



CGIAR Cost Principles and Indirect Cost Guidelines

Background

The CGIAR Cost Allocation Guidelines (Financial Guidelines Series, No.5¹, “FG5”) were developed in 2001, and last updated in December 2008.

It is recalled that the purpose of this document is to have a common guideline in place for Centers to use and refer to both in establishing or updating internal policies and for use as a reference as and when helpful in discussions with auditors (internal, external and project) and Funders.

The development of an updated draft guideline, now titled “Cost Principles and Indirect Cost Guidelines” (version 7 February 2019), has been led by the Center Corporate Services Executives (“CSE’s”), and has benefitted from rounds of feedback from that group and from Directors General. It was shared with Center Audit Committee Chairs at their 14-15 February 2019 meeting (attended by all 15 Centers) and received strong support, as providing an appropriate set of common guidance for Centers. The Convener of the CSE Group – Michael Gerba – presented the Guidelines to the Audit Committee Chairs’ Group on behalf of the CSE group. As a final step, the Center Board of Trustees Chairs were also consulted on the final draft, with no objections raised to its presentation for SMB approval.

Action Requested

The System Management Board is requested to **approve** the CGIAR Cost Principles and Indirect Cost Guidelines.

Special notice on ‘Consent Agenda’ status of this document

This paper is being presented to the SMB according to Article 7.1 of the SMB Rules of Procedure, permitting a ‘consent agenda’ of multiple items being presented for approval on via a single vote of the SMB (not item by item). **Should a SMB member wish to remove an individual item from the Consent Agenda, that request should be communicated to the Secretary of the SMB by not later than 5pm Montpellier, France on Tuesday 26 March.**

¹ <https://cgspace.cgiar.org/bitstream/handle/10947/4534/FG%205%20-%20Cost%20allocation%20Guidelines.pdf?sequence=1&isAllowed=y>



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Introduction

1. The following Guidelines and Cost Principles are intended to guide the CGIAR Centers in calculating their indirect cost allocation and applying these costs appropriately across their Center. There is no prescribed or one single rate possible as costs and structures of all organizations are different. The guidelines are intended only to guide harmonization of the methodology of arriving at the indirect cost rate of a CGIAR Center. The driving principle of this guideline is to ensure that expenses that are directly attributable to project outcomes and outputs are classified as direct costs and any expenses associated with the management of the Center and running of the business, are classified as Indirect Costs.
2. The guidelines for Indirect Cost allocations need to be harmonized not only between Centers but also with the multiple Funders of the CGIAR System. This guideline provides a framework to harmonize policies and definitions in this area.
3. There is no universal rule for classifying certain costs as either direct or indirect under every accounting system. A cost may be direct with respect to some specific service or function, but indirect with respect to the donor award or another final cost objective. Therefore, it is essential that each item of the cost incurred for the same purpose be treated consistently in like circumstances either as a direct or an indirect cost to avoid possible double-charging of donor awards. Guidelines for determining direct and indirect costs for the purpose of achieving full cost accounting are provided here. However, cost recovery (revenue) is determined by provisions set out in donor awards (award value, cost restrictions, etc.). Any difference between full cost accounting and cost recovery will result in a projected surplus or deficit.
4. The indirect cost rate is designed to be an equitable, logical and consistent method for the allocation of costs in an economically feasible manner that cannot be directly allocated to a specific project or research award. The extent to which indirect costs are recoverable is dictated by donor agreements.
5. This CGIAR Cost Principles and Indirect Cost Guidelines replaces the previous CGIAR Financial Guideline number 5. The principles and guidance contained in this Guideline are not intended to conflict with the requirements of International Financial Reporting Standards (IFRS)². Detailed guidance on IFRS for CGIAR Centers can be found in the [IFRS Compliant CGIAR Financial Reporting Guidelines](#).

Background

6. CGIAR Centers have many commonalities in their business models – they have the same broad objectives, their income is substantially derived from grants flowing from the CGIAR Research Programs or Bilateral donor funding, they are project-based, and often their legal, operational and research structures have many similarities. While the principles set out in this Guideline should be generally applicable to all Centers

² Or US GAAP in the case of IFPRI.

and help ensure that practices are harmonized across the CGIAR, it is recognized that each Center is unique and may have different costs associated with the management of their Center based on the size, location, or type of research they are conducting. While there are differences between Centers the guidelines and principle laid out in this guideline should be followed, where possible.

Definitions

7. **Direct Costs** - are the expenses required to execute a research or project activity and that are directly attributable and can be reasonably allocated to the project, including the services that provide direct support to each project which are allocated through an allocation methodology.
8. **Allocable Direct (Service Support) Costs** - Direct Service Support Costs vary from Center to Center according to their operations and structure. These Direct Service Support Costs provide vital services managed by Centers but are directly allocable to research or projects based on actual costs. These costs should be allocated as direct costs in an economically feasible manner based on how they are performed. The services units (costs) can be charged directly to the research projects using an allocation methodology which consists of using the most appropriate base prorated and allocated according to the services provided to the research projects. Each Center will define the most appropriate allocation methodology for each service they provide. Service costs that cannot be reasonably allocable to a research project will be considered as Indirect Costs.
9. **Indirect costs** - are general management and administrative expenses that support the entire operations of a Center and are therefore shared across the entire project portfolio. These kinds of costs usually cannot be directly allocated to an individual project in an economically feasible manner. Expenses that would be incurred regardless of whether the grant is funded are often indicative of indirect costs. While these costs may not be directly attributable to a project, they are real and necessary to operate as a Center.
10. **Indirect Cost Rate** is simply a device for determining fairly and conveniently within the boundaries of sound administrative principles, what proportion of indirect cost each project or research activity should bear. The indirect cost rate is designed to be an equitable, logical and consistent method for allocating costs not directly associated with a single award, research activity, or project. General management and administrative expenses which include institutional costs are generally recovered through charging a fixed percentage on direct project expenses. This percentage is what is referred to as the Indirect Cost Rate (ICR).
11. **Cost Sharing Percentage (CSP)** - In addition to the Centers established Indirect Cost Rate, the CGIAR System Office requires a cost share percentage (currently 2%) to be applied across all Window 1, Window 2, Window 3, and bilateral funds (excluding infrastructure grants) that are aligned to CGIAR Research Portfolio as defined in the CGIAR Strategic Results Framework (SRF). While contributions to the CGIAR Fund are

automatically charged the CSP upon receipt, Centers are obliged to charge CSP to all bilaterally funded projects that are aligned with the SRF. CSP recovered from bilateral project grants are transferred to W1 via the System Management Office. The CSP funds generated from all sources (W1, W2, W3, and bilateral) support CGIAR System Actions and Entities which includes the System Organization with its two bodies the System Management Board and the System Management Office, System Council and advisory bodies to the System Council, System audit and risk management arrangements, the World Bank Trustee and the General Assembly.

Cost Principles

12. The following Cost Principles form the fundamental premises of the Centers allocation methodology and Indirect Cost Rates:
 - a. Centers are responsible for the efficient and effective management of their organization through the application of sound management practices.
 - b. Centers assume responsibility for the administration of projects and Funders projects in a manner consistent with the underlying agreements, program objectives, and terms and conditions applicable to the funding arrangement.
 - c. The Centers, in recognition of their own unique combination of staff, facilities, and experience, have the primary responsibility for employing whatever form of sound organization and management techniques may be necessary to ensure proper and efficient administration of the funder's awards.
 - d. The application of these costs principles should require no significant changes in the internal accounting policies and practices of the Centers. The accounting practices of the Centers must be consistent with these cost principles and support the accumulation of costs as required by the principles and must provide for adequate documentation to support costs charged by the Center.
 - e. The Centers must apply these costs principles on a consistent basis.
 - f. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect costs.
 - g. The Indirect Costs are based on a principle of fair, equitable and consistent cost allocations based on actual cost incurred, therefore profit should not be earned through the application of the rate on cost reimbursable awards.
13. The concepts of allowability, allocability, and reasonableness address directly the legitimacy of a cost charged against a specific donor award. Determination of allowability, allocability, and reasonableness of a given expense is based on specific guidelines of the donor, Center Policies, and according to CGIAR cost principles. Each financial transaction charged against a donor's award should be evaluated against these three concepts.
14. **Allowability of Costs**
 - Be necessary and reasonable for the performance of the donor award.
 - Conform to and be consistent with any limitations or exclusions set forth in the donor, CGIAR System, and/or Center policies.

- Be accorded consistent treatment between projects, donors, and across research programs.
- Be adequately documented.

15. **Reasonable Costs**

A cost is reasonable if, in its nature and amount it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time of the decision was made to incur the costs. In determining the reasonableness of a given cost, consideration must be given to:

- Whether the cost is of a type generally recognized as ordinary and necessary for the operation of the Center or the proper and efficient performance of the award.
- The restraints or requirements imposed by such factors as sound business practices; arms-length bargaining; local, national, and other laws and regulations, and terms and conditions of the donor award.
- Market prices for comparable goods or services for the geographic area.
- Whether the individuals concerned acted with prudence in the circumstances considering their responsibilities to the Center, its employees, the public at large, and the donor.
- Whether the Center significantly deviates from its established practices and policies regarding the incurrence of costs, which may unjustifiably increase the donor award's costs.

16. **Allocable Costs**

A cost is allocable to a donor award or other cost objective if the goods or services involved are chargeable or assignable to the donor award or cost objective in accordance with relative benefits received. This standard is met if the cost:

- Is incurred specifically for the project activity;
- Benefits both the donor award and other work of the Center and can be distributed in proportions that may be approximated using reasonable methods; and
- Is necessary to the overall operations of the Center and is assignable in part to the donor award in accordance with these cost principles.
- All activities which benefit from the Center's indirect costs will receive an appropriate allocation of indirect costs.
- Direct Cost Allocation Principles. If a cost benefits two or more projects or activities in proportions that can be determined without undue effort or cost, the cost must be allocated to the projects based on the proportional benefit. If a cost benefits two or more projects or activities in proportions that cannot be determined because of the interrelationship of the work involved, then, the costs may be allocated or transferred to benefitted projects on any reasonable documented basis.

17. **Value for Money**

Best value for money (VfM) is defined as the most advantageous combination of cost, quality and sustainability to meet stakeholder needs. In this context:

- Cost refers to whole of life costs
 - Quality means meeting specifications which are fit for purpose and sufficient to meet Funder, Center, Program, Project and/or Activity requirements
 - Sustainability includes economic, social and environmental benefits
18. CGIAR Centers are committed to achieve Value for Money by maximizing the impact of each dollar spent. This requires Centers to be very clear about the results (outputs and outcomes) that are expected to be attained as well as the costs. Centers must be confident in the strength of the evidence base and explicit in stating the underlying assumptions they are relying on to achieve the targeted outputs and outcomes. This approach will ensure Centers develop a better understanding of costs and results so that the Centers can make more informed, evidence-based choices. VfM It does not always mean doing the cheapest thing but does encourage a deeper understanding of what is driving the costs and making sure the Centers are getting the desired quality at the lowest price.

Methods for allocating Indirect Costs

19. The following methods for allocating Indirect Costs are intended to guide the CGIAR Centers in calculating their indirect cost rate and applying costs appropriately across all projects. There is no prescribed or single method for allocating costs as costs and structures of all organizations are different. These methods are intended only to guide harmonization of the Centers.
20. In determining the most appropriate allocation method for a Center's operations, cost recovery from donors should be taken into consideration. While different methods may be used to apply indirect costs across different donor awards the cost principle must be consistently applied, regardless of cost actually recovered from donors. The following list gives examples of three of the methods but does not represent an exhaustive list of methods a Center may apply to allocate their indirect costs. Each Center must create their own Indirect Cost Allocation and apply it consistently across their research activities and/or projects.
21. Simplified Allocation Method - is when a Center uses a single indirect cost rate to charge to the research or project activities in order to cover the General Management & Administration Expenses. the allocation of indirect costs may be accomplished by (i) separating the Center's total costs for the base period as either direct or indirect, and (ii) dividing the total allowable indirect costs (net of applicable credits) by the Direct Cost. The result of this process is an indirect cost rate (ICR) which is used to distribute indirect costs to individual donor awards. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected. This methodology is usually used when the Center's major functions benefit from its General Management and Administrative Expenses to approximately the same degree.
22. Multiple allocation bases - are when a Center's indirect costs benefit its major functions in varying degrees, indirect costs must be accumulated into separate cost

groupings or pools. Each grouping/pool must then be allocated individually to benefitting functions by means of a base which best measures the relative benefits. The indirect costs allocated to each function are then distributed to individual donor awards and other activities included in that function by means of an indirect cost rate(s).

23. The most common use of this method is when a Center applies an additional, lower, indirect costs rate for Sub-awards/Collaboration expenses. In such cases the allocation of indirect costs may be accomplished by (i) separating the Center's total costs for the base period into four categories: Direct Sub-Awards/Non-CGIAR Collaboration and all other Direct Costs or General Management and Administrative Costs and Sub-Award/Non-CGIAR Collaboration Management Indirect Costs, and (ii) dividing the total allowable General Management and Administrative Indirect Costs (net of applicable credits) by the total Direct Cost, and dividing the total allowable Sub-Award/Non-CGIAR Collaboration Management Indirect Costs (net of applicable credits) by the total Sub-Award/Non-CGIAR Collaboration Direct Costs. The result of this process is an indirect cost rate which is used to distribute indirect costs to individual donor awards. The rate should be expressed as the percentage which the total amount of allowable indirect costs bears to the base selected.
24. As the structures of all organizations are different, sometimes it is not possible to separate from the overall 'General and Administration expenses' the portion related to collaboration expenses, in that case, the Center's will apply a proportion according to their structure.

Computation of Indirect Cost Rate

25. A summary of the computation of indirect cost based on current year data should be included in the audited financial statements. Figures should be in accordance with the Statement of Activity, and the computation may take the following form:

Computation of Indirect Cost Rate Simple Allocation Method	
	Current Year
Research Expenses + Non-CGIAR Collaboration (Direct Costs) ³	1,100
General & Administration Expenses (Indirect Costs)	155
Total Costs	1,255
Indirect Cost Rate (indirect/direct)	14%

³ Direct Costs may include applicable CSP costs which is currently set at 2% of gross CGIAR Trust Fund Contributions and Bilateral Funding.

<u>Computation of Indirect Cost Rate Multiple Allocation Method</u>	
	Current Year
Research Expenses (Direct Costs)	1,000
Sub-awards/Non-CGIAR Collaboration	100
General & Administration Expenses (Indirect Costs)	150
Sub-awards/Non-CGIAR Collaboration Management	5
Total Costs	1,255
Indirect Cost Rate (indirect/direct)	15%
Indirect Non-CGIAR Collaboration Rate Non-CGIAR Collaboration Management/Non-CGIAR Collaboration)	5%

26. For the indirect cost calculation, the costs of Research Collaboration with other CGIAR Centers for Window 1/Window 2 amounts, should be excluded from the computation.
27. Indirect costs consist of General Management and Administration Expenses and in some cases (depends on the Center's) includes the costs of some relevant services. Any elements of a service which cannot be fully recovered from its chargebacks should be included as part of the General and Management Costs. Any exceptional (i.e. non-recurring) items should not be included.

APPENDIX 1 - DIRECT AND INDIRECT COST EXAMPLES

Direct Costs:

The following ***are examples of*** direct costs if they are directly allowable, reasonable, and allocable to a specific project or activity and can be directly measured:

Personnel Costs	Salaries and wages for staff essential to the implementation of the project or activity. These are gross and include salary and fringe benefits provided they are standard human resource policy of the Center. These costs can include directly allocable project management and support, project legal or accounting functions direct in projects.
Travel	Travel can include transport costs, accommodation costs, per diems, cost of meetings or workshops etc.
Training	All necessary cost to provide training to the personnel work in projects
Service contracts and consultants	Costs for services outsourced to external organizations, service providers or consultants contracted specifically for purpose of the project or activity.
Supplies	Includes all supplies such as printing, stationery, small equipment etc. and utilities relating to specific project activities.
Capital Equipment	Costs for equipment directly used by the project (can include purchase/replacement, operation, maintenance; to be pro-rated in case of partial use)
Sub-awards/Non-CGIAR Collaboration	Grants or contracts with other organizations that directly contribute to the project outcomes.
Other Direct Costs	<p>Allocable facilities, utilities, IT and communications expenses that are required to execute a project. Other direct services to the research and projects that provide service to the research projects including:</p> <ul style="list-style-type: none"> ● Experimental Stations ● Laboratories ● Data Management ● Open Access ● Donor-required audits (internal or external) ● Reference materials, including books, subscriptions etc. ● Project offices ● Others

Indirect Costs:

The following are an example of Indirect costs or overheads:

Personnel Costs	Personnel cost of general management and administrative support personnel, such as executive management (CEO, COO, CFO, etc.) or central operational functions (Accounting, HR, IT, Legal etc.)
Travel	Travel not directly related to a project.
Training	All necessary cost to provide training for professional development.
Service contracts and consultants	Costs for services outsourced to external organizations, service providers or consultants contracted specifically for general administrative functions, such as accounting, auditing, IT Support
Supplies	Includes all supplies such as printing, stationery, small equipment etc. and utilities relating to general management and administrative support.
Capital Equipment	Costs for equipment or depreciation on equipment incurred by central operational functions
Other Indirect Costs	<p>Costs for facilities, utilities, IT and communications that is allocable to the central operational functions of the Centers that would exist without a project.</p> <p>This may include:</p> <ul style="list-style-type: none">• Board of Trustees• Material management (e.g. tracking procurement, inventory management, shipping)• General accounting• External and Internal audits• Intellectual property management• Legal services• Corporate Communications and marketing• Enterprise Risk Management (including due diligence compliance mechanisms on Anti-Money Laundering (AML), safeguarding, event reporting, and other best practices in the area of institutional assurance)• Environmental Health/Safety• Security Services• Library services• General Insurance• Other shared resources not directly attributable to the project or activity

APPENDIX 2 – KEY PERFORMANCE INDICATORS (KPI'S)

With limited unrestricted revenue available to Centers, careful and continuous monitoring of indirect cost recoveries is essential for Management to ensure the financial sustainability of Centers. The following are an example of KPI's that may be considered by management:

Measure	Purpose of Measure	Guidance on Calculation
Full Cost Recovery Success Rate	Provides information on proportion of Grants that are paying all attributable costs – direct and indirect	<ol style="list-style-type: none"> 1) # of Grants paying full costs / total # of active Grants in year 2) \$ of Indirect costs charged to grants in period / \$ of total indirect costs in period
Indirect Cost Yield Rate	Provides information with respect to how much each \$1 of revenue provides to cover indirect costs. Can be used to compare to actual indirect cost rate of the organization (as demonstrated in Paragraph 23) to express marginal shortfalls (if any).	Indirect cost recoveries / Total Direct Costs
Disallowed Costs by Auditors	Tracks the extent to which allocated indirect or direct costs are disallowed by donor audits	<ol style="list-style-type: none"> 1) Total disallowed costs 2) Proportionate: disallowed costs / total costs
Co-financing	Measures extent to which other funding sources are used to finance project expenses not recovered from donors.	Total co-financing/Total costs