

## 9.3 ELIGIBILITY CRITERIA OF COSTS

### 9.3.1 THE CRITERIA

Eligible costs<sup>46</sup> are costs which meet the following criteria:

- **necessary** for the action
- **incurred** during the eligibility period
- **identifiable** and **verifiable**
- **reasonable**, justified and in line with sound financial management
- covered by the estimated overall **budget** of the action
- compliant with applicable tax and social **legislation**.

These criteria apply to both the partner signing the Specific Grant Agreement and its potential implementing partners.



ECHO will only pass judgement as to the actual eligibility of costs at the liquidation stage when determining the balance to be paid. Costs that do not meet the eligibility conditions will be declared ineligible and disallowed accordingly. The mere fact that certain costs are being mentioned in the financial part of the Single Form at proposal stage and thereafter is irrelevant, as this cannot overrule the otherwise applicable eligibility conditions.

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#### A) NECESSARY FOR ITS IMPLEMENTATION

The fundamental eligibility requirement is that costs are eligible when they are useful and needed for the achievement of the results. The costs must be essential for the performance of the operation in question. In other words, they **would not have been incurred if the action had not taken place**.



The question of necessity of a cost is the first question to be asked in case of doubt about the eligibility of a cost.

In some cases, the assessment of the fulfilment of the "necessity" requirement is not easy. This is the case for instance of equipment purchased towards the end of the action. This assessment will be based on the operational information provided by the partner or by ECHO.

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<sup>46</sup> Article 8 of General conditions.

**B) INCURRED DURING THE ELIGIBILITY PERIOD OF THE ACTION**

A cost is incurred when the related goods, equipment, service or works have been **used** in connection with the action. The fact that a legal commitment has been made (e.g. signature of a legally binding agreement or issuing a purchase order) is not sufficient for the costs to be eligible.

The table below describe the meaning of "used" for each type of costs.

For:	Used during the eligibility period means:
<b>Goods</b> ↪	When distributed to the beneficiaries
<b>Equipment for beneficiaries</b> ↪	When made available to beneficiaries
<b>Support supplies</b> ↪	When directly linked to the action and necessary for the action
<b>Services and works</b> ↪	When performed.



The partner should be prepared to demonstrate that a cost has been actually incurred, for instance during ECHO audits. Auditors may ask to visit specific action locations (distribution points, shelter construction sites, etc.) to verify that the supplies have been delivered or used during the eligibility period. During an HQ audit, auditors will check all the supporting documents related to the action and the relevant dates (i.e. distribution lists, logbook, employment/service contracts, reports on end of works, post-distribution monitoring report, but also payment vouchers, bank statements, tender files including bids not accepted, derogation forms signed at applicable level, etc.). This example list includes the costs incurred by implementing partners.

**What if?**

- Partner realises that costs will be incurred after the end of the eligibility period?
  - ↪ Can request a no-cost extension when still possible.
- The costs are not paid by the end of the eligibility period.
  - ↪ should ideally be paid by the time of submission of the final payment request.
  - ↪ if not, must be booked as debt in the accounts of the partner until the cost is paid.
- The costs are not paid at the time of the audits without a justification:
  - ↪ the actual and real nature of the costs may be challenged.

4 exceptions (exhaustive list) Costs that can be incurred after the eligibility period	
<b>Preparation final report</b> = costs necessary for the drafting of the final report (salaries of staff, + the overheads linked to the work of this staff).	<b>Post distribution monitoring</b> = cost of staff in charge of the post distribution monitoring and related running costs.
<b>Final Evaluation</b> = costs relating to the final evaluation, both external and internal.	<b>Audits</b> = Only if the audit is an essential requirement under the applicable national legislation for the partner to operate in the country of the action

### C) IDENTIFIABLE AND VERIFIABLE

The costs must be recorded in the accounting records of the partner. They must comply with the accounting standards of the country of registration of the partner and its usual cost accounting practices. The costs should also be backed by supporting evidence. (e.g. invoice, receipts, agreements, time-sheet, etc).

The partner does not have to provide those supporting evidences with the final report, but it has to make them available at ECHO's request or in case of audits.

Indirect costs do not need to be backed by supporting evidence during audits.

### D) REASONABLE, JUSTIFIED, AND COMPLIANT WITH THE PRINCIPLE OF SOUND FINANCIAL MANAGEMENT

This principle means that the budget of the action must be used in accordance with the principles of economy and efficiency.

- The principle of economy requires that the resources used in the pursuit of an activity be made available in due time, in appropriate quantity and quality and at the best price.
- The principle of efficiency refers to the best relationship between resources employed and results achieved.

Throughout the action, the partner will have to make sure that this principle is respected. At the end of the action, in cases where this principle could not be respected, the partner will have to justify the reasons and the impact on the result. When no valid justification can be provided, costs may be declared ineligible.

### E) COVERED BY THE BUDGET OF THE ACTION

This requirement means that all the costs must be included in the overall budget of the action. It does not mean that all those costs will be "visible" in the financial statement as the financial statement presents only the costs up to a certain level (level 3). Eventually, all the costs that will be presented in the ledger at final report stage must fall into one of the budget headings presented on the Financial Statement annexed to the Single Form.

F) COMPLY WITH THE APPLICABLE TAX AND SOCIAL LEGISLATION

The partner must comply with the applicable tax and social legislation e.g. the legislation of the country of registration of the partner and of the country of implementation.

9.3.2 WHAT ARE THE MAIN CATEGORIES OF ELIGIBLE DIRECT COSTS?

Direct costs<sup>47</sup> of the action are the costs directly linked to the implementation of the action, which would not have been incurred had the action not take place.

A) STAFF COST

<input checked="" type="checkbox"/>	<b>Personnel assigned to the action</b>	<ul style="list-style-type: none"> <li>Working under an employment contract or an equivalent appointing act.</li> </ul>
<input checked="" type="checkbox"/>	<b>Natural persons working under a contract other than an employment contract</b> e.g. in-house consultants, advisors	<ul style="list-style-type: none"> <li>Provided that the person works under the instructions of the partner</li> <li>In the premises of the partner (unless exception)</li> <li>The result of the work belongs to the partner;</li> <li>The costs are not significantly different from the costs of staff performing similar tasks under an employment contract with the partner.</li> </ul> <p>If these conditions are not met, then a consultant is considered a service provider under a service contract, thus the procurement rules apply.</p>
<input checked="" type="checkbox"/>	<b>Allowances and other benefits for volunteers</b> assigned to the action.	

 **Headquarter staff** cost is not eligible.

Unless:

- If the costs relate to the monitoring of the action in the field.
- If the costs relate to a specific tasks necessary for the achievement of the action operational results and have accordingly been identified as an operational activity in the SF.
- If the costs relate to the preparation of the final report (up to a max. of 1 full time equivalent with appropriate qualification and experience for the drafting of the final report (max. 3 months) independent of the actual location of the person drafting the report.

**What may be included under personnel costs?**

- actual salaries
- social security contributions
- staff insurance costs
- statutory costs included in the remuneration, provided that these costs are in line with the Humanitarian Organisation's usual policy on remuneration. (e.g. sick leave indemnities)
- additional remunerations, provided that they are paid in a consistent manner (e.g. hardship allowance)
- severance payments due at the end of employment contracts, provided that such payments arise from a statutory obligation under the applicable labour law (and not contractual arrangements), and provided these are charged pro rata to the Action. Accrued severance payments not payable immediately are acceptable.

<sup>47</sup> Article 8(2) GC FPA NGO

In such cases HQ salaries or a portion of these may be directly eligible, provided that the assignment of the HQ staff to the action are traceable, e.g. through timesheets or other similar means (e.g. the cost-allocation procedures of the partners).

Costs relating to the general grant management support are not eligible as they are considered as part of the capacity of the partner and covered by indirect costs.

### C) COST OF SUPPLIES

The notion of supplies includes both goods and equipment.

- Goods are items intended for direct consumption or use by the beneficiaries, including non-durable items and consumables.
- Equipment: durable items that can be used multiple times over their estimated economic useful lifespan. They comprise both **support equipment** (intended to assist the implementation of the action) and **operational equipment** (intended for the direct benefit of the beneficiaries).

	Which costs	Conditions
<b>Goods</b>	<ul style="list-style-type: none"> <li>• Purchase costs, related transport, storage and distribution costs</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement rules respected</li> <li>• Incurred during the eligibility period</li> <li>• Rules on remaining goods respected</li> </ul>
<b>Equipment</b>	<ul style="list-style-type: none"> <li>• Full Purchase costs of new or second hand equipment</li> <li>• Depreciation</li> <li>• Rental</li> <li>• Lease</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement rules respected</li> <li>• Incurred during the eligibility period               <ul style="list-style-type: none"> <li>• Rental/lease: only the rate applicable to the action.</li> </ul> </li> <li>• Depreciation: see below</li> <li>• Full Purchase costs, provided rules remaining equipment respected</li> </ul>

When ECHO is the **single largest donor** to the action, the options and conditions mentioned above apply to goods or equipment. When ECHO is **not the largest single donor**, these requirements are not applicable, provided that the remaining equipment is used to the benefit of the humanitarian actions.



When the partner expects difficulties to purchase the equipment (e.g. delays in delivery, difficulty to obtain custom clearance), ECHO recommends opting for solutions such as rental, lease, or depreciation.

### SPECIFIC CASES

- **Stationary items**, as a general rule, have to be included in indirect costs or field office costs. Stationary items necessary for a specific activity (e.g. for a training for beneficiaries) are eligible.
- Purchase, depreciation or rental costs are not eligible in case of equipment **donated by another donor** or fully paid under a previous EU action. The only relating costs that can be charged are the running costs of the equipment if they are mentioned in the Single Form and directly linked to the implementation of the action.

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- In-kind contributions are not considered as eligible costs and cannot be used to as a basis for the calculation of indirect costs.
- Costs directly linked to the management of the **consortium** (liaison officer, administrative support, audits, logistics support, monitoring of the associated partners activities) are eligible costs as long as they are reasonable and verifiable.
- The partner may **share costs** among different uses and actions according to a cost allocation system. (e.g. cars). These costs may be eligible provided that they are linked to the action and are charged in proportion of the different sources of funding.
- For equipment leased with option to buy, the eligible costs should generally not exceed the costs that would have been incurred if the equipment had been purchased. They should exclude any finance fee.

### DEPRECIATION

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- The partner can use their own depreciation rates<sup>48</sup>, provided that they are in line with:
  - its own accounting practices (and that they are recorded in the accounting statement);
  - the applicable national legalisation of the country where the partner is established;
  - international accounting standards;
  - the principle of economy and efficiency;
  - the principle of proportionality (only the portion of the actual use is taken into account).
- When the partner collaborate with implementing partners which are FPA partners, the FPA partners can use their own depreciation rates.
- Where the durable equipment belongs to an implementing partner which is not a FPA signatory, the implementing partner should use a depreciation rate and a methodology which is at least comparable or consistent with the one used by the lead partner in that action. This is to avoid having different depreciation rates applied in the same action which would be hard to reconcile or justify.
- Depreciation rules apply to second hand equipment, provided that the appropriate actual useful life of the asset is taken into account.
- It may be the case that the depreciation procedures foresee an accelerated depreciation for emergency contexts. In such a case, ECHO expects that the depreciated equipment is used in subsequent actions.

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<sup>48</sup> Article 10.2 of the General Conditions FPA NGO

- An important exception to this is if the durable equipment was bought using donor funding during a previous action. In cases where an donor has already paid or co-financed the purchase cost of a piece of durable equipment the related depreciation or rental costs can never be charged to a future ECHO funded action - to do so would be contrary to normal financial safeguards and would constitute double funding.
- In cases where it is not possible to charge rent/depreciation costs to an ECHO funded action it may still possible to charge the maintenance and running costs of that durable equipment to the action's budget.

## STOCKS

In order to respond quickly and effectively, the partners often need to purchase supplies in advance and to constitute stocks. For eligibility purpose, ECHO makes a difference between two types of stocks: **Stocks constituted** in advance of an action and **stocks pre-positioned** (or stockpiling) in advance of possible disasters.

- **Pre-constituted stocks** are goods or equipment bought before the action funded by ECHO. For ECHO, these stocks will be considered as incurred when distributed or used during the eligibility period of the action, no matter the purchase date. The procurement rules and quality requirements specified in Annex III of the FPA must be respected.

The partners can declare the historical purchase price, the inventory costs and the costs relating to the distribution of the supplies.

- **Pre-positioning/Stockpiling** is the constitution of emergency supplies not intended for immediate use, with the objective of reinforcing the emergency/disaster preparedness in third countries. These stocks managed by a partner and constituted with ECHO's support should be made available to all ECHO partners in case of emergencies. The costs of the supplies will be considered as incurred when the supplies are delivered to the warehouse of the Partner.

**Exception:** In certain countries, in view of possible a follow-up Action, partners may be authorised to pre-position stocks to avoid rupture in the procurement pipeline, subject to the following conditions:

- the delay in procuring or delivering of supplies should be due to objective logistical reasons and should not be due to problems in the procurement process of the partner that may be avoidable or manageable.
- The stocks should be proportionate to the identified possible gap in the procurement chain.
- The other stockpiling conditions (inclusion as a result in SF, reporting obligations, stocks available to other partners if needed) remain applicable.

Which costs to declare in the action under which the stocks are pre-positioned?	
<b>Stocks pre-positioned but not distributed during ECHO action.</b>	<ul style="list-style-type: none"> <li>• Purchase costs</li> <li>• Transport costs to the warehouses</li> <li>• Warehouses costs during the eligibility period</li> </ul> <p>① If the supplies are distributed in a follow-up action funded by ECHO, the distribution costs can be charged to that follow-up action.</p>
<b>Stocks pre-positioned and</b>	<ul style="list-style-type: none"> <li>• Purchase costs</li> <li>• Transport costs to the warehouses</li> </ul>

**distributed during ECHO action.**

- Warehouses costs
- Distribution costs.

As pre-positioning/stockpiling is not for immediate use, the **reporting rules are stricter** than for other type of stocks. The partner will have to provide in the Single Form of the actions under which the stocks are purchased the following information:

- **At proposal stage:** The pre-positioning should appear in one of the results of the action. The partner will explain why the stocks should be constituted, the nature of the supplies and how they will be handled (for instance, in case the disaster or emergency, in case limited period of usability).
- **At report stage:**
  - If the stocks were used during the action: explain in the narrative sections of the Single Form the use that was made of the stocks.
  - If the stocks were not used: update if necessary the information provided at proposal stage on the handling of the stock.
- **After the action:** In order to avoid risks of double funding, the partner should clearly label the stocks. The partner should also, at any time, be able to trace the stocks and explain its use. (For instance in case of an audit).

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#### C) COST OF PROCUREMENT CONTRACTS<sup>49</sup>

In order for the cost of procurement contracts to be eligible:

- the procurement must support the timely, efficient, effective achievement of the actions
- the contract has be awarded to the tender offering the best value for money or the lowest price
- Access to contractor must be guaranteed for audit and other checks<sup>50</sup>.

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#### D) COSTS OF TRAVEL

Cost of travel and related subsistence allowances for employees taking part in the action, including headquarters' employees conducting field monitoring missions are eligible. These costs must however be directly linked to the action, and in line with the partner's usual practices on travel.

In the case of missions covering several projects, only the portion of the costs of travel and related subsistence allowances which corresponds to the share of the total mission time spent on the action is taken into account.

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<sup>49</sup> Article 9.1 of the General Conditions FPA NGO

<sup>50</sup> Article 23 of the General Conditions FPA NGO

#### E) COST ARISING FROM THE AGREEMENT

Are eligible the costs arising directly from requirements imposed by the Specific Grant Agreement provided that the corresponding services are purchased in accordance with the applicable procurement rules.

These costs include (not exhaustive list):

- bank fees for transfers to the country of operation;
- insurances;
- dissemination of information;
- evaluation and monitoring of the action;
- quality assurance measures; e.g. related to food or medical supplies quality control;
- translation, reproduction, etc.

Costs of needs assessments are in most cases not eligible as direct costs, but are covered under indirect costs. However, if there are specific studies or surveys foreseen in the Single Form to be carried out during the action, these may be considered eligible as direct costs. They have to be explained in section 8 of the Single Form.

#### F) COSTS ENTAILED BY IMPLEMENTING PARTNERS

The costs entailed by IPs are only eligible if they correspond to actual costs and are in line with the no-profit principle.

#### G) FINANCIAL SUPPORT TO BENEFICIARIES

In most cases the financial support to beneficiaries shall take the form of either cash or vouchers. In order to comply with the requirements of the General conditions<sup>51</sup>, the Single Form should include essential information about the financial support.

See [section 9.6](#) for detailed information

The possibility of using a financial support to beneficiaries which takes the form of a prize will, in most cases, be applicable only in case of communications actions. (e.g. recognition prizes for outstanding work performed by people in the fight for humanitarian values).

#### H) COST OF INFRASTRUCTURE

Costs of infrastructure in the field, in particular field offices, **directly linked** to the action are eligible. The costs of renting or depreciation of field offices may be considered eligible, provided that only the portion of the costs which

Partners should be ready to demonstrate the actual use, the necessity and the link with the Action. Reasonability of the costs.

<sup>51</sup> Article 11 of the General Conditions FPA NGO.

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corresponds to the rate of **actual use** of the infrastructure for the purposes of the action is taken into account. The term "infrastructure in the field in particular field offices" also covers the running costs of the field office. However, it does not cover the costs of purchase of the field office.

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### I) NOT RECOVERABLE VAT

Value added tax which cannot be refunded may be considered eligible under certain conditions:

- the partner must be able to demonstrate that they requested the exemption from the relevant authorities (e.g. recent copy of letter sent to the tax authorities)
- the partner must be able to show the response of the tax authorities, or the applicable legislation which stipulate that VAT cannot be refunded.

In case there is no reply from the relevant authorities, the letter from the partner or its legal counsel requesting the VAT exemption or reference to the applicable legislation can be considered as a proof that VAT exemption was requested. When a partner receives a VAT reimbursement of costs after the receipt of the final payment and when the VAT has already been paid by ECHO, it is necessary to reimburse these amounts to ECHO. The partner should contact ECHO in such cases, which will issue a recovery order.

VAT rules are the same for implementing partners as for the lead applicant. The IP has to request an exemption and should be able to prove that it had requested the exemption.

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### J) SIMPLIFIED COSTING

As a general rule, the grant awarded by ECHO consists of the reimbursement of eligible direct costs declared as actually incurred and of eligible indirect costs declared on the basis of a flat-rate.

The General Conditions<sup>52</sup> foresee that the grant can also take the form of a reimbursement based on unit costs, lump-sum or flat-rate costs.

While this is not the standard option for ECHO, should the partner wish, for well-motivated reasons, to apply this approach, it will have to contact ECHO.



- For VAT & Simplified costing contact: [ECHO-FINANCE-LEGAL-AFFAIRS@ec.europa.eu](mailto:ECHO-FINANCE-LEGAL-AFFAIRS@ec.europa.eu)

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#### 9.3.3 ELIGIBLE INDIRECT COSTS

Indirect costs<sup>53</sup> are those costs which are not directly linked to the implementation of the action and therefore cannot be attributed directly to it. Indirect costs do not need to be supported by accounting documents for the purpose of ECHO funding.

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<sup>52</sup> See Article 17c) of the General Conditions FPA NGO

Indirect costs = flat rate of maximum 7% of the total eligible direct costs.

A lower percentage can be applied in case the relevant policies of the partner foresee the charging of a lower percentage of indirect costs, and this policy is consistently applied among donors.

The exact percentage will be established in each Specific Grant Agreement.

If the partner receives an operating grant from the Union budget, it will not be able to claim indirect costs under individual actions funded by ECHO.

#### Examples of overheads

- renting or depreciation of buildings, running costs, including stationary and petty office equipment (with exception of field office)
- costs connected with horizontal services such as administrative and financial management,
- Human resources not linked directly to the Action
- training, unless foreseen as an activity necessary for the Action.

#### 9.3.4 INELIGIBLE COSTS<sup>54</sup>

- **Debt and debt service charges** not linked to eligible expenditure, but linked for instance to mortgage and loans;
- **Provisions for potential future losses or for debts;**
- **Interest owed;**
- **Doubtful debts**, namely those costs which are still under dispute between the supplier and the partner. For instance, a supplier claims the payment of a contract for delivery of goods but the partner disputes the proper or timely delivery of goods and the dispute is on-going;
- **Costs of purchases of land or buildings** other than costs of infrastructure in the field, unless otherwise specified in the Specific Grant Agreement. The circumstances that would allow for purchase of lands or buildings by the partner must be exceptional and such a purchase must be always included as a derogation clause in Article 6(2) of the Specific Grant Agreement. For example:
  - The purchase of such facility may be exceptionally allowed where, in order to comply with the principle of sound financial management, the purchase of a specific building may be economically more justifiable than renting, rehabilitating or building one,
  - if a facility with a specific purpose is already present, and it is not damaged to such extent that it would not be economically feasible to repair the damage.

<sup>53</sup> Article 8.3 of the general conditions FPA NGO

<sup>54</sup> Article 8.4 of the general conditions FPA NGO

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- **Currency exchange losses:** While currency exchange losses are not eligible, currency exchange gains may also be retained by the partner and do not have to be declared to ECHO. Gains must however be used for humanitarian aid purpose.
- **Costs of transfers** from the Commission charged by the bank of the HQ of the partner. This does not apply to the transfer between the HQ to the field;
- **Contributions in-kind from third parties:** Contribution in-kind is a support which is not provided in cash (e.g. goods received for free) and which cost cannot be considered as eligible costs;
- **Excessive or reckless expenditure;**
- **Deductible VAT, and recoverable duties and other charges.** The VAT status of the partner both at HQ and at field level should be indicated upfront in the Single Form and updated in the final financial report. In case an exemption was requested for VAT and a negative or no reply has been received from the concerned authorities, this should be mentioned in the report. The evidence does not have to be included with the final report, but must be available for audit.

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<sup>55</sup> See section [9.3.2 C\)](#)

<sup>56</sup> <http://dgecho-partners-helpdesk.eu/>