



BILL & MELINDA
GATES *foundation*

Indirect Cost Policy

Effective 2/1/2017

Indirect Cost Guidance

Philosophy

The Bill & Melinda Gates Foundation tackles critical problems primarily affecting the world's poor and disadvantaged, and supports strong and effective partner organizations to do the same. We believe that good stewardship means maximizing our resources, including grant funding and staff time, while building strong partnerships based on trust.

We aim to structure grants in a way that makes sense from a financial perspective while also funding partners for the cost of delivering results efficiently, supported by open and honest dialogue about the resources required. As grant proposals are developed, we try to gain a complete and accurate understanding of the total cost to execute the project efficiently and effectively. However, there may be circumstances when our views of direct and indirect costs may not align with those of our partners, including other funders.

Our expectation is that grantees' executive and board leadership are continually evaluating how to "right size" their organizations' overhead cost to operate efficiently and effectively.

We welcome partners to contact the foundation if they have questions about this policy. Our finance team can help clarify appropriate treatment of costs under the foundation's policy.

Definitions

The spirit of this policy is to pay for expenses that are directly attributable to project outcomes and outputs as direct costs and expenses associated with general running of the business as indirect costs. Greater specificity on each category is described below.

Direct Costs

Direct costs are the expenses required to execute a grant that are directly attributable and can be reasonably allocated to the project. Program staff salaries, travel expenses, materials, and consultants required to execute the grant are examples. Costs that would not be incurred if the grant did not exist are often indicative of direct costs.

Indirect Costs

Indirect costs are general overhead and administration expenses that support the entire operations of a grantee and that may be shared across projects. Examples include facilities expenses, e.g. rent, utilities, equipment for the grantee's headquarters, and associated information systems and support and administrative staff such as HR, general finance, accounting, IT, and legal. Additional examples and detail are included in Annex A. Expenses that would be incurred regardless of whether the grant is funded are often indicative of indirect costs. While these costs may not be directly attributable to a project, they are real and necessary to operate as an organization.

Indirect Cost Rate

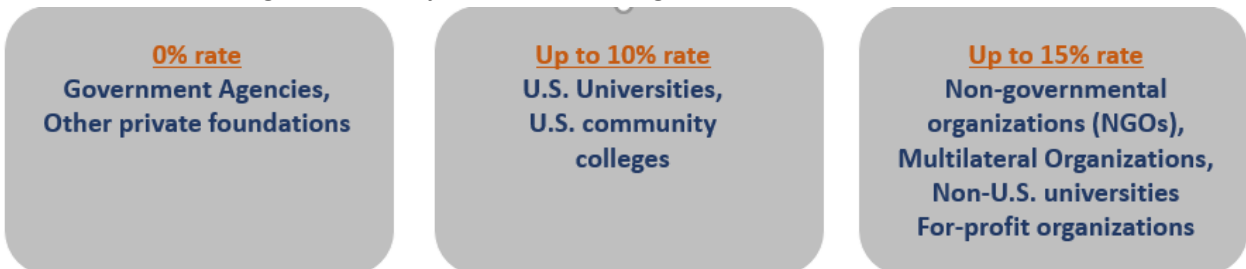
Indirect Cost Rate = Budgeted Indirect costs/ Budgeted Total Direct Costs (e.g. personnel, sub-awards, supplies, equipment, etc.)

The indirect cost rate proposed in the budget should not exceed the grantee's organizational rate (when defined by the same terms.)

While the definitions above are general guidance for all grants, the requirements and activities of each project should be considered when determining direct and indirect costs. We review budget assumptions and cost categorizations on a grant by grant basis, and treatment of specific costs in one grant should not be considered precedent-setting for other grants.

Maximum Indirect Cost Rates

Indirect cost rates for grants are subject to the following limitations:



- The rates provided above are the *maximum* rates allowed under the foundation's policy. A grantee or contractor with an actual indirect cost rate lower than the maximum rate provided above should *not* increase the funding request to the maximum allowed. The intent is to sufficiently fund actual costs, not to generate financial surpluses for grantees.
- The indirect cost rate awarded in a grant budget may vary up to the maximum percentages depending on factors including, but not limited to, the type of project, level of administrative effort required, cost structure of the grantee, overall grant size, and extent of sub-awards or commodity purchases.
 - *Example 1:* A primary grantee will receive grant funds that will be largely sub-granted to other organizations. The foundation may limit indirect costs the primary grantee receives on the sub-granted funds depending on the level of effort required to manage the sub-awards. The overall effective indirect cost rate awarded to the primary grantee may therefore be less than the maximum allowable rate.
 - *Example 2:* A material portion of a project budget is allocated for commodity purchases. A lower overall effective indirect cost rate may be negotiated to remove commodity cost from the indirect cost calculation.
 - *Example 3:* A NGO grantee has an organizational actual indirect cost rate of 8%, i.e., for every \$1,000 in direct costs, it has \$80 in indirect costs. Rather than defaulting to the maximum rate of 15% in the grant proposal, 8% should be proposed in the grant budget.
- Maximum Indirect Cost Rates and limitations apply to *both* the primary applicant organization and any sub-grantees. Each respective organization may receive indirect costs UP TO the rate applicable to their organization type.
 - *Example:* If a U.S. university is the primary grantee and has an international nonprofit organization sub-grantee, the U.S. university is eligible to receive up to a 10% indirect cost rate, while the international organization is eligible to receive up to a 15% rate.

- We seek consistency across funding mechanisms and thus we reserve the right to apply this philosophy and principles to contracts.
- For profit entities may propose indirect costs as a percentage from 0% up to 15% to the extent that adequate explanation of the cost is provided.
- We reserve the right to request substantiation of any grantee's indirect cost rate.

APPENDIX A:

The following is a list of common direct and indirect costs. We recognize that there are categories of cost that can be considered either direct or indirect depending on grantee accounting practices and the nature of the cost relative to the project purpose.

It is the responsibility of grantees to submit proposal materials that allow us to understand the link between project outcomes and *direct* costs. We also expect that grant proposals speak to what is covered by the requested *indirect* cost rate.

EXAMPLES OF COMMON DIRECT AND INDIRECT COSTS

	<u>DIRECT COSTS:</u> The following may be included as direct costs if <i>DIRECTLY ATTRIBUTABLE and REASONABLY ALLOCABLE</i> to and specifically required to execute the project	<u>INDIRECT COSTS:</u> The following may be included as indirect costs if <i>REASONABLY ALLOCABLE</i> the project and not included as a direct cost
Personnel	<ul style="list-style-type: none"> Salaries and wages of employees working directly on the project. Fringe benefits of employees <p>These costs should be substantiated by time keeping and/or an allocation methodology, and can include directly attributable and allocable project management and support, project legal or accounting functions (substantiated by timekeeping)</p>	<ul style="list-style-type: none"> Personnel cost of general management and administrative support personnel, such as executive management (CEO, COO, CFO, etc.) or central operational functions (Accounting, HR, IT, Legal, etc.)
Travel	<ul style="list-style-type: none"> Travel expenses for trips directly needed to deliver the project 	<ul style="list-style-type: none"> Travel not directly related to the project
Consultants	<ul style="list-style-type: none"> Contracted staff working directly on the project 	<ul style="list-style-type: none"> Contracted staff for general administrative functions, such as accounting or audits
Equipment	<ul style="list-style-type: none"> Costs for equipment directly used by the project (can include purchase/replacement, operation, maintenance; to be pro-rated in case of partial use) 	<ul style="list-style-type: none"> Costs for equipment or depreciation on equipment¹ incurred by central operational functions
Other Direct Costs	<ul style="list-style-type: none"> Allocable facilities, utilities and communications expenses that are required to execute the project, such as field clinics, laboratories, project office costs Project-specific supplies 	<ul style="list-style-type: none"> Costs for facilities, utilities and communications associated with central operational functions such as university headquarters, U.S. office of an international NGO, back office of a biotech firm
Sub-awards	<ul style="list-style-type: none"> Grants or contracts with other organizations that directly contribute to the project outcomes 	<ul style="list-style-type: none"> Outsourced general operating activities, such as accounting, audits, IT support

¹If depreciation is included in the indirect cost pool, the acquisition cost used for computing depreciation must exclude any portion of the cost donated by the foundation or another funder.

APPENDIX B: Frequently Asked Questions (FAQs)

- **Question: What has changed in the 2017 policy update? The rates still look the same.**
Answer: While the maximum indirect cost rate percentages have not changed, we have adjusted the costs that can be considered direct to better reflect the cost of achieving project outcomes, specifically in the areas of facilities and project support.
- **Question: When will these changes take effect?**
Answer: The IDC policy will take effect on February 1, 2017 and all new grants made from that date forward will be affected by the new policy.
- **Question: Why doesn't the foundation match my institution's Negotiated Indirect Cost Rate Agreement (NICRA) rate with the U.S. government or other funding organizations?**
Answer: The foundation's position is that whenever possible, specifically allocable costs should be identified as direct costs, including those for dedicated ongoing project management and support. Please see Appendix A for examples of direct and indirect costs. Please note that our categorization differs from the U.S. government's instructions to treat project management and support expenses as indirect costs. The foundation funds these costs as direct costs onto which is added up to 15% for indirect costs which are not directly attributable to the project.
- **Question: Why are headquarters facilities typically not classified as direct costs?**
Answer: Headquarters rent and other centralized facilities costs are part of doing business for an organization and therefore are not specifically attributable to a project or activity. These facility expenses of the organization should be categorized as indirect costs. In some cases, we are willing to cover the facility expenses associated with directly attributable personnel that sit in the same headquarters facility but directly support the project funded by the foundation's grant. Facility expenses more than this allocation are considered indirect and are subject to the indirect rate limitations of the primary grantee noted in the Indirect Cost Policy
- **Question: How does the calculation of indirect costs work for the primary grantee and the sub-grantee?**
Answer: The primary grantee receives indirect cost allowances on the total budget which includes its direct internal costs and sub-granted or sub-contracted costs. The 'sub-granted' or 'sub-contracted' funds would also include direct costs and indirect costs to that respective institution. The calculation may look as follows:
Grant to University ABC:

 - ABC direct internal costs (personnel, supplies, travel, etc.) -> 5.85M
 - Sub-granted costs to non-profit organization XYZ -> \$1.15M
 - Includes direct sub-grantee costs - \$1.0M
 - Includes indirect cost allowance to sub-grantee (15%) - \$150k
 - Total direct costs to non-profit organization ABC -> \$7.0M

- Indirect cost allowance to primary grantee (10%) -> \$700k
- **Total grant award** -> **\$7.7M**

- **Question: Why are indirect costs not provided to other foundations and government agencies?**

Answer: As a foundation based in the U.S., we generally must ensure that our funds are used for charitable purposes. When the foundation makes a grant or enters into a contract with a U.S. public charity, the organization's status as a charity by the U.S. government is based on an assessment of the organization's mission and activities to confirm the funds will be used for charitable purposes.

Government entities are typically funded by the citizens of the country for various agencies (e.g. Ministry of Health, Finance, Agriculture, etc.) Government entities are benefiting the communities of which the citizens are a part. Therefore, our policy is to fund the program-specific costs related to our project or activity, but the administrative and general operations costs of the government agency should be funded by the respective country's budgetary funding. Similar logic applies to private foundations.

- **Question: Why do U.S. universities receive a lower rate than international universities?**

Answer: The foundation has an important relationship with university grantees to perform valuable work projects, including but not limited to discovery research, vaccine development, and clinical trials. The foundation's policy considers that U.S. universities should request a limited amount of indirect costs from private funders. In the U.S., indirect costs recoveries are negotiated with federal funding agencies because most U.S. funded research is performed on university campuses. Therefore, the foundation's policy is to provide a rate of up to 10% to U.S. universities to allow for additional administrative and overhead costs of the institution to be funded by other sources.

- **Question: How do I determine if a cost is direct or indirect if it is not clear?**

Answer: The key differentiating factor should be whether the cost is required and allocable to the project to meet its objectives. Here are several examples to help illustrate the distinction:

- An audit function could be considered indirect if it is organizational internal audit performing routine activities. However, if extra due diligence is required for new sub-awards on a particular project, the audit function to carry that out may be considered direct.
- An organization can have accountants that manage the central organizational costs and some that are assigned exclusively or on a percentage basis to specific projects. In this case, the former would be considered indirect and the latter direct.
- A local NGO has a headquarters in the capital city which also houses project-specific staff for work done in that region. In this case, the portion of the office that houses the headquarters functions would be considered indirect and the space dedicated to specific projects could be considered direct if incrementally needed to achieve project objectives.