

# INTERNATIONAL CENTRE FOR RESEARCH IN AGROFORESTRY

## OVERHEAD COST RECOVERY POLICY

1. Expenditures at ICRAF can be classified into recurrent operating costs such as salaries, travel, depreciation, supplies and services, and non-recurrent costs such as capital equipment (accounted for as a recurrent operating cost through the annual depreciation charge) and extraordinary items. The recovery of overhead costs concerns only recurring operational costs. One major reason for excluding non-recurrent costs is that the contribution of overhead activities (explained in paragraph six of this document) to non-recurrent expenditures such as purchases of capital equipment is normally disproportionate to the contribution of overhead activities to recurrent expenditures. Another practical reason is the need to establish fairly uniform overhead cost recovery rates; hence, significant non-recurrent costs which would distort the rates, such as the major capital expenditure incurred for the construction of the new research wing at headquarters in Nairobi, should be excluded.
2. Turning from expenditures to activities, ICRAF's activities can be classified as either direct (research) or overhead (support). Direct activities are those that are necessary and potentially sufficient to achieve the global challenges of ICRAF's research agenda. Overhead activities are those that are necessary but inherently insufficient to achieve elements of ICRAF's mission-related objectives. In general, overhead activities are of a supporting nature in that these activities provide overall direction and basic services to all of ICRAF's endeavours.
3. Recurrent expenditures can be further classified in to three categories: direct, indirect and overhead costs.

### **Direct Costs:**

These are recurrent expenses that can be identified with a direct or overhead activity of ICRAF.

### **Indirect Costs:**

These are recurrent expenses that are incurred to help achieve common or joint objectives of a business unit and 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 by applying accepted methods for cost apportionment. Indirect costs change as the level of activities of the business unit changes, but not in direct proportion. These costs disappear if the business units are no more. E.g. rent and utilities for premises occupied by regional offices and county offices, costs of support services staff based at regional/county offices.

### **Overhead costs:**

These are recurrent expenses incurred to operate service units that provide services essential for maintaining the corporate identity of the organization, and common services that help the business units to achieve overall goals and objectives of ICRAF. These units on their own cannot achieve the corporate goals of ICRAF. The costs incurred by these units generally cannot be attributed, assigned or directly identified with individual business units, activities or groups of activities that contribute to the achievement of the overall goals of ICRAF, and continue to be incurred even if one or more business units

were to disappear. E.g. Office of the Director General, Board of Trustees, Financial Services, Human Resources Unit and other support services.

4. All recurrent expenditures can be directly identified or assigned to either a direct or overhead activity. Those recurrent expenditures directly identified or assigned to a direct activity become direct costs; those directly identified or assigned to an overhead activity become overhead costs.
5. The total cost of a direct activity is defined as that activity's direct and indirect costs plus a portion of the Centre's overhead costs. It is a generally accepted principle of accounting that the total cost of a project consists of the project's direct costs, indirect costs that are allocated and any equitable share of overhead costs. The apportioning of overhead costs to direct activities is the crux of an Overhead cost recovery policy.
6. For the purpose of classifying costs as direct, expenditures can either be specifically identifiable with a direct activity, or assignable to a direct activity on a clearly defined, reasonable basis. Salaries and travel are examples of costs that can be specifically identified with a direct activity. Examples of assignable costs are rent, office upkeep and utilities.
7. Examples of overhead activities are Support Services, Governance and special one-off expenses such as the cost of an EPMP. It should be noted that the costs of these overhead activities cannot normally be identified with, or assigned to, direct activities other than through apportionment via an Overhead cost recovery policy. It should also be noted that whenever a cost for an overhead activity can be identified with or assigned to a direct activity, the cost is so assigned. An example would be the Director General spending a specific period of time on a specific activity/task. Finally, occasionally a donor earmarks a financial contribution to cover overhead activities. Such a contribution reduces the amount of uncovered overhead costs to apportion to direct activities.
8. The allocation of overhead costs is accomplished by dividing the total uncovered costs of the overhead activities in a base period (usually one year) by the total cost (direct and indirect expenses) of all direct activities over the same base period. The result of this process is an overhead cost rate which is used to distribute overhead costs across all direct activities. The rate is normally expressed as a percentage. The principles for calculating the overhead rate for CGIAR Centre's is detailed in the Financial Guidelines series 5(FG5) published by the CGIAR Secretariat. This method of apportionment is generally accepted by the US government for use by non-profit organizations.
9. According to the principles laid out in the FG5, the determination of direct and overhead activities and the application of an overhead cost rate to direct programme activities bear **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 overhead activities, it follows that all direct and programme activities, regardless of the funding sources, should bear a fair share of the cost of overhead activities in determining the total cost of those direct activities.

The direct and overhead operating expenses and the formula for computing the overhead rate is detailed in Appendix A and A1.

# World Agroforestry Centre

## Statement of Operating Expenses for the year ended December 31

	<u>Year</u>
<b>Direct Operating Expenses</b>	
Research	xx
Research Support	xx
Operations	xx
sub-total	xx
less: Overhead recovery <sup>1</sup>	(xx)
<b>total</b>	<b>xxx</b>
<b>Overhead Operating Expenses</b>	
Management	xx
Common Sustenance Services	xx
<b>total</b>	<b>xxx</b>
<b>Total Operating Expenses</b>	<b>xxx</b>
Cost Ratios	
Direct/Total	x%
Overhead/Total	x%
Overhead/Direct	x%

- <sup>1</sup> The deduction of the overhead recovery 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 overhead 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 recovery in the Statement of Activity (SOA).

# World Agroforestry Centre (ICRAF)

## Overhead Cost Allocation Guidelines

### Exhibit A1– Indicative List of Operating Expenses/Resource User Units

Research (1)	Research Support (2)	Utilities (3)	Operations (4)	Management (5)	Common Sustenance Services (6)
<ul style="list-style-type: none"> <li>• This represents activities relating to research in accordance with the missions of the respective Centres. Certain activities, accordingly may be grouped under col. (2) in one Centre, whereas they may be grouped under col. (1) in another Centre.</li> </ul> <p>Examples:</p> <ul style="list-style-type: none"> <li>• Training (Note 1) Research related Training</li> <li>• Fellowship</li> <li>• Visiting Scientists</li> <li>• Scientists</li> </ul>	<ul style="list-style-type: none"> <li>• Deputy Director General</li> <li>• Laboratory Services</li> <li>• Publication/technical bulletins contributing inputs to research (Note 1)</li> <li>• Library</li> <li>• Partnership &amp; Information Management Service/workshop</li> <li>• Plant growth facilities</li> <li>• Training (Note 1)</li> <li>• Nursery operations/plant growth facilities</li> <li>• Research related computer services</li> </ul>	<ul style="list-style-type: none"> <li>• Electricity</li> <li>• Water</li> </ul> <p><b><u>Maintenance:</u></b></p> <ul style="list-style-type: none"> <li>• Farm equipment</li> <li>• Water treatment</li> <li>• Diesel Generator Sets/Power House</li> <li>• Instrumentation</li> <li>• Other equipment engaged in research support</li> <li>• Computer and Network etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Procurement Service (Purchase Department)</li> <li>• Supply Service (Stores Department)</li> <li>• Management Services Computer Services</li> <li>• Communications Services Department #</li> <li>• Rent (ground rent, lease rent, hire charge relating to research, research support &amp; operations) #</li> <li>• Transportation Department Services (including motor vehicles exp.) #</li> <li>• Rates &amp; taxes #</li> <li>• Office Support Services</li> </ul>	<ul style="list-style-type: none"> <li>• Board of Governors/ Trustees</li> <li>• Office of Director General</li> <li>• Assistant Director General</li> <li>• Personnel Department</li> <li>• Finance &amp; Accounts Department</li> <li>• Office of Finance Director</li> <li>• Internal Audit Department</li> <li>• Liaison office</li> <li>• Corporate office</li> <li>• Staff Development</li> <li>• Support Services Direction</li> </ul>	<ul style="list-style-type: none"> <li>• Security</li> <li>• Canteen*</li> <li>• Cafeteria*</li> <li>• Hostel Operations *</li> <li>• Housing Services*</li> <li>• Laundry *</li> <li>• Swimming Pool*</li> <li>• Cleaning</li> <li>• Garden</li> <li>• Visitor Services/ Reception Unit</li> <li>• Transportation Dept. Services (including motor vehicles exp.) #</li> <li>• Rent (ground rent, lease rent, hire charge relating to research, research support &amp; operations)#</li> </ul>
<ul style="list-style-type: none"> <li>• Research information management</li> <li>• Identifiable activity for research policy, structure and linkage</li> <li>• Any line item of accounts directly identifiable with research projects</li> </ul> <p>Example – Travel</p>	<ul style="list-style-type: none"> <li>• Research related information System</li> <li>• Research Planning</li> <li>• Biometrics services</li> <li>• Gene Bank</li> <li>• Green houses</li> <li>• Research associates trainees</li> <li>• Geographical Information system (Note 1)</li> <li>• Electron microscope (Note 1)</li> <li>• Consultants (related to research support)</li> <li>• Remote Sensing Device</li> <li>• Experimental Station</li> <li>• Strategic Resource Initiative</li> </ul>		<ul style="list-style-type: none"> <li>• Insurance #</li> <li>• Printing &amp; stationery #</li> <li>• License fees #</li> </ul> <p>For items marked # please refer Note 2 below</p>		<ul style="list-style-type: none"> <li>• Insurance #</li> <li>• Printing &amp; stationery #</li> <li>• Communication services costs #</li> <li>• License fees #</li> </ul>

**Note: -**

1. Items of expenses marked 'Note 1' could be under column (1) or column (2) depending upon the nature of activities & objectives of the research Centre.
2. Various items of expenses and resource user units marked (#) listed in columns (4 & 6) will be pooled form line items to Research, Research support, Utilities, Operations and Management to the extent of linkage established. The amount of expenditure under any head or part thereof for which no linkage can be established will be pooled under Common Sustenance Services in addition to items generally falling under Common sustenance Services.
3. Items marked (\*) in column (6) are net of charge out to users (which is expected to be based on costs/realistically estimated costs).