

Guidance and Basic Definitions for the Budget Preparation Process of Projects Funded through OCHA-Managed Country-Based Pooled Funds

Rationale

The objective of this guidance is to provide implementing partners, with a common framework to facilitate the appropriate preparation of ERF budgets. In particular, this guidance focuses on defining eligible and ineligible expenditures, direct and indirect costs, shared costs, budget categories and the adequate break-down of budget lines.

The role of implementing partners in the budgeting process is to:

- Provide a correct and fair budget breakdown of the planned expenditures that are necessary to implement the activities and achieve the objectives of the project.
- Use and comply with the budget template and guidance provided by OCHA for the classification and itemization of planned expenditures.
- Provide a budget narrative (part of the ERF Budget tool) that explains the rationale for requesting any items that may not necessarily be self-explanatory. For example, shared costs, large/expensive assets, and costs/equipment required to support the regular operation of the implementing partner, are clear cases where the provision of a reasonable justification will be necessary in the budget narrative (*please refer to part III of this document on basic definitions*).

Guidance and basic definitions

1. Eligible and ineligible expenditures

1.1. Eligible expenditures

Eligible expenditures:

- 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 included in the project budget.
- 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:

- a. Costs of staff (including salaries, social security contributions, medical insurance, hazard pay for high-risk locations), involved in the management and implementation of the project. Salaries and costs may not exceed the costs normally borne by the implementing partner in other projects.
- b. Costs for consultancies involved in the implementation of the project.
- c. Support staff costs at country level directly related to the project may be partly included.

- d. 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 implementing partner.
- e. A contribution to the country office costs of the implementing partner as shared costs, on the basis of well-justified request and a reasonable allocation system. Shared costs must be itemized. (*Please refer to section 3 of this chapter on Shared Costs for more guidance*).
- f. The financial support to beneficiaries, including cash and voucher based distribution.
- g. Purchase costs for goods and services delivered to the beneficiaries of the project, including quality control, transport, storage and distribution costs.
- h. Costs related to non-expendable items (assets) such as IT equipment for registration and suchlike field activities, medical equipment, water pumps and generators, etc.
- i. Expenditure incurred by the implementing partner related to the award of contracts required for the implementation of the project, such as expenses for the tendering process.
- j. Costs incurred by sub-implementing partners, directly attributable to the implementation of the project.
- k. Other costs deriving directly from the requirements of the MoU/Agreement such as monitoring, reporting, evaluation, dissemination of information, translation, insurance etc., including financial service costs (in particular bank fees for transfers).

1.2. Ineligible expenditures

The following costs are ineligible:

- a. Expenditures not included in the approved budget (including revised budget approved by Humanitarian Coordinator and OCHA COs).
- b. Expenditures incurred outside the approved project implementation period (including approved no-cost extensions).
- c. Debts and provisions for possible future losses or debts.
- d. Interest owed by the implementing partner to any third party.
- e. Items already financed from other sources.
- f. Purchases of land or buildings.
- g. Currency exchange losses.
- h. Cessions and rebates by the implementing partner, contractors or staff of the implementing partner of part of declared costs for the project.
- i. Government staff salaries.
- j. Hospitality expenses, provision of food/refreshments for project staff (potable water is allowed).
- k. Incentives, mark-ups, gifts to staff.
- l. Fringe benefits such as cars provided by the organization to staff, full housing allowance and the like.
- m. Fines and penalties.
- n. Duties, charges, taxes (including VAT) recoverable by the implementing partner.
- o. Global evaluation of programmes.
- p. Audit fees/system audit fees – these costs are funded directly by OCHA outside the project.

1.3. Note on other types of expenditures

On a case-by-case basis and depending on the objectives of the Fund, OCHA Country Offices withhold the flexibility to consider the following costs as eligible:

- a. Government staff training as a component of a project activity that contributes to the achievement of the overall project objectives.
- b. Implementing partner specific visibility material when related to the project.

- c. 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.
- d. Vehicles.
- e. Depreciation costs for non-expendable/durable equipment used for the project for which the cost is not funded in the current budget or prior ERF funding.
- f. Equipment for the regular operations of the implementing partner.
- g. Recurrent costs for the implementing partner's current operations.

2. Direct and indirect costs

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

2.1. Direct costs

Direct costs have to 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:

- a. Staff and related personnel costs, including consultants and other personnel.
- b. Supplies, commodities, materials.
- c. Equipment.
- d. Contractual services.
- e. Travel costs, including transportation, fuel, and daily subsistence allowances for staff, consultants and other personnel linked to the project.
- f. Transfers and grants to counterparts.
- g. General operating/ office running costs and security expenses, office stationary/supplies, and utilities such as telecommunications, internet, and office rental and other direct costs, including expenses for monitoring, evaluation and reporting, , related to the implementation of the project.

2.2. Indirect costs (maximum 7 per cent of the total direct cost of the actual expenditure)

Indirect costs are referred to as Programme Support Costs (PSC) in MoUs with UN agencies and as Administrative Costs in agreements with NGOs. PSC are all costs that are incurred by the implementing 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.) 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 implementing partner.

Indirect/administrative 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.

3. Shared costs

Sharing costs between different donors and projects under a country programme of an implementing partner is an acceptable practice by ERFs and the CHF Somalia. The implementing 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 cost 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 assessed and approved by the OCHA CO.
- The implementing partner should at any time be able to demonstrate how the costs were derived and explain in the project proposal/logical framework and the interim/final financial report 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 budgeted.
- Non-staff shared costs should be shared on the basis of an equitable cost allocation system accordingly the percentages in the budget are to be assessed and approved by the OCHA CO.

4. Guidance on itemization of budget lines

Each budget line requires the cost breakdown, as follows:

- a. Itemize each national and international staff, consultants and other personnel by function and grade/level, and provide unit quantity and unit cost by monthly or daily rates for each staff position.
- b. Provide unit /quantity (unit or quantity i.e. 10 kits or quantities 1000 MT (metric tons maize)) and unit cost for equipment to be purchased.
- c. Provide unit/quantity and unit cost for each contract.
- d. Itemize general operating costs (e.g. office rent, telecommunications, internet, utilities) for project implementation providing unit quantity and unit cost.
- e. Estimates can be accepted in travel, as long as the calculation modality of the estimate is described reasonably in the budget narrative (i.e. providing estimates on the number of trips, duration in days, daily subsistence allowance (DSA) rate).
- f. National travel: estimate number of trips and cost per trip.
- g. International travel: estimate number of trips and cost per trip.
- h. The contents of standard kits do not have to be itemized in the budget. Provide the units (number of units) and unit cost of the standard kit and make a reference in the budget narrative to describe the kit (i.e. how it is composed and how or who has set the standard).
- i. The individual contents of low value items kits that will be assembled and delivered as a package (e.g. school kit, personal hygiene kit) do not need to be itemized in the budget. Provide the number of units and unit cost of the kit. In the budget narrative, please describe the expected contents of the low value items kit and how the costs have been estimated (i.e. previous experience or known market value of those items).
- j. Commodities, supplies and materials such as construction materials, blankets, plastic sheets, heating/cooking oil, clothing, need to be itemized, providing unit/quantity and unit cost, even if distributed in a form of assembled kit (i.e. Non-Food Items kit).

- k. In the case of construction works, only the labor costs and known essential materials shall 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 (latrine, health post, shelter), type of materials (wood, prefabricated, brick/cement/concrete) and formula or rationale used to estimate construction costs (e.g. per square foot or meter, previous experiences, etc.).