

## Guidance on accounting and reporting of (contributions to) indirect costs for NGOs

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### 1) What should the contribution towards indirect costs cover?

Indirect costs are costs related to an organisation's general operations and support functions that cannot be directly attributed to a specific project but are, nonetheless, necessary for the project's implementation. Norad may provide a contribution towards indirect costs in addition to covering direct project costs. This contribution is calculated as a percentage of the direct project costs funded by Norad and should not exceed the actual need for indirect costs (the applicable percentage for each project is stated in the grant agreement).

Examples of indirect costs typically covered by the contribution include:

- Rent and related operating costs for the head office (electricity, heating, cleaning etc)
- Accounting and auditing of the organisation's overall activities
- Salaries for personnel in support functions and management who are not directly engaged in the project
- General security measures, bank guarantees, legal assistance not within the project
- Equipment and ICT for regular operations that are not project-specific
- Communication (telephone, postage, banking services)
- Printing/copying of general (non-project-specific) materials
- Taxes, duties and fees
- Routine maintenance and office supplies

The following requirements apply to all project costs, including indirect costs: they must be **real** costs, **necessary**, **recorded** in the accounts, clearly **identifiable** and supported by appropriate **documentation**; and comply with all the terms and conditions of the grant agreement.

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### 2) What cannot be included as direct costs?

Direct costs are linked to specific project activities and can be identified at the project level; this includes any shared/common direct costs. Costs incurred independently of the project or that cannot be directly linked to project activities cannot be recorded as

direct costs; these are covered by the contribution to indirect costs. This also applies to daily/hourly rates where indirect costs cannot be built-in:

- Daily/hourly rates may only include actual costs directly related to the employee's salary (basic salary, social security contributions, pension and statutory obligations). They cannot include any indirect costs (such as office space costs), profit margin, or mark-up. Other direct costs related to an employee, such as training, must be budgeted separately.

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### 3) How should indirect costs be accounted for and reported?

- **Accounting and reporting of indirect costs:** Indirect costs must be presented as a separate cost line in the project's audited financial statements and must be recorded in the grant recipient's accounting system as a project cost (this may be as a lump sum). It is not sufficient merely to reflect the contribution on the income side of the financial statements.
- **Classification:** There must be a clear distinction between direct and indirect costs.
- **Documentation of indirect costs:** Indirect costs must be identifiable in the grant recipient's accounting system and supported by relevant documentation. This means that the grant recipient must be able to demonstrate that at least the amount of indirect costs covered by the contribution has been incurred, without necessarily documenting exactly which indirect costs the contribution has covered.
- **Cooperating partner (sub-grantee):** Indirect costs incurred by cooperating partners are not subject to a specific threshold and are reported as direct costs. Upon request, information about indirect costs for cooperating partners must be provided.

Grants from Norad must only be used to cover actual costs. It is not permitted to generate a surplus from the total grant amount. Any unused funds at the end of the project must be returned to Norad. No profit or accumulation of equity is allowed with funds from Norad.

Did you know that Norad has developed a voluntary [reporting template](#)? By using this template, you ensure that Norad's requirements for financial reporting are met, including for the reporting of (contribution to) indirect costs.