

MEMORANDUM

Date: 3-3-05

Further information on “Project management and general administrative costs” for the partner organization in the South.

Introduction:

As stated in the financial rules and regulations for NPT projects, a maximum of 6% of the total budget (not counting Dutch ‘project management’ or ‘contingencies’) can be used by the partner organization in the South for project management and general administrative costs. Nuffic has received a number of questions regarding this “6% rule”. This memo intends to clarify matters.

The “6% rule”:

The rules and regulations for the NPT programme state (par. 7):

The partner organization in the South

The general costs of administration and the time that staff members spend on project management, administration and secretarial activities, will be paid to a maximum amount of 6% of the total project budget, not counting Dutch ‘project management’ or ‘contingencies’.

General administrative costs are costs that are not specific to a particular project activity, such as communications (telephone, fax, mail, messenger service, etc.), office supplies, photocopying and other operational costs such as transportation, insurance etc. These are considered to be included under the heading ‘general administrative costs’.

Why this rule?

This budget item has been added to the regulations in order to eliminate possible financial barriers that might make it impossible for the Southern partner to administer or facilitate the project. The small budget for project management and coordination is intended to facilitate project implementation.

What costs qualify?

In principle, only activities that can be considered to be *incremental* general administrative costs (i.e. costs that would *not* have been incurred if the project had *not* been carried out), and that are considered necessary for the efficient and effective implementation of the project, may be budgeted.

Local salaries

Whether local salaries can be paid depends on the activity. One can distinguish between project activities that are of a *technical* nature, and activities that are of a *general, administrative and logistical* nature, i.e. activities in support of the project.

- *Technical activities:* In order to enhance sustainability after the project has ended, the NPT programme regulations stipulate that local salaries, or the topping up of local salaries, may not be paid from the project budget. The Southern organization must be able to pay the salaries after project funding has stopped. Therefore neither salaries and fees charged for the time which staff of the Southern organization spend on the technical activities, nor the cost of replacing staff at the

organizations that have seconded them to the project may be paid.

- *Administrative and logistical activities:* Time spent on general, administrative and logistical project management may be paid for from the 6% budget. This might include the costs of reporting to Nuffic or the Dutch partner, administration of project expenses, and communication related to the project. For instance, if the Southern Organisation has to hire a project administrator to administer and report on the *project's* expenses, or hire staff to carry out secretarial duties *for the project implementers*, these costs will be covered. Time that the project coordinator spends on *project coordination* and *project management* may be included in so as far it can be considered to be incremental.

Other costs

Since situations differ from project to project, it is hard to specify exactly what items can be budgeted. (Specifying items in a list would mean that items not listed would not be eligible. Since the NPT programme aims to be as flexible as possible, this would not be desirable.) Project partners should exercise common sense in identifying which costs are eligible and which are not. They might include small supplies, small computer facilities for administrative purposes, fuel and maintenance for project cars, insurance etc.

How should this item be budgeted and accounted for?

Tender phase: A Dutch supplier tendering for a project is obliged to reserve 6 % of the total budget for local general administration costs. If the Southern partner wishes to do so, the amount can be reduced. The remaining amount can then be spent on other project activities. This is at the discretion of the Southern partner, however.

Implementation phase: At the beginning of a project (e.g. during the inception phase), a budget for these activities should be drawn up and agreed upon by both project partners. This budget should be incorporated into the overall project budget and all subsequently revised budgets. The statements of expenses should be in line with this budget. If costs are incurred that are not included in the budget, this should be clarified afterwards. Overspending on this item is not allowed, however.

All expenses should be based on actual time spent and actual costs incurred. They should be included in the financial statements that are audited by external auditors.

Final remark:

If you have any doubts about what is eligible for funding, please do not hesitate to contact Nuffic's programme or financial officers. Please note that Nuffic will also check the budget and, if necessary, inform you in advance of any items that may not be included.