H. Agencies' commitments under this Protocol

Under this Protocol, agencies commit to:

1. Showing transparently the full budgeted cost of activities in proposal budgets, and the full actual cost in financial reports, including all relevant direct and indirect costs
2. Exercising financial vigilance and careful and prudent cost control, to ensure that costs are reasonable, justifiable and competitive for the required inputs
3. Mapping their cost structures accurately against the cost classifications under this Protocol, and ensuring that in fully costed budget proposals, costs are not double funded
4. Transparently and accurately explaining their cost classification and cost charging approach under this Protocol in an up to date Cost Classification and Cost Charging Statement which is made available to donors with budget proposals
5. Sharing detailed financial reports related to a funding arrangement with funders upon request in line with Protocol
6. Ensuring that all directly charged costs and any allocation in accordance with use is justifiable and verifiable
7. Maintaining appropriate structures in countries to enable the timely, safe, effective and efficient delivery of funded activities, and implementing fair, transparent and efficient methods of charging these justifiable and verifiable costs in line with the conventions of this Protocol
8. Choosing and justifying a fair, objective and auditable apportionment key for the apportionment of pooled direct costs to the funding arrangements which benefit from the pooled resources, and apportioning such costs only to the benefiting activities
9. Maintaining third party documentation to support all directly charged and pooled direct costs, together with evidence of use by activities within a funding arrangement to support directly charged costs
10. Preparing complete and accurate budgets, and respecting the total budget agreed and signed with the donor, ensuring that actual costs charged are within this budget, subject to any agreed variation

I. Donor commitments under this Protocol

Under this Protocol, donors commit to:

1. Paying the full fair, justifiable and reasonable direct and indirect costs of activities included in their funding arrangements with agencies
2. Accepting direct costs which are pooled and apportioned as necessary and reasonable costs required to implement funded activities, together with the selected apportionment key
3. Requesting optional annexed financial reports, as available under this Protocol, only where these will be used for monitoring and questioning, and making such requests on a timely basis, when agreeing and setting up the funding arrangement
4. Accepting proposal budgets and financial reports in the harmonised format under this Protocol
5. Accepting that agencies have different structures and approaches, and considering total costs (rather than direct or indirect cost alone) in assessing economy and value for money
6. Questioning and challenging implementing agencies to explain and justify their directly charged, pooled and indirect costs and to show how they maintain cost-efficiency and control and bear down on expenditure

Annex I: Cost Classification and Cost Charging Statement

Annex II: Direct cost and indirect cost functions

Annex III: Cost Analysis template

Annex IV: MWIC budgeting and financial reporting template

Annex I: Cost Classification and Cost Charging Statement

Name of agency:			
Organisation and cost structure, including sister or family organisations involved in implementing funded activities:			
<i>Outline the organisation structure through which programme and project activities are delivered:</i>			
Approach to charging direct costs:			
Directly charged costs:	<i>Outline the major directly charged inputs</i>	Direct pooled costs:	<i>Outline the major pooled direct costs</i>
Apportionment key for pooled direct costs:			
Rationale for apportionment key:			
Date of last verification of apportionment mechanism, under the MWIC Statement of Work:		Verification carried out by (name of organisation):	
Indirect cost rate:			
One-off adjustments applied in calculating the indirect cost rate		<i>Insert details here, otherwise insert N/a</i>	
Last complete financial year end:			
Date of last verification of indirect cost rate:		Verification carried out by (name of organisation):	
Agency's approach to cost control and cost-efficiency, including savings and targeted savings:			
<i>Summarise your agency's approach to controlling costs and maintaining and improving cost-efficiency, including savings made in the last year, and any targeted savings over the coming year:</i>			
Completed and signed off by (name and job title)⁷:			
Date completed:			

⁷ Must be finance director or equivalent, or chief executive

Annex II: Direct and indirect cost functions

Direct cost functions

Direct costs are the costs of all necessary and reasonable inputs⁸ associated with functions which are directly necessary to deliver a programme or project⁹. These functions include¹⁰:

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)

⁸ 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

⁹ 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.**

¹⁰ 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 inputs¹¹ 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 include¹²:

- 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

¹¹ 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

¹² 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.