

Indirect Costs for Local and National Partners

Definition and Classification

Indirect Costs and Localisation

In financing models involving intermediary organisations (such as Tdh), it is important to ensure that an adequate, equitable amount of indirect costs reaches LNAs, enabling them to maximise their cost recovery. As stated in the Inter-Agency Standing Committee (IASC) guidance on the provision of indirect costs to local and national NGOs¹, “enabling L/NNGOs to recover their full direct and indirect costs is critical for more efficient and effective humanitarian action (...) While providing indirect costs will not independently ‘solve’ localisation, it is an important step in enabling more locally led humanitarian practice. It is also an important point of principle and a step toward redressing some of the inequities in the humanitarian financing system.”

Tdh is committed to contributing, with its partners, to a fairer and more equitable sharing of indirect costs. L/NAs should be granted indirect costs in an adequate way as part of their partnership with Tdh so that they can build and maintain the capacity to operate effectively. Tdh’s indirect costs policy must be transparent and open.

What is a local and national partner for Tdh ?

National/ Local Civil Society Organisations: all non-state and non-profit organisations in which people themselves pursue a shared interest in the public domain in one given country. They represent a wide range of interests and ties and include community-based organisations, non-governmental organisations (local or national). They can also be environmental groups, women groups, farmers associations, faith-based organisations, cooperatives, professional associations, research institute and non-profit media organisations.

Governmental Institutions: all governmental or government-controlled entities that do not act as donors for Tdh. It excludes private companies, voluntary organizations, and households. The general definition of the governmental institution implies government ownership or control rather than mere function and thereby includes, for example, the exercise of public authority of the implementation of public policy. It includes public universities, public authorities providing support to the implementation of activities for a specific ministry or other state entity, such as Child Protection services for example. In certain cases, where private entities are commissioned to implement public policies, they will be analyzed on case-by-case basis to be considered partners.

1. How does Tdh classify costs with partners?

Prior to defining costs, It is important to note that indirect costs are shared between Tdh and LNAs: **support costs on direct costs must be directly related to the existence of the project and its implementation.**

The below definitions are extracted from the Money Where It Counts Protocol², recommended by the IASC.

Indirect Costs:

Refer to the necessary and reasonable costs incurred to manage the organisation, 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

¹ <https://devinit.org/resources/overhead-cost-allocation-humanitarian-sector/executive-summary/>

² <https://interagencystandingcommittee.org/sites/default/files/migrated/2022-06/MWIC%20Protocol.pdf>



consumption, but without the functions they represent, projects and programmes could not be delivered effectively, efficiently, and safely.

NB: Indirect costs can also be called administrative costs, Indirect Costs, financial and administrative costs or overhead costs.

Direct costs:

The necessary and reasonable costs incurred in delivering a specific programme or project. 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.

Ineligible costs:

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 and Entertainment costs

h) Currency Exchange Losses

i) Credit to third parties

2. Tdh's Golden Rule (for Partnerships)

If Tdh is in lead:

Tdh may allow the partner(s) a structure/programme ratio equivalent to that on the Tdh part of the budget to ensure that an adequate, equitable amount reaches LNAs. As much as possible, Tdh should apply the same indirect cost percentage it receives from the backdonor with its LNA (For example, if ECHO provides Tdh with a 7% indirect cost ratio, Tdh should pass on a 7% indirect cost ratio to its LNA partner).

If this option remains impossible due to the back-donor policy (or for any other relevant reason), LNAs will be invited to present project-related costs as direct costs (e.g. policy development, capacity development workshops, legal registration costs...).

The lead shall keep a % of indirect costs on the rest of the partner's budget; this is justified by the workload and resources dedicated to global grant overview, consolidation, reporting (etc..) that are not included in direct costs.

If Tdh is not the lead :

We should try to get the same percentage of Indirect Costs as the lead or, failing that, give up a maximum of 1 percentage point on Indirect Costs to the lead.

The exception to this rule is the framework agreements with the members of the Tdh Federation and for service provision funding.

The lack of Indirect Costs should be balanced by budgeting for costs at margin or/and covering headquarter lines on direct costs for service provision funding.



The coordination costs incurred by the **Consortium** Lead are not part of the Indirect Costs, they are budgeted as direct costs.

3. Indirect Costs Classification

Tdh must systematically communicate the classification of direct, indirect, and ineligible costs to its local and national partners as soon as a potential collaboration is decided. This document must be shared to ensure a fair and accurate cost charging system.

Similarly, **for every partnership Tdh develops with LNAs, a budget narrative must be done and must correspond to the budget allocated to the LNA.**

What kind of indirect costs does Tdh consider valid?

Cost Category	Type of expenditure
Compliance with applicable laws and regulations	<ul style="list-style-type: none"> - Legal consultation and services: lawyer stipend, registration fees, government-auditing fees - Visa and movement authorisation service fees - Bank fees - Tax compliance related costs
Governance and management of the partner organisation	<ul style="list-style-type: none"> - Governance costs: Steering Committee costs - Rental costs for Organisation office/warehouse - Utility Costs: electricity, gas, heating, fuel, water, sewage, generator fuel - Furniture costs: desk, stationary, filing cabinets, chairs etc... - Fleet costs: vehicle rental, fuel, maintenance cost - Premises and storage/stock costs: warehouse costs, warehouse maintenance - Software and IT costs: licenses, computers, mouse, screens. - Cleaning costs
Developing and maintaining the partner's global strategy, financial models and budgets	<ul style="list-style-type: none"> - Strategy related costs: strategy-design. meeting, printing - Budget Management Costs: accounting costs (software) - Internal and External Audit costs
Developing and maintaining organisational frameworks and policies	<ul style="list-style-type: none"> - Policy development costs - Engagement with experts on policy analysis and recommendations (external consultancy)
Developing and maintaining the partner organisation's global network and communication system	<ul style="list-style-type: none"> - Communication costs: internet and phone bills, mailing costs. - Self-promotion Communication costs: brochures, roll-up banners, visibility material (vest, car visibility etc...) - Translation costs
Developing and maintaining the partner organisation's security and environmental compliance	<ul style="list-style-type: none"> - Security Costs: premises security item purchases (fire extinguisher, alarms, safe...) - Environmental Impact Assessment and compliance measures
Developing and maintaining financial and operational reporting/fundraising for the partner organisation	<ul style="list-style-type: none"> - Documentation and Recordkeeping costs: filing, softwares that support compliance documentation. - Data protection and privacy related costs - Fundraising event planning costs



Human Resources*	<ul style="list-style-type: none"> - Capacity Development related costs for organisation employee - Salaries for shared support staff engaged on the project* (if not already budgeted as direct costs) limited to: Finance, Logistics, HR, Security, Quality, Compliance, Administrative, Maintenance and Cleaning staff.
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*It is to be noted that the provision of salary costs will only be considered as Indirect Costs if they are clearly different from direct project costs related directly to project implementation.

