



**UNRWA Headquarters
Finance Department – Budget Division**

BD/BTI/22

31 January 2017

الوكالة العامة للاجئين الفلسطينيين
في اراضي اوسان المحتلة في فلسطين
الوكالة العامة للاجئين الفلسطينيين
في اراضي اوسان المحتلة في فلسطين

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To : Holders of Budget Technical Instructions
From : Chief, Budget Division
Subject : **Budget Technical Instruction No. 22**
Indirect Support Costs (ISC)

(Letter of Transmittal No. 22/07)

Please find attached a revised copy of BTI No. 22 – Indirect Support Costs (ISC). This BTI replaces the old BTI No. 22 issued on 26 January 2015 under Letter of Transmittal No. 22/06.

The effective date of this BTI is 1st January 2017.

Holders of this BTI are kindly requested to remove the old BTI and to replace it with the attached new version.

Amir Awan
Chief, Budget Division

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UNITED NATIONS RELIEF AND WORKS AGENCY
FOR PALESTINE REFUGEES IN THE NEAR EAST

BUDGET TECHNICAL INSTRUCTION NO. 22

INDIRECT SUPPORT COSTS (ISC)

Purpose

1. This instruction sets out the rules relating to the budgeting and charging of Indirect Support Costs (ISC).

Effective date

2. This instruction is effective as of 1st January 2017 and replaces the previous instruction dated 1 January 2015, issued under letter of Transmittal No. 22/06

Direct Project Implementation Costs (DPIC)

3. DPIC costs are incurred for and can be traced in full to specific UNRWA programmes/projects in fulfilment of its mandate. DPIC reflects expenditures incurred by the Agency directly in the project delivery i.e. the Agency will not incur such costs if there were no projects. DPIC covers, e.g., design (all phases: preliminary, detailed and checking), land surveys, soil tests, supervision and transport to the site in case of construction projects (if all such works were outsourced the cost of outsourcing will not be covered by the programme budget and/or the ISC). In a feasibility study project, the DPIC of the Agency will be the cost of staff time spent by UNRWA staff directly involved in that project, e.g., water engineers in a feasibility study for a water supply system; these engineers could be the ones conducting the study and those checking it. In a camp improvement plan project, all the staff and logistical and administrative expenditure on the site will be a DPIC. Further information on DPIC referenced from D/ICIP's instructions.

Indirect Support Costs (ISC)

4. ISC is all costs incurred by the Agency in support of the implementation of its non-programme budget activities that cannot be traced unequivocally to specific activities, project, or programmes. ISC generally represents administrative, managerial, logistical and other support costs, including, without limitation, costs relating to recruitment of staff, budget and financial control, information and communication technology support, actions in respect of procurement, transport and warehousing.

The ISC costs reflect variable indirect costs that are indeed related to the design, oversight and closure of projects.

5. ISC represents a cost recovery of the Programme Budget (previously General Fund - GF) expenditures in order that non-programme budget activities do not constitute a financial burden to the Agency's programme budget. Therefore, the ISC should not be seen as an income to the Programme Budget.

ISC standard rate

6. UNRWA has developed an ISC rate of 11 percent to recover these indirect support costs from the respective donors. As opposed to other UN agencies, UNRWA implements all donor-funded projects itself, without subcontracting to implementing partners. That means that the cost structure of UNRWA is very transparent as UNRWA

BTI No. 22 Effective 1st January 2017, Letter of Transmittal No. 22/07 dated 31 January 2017

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covers all project related costs through our direct and indirect support cost budgets, as opposed to other UN agencies where there are no additional indirect costs allocated to implementing partners.

7. Except as set forth below, ISC at a uniform standard rate of 11% will be charged to all contributions for all external donor-funded projects. This percentage represents the minimum indirect support costs that UNRWA has been charged against the programme budget.

7.1 The ISC will be applicable on all external donor-funded projects in spite of the funding portal of the agreement and the respective project proposal; i.e. programme budget projects, regular projects, and/or emergency appeal related projects.

7.2 The ISC will be applicable on in-kind donations. The donor of in-kind donation needs to provide the respective ISC to cover the management and logistic costs of transmission of goods to the destination of beneficiaries.

7.3 A standard rate of 6% ISC to be charged on the Microfinance Department (MD) running costs (Fund Code PN00000), excluding staff costs. Standard ISC percentage (11%) will be applicable on MD related projects.

7.4 In the event the terms of a donor's contribution in respect of non-programme budget activities limit ISC to a rate lower than the percentage stated in paragraph 6 above, Director of Finance may authorize such lower ISC rate at the request of the Director of External Relations and Communication Department (ERCD) with the appropriate justification. It is the decision of Director of Finance to accept and/or reject any agreement and/or project proposal that do not adhere to the UNRWA regulation of ISC.

7.5 Activities of third parties funded from financial contributions provided to the Agency may qualify for a reduced ISC. A reduced ISC will be subject to the approval of Chief Budget Division/Director of Finance when the Agency's involvement in respect of that contribution is limited solely to the receipt and transfer of those funds to such third parties.

Charging and Budgeting for ISC

8. In order to enable the Agency to recover the programme support costs, the applicable ISC will be included in the relevant project proposals before submission by the External Relations Department to prospective donors.

9. Upon receipt of the project funds (or advance allotment by Director of Finance), ERCD will issue a GMOB in GM to allocate the funds for the project's direct costs under the respective sponsor Program and the ISC sponsor class.

10. ISC should always be allocated by Budget Division in FM per WBE. In case a WBE for AUC (Investment), ends "I", or a WBE ends with "C", the ISC needs to be created in order to capture the respective ISC allotment and expenditure. See example below:

E15XXX.A1.XEG05.AA.111 to capture construction costs
E15XXX.A1.XEG05.AA.1C1 to capture related ISC

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CI (commitment item) of ISC: 4405850020 + relevant WBE to capture allotment and Expenditure for PSC

Calculation of ISC amount

11. To have a clear understanding of how a project manager and expending officer calculate the ISC, the following is a simple example:

If UNRWA receives a \$1,000,000 for a project including the 11% ISC, then the ISC amount should read \$99,099. The costs will be calculated as follows:

Direct Costs	\$900,901	(\$1,000,000/1.11)
ISC 11%	\$ 99,099	(\$900,901 * 11%)
Total	1,000,000	(Total donor contribution)

Use of ISC

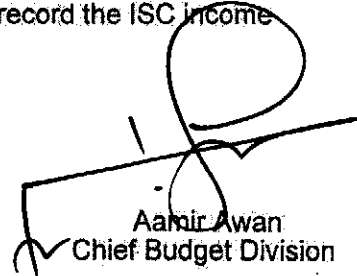
12. Subject to the Agency's financial rules and regulations, Director of Finance may, on an exceptional basis, based on the justification received, authorize the use of ISC income, up to \$250,000 (with reference to OD No. 31), to cover additional requirements related to the respective project. Such exceptional approval is subject to the then existing cash position of the Programme Budget (previously GF).

Accounting for ISC

13. Chief, Accounts Division, on monthly basis, will raise a System-Generated ISC Journal Voucher to charge applicable ISC, and reverse it in the following month.

The JV will be as follows:

Dr. 4405850020 + WBE	to charge ISC expenditure against the project budget
allotment for the ISC	
Cr. 3210100040	I00001.A1 to record the ISC income


Aamir Awan
Chief Budget Division

Approved: 
Director of Finance

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