

Dear Valued Grantee:

We believe your financial health is an essential element in your ability to produce the impact that you and we seek. With several peer foundations, we have been participating in an extensive research effort to better understand how well our project grants cover the indirect costs incurred in executing those projects. We want to thank those of you who participated in a key part of the research. Over several months in 2018, a small sample of grantees worked with external consultants to identify their actual indirect cost rates, which were compared to the amount provided for indirect costs in recent grants.

Through this work, we learned that our indirect cost policy on project grants falls short. We are taking these findings seriously. However, we are also aware of possible adverse effects of any policy changes on future grants. For example, if we increase the allowable indirect cost rate per grant without the flexibility to increase our annual budget, there will be significant implications for the number and size of grants we can make. We may also need to reconsider our expectations about project deliverables or outcomes if more of an award is allocated to indirect costs.

We are taking some time to review our indirect cost policy. We will seek input from you to ensure we understand your views and needs. We also are participating in an ongoing learning collaborative of funders who believe as we do that, in order to be effective, impact-seeking organizations must be healthy and resilient. While respecting each foundation's individual circumstances and decisions, we will share and learn from each other about our options and paths forward. Over time, the collaborative will seek to engage more funders, grantees, and intermediaries. We hope to help the sector clarify indirect cost calculation—so that grantees are better positioned to tell their financial story to funders and foundation staff are well-equipped to respond. Ultimately, we aim to do a more effective job of supporting the financial health of our grantees, so they can deliver greater impact for people and the planet.

We look forward to sharing more information with you as it becomes available.

Sincerely,

The John D. and Catherine T. MacArthur Foundation