

Annex 3: Model for cost categories for NGO grants

Cost category	Cost sub-category	Suggested budget specification	Ceilings and principles applied (including examples of typical cost areas/functions)
DIRECT COSTS are the costs of all necessary and reasonable inputs associated with functions, which are directly necessary to deliver a programme or project. DIRECT COSTS (as defined by the Money Where It Counts protocol) includes the following cost functions: • Programme/project and grant management, technical delivery, quality control functions. • Visibility and communications. • Human Resources and security. • Compliance. • Finance, procurement, payroll, information technology and administration.			
<u>A.</u> <u>Direct costs</u>	A.1. Direct activity cost. <i>(Aktivitetsomkostninger)</i>	• Programme/project activities. • Programme/project specific investments/equipment. • Salaries (HQ and local, documented by time registration). • Travel (activity specific only). • Events, conferences related to outcomes/outputs. • Leverage for external funding (e.g., EU projects with an impact on the targeted outcomes/outputs).	• Linked and allocated to outcomes/outputs (c.f. agreed results framework/ theory of change, ToC). • Allocation to outcomes/outputs documented through fair, transparent and reasonable cost allocation mechanism (e.g., time registration-key or similar). • Personnel costs documented through time registration. • Pooled direct activity costs allocation documented through fair, transparent and reasonable cost allocation mechanism (between outcomes/outputs and among projects/donors/funding arrangements, e.g., through pro rata, time registration-key, full time equivalents, head count or similar). Direct activity costs will typically cover the following areas: • Programme/project management (i.e., management of an activity or package(s) of activities that contribute to the targeted outcomes/outputs). • Technical assistance, monitoring and compliance. • Activity specific service delivery. • Activity specific pilot studies and appraisals. • Development of partnerships in Global South through capacity development, advocacy/policy work, strategic service delivery etc. • Programme/project specific advisory and support to local independent implementing partners (i.e., supporting local operational capacity and localisation). • Purchase of physical assets/items for programme/project-specific activity (incl. ITC). • Costs related to leverage for external funding including TA-support (excluding fund raising cost).

	A.2. Implementation through local independent partners. <i>(Overførsler til uafhængige partnere)</i>	• Transfers to (or expenses by) local independent implementing partners.	• Linked and allocated to outcomes/outputs (c.f. agreed results framework/ theory of change, ToC). • Allocation to outcomes/outputs documented through fair, transparent and reasonable cost allocation mechanism (e.g., through pro rata, time registration-key, full time equivalents, head count or similar). • Unspecified admin fee or overhead lump sum not eligible. • ‘Independence’ analysed and justified in terms of the following indicative criteria: 1) judicial independence 2) independent governance structure, 3) financially diversified source of funding and 4) degree to which it is rooted in local community (e.g., through volunteers, membership base, local donation). As such, the criteria exclude transfers to country and regional offices, functioning as extensions of the MFA-funded organisation or the international alliances to which the MFA-funded organisation is a member. Direct transfers will typically cover the following areas: • Implementation/operational cost by local independent partners in Global South (direct costs). • Grants assigned/committed to implementing sub-partners through an application process / ‘call for applications’ (not necessarily disbursed in the same financial year/accounting period). • Audit expenses borne by local implementing partners. • Indirect cost of local independent partner (i.e., inclusion of transparent and documented fair share of local partners’ indirect costs acceptable, documented through transparent and reasonable cost allocation mechanism e.g., through pro rata, time registration-key, full time equivalents, head count or similar). • Potentially, indirect costs may be included as an unspecified administrative fee for the local implementing partners (shall be kept at a minimum, must be based on partner capacity assessment and justified, max 7% of the direct cost of the local partner).
	A.3. Allocated programme-support cost. <i>(Program-understøttende funktioner /</i>	• Salaries related to programme supporting activities. • Investment and equipment for programme support staff.	• Justifiable/explained. • Linked and allocated to outcomes/outputs (c.f. agreed results framework/ theory of change, ToC). • Allocation to outcomes/outputs documented through fair, transparent and reasonable cost allocation mechanism (e.g., time registration-key or similar). • Primarily pooled cost functions (i.e., programme supporting cost functions with benefit to several programmes/ donors/ grants/ funding arrangement).

	<i>fælles-omkostninger)</i>	- Travel related to programme supporting activities. - Other essential programme supporting services/ expenses/ functions.	- Pooled programme support cost allocation documented through fair share, transparent and reasonable cost allocation mechanism (between outcomes/outputs and among donors e.g. through pro rata, time registration-key, full time equivalents, head count or similar). Programme support costs will typically cover the following areas: - Management of programme staff. - Planning (such as a new phase of ongoing programmes/projects), coordination of activities and preparation of documentation. - IT equipment (ICT) for programme supporting functions. - Recruitment of programme/project specific staff. - Programme/project specific studies, reporting, finance and procurement tasks. - Programme/project specific advisory and support to local independent implementing partners (i.e., supporting local operational capacity and localisation). - Programme/project specific or cross cutting reviews and external evaluations. - Participation of resource persons in connection with evaluations. - Expenses linked to HQAI/CHS verification/certification of partner itself. - Programme specific or cross cutting reviews and external evaluations. - Fair share of necessary personnel related costs (for essential program supporting staff and functions, e.g., social security, HR, security/safety and finance incl. expat related costs) through time registration or fair/transparent reallocation keys/ cost allocation mechanism. - Fair share of programme supporting cost functions at HQ as well as local or regional country office, through reallocation keys/ cost allocation mechanism (e.g., warehouse and office costs including rent, cleaning, utilities and supplies, telephone and internet costs, goods, materials, maintenance, payroll, procurement).
	A.4, A.5, A.6 (n.a.)	(n.a.)	(n.a.)
	A.7. Audit	Auditor's fee	Auditor's fee related to programme financial audit exclusively.
	INDIRECT COSTS (as defined by the Money Where It Counts protocol) are the costs of all necessary and reasonable inputs associated with functions, which are directly 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.		
<u>B.</u> <u>Indirect costs.</u>	B.1.	No specification needed.	- No specification needed. - Max 7 % of direct cost.

	Administration fee.		• Non-activity specific costs, i.e., costs, which are not a result of or linked to an individual development programme/project. The following costs for administration are typically considered to be covered by the administrative costs: • Administration and accounting of the organisation itself (i.e., not related to program activities). • Visits and monitoring visits not part of activity-specific monitoring (i.e., activity-specific monitoring is included in A.1 or A.3.). • Recruitment of non-activity-specific personnel (i.e., recruitment of activity-specific personnel and essential support staff is included in A.1 or A.3.). • Contact/dialogue with the MFA (other than participation in coordination of activities financed under the MFA grant). • Fund raising. • Planning of applications and negotiating proposals. • General compliance and administrative and legislative reporting tasks in relation to the organisation (e.g., VAT, audit). • General budget and accounts tasks (i.e., program specific budget and accounting tasks are included in A.1 / A.3. according to actual time registration). • Involvement of the organisation's leadership in the general governance and cooperation (by leadership is to be understood the general secretary/director and members of the board/executive committee not involved in activity specific tasks; i.e., activity specific involvement documented by time registration may be included in A.1. or A.3.). Indirect cost functions enable the organisation to deliver effectively and operate professionally. Enabling functions include: • Maintaining the organisation legally in the jurisdiction in which it is constituted. • Governing and managing the organisation and ensuring that it is appropriately directed and well controlled. • Ensuring the organisation's overall compliance with applicable, laws, regulations and other requirements in its home country or countries. • Developing, maintaining and applying the organisational frameworks and policies required to enable the organisation 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.
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INELIGIBLE COSTS (as defined by the Money Where It Counts protocol) are the costs, which are not accepted for funding under the funding arrangement.			
<u>C.</u> <u>Ineligible costs</u>			Guidance and thresholds: • Not to be included in budgets or reporting. • Shall be covered by other (i.e., non-MFA) sources of funding. The following costs are considered ineligible (unless explicitly agreed): • Losses due to fraud and corruption. • Purchase of land and buildings. • Disallowed costs (disallowed costs of local partners or costs irrelevant for the agreed purpose of the funding arrangement or outside project period). • Costs of general fundraising for un-earmarked funding (i.e., unrelated to the specific project/programme). • Costs of gifts and donations. • Alcohol and tobacco. • Excessive or reckless expenditure.