

Guidance on eligible expenditure under grant financing and other costing aspects

All expenditure under grant financing, whether by the recipient or sub-recipients, must be directly related to achieving the project's objectives, made during the grant implementation period and included in an approved AWPB. The grant design document must include a detailed activity-based budget clearly outlining the nature of planned expenditure.

Budget presentation

The summary budget should classify grant-financed expenditures into two main categories: *direct costs* and *indirect costs*, to be replicated for the main recipient and the sub-recipients, if any. If necessary, expenditures may also be broken-down following the disbursement categories described in the [IC/FOD/02/2013](#) dated 29 Aug 2013. Figures should be rounded to the nearest USD 1,000 and add up to the total grant amount. Costs should be shown by project year and split between IFAD financing and co-financing, the latter broken down by cash and in-kind, and should be mapped to specific disbursement category and activity. A detailed activity-based budget is required, together with the summary budget.

Eligible expenditures

Direct costs

Direct costs are expenditures that are to be incurred only for the purposes of the financed operation, and that can be directly attributed to the expected outputs. These costs may include items such as consultants, cost of staff directly and only assigned to the project, training, travel, workshops, equipment, materials, research expenditures, publications, etc. as detailed below:

Consultancies: studies, technical assistance and other advisory services under the programme carried out by international and national consultants. Professional and consultancy services are services rendered by persons who possess a special skill, and who are not officers or employees of the organization applying for the grant. Consulting services must be justified, with information provided on the consultants' expertise, primary organizational affiliation, normal daily fee, and number of days of expected service. Consultants' travel costs, including subsistence, are to be shown as travel expenditure. The applicant may be required to justify the daily fee.

Equipment and materials: office equipment, furniture, phones, computers, etc.. This should in all cases be limited to equipment or apparatus necessary to achieve the project objectives. Office equipment would not normally be considered eligible for projects unless project duration will be two years or more. Lease versus buy options should be considered. The design document should specify the intended use of the equipment at the end of the project. Where feasible, property should be transferred to beneficiaries.

Vehicles. Vehicles are not eligible expenditure under IFAD grant financing. Alternative options such as leasing or rental should be considered. Exceptions would not be considered for a grant implementing for less than two years and would otherwise have to be justified and require the approval of Director/FMD.

Goods, services, and inputs: Expenditure related to goods, non-consulting services or inputs.

Operating costs: Running costs directly attributable to the project, such as incremental office rental costs and utilities. If existing office facilities will be used, rental should not be charged to the grant. Other eligible running costs may include maintenance costs and audit. Operating costs should not exceed 10% of the total grant amount, unless clearly justified.

Salaries and allowances: Salaries and allowances of personnel on the payroll of the institution requesting the grant, directly and fully assigned to the project. Salaries of staff assigned to the project on a part time basis should be costed pro rata. Where part time staff are used, the full time equivalent of the salary should be indicated. Salaries of senior administrative staff, technical staff and administrative/clerical staff should be shown separately. Costs should be inclusive of statutory levies. Salaries and allowance should not normally exceed 30% of the total grant amount, unless clearly justified. Project management cost details will be closely examined to confirm that there is no double counting with indirect costs.

Workshops: Costs of workshop venue, food and beverages, publication material.

Training: Expenditure related to the training of project beneficiaries. If applicable, this will include all related expenditure such as the cost of the venue, participant travel, etc. Training for the employees of the institution applying for the grant is excluded.

Travel and allowances: Costs related to travel, including fares, per diem and hotel costs for full time staff, consultants and beneficiaries. Domestic and international travel should be identified separately.

Sub-Grants. Where grant resources are expected to be sub-granted to other partner agencies or beneficiaries, the purpose of such sub-grants and the identification of intended sub-grantee/beneficiaries must be clearly stated.

Indirect costs

Indirect costs are overheads to be paid to the grant recipient. These may be stated as a fixed amount or a percentage payable to the recipient for the execution of the grant, which should be calculated as a percentage of direct costs. The amount of indirect costs should be reasonable, and must not exceed 8% of direct costs(1). If the grant has sub-recipients, the 8% threshold applies to the sum of the recipient's and sub-recipients' overheads. Any exception to the 8% threshold requires a waiver cleared by FMD and approved by the Vice President at Quality Assurance (QA) stage. Any such exception shall not constitute a precedent for future grant requests. In the case of grants to a UN agency, an 8% cost-recovery rate is usually applied. The summary and detailed budgets in grant design documents must show indirect costs separately from direct costs, at recipient and sub-recipient levels.

Additional costing aspects

Other costing factors relevant for the review of grant proposals include:

- a) *Target group/Beneficiaries:* The grant design document should clearly identify the project target group, and state the expected number of direct and indirect beneficiaries. Questions addressed during the grant review may include the following: What is the cost per beneficiary (i.e. total grant amount divided by the number of beneficiaries)? How much of the grant will directly benefit beneficiaries, in form of training, supplies to beneficiaries, publications meant for the beneficiaries, etc.? Are grant beneficiaries in developing countries?
- b) *Counterpart financing:* Grant recipients are expected to contribute to the project with counterpart financing, whether in cash, in kind or a combination of both. The grant design document should indicate co-financed amounts, whether the co-financing has been secured, whether it will be in-kind or cash and the disbursement categories. Counterpart funding does not normally include overheads. In all cases, the total amount of overheads related to the grant (recipient, sub-recipient, counterpart funding) may not exceed 8% of direct costs attributed to IFAD financing.
- c) *Retroactive financing:* when retroactive financing is proposed by the grant sponsor, the justification should be provided, for approval at QA. Retroactive financing cannot cover expenditure made before grant approval(2). A related provision must be included in the grant design document and President's Report (if applicable). Retroactive financing will be indicated in Schedule 2 and/or as a Special Provision of the grant agreement, detailing disbursement categories involved and maximum amounts allowed. The amount has to be reasonable in comparison to the total grant amount and is not normally expected to exceed 10% of the total grant amount.

(1) For CGIAR centres, an additional 2% Cost Sharing Percentage (CSP), to be expressed as a separate budget line and to be calculated as a percentage of the total grant amount, covering for the Fund Council office costs (including quality assurance, independent evaluation, audit functions, etc.) for the World Bank, as Trustee, is to be added. This additional set of overheads should apply only for grants falling within a CGIAR Research Programme (CRP) under Window 3, disbursed through World Bank.

(2) Except in the case of contribution agreements with supplementary fund donors, where the retroactive financing date is the start date of the implementation period of the contribution agreement.

Guidance on Grants Sub-recipients

The main project implementer will be the grant recipient. However, there may be circumstances where it is necessary to implement specific activities (or activities in particular countries) through sub-recipients. The grant recipient will remain accountable to IFAD for ensuring that grant resources are used in accordance with the provisions of the financing agreement, appropriately managed and fully reported on.

Due diligence

In the case of sub-recipients above a certain threshold⁽¹⁾, IFAD will perform ex-ante assessments as part of design due diligence; for the remainder, IFAD places the emphasis on assessing the recipient's own processes for selecting and monitoring sub-recipients⁽²⁾. IFAD defines sub-recipients as "significant" when they receive resources of USD 100,000 or more. In this case the related Implementation Agreement is subject to prior clearance by IFAD. Significant sub-recipients are normally identified at design, and the amount they will manage specified in the financing agreement. In some cases it is not possible to identify sub-recipients at design stage – for example, where grant resources will be made available through small sub-grants to sub-recipients on a bidding basis. This factor will be taken into consideration in assessing the risk of the project until it has been possible to carry out the due diligence on the sub-recipients.

Grant design document

If sub-recipients are expected to implement grant activities, the grant design document must:

- Provide a clear justification for the use of sub-recipients, including clarifying the reason for incurring two (or more) sets of management fees. Total overheads cannot exceed 8% of project direct costs;
- Describe how the grant recipient will ensure that grant resources are used in accordance with the provisions of the financing agreement and fully accounted for. This description should include an overview of the recipient's process for assessing and monitoring sub-recipients, how the financial reports will include the transactions, and confirm that the recipient's independent auditors will be granted access to the sub-recipient's project-related accounts and documentation.

Clearance of sub-agreements

The IFAD Grant Technical Manager (GTM)'s prior review of sub-agreements with significant sub-recipients is required. The GTM may opt to review other sub-agreements or conduct an ex-post review.

Distinction between sub-recipients and service providers

Some of the main differences between grant sub-recipients and service providers are highlighted below:

Principal differences between sub-recipients and contractors

| An organization is likely to be a sub-recipient if it: | An organization is likely to be a service provider if it: |
|--|---|
| determines who is eligible to receive financial assistance under the grant | operates to provide similar goods and services to many different purchasers |
| has its performance measured against whether the objectives of the grant are met | performance depends on whether satisfactory goods/services are delivered on time |
| bears responsibility for decision making under the project | provides goods or services to the recipient that are ancillary to the grant operation |
| uses the funds to carry out project-related activities | is not subject to grant compliance requirements |
| aims to cover its costs | aims to make a profit |

(1) If sub-recipients are expected to receive resources of USD 500,000 or more, the submission of the Financial Management Assessment Questionnaire (FMAQ) and the entity's two most recent audited financial statements is required as part of the due diligence process.

(2) IFAD will typically examine whether the recipient reviews the sub-recipient's track record, financial standing, governance, internal controls, audit, transparency, reputation and references. IFAD also determines whether the process for selecting sub-recipients is transparent and follows criteria that are acceptable to the Fund.