

BILL & MELINDA GATES foundation

Indirect Cost Policy for Project Grants and Contracts for Applicant Organizations

Definition

The Bill & Melinda Gates Foundation defines indirect costs as:

- Overhead expenses or ongoing operational costs incurred by the applicant organization on behalf of the organization's activities and projects, but that are not easily identified with any specific project.
- Administrative or other expenses which are not directly allocable to a particular activity or project.
- Expenses related to general operations of an organization that are shared among projects and/or functions.
- Basic examples include executive oversight, existing facilities costs, accounting, grants management, legal expenses, utilities, and technology support. To further aid the interpretation of this definition, the Foundation has established examples for the use of our applicants and prospective applicants, which are included in Appendix A.

Other Funding

The Foundation is a charitable entity and is not committed to matching the indirect cost rates of the U.S. government or other entities. We recognize that this means that: (a) some grantees may need to engage in cost-sharing between projects, tap into unrestricted funds, or conduct other fundraising to cover operations; or (b) some contractors may choose not to contract with the foundation. However, we believe our policy is consistent with that of many private foundations and certain government entities that have a flat or maximum rate that caps the amount an applicant institution can charge. The Foundation's policy helps ensure furtherance of our charitable purpose.

Maximum Indirect Cost Rates

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

0% rate
Government agencies,
Other private foundations,
For-profit organizations

Up to a 10% rate
U.S. universities,
U.S. community
colleges

Up to a 15% rate
Non-governmental
organizations (NGOs),
International organizations,
Non-U.S. universities

- Indirect Costs Reimbursements = Rate % * Total Project Costs (incl. personnel, sub-contracts, supplies, equipment, etc.)
- Rates and limitations apply to *both* the primary applicant organization and any sub-grantees and sub-contractors. 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 includes an international organization as a sub-grantee, the U.S. university can receive up to a 10% rate, while the international organization can receive up to a 15% rate for indirect costs.
- 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.

- Given the policy provides an 'UP TO' percentage amount, the indirect cost rate approved may be anywhere from 0% to 15% depending on the specific situation. For example:
 - *Example 1:* At the discretion of the foundation, a large grant may be awarded a lower indirect cost rate to reflect reduced overhead required to adequately manage a large grant's direct costs. Actual administrative and maintenance costs do not necessarily increase in direct proportion to grant funds.
 - *Example 2:* If a primary grantee is receiving grant funds which are largely sub-granted to another organization, the foundation may limit the indirect costs the primary grantee receives on the sub-granted funds. Therefore, to reflect this, the rate could be less than the maximum allowed rate for the primary grantee.

Appendix A: Direct and Indirect Cost Examples

DIRECT COSTS

The following may be included as direct costs in both grants and contracts if

DIRECTLY ATTRIBUTABLE TO THE PROJECT:

- Salaries of employees
 - Can include Project Management
 - Can include directly attributable administrative support, legal or accounting functions, with distinct and measured effort on the project.
- Fringe benefits of employees
- Travel for employees
- Consultants
- Supplies
- Sub-grants (defined as work sourced from the primary grantee to another organization, where funding is provided up front)
- Sub-contracts (defined as work sourced from the primary grantee to another organization, where funding is provided in arrears)

The following may be included as direct costs in GRANTS ONLY if DIRECTLY

ATTRIBUTABLE TO THE PROJECT & NEWLY ACQUIRED SPECIFICALLY FOR THE PROJECT:

- Equipment purchases [Note that all existing equipment would represent indirect costs.]
- Newly-acquired facilities such as:
 - A new field clinic
 - New testing laboratories
 - New project implementation unit office[Note that all existing facilities would represent indirect costs.]
- Utilities for newly acquired facilities
- Newly acquired Information Technology equipment and support for the project

INDIRECT COSTS

- Existing facilities costs (e.g. rent, maintenance, etc.) such as:
 - University headquarters
 - Country/regional offices
- Utilities for existing facilities
- Existing Information technology equipment and support (e.g. centralized IT systems, networks, etc.)
- Existing shared equipment
- Existing equipment maintenance
- Depreciation on equipment
- Insurance
- Communications expenses (e.g. phones, etc.)
- Administrative office supplies
- General administrative support:
 - Executive management (CEO, COO, CFO, etc.)
 - Executive administrators
 - General ledger and grants accounting
 - General financial management staff
 - Internal audit function
 - Institutional legal support
 - Research management personnel
 - Information technology support staff
 - Facilities support personnel
 - Scientific support functions
 - Environmental health/safety personnel
 - Human resources
 - Library & information support
 - Shared procurement resources
 - General logistics support
 - Material management (e.g. tracking procurement, inventory management, shipping)
 - Other shared resources not directly attributable to the project

Note: We make every effort to ensure that cost evaluation under the policy is done consistently and regularly by foundation personnel. For questions or issues with cost line items for your grant or contract proposal, please contact your foundation representative.

Appendix B: Frequently Asked Questions (FAQs)

- **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: Given the foundation is a charitable entity; we cannot commit to matching indirect costs rates from other entities (e.g., the U.S. federal government, etc.). 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. Therefore, the foundation funds these costs as direct costs onto which is added a 10-15% rate for indirect costs which are not directly attributable to the project.

- **Question: An organization that has a NICRA rate of 40% says its NICRA rate would be reduced or negatively impacted if it accepts a lower rate from the Foundation. Is this true?**

Answer: No. Accepting a grant or contract from a foundation with less than full NICRA rate will not impact the NICRA rate calculation differently than accepting a grant or contract with the full NICRA rate. The calculation of the NICRA rate is a ratio where the numerator is the actual indirect costs and the denominator is all of the project direct costs. If the base or denominator increases faster than the indirect costs then the rate will decrease. Clearly, accepting a grant or contract with less than full NICRA rate may impact actual cash flow since the full overhead cost recovery, is effectively reimbursing the institute for all the applicable indirect costs, while the Foundation may be reimbursing for some (but not all) overhead costs. However, organizations that receive multiple grants or contracts with a full NICRA rate will have a greater capacity to absorb a lower indirect cost rate from the Foundation as more of the organization's indirect costs are being paid by other parties, but a grant or contract with a lower indirect cost rate does not lower the NICRA rate.

- **Question: Why are existing facilities that are used for a foundation project not classified as direct costs?**

Answer: Rent and other facilities costs are part of doing business for an organization and therefore are not specifically attributable to a project or activity. Therefore, facilities expenses of the organization should be categorized as indirect costs. The exception to this in the foundation's policy is when a facility has to be built or acquired specifically for a Gates foundation grant or contract. This situation should occur in limited circumstances. However, when necessary, the costs for acquiring such facilities will be funded or reimbursed as direct costs.

- **Question: How does the calculation of indirect costs work for the primary grantee and the sub-grantee?**

Answer: The primary grantee receives indirect costs on the total budget which includes direct costs and sub-granted or sub-contracted costs. But, the 'sub-granted' or 'sub-contracted' funds would also include direct costs and indirect costs to that respective institution. Therefore, the calculation may look as follows:

Grant to University ABC:

- | | |
|---|------------------|
| ➤ ABC direct costs (personnel, supplies, travel, etc.) | -> \$850k |
| ➤ Sub-granted costs to non-profit organization XYZ | -> \$1.15M |
| • Includes direct sub-grantee costs - \$1.0M | |
| • Includes indirect cost sub-grantee allowance (15%) - \$150k | |
| ➤ Total direct and sub-granted costs to non-profit organization ABC | -> \$2.0M |
| ➤ Indirect cost primary grantee allowance (10%) | -> <u>\$200k</u> |
| ➤ Total grant award | -> \$2.2M |

- **Question: Why are indirect costs not provided to for-profits 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. However, in all other cases of grantee entities, there are no assurances that funds will be used for only charitable purposes. When the foundation makes a grant to a for-profit entity, the burden is shifted to the foundation with Expenditure Responsibility requirements to ensure that 1) the grant funds are used for charitable purposes, and 2) we obtain reporting to ensure how the funds are spent. Since the definition of indirect costs is mainly expenses that are not directly allocable to a particular activity or project, it is not possible for the foundation to confirm that indirect costs paid to a for-profit entity are used only for our project and thus "charitable only."

In regards to government agencies, the foundation's position is that government entities are typically funded by the citizens of the country for various agencies (e.g. Ministry of Health, Finance, Agriculture, etc.). The government entities are benefiting the communities of which the citizens are a part. Therefore, the foundation's 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 funds.

- **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 the majority of U.S. funded research is performed on university campuses. Therefore, the foundation's policy is to provide a rate of 10% to U.S. universities to allow for additional administrative and overhead costs of the institution to be funded by other sources.

- **Question: What are the main differences in this policy versus the previous policy applicable in 2006-2011?**

Answer: The main changes that benefit grantees are:

- All direct costs may now be used to calculate the amount of indirect cost reimbursement. This includes all fees and expenses as well as direct and indirect costs paid to sub-grantees or subcontractors (provided such indirect costs are within the above-stated caps) and approved equipment.
- We have reclassified community colleges to be eligible for 10% indirect costs, which will bring them in-line with U.S. universities.
- This policy now applies to both grants and contracts with the foundation.