

## COMPENSATION OF INDIRECT COSTS

Indirect costs are those overarching costs in the budget that sustain the research activity before, during and after research output has been delivered. There is no single approach to calculating indirect costs. Researchers should be able to accurately identify and allocate such expenses to a *research costing* (budget) – i.e. the real costs to their institution of carrying out the research project. Ultimately, a costing culture needs to be fostered whereby full costs (the real cost of carrying out research activity) are recognised and accounted for when budgeting. Unfortunately, there are many situations where indirect costs are disproportionately allocated between low-and middle-income institutions and high income institutions; many research sponsors place a limit on the maximum allowable expenses under indirect costs. The inadequacy of accurate costing around the full extent of indirect costs in research budgets has a direct impact on the sustainability of the research activity and of the research environment as a whole. It is thus critical for institutions to build capacity to accurately determine and negotiate for indirect costs in the research contract.

**As you think through each of these questions, consider whether and how they can be incorporated explicitly into the research contract.**

### **What are the institutional policies around research costing?**

- ❖ Does your institution have an institutional policy around research costs (indirect and direct)?
- ❖ Are you familiar with your partner institution's (or research sponsor's) policy on indirect costing?
- ❖ What percentage indirect costs (or overheads) does your research partner or sponsor allow, and is there room for negotiation on this?
- ❖ Do the institutional policies allow for flexibility around the calculation of indirect costs?
- ❖ If there is no institutional policy, can you identify and refer to the policies of local or regional institutions similar to yours?
- ❖ Are there national policies and structures available to refer to for assistance?

### **Have your institution's research activities been accurately costed?**

- ❖ Have you separated direct from indirect costs? i.e. Have you distinguished the direct running expenses of a particular project as different from those operational expenses that enable your institution to house and run such projects?
- ❖ Have you taken into account the range of expenses that could fall under indirect costs? (e.g. human resources and finance services, office rental, facilities, maintenance, telephone and internet and so on)
- ❖ Could you be under or overestimating what it costs to run a research project at your institution? (Tip: most institutions tend to underestimate these costs)
- ❖ Are your indirect costs regularly reviewed and adjusted for market inflation?

### **How are indirect costs calculated?**

- ❖ How will indirect costs be calculated in this partnership? Is this consistent with institutional policies around indirect costing?
- ❖ Are you familiar with the different ways in which indirect costs could be calculated? (See ESSENCE [Five keys to improving research costing in low- and middle-income countries](#))

### **In what ways will indirect costs be allocated?**

- ❖ Can you clearly identify where the funding recovered from indirect costs will be allocated?
- ❖ If costs related to housing and running the research project at your institution are not allowable as indirect costs, are there other ways of incorporating such expenses into the project budget?
- ❖ Can you be explicit about how investments in your institution's infrastructure (and other such indirect costs) will benefit your beneficiaries (e.g. research participants)?

### **What financial and management structures will be required?**

- ❖ What financial and managerial mechanisms are in place in your institution to adequately assess and manage budgetary requirements?
- ❖ Is there sufficient financial capacity (staff and systems) in your institution to plan, manage and report on research budgets?

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