**Compensation of Indirect Costs**

INDIRECT COSTS are those costs not directly related to the research activity, which cover activities needed to sustain the research activity before, during and after completion of the project. Yet, the term “indirect” is a misnomer. These refer to real monies being spent by the research institution in support of its programs (utility costs, general administrative expenses, depreciation of equipment and facilities). Indirect costs need to be considered in the development of every research proposal budget, and fairly charged to each funder for the work that is being contracted.

Research organisations should be able to accurately identify and allocate such expenses when costing a research project. Otherwise, there is a very real risk of underestimating how much it will cost your organisation to participate in the project, and risk the project being a net cost to your organisation overall.

Research organisations should be aware of the scope they have available to fully and fairly include indirect costs in a research budget. They should also be aware that some funders may decline to pay the full indirect cost rate. In such instances, the unrecovered indirect costs are actual expenses for your research institution.

**KEY QUESTIONS TO CONSIDER**

- Do you and your research partner have a clear institutional policy around research costing, for both direct and indirect costs?
- Are you familiar with your partners’ institutional policy on indirect costs and the provisions available for these costs?
- Do both institutions’ institutional policies allow for the flexibility to negotiate the specific requirements of your particular research activity for indirect costs, and are these policies in line with current market related inflation?
- If your institution has no policy on indirect costs, can you identify and refer to any local, regional or national legislature’s policies or structures for guidance?
- Are you able to cost the full range of research activity expenses at a reasonable, current and accurate market value, distinguishing direct from indirect costs?
- How will indirect costs be calculated and allocated in this partnership?
- Are you familiar with established methods for calculating indirect costs?
- Does your institution have sound financial and management structures to adequately assess and manage the budgetary requirements/needs of your research activity?
- Are you aware of how the indirect costs will be allocated within your own institution and are there mechanisms in place to monitor the internal use of these funds? Is there consistency in the treatment of (in)direct charges across the organisation?
- Would you agree to a contract where a research partner (sponsor or funder) does not make any allowance for full cost of research (i.e. no provision for indirect costs)? What would be your reasons for entering into such an agreement?
South Africa is, so far, the only country in Africa that has used legislation to encourage research institutions to move towards full-costing. The Intellectual Property Rights from Publicly Financed Research and Development Act (No. 51 of 2008) came into effect in August 2010. Its primary goal is to ensure that intellectual property generated through the use of public funds is used to benefit the people of South Africa. The Act applies only to projects and research contracts that are fully or partially state funded (in other words, the Act does not apply when funders cover the full cost of the research). In terms of the Act, the National Intellectual Property Management Office (NIPMO) was established, and has called on all publicly funded higher education institutions to develop their own full-costing policies as a step towards developing a nationally accepted full-costing model. *(From ESSENCE (2012a): Five keys to improving research costing in low and middle-income countries).*

**Key Quote**

“Demystifying research costing for LMIC institutions was one of the key outcomes from a process of work conducted by the ESSENCE group of research funders. One important lesson that came out of this process was highlighting that it is possible to negotiate with funders what is counted as direct and what is counted as an indirect cost. These are not always set in stone.”

**Tips**

- There is no single approach to establishing indirect costs. However, indirect costs are often applied by funders of research as a percentage of the total grant available.
- Look at various sources of material on indirect costs and how various other institutions have established the real costs of research. (See references below.)
- Open a discussion with your partner on how best to allocate indirect costs, no matter how difficult or uncomfortable this may seem. It ensures you are able to clearly demonstrate the real cost of the activities proposed.
- Approach the costing of each new research contract on a contract-by-contract basis in collaboration with all relevant partners. Don’t forget to include all institutional departments in this process, such as the finance, legal and research offices.

**Where to Go for Additional Help**


**See Also** http://www.cohred.org/FRC where you will find a useful guidance tool on developing and implementing guidance on research contracting, entitled: Where there is no lawyer: Guidance for fairer contract negotiation in collaborative research partnerships.

**Keywords**

**Direct Costs**

- refer to expense items that are specifically associated with a particular research project. These costs include salaries, benefits, travel, materials and supplies, subject costs, animal care, equipment, and subcontracting or consulting agreements.

**Indirect Costs**

- are costs that are incurred for common or joint objectives and cannot be readily associated with a particular research project. These costs typically include building utilities, maintenance, insurance costs, office supplies, communications infrastructure, cost of library, and similar.

**Full Economic Costing**

- of research is an accounting methodology that takes full account of both indirect and direct costs associated with research.

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**Feedback**

This is the first version of this guidance note, and we constantly strive for improvement. In the next phase, we will be transforming these generic guides into a web-based decision support system. We would be pleased to receive your feedback, comments or suggestions for further improvement to these guides, or for the future of this project, to cohred@cohred.org