



CARE INTERNATIONAL SHARED PROGRAM COST POLICY

Version: 1.1
Effective Date: 1 July 2018

I. PURPOSE

This policy defines the cost allocation methodology for CARE International (CI) Members and their country offices (CO) to ensure essential support services incurred to implement **all** projects and programs are budgeted and recovered effectively using the Shared Program Cost (SPC) method in compliance with donor rules and regulations.

II. SCOPE

This policy applies to all COs. CARE Member Headquarters are not governed by this policy.

III. POLICY STATEMENT

1. All cost allocations will be performed in compliance with donor requirements and CI policies and procedures.
2. All direct costs incurred to implement projects or programs, including support services costs, will be budgeted and charged directly to the grants or contracts whenever and wherever possible.
3. Some support services are cost-effective when purchased jointly and shared fairly by all grants and contracts rather than individually by each grant and contract. COs will use the SPC method to budget and allocate these support services costs fairly to all grants and contracts. The SPC method is an effective cost-saving alternative to directly budgeting full support services costs individually for each grant or contract.
4. All support services costs associated with SPC will be allocated equitably to all grants and contracts, in accordance with allowable cost principles. Some donors may accept to cover more SPC than their fair share to support the achievement of the overall objectives of a particular project or program, in which case such additional SPC may be charged to those grants or contracts.

IV. POLICY DETAILS

1. **Direct charging principle:** CI's preferred cost recovery method is to budget and charge donors directly for all direct costs incurred to implement a grant, a contract, a project or a program. All costs directly identifiable to a particular grant or contract must be charged directly to that grant or contract.
2. **Personnel costs treatment:** Personnel costs are budgeted and charged directly to the grants or contracts on which staff worked. All personnel costs including staff members who support multiple programs or projects are directly charged to donors based on the Personnel Activity Reports (PAR). Time spent by staff to provide support services to **all** grants, contracts, projects or programs is treated as SPC and is allocated to all grants and contracts through the SPC fair share method.
3. **Sharing support services costs vs. budgeting full costs:** All costs associated with a particular grant or contract, including essential support services, must be budgeted and charged to that grant or contract. For cost saving purpose, all COs use the SPC method to budget and allocate the support services costs fairly to all donors instead of budgeting full costs individually for each grant and contract. A list of support services costs classified as SPC is included in Appendix 2.



4. **Reasonable and justifiable SPC budgets:** Per the CI Code, CARE Member Partners (CMP) will ensure all donor agreements provide reasonable and justifiable SPC coverage to COs. At least once a year during the annual budget approval process, Lead Members (LM) must review CO annual and multi-year SPC budgets to ensure they are reasonable, justifiable and viable based on the CO full budget portfolio. As program operating environments differ from country to country, LMs will coordinate with their COs to determine the most relevant factors to use in the SPC budgets review. Examples of factors include:

- Availability of local skilled staff: high personnel costs could be justifiable in countries where skilled staff are not available.
- Affordability of facility costs
- Alignment of CO structures and SPC budgets with growing or declining portfolios.

CMPs may request this annual SPC assessment for COs where they fund programs. The standard SPC budget template and instructions are included in Appendix 6.

5. **SPC allocation factors:** Only objective factors and actuals must be used to allocate SPC. Budget estimates and subjective factors are not allowed. A list of approved factors is provided in Appendix 1. LMs will choose either a single factor or a combination of 2 or 3 factors from the approved list for use by all their COs consistently from month to month for the entire financial year.
6. **Consistency between budgeting and allocation methodology:** The methodology used to budget a cost for a grant or contract must be consistent with the methodology used to allocate that cost for the entire life of the grant or contract. Costs allocated to donors through a formula must have been budgeted based on the same formula methodology. This policy article applies to all new grants signed after the effective implementation date of the policy.
7. **Fair share vs. Donor agreement:** SPC are allocated at fund code level equitably to all grants and contracts implemented by a CO in a way that ensures no donors are allocated more than their fair share. However, in their agreements some donors may accept to cover an amount larger than their fair share to support the achievement of the overall objectives of a particular project or program. Therefore:
- a. Additional SPC can be charged to donors in accordance with **section III-4**.
 - b. SPC not covered by a donor may be covered from other funding sources.

These provisions should be documented at proposal stage and included in the final donor agreements. Also, whenever there is an agreement between a CO and a CMP supported by an Individual Project Implementation agreement (IPIA), the maximum SPC amount that can be charged should be clearly stipulated in the pre-IPIA and IPIA.

8. **SPC funding gap coverage:** All grants and contracts contribute to SPC using a fair share basis but a given grant or contract shall not be charged more than authorized in the donor agreement, taking into account approved budget adjustments and line item flexibility. CO management must review individual donor agreements and IPIAs to ensure SPC allocations do not violate the terms of the agreements.
- a. CO management is responsible to identify other sources of funding to cover SPC gaps if certain donors limit their contributions to SPC, or funding gaps are due to lack of adequate financial planning or cost management by COs.
 - b. The CMP responsible for a grant or contract must ensure full SPC coverage is effectively negotiated with the donors and gap funding sources are identified.
 - c. In case a grant or contract for which a CMP is the agreement holder cannot cover its fair share of SPC due to budget limits or other donor restrictions, the funding gap must be covered by the CMP as defined in the CI Code. This must be documented in the pre-IPIA at proposal stage and in the final IPIA.

V. RESPONSIBILITIES

CO Finance Director (or equivalent):

- Prepare and update the overall CO annual and multi-year SPC budgets.
- Provide the estimated SPC fair share amounts to be included in proposal budgets and pre-IPIAs;
- Ensure SPC allocation are performed monthly per procedures, and staff understand the policy;
- Review SPC allocations, discuss allocation results and take required actions with CO management;
- Maintain SPC documentation at CO level and respond to audit requests as necessary.

Country Director (CD):

- Ensure SPC amounts included in proposal budgets are reasonable and justifiable;
- Ensure SPC fair share methodology is consistently used in CO budgeting and allocation processes;
- Review and approve CO annual and multi-year SPC budgets and monthly allocation worksheets and results, and supervise the completion of any required actions;
- Ensure CO annual and multi-year SPC budgets are reviewed and updated as frequently as necessary;
- Ensure SPC is negotiated with donors and CMPs per policy and other guidelines;
- Ensure SPC gap funding is reflected in the Pre-IPIA and IPIA along with the source of funding, and identify other sources of funding to cover SPC funding gap, if any.

CARE Member Partner (CMP):

- Negotiate full coverage of SPC with donors;
- Provide funding to cover SPC gaps when donors cannot cover their fair share as defined in the policy.
- Ensure the maximum SPC amount to be charged to donors is clearly stipulated in the pre-IPIA/IPIA;
- Ensure SPC funding gap is reflected in the Pre-IPIA along with the source of funding;
- Ensure all SPC amounts to be covered by the donor, CMP and any other parties, along with any related provisions, are clearly defined in the final IPIAs.

CI Lead Member (LM):

- Select the SPC allocation method that all COs under the LM must use.
- Ensure SPC fair share methodology is consistently used in CO budgeting and allocation processes;
- Periodically review the SPC cost structure and ensure SPC for COs are reasonable and justifiable given context and the operating environment of each CO.
- Review SPC when a CO undergoes major changes due to the expansion or reduction of the portfolio or implements a significant change in the operating model, and ensure structural changes are implemented in a timely fashion so SPC is reasonable and necessary given the new circumstances.
- Approve any adjustments to sub-recipient expenditures or major project cost elements that distort the DPC factor used in the SPC computation (see description in Appendix 1).

VI. DEFINITIONS

- **Shared Program Cost (SPC):** is a method used by COs to allocate support services costs that are necessary to implement a grant or contract and are cost-effective when purchased jointly and shared fairly by all grants or contracts rather than individually by each grant or contract. These costs include personnel costs and the costs of office space and related utilities and other reasonable operating costs associated with these support services. SPC are an integral part of CO direct costs.
- **Direct costs:** all costs incurred to implement a project or program are direct costs to the project or program. Direct costs include 4 types:
 - 1) Those identified with specific project activities and charged 100% to the projects (e.g. the personnel costs of a project manager, a project accountant or a field agent; materials, services, transportation, sub-recipient expenses, etc.).
 - 2) Those identified with a specific group of projects and shared among that group only (e.g. the personnel costs of a health sector coordinator shared among all health projects; or the operating costs of a sub-office or field office shared among only projects covered by that office).



- 3) The joint support services allocated fairly to **all** projects and programs through the SPC method (e.g. time spent by a CO finance director to provide quality control and financial stewardship to all projects or programs implemented by the CO).
 - 4) The cost of technical assistance and monitoring support provided by a CARE office other than the COs (e.g. a CMP or LM or another CARE member) which has the specialized skill set in the program outcome area or approach. This type of cost must be included in the budget component managed by that CARE office.
- **Direct Program Cost (DPC)** for COs consists of items #1 and #2 above and is used as allocation factor to calculate the SPC fair share that each grant or contract should be charged. The DPC is adjusted to exclude any exceptions and distortions defined in Appendix 1.
 - **Indirect costs** are those costs incurred by LM, Global South Members, and CMPs to provide programmatic oversight and general management services that cannot be directly identified with a single grant or contract.
 - **Indirect Cost Recovery (ICR)**: Indirect costs are recovered to the extent possible by applying a fixed overhead rate negotiated with the donors to the total direct costs incurred by CARE when implementing a grant or contract.
 - **Lead Member (LM)**: the National Member CARE designated by CI as having the ultimate responsibility and authority for the work of CI in a given host country where CI implements its programs. The LM is responsible for coherent multi-year planning, project supervision and provision of necessary logistical and administrative backstopping. The LM is responsible for specific COs.
 - **CARE Member Partner (CMP)**: any National Member of CI which provides funding to a particular CO primarily by participating in one or more program/project activities. CMPs are members which have not been designated as the LM in the particular countries in which they are participating in such activities.
 - **Global South Member (GSM)**: Global South Members are independent members of the CI confederation that are separate legal entities which both implement programs in their own country and raise funds to support those programs. They may on occasion also raise funds for programs in other countries where CARE operates.
 - **Fund Code (FC)** is used to track financial transactions related to a donor agreement. Each agreement is assigned a fund code that is universally shared by all LMs, CMPs and COs.
 - **Funding gap**: a gap occurs when actual cost necessary to implement a project is higher than the funding available from the donors.

VII. ACRONYMS

CI	: CARE International	CO	: Country Office
GSM	: Global South Member	DPC	: Direct Program Cost
CMP	: CARE Member Partner	SPC	: Shared Program Cost
IPIA	: Individual Project Implementation Agreement	LM	: Lead Member

VIII. APPENDIXES

- Appendix 1:** List of Approved Factors
- Appendix 2:** Cost Classification - List of SPC vs. DPC
- Appendix 3:** SPC Allocation Procedures for CARE COs (separate for each LM)
- Appendix 4:** Common templates, but adapted by each LM based on chart of accounts:
 - **Appendix 4a:** SPC Budget Template and Instructions
 - **Appendix 4b:** SPC Single Factor Computation by Donor Line Item
 - **Appendix 4c:** SPC Multiple Factors Computation Worksheet