

4 Compensation of Indirect Costs

This is 4th in a set of 5 guidance notes aimed at supporting low capacity research organisations in negotiating the terms of a collaborative research contract with a better capacitated partner.

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.

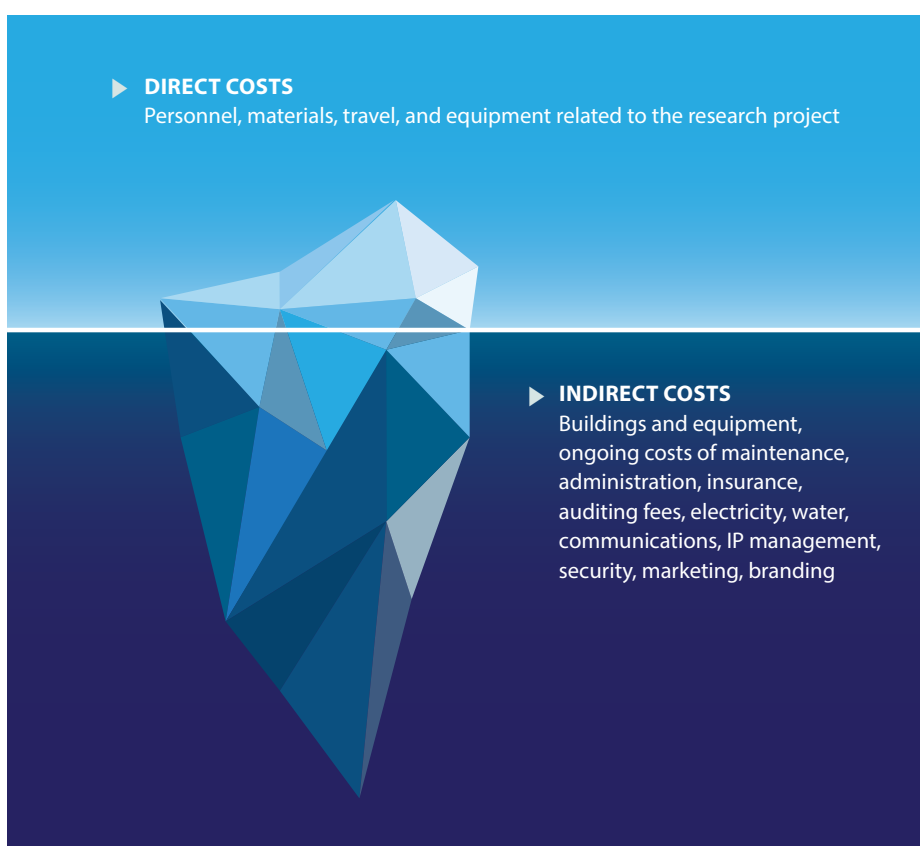
Research organisations should be able to accurately identify and allocate such expenses when costing a research project.

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.

▶ KEY QUESTIONS TO CONSIDER

1. Do you and your research partner have a clear institutional policy around research costing (for direct and indirect costs)?
2. Are you familiar with your partners' institutional policy on indirect costing and the provisions available for these costs?
3. Do both 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?
4. If your institution has no policy on indirect costs, can you identify and refer to any local, regional or national legislature, policies or structures for guidance?
5. 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?
6. How will indirect costs be calculated and allocated in this partnership?
7. Are you familiar with established methods for calculating indirect costs?
8. Does your institution have sound financial and management structures to adequately assess and manage the budgetary requirements/ needs of your research activity?



9. 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?
10. 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).

► KEYWORDS

DIRECT COSTS

EXPENSE ITEM WHICH ARE SPECIFICALLY ASSOCIATED WITH A PARTICULAR RESEARCH PROJECT

FULL ECONOMIC COSTING OF RESEARCH

AN ACCOUNTING METHODOLOGY THAT TAKES FULL ACCOUNT OF BOTH INDIRECT AND DIRECT COSTS ASSOCIATED WITH RESEARCH

INDIRECT COST

COSTS WHICH CANNOT BE READILY ASSOCIATED WITH A PARTICULAR RESEARCH PROJECT. OFTEN INCLUDES BUILDING, MAINTENANCE, INSURANCE COSTS, UTILITIES AND SIMILAR

WHERE TO GO FOR ADDITIONAL HELP

Estermann, T., & Bennetot Pruvot, E. (2011). Financially sustainable universities II: European universities diversifying income streams. Brussels: European University Association.

EUA (2008). Financially sustainable universities: Towards full costing in European universities. Brussels: EUA.ESSENCE (2012a).

Five keys to improving research costing in low- and middle-income countries. Geneva: ESSENCE. ESSENCE (2012b). Research costing practices: Bridging the gap in the funding of health research in low- and middle-income countries. Geneva : ESSENCE.

Wellcome Trust Grant Policy: Full economic costs: Position on full economic costs in UK universities. (<http://www.wellcome.ac.uk/About-us/Policy/Policy-and-position-statements/WTX026852.htm>)

Overhead Compensation Policy for CIDA's Contribution Agreements (<http://www.acdi-cida.gc.ca/acdi-cida/acdi-cida.nsf/eng/STE-320155313-SMQ>)

UKZN position statement on overhead & indirect costs (http://research.ukzn.ac.za/Libraries/Grants_and_Contracts/UKZN_Position_statement_on_Overhead_Recoveries_3.sflb.ashx)

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.

There is no single approach to establishing indirect costs. Research partnerships should aim to maintain accountability, consistency, openness, trustworthiness and mutually beneficial partnerships;

Look to various sources of material on indirect costs and how various other institutions have established the real costs of research;

Open a discussion with your partner on how best to allocate indirect costs, no matter how difficult or uncomfortable this may seem; ensuring you are able to clearly demonstrate the full cost of the activities proposed to your organisation.

Approach costing of each new research contracts on a contract- by-contract basis in collaboration with all relevant partners.

Don't forget to include all relevant institutional departments in this process: such as finance, legal and research offices;

QUOTE FROM A CONSORTIUM MEMBER



"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."

DR GARRY ASLANYAN, MANAGER, PARTNERSHIPS AND GOVERNANCE, WHO/TDR AND COORDINATOR, ESSENCE ON HEALTH RESEARCH INITIATIVE SECRETARIAT.

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FEEDBACK

We would value your feedback, comments or suggestions on whether this guidance note has been useful to you. Contact: cohred@cohred.org