

Full Cost Allocation Policy

Functional Area:	Finance
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Related Policies and Procedures	Authorization policy - Cost Allocation Policies and Guidelines - Capitalization Policy - Accounting Policy - Investment Policy – Reserves Policy
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1. PREAMBLE

The funding structure of the CGIAR has dramatically shifted from unrestricted funding to restricted funding. It has therefore become imperative that Centers identify the true cost of implementing a project and ensure that all project costs are properly identified, categorized, charged to, and funded by the project. This is the principle of Full Cost Allocation (FCA), which is governed by the CGIAR Cost Allocation Guidelines, Financial Guidelines Series No. 5, also known as FG5. Simply put, FCA is a method of making sure that all costs are allocated to a particular activity or project.

2. OBJECTIVE

The primary focus of this policy is to serve as a reference for calculating the full cost allocation rate for AfricaRice.

Indirect cost allocation is an important component in achieving Full Cost Allocation.

The objectives of putting this policy in place are:

- to standardize the structure for calculating the full cost allocation rate for the Centre.
- to ensure that project proposals include full allocation of cost at the design phase by including all direct and indirect costs in the proposal budgets.
- to inform staff, donors and other stakeholders what constitutes indirect costs, why it is important for the Centre to recover indirect costs from all projects and the methodology used to calculate the full cost allocation rate.

3. SCOPE

This guideline applies to all cost centers and grants (both unrestricted and restricted), hosted institutions and guests at AfricaRice headquarter and regional offices.

4. EXPENDITURE AND ACTIVITIES

Expenditures are classified into recurrent operating costs and non-recurrent operating costs.

Recurrent costs are those that are regularly occurring or estimated costs which include salaries, travel, depreciation, supplies and services, whereas **non-recurrent costs** are those that are irregular, unlikely to be repeated, and/or extraordinary items.

The allocation of indirect costs (sometimes referred to as institutional costs or overhead) relates only to recurring operational costs. Two main reasons for excluding non-recurrent costs are: i) the contribution of indirect activities to non-recurrent expenditures such as extraordinary items of expenditure is normally disproportionate to the contribution of indirect activities to recurrent expenditures; and, ii) the need to establish a fairly uniform full cost allocation rate year to year. If non-recurrent costs are included in indirect costs it would distort the applicable indirect cost rate.

Activities are classified as either Direct (research) or Indirect (support).

Direct activities are those that are necessary and potentially sufficient to achieve the global challenges of AfricaRice's research agenda whereas **indirect activities** are those that are necessary but inherently insufficient to achieve elements of AfricaRice's mission related objectives. In general, indirect activities are of a supporting or enabling nature as they primarily provide overall direction (governance) and support services (research and corporate) to all of AfricaRice's endeavors.

Recurrent expenditures are further classified into three categories namely direct, ancillary and indirect costs.

4.1 Direct Costs

These are recurrent expenses that can be identified with a direct or indirect activity. Examples of direct costs include research staff, consultants, travel, project supplies and services.

4.2 Ancillary Costs

These are recurrent expenses that are incurred to help achieve common or joint objectives of a business unit but cannot be directly identified with a single activity or task of the business unit. These costs can be attributed or allocated to the activities or tasks of the business unit through cost apportionment by applying appropriate cost drivers.

Ancillary costs change as the level of activities of the business unit changes, but not in direct proportion. These costs disappear if the business unit ceases to exist.

Ancillary cost can be categorized into research support and operational supports costs.

4.2.1 Research support costs: These are the total staff and operational costs incurred to directly support the research capacity in the Center and the benefits of such services are shared across all research projects. Examples of research support costs are: Capacity building, farms and green house services and Laboratory services.

4.2.2 Operational support costs: These are costs incurred to cover the cost of running the Centre's facilities. They are pooled within a particular unit and charged to projects/activities, research

support units and indirect activities based on agreed cost drivers. For example, Sq ft for office space, number of computer terminals, and mileage for use of pool vehicles, service charge for purchase orders processed etc. Some units may provide services on a need basis, in such instances appropriate charge back methods to be determined

4.3 Indirect costs

These are recurrent expenses incurred for the organization's governance as well as in operationalization of units that provide services essential for maintaining the corporate identity and achievement of AfricaRice's Strategy. These units on their own cannot achieve the corporate goals of AfricaRice.

The costs incurred by these units usually cannot be directly attributed, assigned or identified with individual business units, activities or groups of activities that contribute to the achievement of the overall goals of AfricaRice and whose costs continue to be incurred even if one or more business units were to cease operation. Where possible, these costs may be directly charged, attributed or allocated to business units, or activities. Examples of Indirect functions/units include Office of the Director General, Board of Trustees, Financial Services, Offices of the Directors for Research (50%), Partnership (50%) and Corporate Services (100%), Resource Mobilization, Corporate Communications and Human Resources.

All recurrent expenditures can be directly identified or assigned to direct or indirect activities. Those recurrent expenditures directly identified or assigned to a direct activity become direct costs whereas those directly identified or assigned to an indirect activity become indirect costs.

The total cost of an activity is defined as that activity's direct, ancillary costs, a portion of the Centre's indirect costs, and CSP. It is a generally accepted accounting principle to ensure that the total cost of a project consists of the project's direct and ancillary costs that are allocated and an equitable share of indirect costs. The apportioning of indirect costs to direct activities is the core of a Full cost allocation Policy.

For the purpose of classifying costs as direct, expenditures can either be specifically identifiable or assignable to a direct activity on a clearly defined and reasonable basis. Salaries and travel are examples of costs that can be specifically identified with a direct activity. Examples of assignable costs are rent, ICT services, office upkeep and utilities.

Examples of indirect activities are Support Services and Governance. It should be noted that the costs of these indirect activities are not normally identified with, or assigned to, direct activities other than through apportionment via a full cost allocation policy. It should also be noted that whenever a cost of an indirect activity can be identified or assigned to a direct activity, the cost is therefore assigned. An example would be the Director of Research spending a specific period of time on a specific activity/task. Occasionally, donors earmark a financial contribution to cover such indirect activities that reduces the amount of uncovered indirect costs to be apportioned to direct activities.

5. ALLOCATION OF INDIRECT COSTS

The allocation of indirect costs is accomplished by dividing the total allocable costs of the indirect activities in a base period (usually one year) by the total cost (direct and ancillary expenses) of all direct activities

over the same base period. The result of this process is an indirect cost rate which is used to distribute indirect costs across all direct activities. The rate is normally expressed as a percentage. This method of apportionment is generally accepted by the US government for use by non-profit organizations.

Principles on allocation of costs are as follows:

Assignable: If an activity directly benefits from an item of cost, such costs should be directly assigned to that activity.

Allocable: Apart from the costs that are directly assigned, all projects should bear a fair share of costs of the organization's services and institutional expenses. Such costs should be allocated to the projects using an appropriate allocation method.

Reasonable: Any cost charged to an activity should be reasonable, meaning that it is necessary for the performance and delivery of the project.

Consistent: Policies for cost allocations should be consistently applied to avoid variability either between research projects, or between different time periods.

According to the principles laid out in the CGIAR Financial Guideline No. 5, the determination of direct and indirect activities and the application of an indirect cost rate to direct programme activities bears no relation to the source of funding (i.e. restricted or unrestricted), or the magnitude of activities. Since all direct programme activities benefit from the direction and support services described as indirect activities, it follows that all direct and programme activities, regardless of the funding sources, should bear a fair share of the cost of indirect activities in determining the total cost of those direct activities.

The formula for computing the indirect rate and the Full Costing Model is detailed in Appendix A and B respectively.

Appendix A Statement of Operating Expenses

Statement of Operating Expenses for the year ended December 31 XXXX

	<u>Year</u>
Direct Operating Expenses	
Direct Research	xx
Research Support	xx
Operational support	xx
Sub-total	xx
Less: Indirect allocation ¹	(xx)
Extraordinary items	(xx)
Total	xxx
indirect Operating Expenses	
General and Management	
Cost	
Total	xxx
Total Operating Expenses	xxx
Cost Ratios	
Direct/Total	x%
Indirect/Total	x%
Indirect/Direct	x%

¹ The deduction of the indirect allocation does not result in a NET amount but rather it results in the correct gross amount of the direct costs. This is because the project costs (normally reported as direct project costs) include an amount of indirect costs that a donor of restricted projects allows a Centre to recover. As this is not a real direct cost it should be removed. This is always the amount shown as Allocation in the Statement of Activity (SOA).

Appendix B– AFRICARICE Full Costing Model/Structure

Cost Category	Description of Cost Category	Proposed Cost Structure for the FCM at AFRICARICE	Basis for Charge Backs - Global	Basis for Charge Backs - On Request
A. Direct research costs	These are costs directly identified with research projects/activities.	<ul style="list-style-type: none"> ➤ Research Project/Activity Costs ➤ Cost of the following Research and Innovation units (Lead Scientists, Scientists, Research and Field Assistants) ➤ Crop Diversification and Genetic Improvement ➤ Climate Change Modeling and Adaptation ➤ Gene banks ➤ Research Laboratories <ul style="list-style-type: none"> • Grain Quality Lab • Plant Genetic Resources Lab • Plant Biotechnological Lab ➤ Capacity building(external)- ➤ Farms (Farm equipment maintenance etc.) 	<ul style="list-style-type: none"> ➤ Activity Based Costing – ABC - Costs directly identified with projects/activities 	<ul style="list-style-type: none"> ➤ Catalog of services provided by each lab with a price for each service. ➤ SQM2 farm in use ➤ SQM2 greenhouse ➤ CM3 of water used

Cost Category	Description of Cost Category	Proposed Cost Structure for the FCM at AFRICARICE	Basis for Charge Backs- Global	Basis for Charge Backs - On Request
B. Ancillary Research Support costs	<p>These are costs incurred for direct support to the research capacity in the Center and the benefits of such services are shared across all research projects.</p> <p>Most of these services are for the benefit of all researchers and thus associated costs are not optional and must be allocated directly to all research projects.</p>	<ul style="list-style-type: none"> ➤ 50% of the cost of the Office of the Deputy Director General and Director for- Research and Development ➤ 50% of the cost of the Director for Strategic Partnership ➤ Data integration and Biometrics ➤ Capacity Building –Costs that cannot be directly identified with a research project/activity ➤ Research Laboratories (residue of costs that cannot be directly charged to project/activities) <ul style="list-style-type: none"> • Grain Quality Lab • Plant Genetic Resources Lab • Plant Biotechnological Lab ➤ Residue of cost that cannot be directly charged to projects/activities: <ul style="list-style-type: none"> • Farms (Farm equipment maintenance e.t.c) • Biometrics 	<ul style="list-style-type: none"> ➤ Pooled and charged as a fixed cost per research staff or a % of cost of scientific staff 	
C. Ancillary operational support costs	<p>These are costs that cannot be <u>directly</u> identified with a project/ activity or an</p>	<ul style="list-style-type: none"> ➤ Physical Facilities & Office Facility building maintenance, electricity, janitorial services, reception, security, mail 	<ul style="list-style-type: none"> ➤ SQM2 office space Included in total cost of employment 	<ul style="list-style-type: none"> ➤ Monthly based on actual usage

Cost Category	Description of Cost Category	Proposed Cost Structure for the FCM at AFRICARICE	Basis for Charge Backs- Global	Basis for Charge Backs - On Request
	administrative support unit. These costs can be allocated to a project or activity using acceptable cost drivers such as office space utilized, land allocated for experiments, staff time, number of computers connected to the network. In addition, some of these costs can be charged to projects/activities based on actual usage of the service. Unit rates for charge out needs to be developed.	<ul style="list-style-type: none"> delivery, cafeteria services etc.), ➤ Information Technology services ➤ Telephone/Communications ➤ Warehouses/Inventory ➤ Transportation Services/Repairs & Maintenance ➤ Procurement services ➤ Photo copying ➤ Human resources ➤ Finance and Budget section ➤ Travel section 	<ul style="list-style-type: none"> ➤ Rate per computer-included in total cost of employment ➤ Included as a service fee in total cost of employment. 	<ul style="list-style-type: none"> ➤ Charge supplies on actual use/Apply mark-up. ➤ Charge based mileage used & to include salary for driver ➤ Service charge per purchase order processed ➤ Catalog of services provided with a price. ➤ Charged based on usage based on fixed price per print
D. Institutional/ Indirect costs	These relate to any cost(s) for services which cannot be reliably charged to research projects.	<ul style="list-style-type: none"> ➤ Council of the Ministers ➤ National Experts Council ➤ Board of Trustees ➤ Office of the Director General ➤ Corporate Services Directorate ➤ Unrecovered residual costs of the Facilities and Operation, Procurement, Accounting, Budget and Human Resources units ➤ 50% (Estimated time spent in management and governance 	<ul style="list-style-type: none"> ➤ % charge on all direct cost, research support and operational support. 	

Cost Category	Description of Cost Category	Proposed Cost Structure for the FCM at AFRICARICE	Basis for Charge Backs- Global	Basis for Charge Backs - On Request
		<p>of the Centre) of the cost of the offices of the Deputy Director General and Director for Research and Development and Director for Strategic Partnerships</p> <ul style="list-style-type: none"> ➤ Resource Mobilization Section ➤ Communication unit – Institutional and corporate communications (annual report, web site etc.)- ➤ External Audit ➤ Internal Audit ➤ Legal Office/services 		