



Indirect-cost guidelines for grant applicants

Background

Indirect costs are overhead expenses incurred by the applicant organization as a result of the project but that are not easily identified with the specific project.

Generally, indirect costs are defined as administrative or other expenses that are not directly allocable to a particular activity or project; rather they are related to overall general operations and are shared among projects and/or functions. (Indirect costs are sometimes referred to as “overhead costs” and more recently as “facilities and administrative costs.”) Examples include executive oversight, accounting, grants management, legal expenses, utilities, technology support, and facility maintenance. All unallowable costs as per the 3ie direct cost policy are also unallowable costs as components of indirect costs.

3ie’s position is that, whenever possible, specifically allocable costs of an applicant organization’s project should be requested and justified in the proposal as direct costs. While the definition of indirect costs is subject to some interpretation, 3ie has listed certain indirect costs (this is not an exhaustive list) which are contained in Attachment A

Allowable indirect costs

3ie will allow indirect costs as follows:

- **In case the grantee has a well documented indirect cost rate:** 3ie shall allow the documented indirect cost rate subject to the maximum rates contained in the rates section below. No fees or profits should be included in the indirect costs. The grantee will charge direct costs as per the cost allocation policy of the grantee. 3ie reserves the right to call for the cost allocation policy of the grantee during the budget review process. If the documented indirect costs rate in any year fall below the maximum rates specified by 3ie, the grantee will claim the documented indirect rate.
- **In case the grantee does not have a well documented indirect cost rate:** The grantee will develop a documented indirect cost rate for the purposed of the 3ie grant. No fees or profits should be included in the indirect costs. 3ie reserves the right to verify the calculation of the indirect cost rate from the audited financial statements of the grantee.

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Special Rules for sub-grants, subcontracts, equipment, and others

Sub-grants and subcontracts

Direct costs include those related to sub-grants and subcontracts. The sub grants will also be governed by the same policies as per above applicable to prime grantee with respect to indirect costs rate. However, the grantee will receive a Grants and Administration (G & A) charge of 2% of the sub grants. The grantee will claim the indirect cost on the total direct cost excluding the sub grantee costs. (For an example of this calculation, please see Attachment B)

Finally, sub-grantees and subcontractors may not charge the applicant for indirect costs at rates that are in excess of the limitations provided above.

Equipment

When a 3ie grant includes purchases of equipment, the applicant cannot recover “depreciation” related to that equipment because 3ie, rather than the applicant, is paying for the equipment. 3ie does not allow an indirect cost rate to be applied to equipment purchases.

Other issues

In the grant proposal, prospective grantees must specifically speak to their indirect-cost assumptions and attach (a) The documented indirect cost rate of the grantee or (b) In case of no documented indirect cost rate, the basis of arriving at the indirect cost rate with audited financial statements.

Rates

To the extent that indirect costs are applicable to a grant from 3ie, such costs are subject to the following limitations:

- Up to 10% for governmental agencies, other private foundations and for-profit organizations
- up to 10% for universities and other research institutions
- up to 15% for all other non-governmental organizations (NGOs), and international organizations
- indirect cost rates (and the limitations) apply both to the primary applicant organization and any sub-applicants and/or sub-contractors that are part of the proposal (please see the special rules for sub-applicants and sub-contractors, below).

These rates are the maximum rates allowed under 3ie’s policy, they are not to be interpreted as norms. If an applicant has an indirect- cost rate lower than the maximum provided above, the applicant should not increase the funding request to the maximum.

Attachment A

Examples of indirect cost (not exhaustive list)

1. Facilities not acquired specifically and exclusively for the project (e.g. Foundation, Institute, or University headquarters)
2. Utilities for facilities not acquired for and not directly attributable to the project.
3. Information technology equipment and support not directly attributable to the project.
4. General administrative support not directly attributable to the project. Examples are as follows:
 - Executive administrators
 - General ledger accounting
 - Grants accounting
 - General financial management
 - Internal audit function
 - IT support personnel
 - Facilities support personnel
 - Scientific support functions (not attributable to the project)
 - Environment health and safety personnel
 - Human resources
 - Library and information support
 - Shared procurement resources
 - General logistics support
 - Material management
 - Executive management (CEO, COO, CFO, etc.)
 - Other shared resources not directly attributable to the project
 - Institutional legal support
 - Research management costs
5. Depreciation on equipment funded by 3ie.
6. Insurance not directly attributable to a given project

Attachment B

Classification of sub-grant and sub-contract activities

Indirect costs are allowed for sub-grants as per the 3ie policy for the research and development and other applicable sub-contracts and sub-grants. Indirect Costs are not allowed on sub-contracts providing normal business services that are not directly related to the project.

1. Indirect costs rates may not be applied to the following types of sub-contracted services: business supply services, administrative support services, audiovisual services, architect and engineer services, construction, or equipment maintenance.

Example

To illustrate the calculation of Indirect Cost and Grants and Administration Charge, we take the below example. 3ie plans makes a \$500,000 grant to a university towards direct costs. The direct costs are spread through 3 years. Furthermore, the grantee has one sub-grantee i.e. a university and will pay the sub-grantee \$150,000 over 3 years for research and development. The calculation of indirect costs is as follows:

For the grantee

Description	Year 1	Year 2	Year 3	Total
Total Direct Costs	150,000	150,000	200,000	500,000
Less: Sub Grants	50,000	50,000	50,000	150,000
Modified Direct Costs*	100,000	100,000	150,000	350,000
Indirect Costs:				
• On Direct Cost @ 10%	10,000	10,000	15,000	35,000
• G & A Charge on Sub Grants @ 2%	1,000	1,000	1,000	3,000
• Total	11,000	11,000	16,000	38,000

*Excludes Equipments

For the sub grantee

Description	Year 1	Year 2	Year 3	Total
Sub grants*	50,000	50,000	50,000	150,000
Indirect costs @ 10%	5,000	5,000	5,000	15,000

*Excludes Equipments

Total indirect costs

Description	Year 1	Year 2	Year 3	Total
For the Grantee	11,000	11,000	16,000	38,000
For the Sub Grantee	5,000	5,000	5,000	15,000
Total Indirect Costs	16,000	16,000	21,000	53,000