



Policy on Indirect Costs for Project or Program Grants

Purpose

The Hewlett Foundation is committed to [working with grantees in a collaborative fashion](#) – treating them as partners and seeking to facilitate rather than dictate what they do. As part of that commitment, we provide long-term, general operating support whenever possible and fund grantees’ true costs when making restricted project or program grants. This policy statement on indirect costs is intended to provide greater clarity for organizations submitting proposal applications and budgets for project or program grants.

The Hewlett Foundation does not employ a fixed minimum or maximum rate for indirect costs. When proposals require grantees to submit budgets with indirect costs estimates, we want the proposals to reflect the prospective grantees’ actual indirect costs for the project or program in question. Grant budgets that do not fully cover the indirect costs needed to support a grantee’s work – whether submitted because the grantee does not know the true costs, or because of an assumption that funders won’t pay them – give rise to what has been aptly named the [non-profit starvation cycle](#). That cycle is aggravated when funders accept these unrealistically low estimates at face value, refuse to pay indirect costs, or impose arbitrary caps on what costs can be recovered. We want to avoid this pernicious cycle with our grantees.

We recognize that every grant has a unique purpose and structure and that costs vary depending on many factors. We set each grant’s total amount in the context of our overall grantmaking budget and funding priorities, and through a consultative process with the grantee. As part of that process, we intend for grantees to take the lead in determining how best to allocate those grant dollars to direct and indirect costs.

Below we provide guidance for specific types of organizations and special cases, but we encourage grantees and potential grantees who have questions to consult with their Program Officer at any time.

Definitions

The key differentiating factor between “direct” and “indirect” costs is whether the cost is specifically required for the project or program to meet its objectives:

Direct costs are expenses directly incurred for the specific project or program being funded. Examples include salaries for program staff, travel expenses, materials, and

consultants required to execute the grant. Expenses like these would not be incurred if the project or program did not exist.

Indirect costs are overhead and administration expenses necessary to support an organization's general operation, which are thus shared across projects or programs. Examples include rent and utilities, office furniture, computers and information systems, and the costs of functions like development, finance and accounting, IT, HR, and legal. Expenses like these would be incurred in some amount with or without a specific project or program grant. But, while not incurred solely because of a project or program, they are necessary for the organization to execute it.

Policy by Type of Grantee Organization

- **U.S. nonprofit organizations:** We will either accept the indirect cost rate presented in a grantee's proposal or discuss it further with them if we need to learn more. We do not set a fixed maximum or minimum allowable rate for cost recovery.
- **Universities:** We will presumptively accept an indirect cost rate of 10% of the total grant amount. If an indirect cost estimate exceeds 10% in ways that can be reasonably and transparently attributed to costs fairly associated with the program or project in question, we may make an exception and accept an indirect cost amount greater than 10%. Grantees should discuss such an exception with their Program Officer.
- **Regranting organizations:** Grantees with regranting programs should include an indirect cost rate appropriate to the effort required to execute their sub-granting. We strongly encourage these grantees to examine their own policies on indirect costs and follow a similar practice of funding grantees' actual indirect costs in their grantmaking.
- **Fiscal sponsors:** Grantees serving as fiscal sponsors should include an indirect cost rate appropriate to the specific project for which they are acting as sponsor and sufficient to cover the administrative costs of that project.
- **Organizations located outside the U.S.:** Accounting standards vary in other countries, but we encourage grantee organizations working outside the U.S. to provide an indirect cost estimate that fully covers the indirect costs needed to support their work.
- **For-profit organizations:** The U.S. tax code requires that any grant funds awarded by a private foundation to a for-profit organization be dedicated to accomplishing a charitable, educational, or scientific purpose. The indirect cost estimate from for-profit organizations should reasonably and transparently reflect all indirect costs attributable to the charitable purpose of the grant, but only those specifically attributable to that purpose.

FAQs

Does this indirect cost policy apply to general operating support (GOS) grants?

No. Grants with the purpose of providing general operating support are flexible funds that grantees can use across their organizations. The indirect cost policy does not apply.

What is the difference between an “indirect cost rate” and an “overhead rate”?

This calculation of the rate differs according to which number is used as the denominator – i.e. an indirect cost rate = indirect costs/*direct costs*, while an overhead rate = indirect costs/*total organizational costs*.

For purposes of simplicity we use indirect costs as the basis for this policy, but grantees may be creating budgets using an overhead calculation. We support either approach if the budget adequately covers all the costs associated with executing a project or program.

What if I need help determining my direct versus indirect costs?

Here are two resources to help with cost allocation and creating a budget:

- Program-Based Budget Builder: <https://www.wallacefoundation.org/knowledge-center/resources-for-financial-management/pages/program-based-budget-template.aspx>
- Cost Allocation Tool: accessible through the webinar “Untangling Multiple Views of Cost”: <https://nff.org/learn/webinars>

We also encourage grantees and potential grantees to consult with their Program Officer at any time regarding the scope and budget for their project or program grant.

In what format should I submit my budget?

You can find a suggested budget template on our [website](#). Please consult with your Program Officer if you have questions about the format for your budget.

What is the difference between a “project” and a “program” grant?

Project grants are intended to support a defined and limited set of activities with a specific outcome. The grantee is expected to develop and implement a work plan, which will be specified in the grant proposal, and grant funds may be spent only on activities defined in that proposal. Program grants are intended to support a body of related work, typically defined as a “program,” within an organization’s whole portfolio of activities. The grantee has flexibility to devote the grant resources across activities within that body of work. Your proposal should explain the objectives of the program and does not need to specify how Hewlett Foundation funding (versus other sources of funds) will be spent within the program.