



# Grant Cost Guidance

Principles and Examples



## **1. RIGHT Foundation Grant Cost Guidance: Principles**

**Objective:** This guidance sets out RIGHT Foundation (hereinafter “RIGHT”)’s guidance regarding eligible direct and indirect costs, non-eligible costs in budget setup and settlement in Grant Funds (hereinafter “Grant”), ensuring transparency, accountability, and compliance with RIGHT’s regulations.

### **Budgeting Guidelines:**

- Grantees must submit the detailed direct and indirect cost to be approved during budget approval process
- The budget must clearly distinguish between direct and indirect costs
- The budget assumes cash accounting, which means the reported budget should only include funds that will be spent or disbursed by the grantees on a cash basis

### **Approval Process:**

- Approval is granted or denied by RIGHT after a thorough review of the project proposal in accordance with the investment process.
- Financial due diligence (FDD) for grantee is requested during the selection process for the short-listed applicants

### **Monitoring and Compliance:**

- Grantees will comply with all applicable laws, regulations, and rules in the usage of their grants. Non-compliance may result in grant termination or repayment
- Grantees must submit financial progress reports, and any supporting documents requested by RIGHT based on Appendix B: Grantee Categorization for Financial Due Diligence (FDD) and Monitoring
- In order to ensure compliance with the relevant policies and guidelines, RIGHT may conduct audits, including onsite audits, at any time during the term of this Agreement, and within five years after grant funds have been fully spent. In random auditing process, RIGHT may request supporting documents to the grantees

### **Final Report of Grant:**

- The Final Report shall be submitted within two (2) months after project completion
- Interest earned from the grant must be reported

**Amendments:** This guidance document is subject to amendment at RIGHT’s discretion without prior notice to grantees and stakeholders.

**Effective Date:** This guidance shall be effective as of March 31<sup>st</sup>, 2024

### **RIGHT reserves the right:**

- To request substantiation of any project expenses to determine whether or not they should be classified as direct or indirect cost
- To approve indirect costs with substantive justification on a case-by-case basis.

## 2. Cost Definition

### Direct Costs

Direct costs are expenses required to execute a grant project that are directly attributable and can be reasonably allocated to the project. Examples of direct costs include program staff personnel costs, travel expenses, materials & consumables, external services, and consultants required to execute the grant.

**Costs that would not be incurred if the grant did not exist are often indicative of direct costs.**

Characteristics of direct costs are:

- **Traceable** to a project
- **Essential** for the project
- **Reasonable** and **verifiable** with supporting documents that should be kept for five years after the end of the project, or longer if required under applicable law.
- Incurred during the agreed project duration, and **within the approved budget**.

### Indirect Costs

Indirect costs are general overhead and administration expenses that support the entire operations of a grantee. The expenses could be incurred even if the project did not take place. While these costs may not be directly attributable to a project, they are necessary for supporting the functional operation of an organization.

Examples of indirect cost include administrative staff (such as HR, general finance, accounting, IT, and legal)

The maximum eligible indirect cost amount is calculated as a function of indirect cost rate (Table 1) and the total direct costs. The rates shall apply to both primary grantees and sub-grantees.

- Indirect Cost Rate = Indirect costs/ Total Direct Costs (e.g., personnel, sub-awards, materials & consumables etc.)

**[Table 1] Maximum Indirect Cost Rate by the Types of Entities**

0%	10%	15%
Government Agencies, Other Private Foundations	Universities Academic Institutes	Non-governmental Organizations (NGOs) Non-profit Foundations For-profit Companies

## 3. Non-eligible Costs

Non-eligible costs are specifically excluded from funding. These include but are not limited to:

- Equipment
- Interest expense
- Marketing and sales costs
- Penalties and fines
- Fundraising expenses
- Entertainment expenses
- Internal transaction costs between parent and its subsidiary companies, universities and its industry-university cooperation foundation(산학협력단); Affiliates whose personal and material distinction is not clear



- Other costs that could be interpreted as a redundant reimbursement:
  - Any costs already reimbursed by other funders.
  - Any refundable VAT (Value added Tax) or GST (Goods and Services Tax) by the local relevant law.
- Any non-eligible costs specifically indicated in the Request for Proposal by RIGHT

For non-eligible costs, when justified as contributing to the core function of the project or crucial to the project implementation, RIGHT reserves the right to recognize them as eligible costs on a case-by-case basis.

## Appendix A: Examples of Eligible Costs

While costs specified in this appendix will generally be considered eligible for funding, RIGHT reserves the right to fund specific costs at its sole discretion, depending on the nature of the activities and the type of organization receiving funding.

**Note:** Any VAT (Value Added Tax) or GST (Goods and Services Tax) which are refundable under the local relevant law shall be excluded from the budget even for the eligible costs, to prevent redundant reimbursements.

\* **Substantiation documents**, as per the grant agreement, may be requested during the stage of submitting the final finance report, and in the event of a random audit or after project completion. RIGHT reserves the right to request for the submission of these documents from the grantees.

\*\***Additional documents** in the Substantiation column may be requested during the random auditing processes during the project period or after project completion.

	<b>Direct Costs</b>	<b>Substantiation</b>
<b>Personnel</b>	<ul style="list-style-type: none"> <li>● Personnel costs of all staff, full-time or part-time, who work directly on the project, including any employer's contributions and locally recognized allowances (not including performance-based bonuses)</li> <li>● Personnel costs are only considered direct eligible costs for staff that provide a direct and quantifiable contribution to the project.</li> </ul> <p>*Staff whose positions include executive management (CEO, COO, CFO, etc.), general management and administrative support personnel (including finance and legal) of central operational functions shall be classified as indirect costs.</p>	1*) the verifiable list of employees including the employment period, project participation period, participation rate (e.g. 0.5 FTE), basis for calculation, position (role and responsibilities), corresponding to the project duration 2**) Transaction receipts 3**) Any documents that could prove the contractual relationships and terms between the grantee and the participants relevant to the verifiable list objectively (e.g., employment contract, monthly salary statement, etc.)



<b>Travel</b>	<ul style="list-style-type: none"> <li>● Travel expenses for trips directly needed to deliver the project in accordance with the organization's travel policy. <ul style="list-style-type: none"> <li>○ Visa costs, plus essential associated costs</li> <li>○ Costs for travel to a limited number of conferences, only if directly relevant to the funded project to a reasonable amount commensurate with the scope and the duration of a project</li> </ul> </li> <li>● RiGHT only supports travel expenses based on actual expenditure up to the budgeted amount</li> </ul>	1*) Travel reports or Invoice or transfer receipts
<b>External Services</b>	<ul style="list-style-type: none"> <li>● Third parties that the grantee has a contractor relationship including vendors or individual contractors. <ul style="list-style-type: none"> <li>○ CRO/CMO</li> <li>○ Consultants</li> </ul> </li> </ul>	1*) Contracts 2*) Invoice or transfer receipts
<b>Materials and Consumables</b>	<ul style="list-style-type: none"> <li>● Costs that are directly attributable to the production of goods and services including raw materials, intermediate components, and consumables <ul style="list-style-type: none"> <li>○ Laboratory consumables</li> <li>○ Clinical trial material production/maintenance</li> </ul> </li> </ul>	1*) Invoice or Transaction Receipt or Purchase Request
<b>Other Direct Costs</b>	<ul style="list-style-type: none"> <li>● Any other direct costs that are directly relevant to the project but not limited to: <ul style="list-style-type: none"> <li>○ Manufacturing, packaging, shipping, delivery, and freight unless otherwise provided in the agreement.</li> <li>○ Animal facility costs</li> <li>○ Clinical research costs, including the costs of trial registration and clinical trial insurance.</li> <li>○ Regulatory fees</li> </ul> </li> </ul>	1*) Contracts 2*) Estimate sheet and Invoice. 3*) Transaction receipts 4*) In case of manufacturing of prototypes, and test facilities, statement of requirements need to be submitted. 5*) Completion of Inspection documents
<b>Sub-awards</b>	<ul style="list-style-type: none"> <li>● Grants or contracts with other organizations that directly contribute to the project outcomes with a detailed scope of work and a similar budget structure to the original project.</li> </ul>	1*) Contracts 2*) Invoice 3*) Transaction Receipts

## Appendix B: Grantee Categorization for Financial Due Diligence (FDD) and Monitoring

Institution	Non-Profit Organization		Profit Organization			
	Small Non-Profit Organizations	Medium-sized/Large Non-Profit Organizations	Small Research Initiatives / Startups	Established Research Institutions / companies with strong financial health	Established Research Institutions / companies with moderate financial health	Established Research Institutions / companies with weak financial health
<b>1. Definition</b>	Annual revenue less than KRW 1 billion or total asset size less than KRW 3 billion based on the most recent financial statement	Annual revenues of KRW 1 billion or more, and total asset amount is KRW 3 million or more based on the most recent financial statement	Organizations with annual revenues below KRW 1 billion classified as either startups or venture enterprises based on the information provided in DDQ A (FDD) Documents	For-profit institutions with annual revenue exceeding KRW 1 billion that do not fall under Small Research Initiatives / Startups criteria and meet three or more of the following criteria based on the most recent financial statement: (a) Positive and consistent operating income and cashflow for the past three fiscal years; (b) Debt-equity ratio (=Total Debt / Total Equity) is less than 2.0; (c) Debt coverage ratio (=Operating Income / Total Debt Service) is greater than 2.0; (d) Current Ratio (=Current Assets / Current Liabilities) is greater than 2.0	For-profit institutions with annual revenue exceeding KRW 1 billion that do not fall under Small Research Initiatives / Startups criteria and neither fall under strong financial health nor weak financial health criteria. They meet at least one of the following attributes based on the most recent financial statement: (a) Moderately stable operating income with occasional fluctuations but positive overall for the previous year; (b) Debt-equity ratio (=Total Debt / Total Equity) is higher than 2.0; (c) Debt coverage ratio (=Operating Income / Total Debt Service) is lower than 2.0; (d) Current Ratio (=Current Assets / Current Liabilities) is less than 2.0	For-profit institutions with annual revenue exceeding KRW 1 billion that do not fall under Small Research Initiatives / Startups criteria and meet all the following criteria based on the most recent financial statement: (a) Negative operating income in the past year or irregular operating income; (b) Debt-equity ratio (=Total Debt / Total Equity) is higher than 3.0; (c) Debt coverage ratio (=Operating Income / Total Debt Service) is less than 1.0, signaling challenges in meeting debt obligations; (d) Current Ratio (=Current Assets / Current Liabilities) is below 1.0, indicating potential short-term liquidity issues

<b>2. Financial Due Diligence (FDD) report</b>		Not required	In cases where the grantee's cumulative amount of approved grants and new grant requests surpass KRW 0.5 billion, the Foundation conducts financial due diligence and complete the FDD report	In cases where the grantee's cumulative amount of approved grants and new grant requests surpass KRW 0.5 billion, the Foundation conducts financial due diligence and complete the FDD report	Not required	In cases where the grantee's cumulative amount of approved grants and new grant requests surpass KRW 0.5 billion, the Foundation conducts financial due diligence and complete the FDD report	Required
<b>3. Required documents for FDD <sup>(1)</sup></b>	<b>Financial Statements</b>	Detailed income statement (Profit and Loss statement) for the past two fiscal years; Balance sheets for the past two fiscal years; Cash flow statements for the past two fiscal years	Audited financial statements for the past three fiscal years including income statements, balance sheets, and cashflow statements	Detailed income statement (Profit and Loss statement) for the past two fiscal years; Balance sheets for the past two fiscal years; Cash flow statements for the past two fiscal years	Audited financial statements for the past three fiscal years including income statements, balance sheets, and cashflow statements		
	<b>Bank Certificates</b>	Bank certificate for the last one year	Bank certificates for the last two years	Bank certificate for the last one year		Bank certificates for the last two years	
	<b>Tax Documents</b>	Tax returns or tax report for the previous fiscal year	Tax returns or tax report for the last three years	Tax returns or tax report for the previous fiscal year		Tax returns or tax report for the last two years	Tax returns or tax report for the last three years
<b>4. Required Financial Report <sup>(2)</sup></b>		Finance Progress Report as mandated by the Grant Agreement and any 'required documents for FDD' above for monitoring or compliance purposes.					

<b>5. Ad-hoc Financial Report and Random Audits <sup>(3)</sup></b>	Not required; if the Foundation requires financial data to evaluate a grantee's financial status, the grantee should submit the requested information	Not required regularly, but the grantee shall provide updates on significant financial changes or extraordinary events (e.g., shift from profitability to losses, major operating or non-operating losses, or major acquisitions, or divestitures) promptly; if the Foundation requires financial data to evaluate a grantee's financial status, the grantee should submit the requested information; when deemed necessary, the Foundation may notify the grantee in advance and conduct site visits to assess the project's development	Not required; if the Foundation requires financial data to evaluate a grantee's financial status, the grantee should submit the requested information; when deemed necessary, the Foundation may notify the grantee in advance and conduct site visits to assess the project's development	Not required regularly, but the grantee shall provide updates on significant financial changes or extraordinary events (e.g., shift from profitability to losses, major operating or non-operating losses, or major acquisitions, or divestitures) promptly; if the Foundation requires financial data to evaluate a grantee's financial status, the grantee should submit the requested information; when deemed necessary, the Foundation may notify the grantee in advance and conduct site visits to assess the project's development	The grantee shall provide updates on significant financial changes or extraordinary events (e.g., major investments, acquisitions, or divestitures) promptly; if the Foundation requires financial data to evaluate a grantee's financial status, the grantee should submit the requested information; when deemed necessary, the Foundation may notify the grantee in advance and conduct site visits to assess the project's development
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- (1) Following the effective date of this guidance, RIGHT shall conduct financial due diligence (FDD) exclusively for newly approved projects in accordance with this guidance. Projects that have already undergone FDD will not undergo redundant one. RIGHT shall conduct FDD during the selection process in accordance with the grant agreement.
- (2) The Foundation reserves the right to commission external experts for audits as deemed appropriate.