

The objective of this guidance is to provide partners, OCHA Country Office, HFU and OCHA headquarters with a common framework to facilitate the appropriate preparation, review and clearance of project budgets. The guidance focuses on defining eligible and ineligible costs, direct and indirect costs (e.g. Programme Support Costs – PSC), shared costs, budget categories and the adequate break-down of budget lines. This guidance applies to all partners, UN agencies and NGOs.

1.1. Rationale and Basic Principles of the Project Budget

A clear segregation of duties underpins the preparation, review and clearance of the project budget. This is critical to preserve the country-driven nature of CBPFs and necessary to ensure central and internal controls to reduce the risk of approving erroneous or inappropriate project budgets (e.g. miscalculations, inconsistency, and lack of transparency or admission of ineligible costs). In this regard, fund managers in the field, certifying finance officers at headquarters, and partners have specific roles and responsibilities, as follows:

Fund managers are responsible to ensure that:

- a) The principles of economy, efficiency, effectiveness, transparency and accountability are adhered to in the sense that the project budget inputs are commensurate with the planned activities and the expected outputs, more specifically, that the project budget is a correct, fair and reasonable reflection of the project proposal/logical framework.
- b) The cost estimates are reasonable in the specific country context so that funding will be used in the most efficient way.

The role of **certifying finance officers** in headquarters is to:

- a) Verify the budget's factual correctness, checking coherence with the project proposal and logical framework.
- b) Flag concerns and seek clarification from fund managers on issues that may compromise compliance with UN rules and affect financial transparency and accountability.

The role of **partners** in the budgeting process is to;

- a) Provide a correct and fair budget breakdown of planned costs that are necessary to implement activities and achieve the objectives of the project.
- b) Use and comply with the budget template (Annex 06: Project Budget and Financial Reporting Tool) and guidance provided by OCHA for the classification and itemization of planned costs.
- c) Provide a budget narrative (as an essential component of the budget) that clearly explains the object and the rationale of every budget line. For example, shared costs, expensive assets, and costs/equipment required to support the regular operation of the partner, are clear cases that require a budget narrative.

1.2. Eligible and Ineligible costs

Eligible costs

The following attributes define the nature of eligible costs:

- Must be necessary and reasonable for the delivery of the objectives of the project.
- Must comply with the principles of sound financial management, in particular the principles of economy, efficiency, effectiveness, transparency and accountability.
- Must be identifiable in the accounting records and backed by original supporting evidence as incurred in accordance with the approved project proposal and period.

These may include:

- **All staff costs** (including salaries, social security contributions, medical insurance, hazard pay (when applicable) and any other cost included as part of the salary benefits package of the organization. Salaries and costs may not exceed the costs normally borne by the partner in other projects.
- Costs for **consultancies** involved in the implementation of the project.
- **Support staff costs** at country-level directly related to the project.
- **Travel and subsistence costs** directly linked to the project implementation for project staff, consultants, and other personnel that may also be eligible, provided the costs do not exceed those normally borne by the partner.
- A contribution to the partner's Country Office costs, as **shared costs** charged based on a well explained calculation and reasonable allocation system. Shared costs must be itemized.
- **The financial support to beneficiaries**, including cash and voucher-based distribution.
- **Purchase costs** for goods and services delivered to the beneficiaries of the project, including quality control, transport, storage and distribution costs.
- Costs related to **non-expendable items (assets)** such as equipment, information and technology
- equipment for registration and similar field activities, medical equipment, water pumps and generators.
- **Expenditure** incurred by the partner **related to awarding contracts** required for the implementation of the project, such as expenses for the tendering process.
- **Costs incurred by sub-implementing partners**, directly attributable to the implementation of the project.
- **Other costs** derived directly from the requirements of the grant agreement such as monitoring, reporting, evaluation, dissemination of information, translation and insurance, including financial service costs (in particular bank fees for transfers).

Ineligible costs

The following costs are ineligible:

- Costs not included in the approved budget (taking into consideration duly approved budget revisions).
- Costs incurred outside the approved implementation period of the project (taking into consideration duly approved no-cost extensions).
- Expenditures over and above the approved total budget.
- Costs that do not have supporting documentation.
- Costs that are not covered by the MHF budget guidelines.
- Debts and provisions for possible future losses or debts.
- Interest owed by the partner to any third party.
- Items already financed from other sources.

- Purchases of land or buildings.
- Currency exchange losses.
- Cessions and rebates by the partner, contractors or staff of the partner of part of declared costs for the project.
- Government staff salaries.
- Hospitality expenses, provision of food/refreshments for project staff (not including water and hospitality for trainings, events and meeting directly related to project implementation).
- Incentives, mark-ups, gifts to staff.
- Fringe benefits such as cars provided by the organization to staff, individual full housing allowance and the like.
- Fines and penalties.
- Duties, charges, taxes (including VAT) recoverable by the partner.
- Global evaluation of programmes.
- Audit fees/system audit fees – these costs are paid directly by the fund.¹

Other Types of costs

On a case-by-case basis and depending on the objectives of the fund, the fund manager retains the flexibility to consider the following costs as eligible:

- Government staff training as a component of a project activity that contributes to the achievement of the overall project objectives.
- Visibility material of the partner directly related to projects funded by the MHF.
- International travel costs when directly linked to the delivery of the project objectives. When international travel costs are requested to support additional activities outside those of the project, such costs can only be considered if they are well justified and in the proportion attributable to the project.
- Vehicles.
- Depreciation costs for non-expendable/durable equipment used for the project for which the cost is not funded in the current budget or prior the MHF funding.
- Equipment for the regular operations of the partner.
- Recurrent costs for the partner's current operations.

1.3. Direct and Indirect Costs

There are two categories of eligible expenditures: direct costs and indirect costs.

Direct Costs

Direct costs must be clearly linked to the project activities described in the project proposal and the logical framework. They are defined as actual costs directly related to the implementation of the project to cover the costs of goods and services delivered to beneficiaries, and the costs related to the support activities (even partial, such as a security guard or a logistician partially working for the project), required for the delivery of services and the achievement of the project objectives.

Direct costs include:

- Staff and related personnel costs, including consultants and other personnel.
- Supplies, commodities, materials.
- Equipment.
- Contractual services.

¹ Those costs are charged as a direct cost for the Fund management.

- Travel costs, including transportation, fuel, and daily subsistence allowances for staff, consultants and other personnel linked to the project.
- Transfers and grants to counterparts.
- General operating and other direct costs including security expenses, office stationary, and utilities such as telecommunications, internet, water, electricity, office rental and other direct costs, including expenses for monitoring, evaluation and reporting, related to the implementation of the project.

Indirect Costs

Indirect costs are referred to as Programme Support Costs (PSC). PSC are all costs that are incurred by the partner regardless of the scope and level of its activities and which cannot be traced unequivocally to specific activities, projects or programmes. These costs typically include corporate costs (i.e. headquarters and statutory bodies, legal services, general procurement and recruitment etc.) and assets that are not related to service provision to a particular project. PSC is charged as a maximum 7 per cent of the approved direct expenditures incurred by the partner.

Programme Support Costs of sub-implementing partners associated to the implementation of a specific project should be covered by the overall maximum 7 per cent of the actual project expenditures.

Indirect costs do not have to be itemized in the project budget.

1.4. Shared Costs

Sharing costs between different donors and projects under a country programme of a partner is an acceptable practice for the MHF. The partner may share certain Country Office costs to different uses and projects, for example staff, office rent, utilities and rented vehicles.

The following guidance shall be observed when including shared costs in the project budget:

- All shared costs must be directly linked to the project implementation.
- All shared costs shall be itemized in the budget, following standard accounting practice and based on a well-justified, reasonable and fair allocation system, to be clearly explained in the budget narrative of the project and to be assessed and approved by the HFU in the OCHA Country Office.
- The partner should at any time be able to demonstrate how the costs were derived and explain in the project proposal/logical framework how the calculation has been made (e.g. pro-rata, averages).
- For staff-related costs, if a position is cost-shared, the percentage of the monthly cost corresponding to the time that the person will dedicate to the project shall be budgeted². It is not acceptable to have portions of a unit for staff costs, only percentages are acceptable.
- Non-staff shared costs should be shared based on an equitable cost allocation system³. Accordingly, the percentages in the budget are to be assessed and approved by the HFU in the OCHA Country Office.
- Shared-cost, including staff-related costs, should preferably be charged for the entire duration of the project. When this is not the case the rationale of the apportionment must be explained into the budget narrative.

² Cost-shared staff positions whose existence is intended to last the entire duration of the project should be charged for the entire period and charged in percentage against the project (half of the cost of a guard, in a 12-month project, should be budgeted at 50% of the monthly salary for 12 months). Durations shorter than the project are acceptable only if the position is not intended to last for the entire duration of the project. When recording expenditures, the partner will retain the possibility to do it, within the budgeted amount, according to the modalities that better suits its preferences (charging 100% of the guard for 6 months).

³ This should be calculated as a percentage against the overall amount of the shared cost and charged in percentage to the project. It is preferable to charge shared costs for the entire duration of the project. When recording expenditures, the partner will retain the possibility to do it, within the budgeted amount, according to the modalities that better suits its requirements (e.g.: to cover half of the rent of an office in a 12-month project, the partner should budget the rent for 50% of the monthly cost for 12-month period. Then the partner retains the possibility to pay the full rent of the office for 6 months with the allocated budget).

1.5. Guidance on the Itemization of Budget Lines

A project budget must be credible and in line with sound financial management principles. It should describe what the project proposes to do in financial terms and values. The budget review process will ensure that budgeted costs are correct, fair and a reasonable reflection of what is needed to carry out the project. Concerns in relation to compliance with UN rules and regulations and financial accountability must be addressed before projects are approved.

- Provide details in the 'remark' section which serves as budget narrative so that the objective of the budget line can be clearly identified.
- Itemize each national and international staff, consultant and other personnel by function, and provide unit quantity and unit cost (monthly or daily rates) for each staff position⁴. Roles and responsibilities must be clearly stated.
- If more than one position is lumped in one budget line, a breakdown and clearly defined roles and responsibilities should be provided in excel sheet that shall be uploaded under 'Documents' tab.
- Must NOT exceed salaries and costs normally borne by the partner in other projects.
- The unit quantity should be a whole number and there should not be any decimal.
- The units, amounts and percentages indicated in 'remark' section should be consistent with the budget.
- Classify 'D' for direct costs⁵, including staff, and 'S' for support costs⁶, including staff.
- There shall not be any acronym for the position which shall be standardized across the project proposal.
- The 'remark' section shall include number of participants, beneficiaries, households, etc. who will benefit from supplies/trainings/construction.
- Any budget line which total value exceeds, but not limited to, \$10,000 (as cumulative value) requires a clear explanation of the calculation in the budget narrative.
- When budget lines contain costs of multiple items (exceeding \$10,000) a budget breakdown should be included in excel listing item, unit, quantity, value or cost (per unit and total cost. Documentation must be uploaded in the GMS under 'Documents' tab.
- Provide unit or quantity (e.g. 10 kits, 1,000 metric tons) and unit cost for commodities, supplies and materials to be purchased. The budget narrative should properly reference unit measures (length, volume, weight, area, etc.).
- Provide technical specifications for items which unit cost is greater than \$10,000.
- Provide technical specifications for items which unit costs can greatly vary based specifications (e.g. for generators, a reference to the possible range of power would be sufficient to properly evaluate the accuracy of the estimated cost).
- Provide list of items⁷ and estimated cost per item for kits when the cumulative budget line value exceeds \$10,000.
- Provide the list of items for globally standardized kits such as Post-Exposure Prophylaxis kits and Interagency Emergency Health Kit. This does not include standard kits agreed upon in each country.
- Freight and transport costs should be clearly broken down such as weight of the supplies (kg, tonnage), size of the truck and number of trips or duration.

⁴ Staff positions must be charged per unit. If staff costs are only partially charged to the given budget this must be reflected in the percentage (50 per cent of a staff, and not half of a staff at 100 per cent).

⁵ Expenditures, including staff costs, directly related to the project e.g. (Programme personnel like health officers, WASH engineers, project monitoring costs, project-related supplies, etc.)

⁶ Engaged expenditures, including staff costs, for support and administrative activities e.g. (general operating costs, e.g. office rental costs, communication costs; support staff costs, e.g. Grants Officer, Finance Coordinator, Human Resource Manager, Logistics Officer, etc.). These costs should be identified on a cost-sharing basis.

⁷ The list should be provided as an annex to the budget

- To the best extent possible, unit cost for facilitators, venue, refreshments, stationaries shall be consistent.
- In the case of construction works exceeding \$10,000, only labour costs and known essential materials may be budgeted and itemized, providing unit/quantity and unit cost. The budget narrative should explain how construction costs have been estimated on the basis of a standard prototype of building (e.g. latrine, health post or shelter), type of materials (e.g. wood, prefabricated or brick/cement/concrete) and the formula or rationale used to estimate construction cost (e.g. per square foot or meter or previous experiences).
- The budget line description field must be used to provide details of the nature of the contract and its intended outputs, showing how these are relevant to, and necessary for, project implementation. The description may refer to the project log frame or activity plan as appropriate in order to clarify the rationale and justification for the contract.
- Itemize In-country or International travel and position of the traveller, estimate number of trips and cost per trip.
- Travel costs can be estimated as long as the calculation modality is accurately described in the budget narrative (e.g. providing estimates on the number of trips and average duration in days, daily subsistence allowance rates, etc.).
- The cost for travel, per diem, daily subsistence allowance, etc. shall not exceed the costs normally borne by the partner in other projects and should be within the market rates.
- The partner is responsible and accountable to ensure the budget(s) of the sub-implementing partner(s) adheres to the principles of economy, efficiency, effectiveness and transparency. The partner must ensure the sub-implementing partner(s) budget(s) are commensurate with the planned activities and outputs, and is reasonable in the specific country context. The sub-implementing partner budget should be provided as a single line under the budget category 'Transfers and Grants to Counterparts'. The breakdown details are not required to be provided in GMS budget. However, at the request of OCHA HFU and/or the auditors, the partner is responsible and accountable to provide the necessary detailed documentation to support the budget and expenditure incurred by the sub-implementing partner. The sub-implementing partner's budget and expenditure details must be available, if requested, at the same level of detail and format applicable to the main partner. These documents must remain available for at least a period of 5 years after the project termination.
- Itemize general operating costs (e.g. office running costs, office rent, office stationeries, communication costs, bank charges, utilities such as water, electricity) for project implementation providing quantity and unit cost. A lump sum for operating costs is not acceptable.
- Where cost sharing arrangements are in place and the cost of any budgeted item shall not be fully charged to the project (i.e. where the item is paid for partially by the MHF and partially from other funding sources), preferably be budgeted throughout the entire project period. In case of a different period is used for the budget calculation, a clear explanation / justification should be provided in the description field. This applies equally to staff costs and other non-staff costs such as rentals, utilities etc.