Annex 3: Guidance on eligible expenditure and budget preparation for grant-financed projects

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 work plan and budget (WPB). In addition to budget summary tables by component and expenditure category, the grant design document must include a detailed activity-based budget clearly outlining the nature of planned expenditure, in line with the narrative description. The budget tables in the grant design document should be consistent with those in the detailed activity-based budget.

Eligible expenditures

According to the Section 3.1(xi) of the General Provisions applicable to grants:

"*Eligible Expenditures* are expenditure eligible to be financed under the Grant. Such expenditures must satisfy all of the following requirements: they must (i) meet the reasonable cost of goods, works or services required for the Project; (ii) be covered by the relevant work plan and budget (WPB); (iii) be procured in accordance with the Recipient's or other approved IFAD Procurement Procedures; (iv) be incurred within the Project Implementation Period, except for those expenditures necessary to meet the costs of winding up the Project, which may be incurred after the Project Completion Date and before the Grant Closing Date; (v) not involve a payment which is prohibited by a decision of the United Nations Security Council or any other policy of IFAD; (vi) not involve a payment which may constitute a Prohibited Practice; (vii) be supported by adequate documentation; and (viii) be verifiable by IFAD".

Budget presentation

The budget should classify costs into two main categories: *direct* and *indirect costs*. Figures should be rounded to the nearest USD 1,000. Costs attributed to the grant should add up to the total approved at entry into pipeline (i.e. as approved by the OSC). A detailed activity-based budget[1] is required, together with summary budgets by (i) component and (ii) expenditure category[2]. 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 a specific expenditure category. The entity (main recipient or sub-recipient, if applicable) expected to implement the costed activity should be indicated in a separate column.

Direct costs

Direct costs are expenditure 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 entity staff directly and exclusively assigned to the project, training, travel, workshops, equipment, materials, research expenditures, publications, etc.

Indirect costs

Indirect costs include the recipient's management fee, also referred to as overheads. The management fee may be stated as a fixed amount or as a percentage payable to the recipient for the execution of the grant. The amount of indirect costs should be reasonable, and not exceed 8% of direct costs. 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 approval at Quality Assurance (QA) stage. Any such exception shall not constitute a precedent for future grant requests. In

(1) The detailed activity-based budget template (in Excel) is provided as part of the Grant Design Document (GDD) template (as Annex 3).
(2) Refer to IC/FOD/02/2013 for standard expenditure categories (Flexcube).

the case of grants to a UN agency, an 8% cost-recovery rate is usually applied.

If the grant is to a CGIAR centre, and funds are to be channelled through the World Bank, an additional 2% should normally be separately added to the management fee as part of indirect costs for CSP([3]). If the grant is financed through supplementary funds, the donor's agreement to such an arrangement should be confirmed in advance.

Project Management Costs

Project management costs attributed to the grant must not exceed 20% of the grant amount. The budget by component should disclose project management costs as a **separate component**, as follows:

Component (X) - Project Management Costs (**max 20% of total grant amount**[4]):

- Direct: project management
- Indirect: Overheads
    - Management Fee (**max 8% of *direct* costs attributed to the grant**);
    - *CSP if applicable (2% of **total grant** amount)*

***Direct* costs for project management**

These are the incremental costs expected to be incurred by the recipient (and the sub-recipient if relevant) for managing the project and administering the grant. By way of example, these costs may include:

- ✓ incremental cost of staff to coordinate and report on project activities, whether staff or temporary hires from the market under consultancy contracts
- ✓ incremental operating costs such as fuel and vehicle rental
- ✓ costs of staff as well as systems (e.g. software) for the monitoring and evaluation of grant activities
- ✓ rental & facilities for activities in other regions or countries, if relevant to the grant proposal
- ✓ Travel costs and allowances for staff managing the project (e.g. project manager)

Costs of staff executing specialised project implementation activities (e.g. researchers) may be attributed to the relevant operational component - instead of project management - regardless of whether the expert is on the institution's payroll or on a consultancy contract. To note that in all cases, salaries / fees of staff / consultants assigned to the project on a part time basis should be costed pro rata.

During the review of grant proposals, these costs will be examined closely to confirm that there is no double counting with overheads – for example it is assumed that the institution's management fee covers the recipient's basic facilities, utilities, equipment and consumables (e.g. paper).

Examples of direct costs (all types)

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:

([3]) For CGIAR centres, an additional 2% Cost Sharing Percentage (CSP) is generally added, to contribute to the CGIAR Fund Council office costs (including quality assurance, independent evaluation, audit functions, etc.) for which the World Bank is Trustee. The CSP contribution is expressed through a separate budget line and is calculated as a percentage of the **total grant** amount,.

([4]**)** Net of CSP (if applicable).

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.

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. Salaries of senior administrative staff, technical staff and administrative/clerical staff should be shown separately. Costs should be inclusive of statutory levies.

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.

Grants and Subsidies: 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 stated.

In occasional cases, the implementation of a grant-financed project may require setting up or use of one or more project offices. IFAD would normally consider as *eligible* direct costs the capitalized and operating costs of the structure provided these comply with the cost eligibility criteria referred to in Section 3.1(xi) of the General Provisions applicable to grants and that the 20% cap is respected.

<u>Other costing aspects</u>

- *Costing of salaries / consultancies*: Salaries or fees of staff or consultants assigned to the project on a part time basis should be costed pro rata.
- *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.

- *Retroactive financing:* If retroactive financing is proposed by the grant sponsor, the justification should be provided and approved at QA. Retroactive financing cannot cover expenditure made before grant approval. 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. In the case of contribution agreements with supplementary fund donors, the retroactive financing date is the start date of the implementation period of the contribution agreement.
- *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?