Guidelines for handling indirect operating costs in connection with grants

Grants from the Ministry and Norad may include a contribution towards the grant recipient’s indirect operating costs (IOC). This will be in addition to the funding for the project’s direct operating costs in connection with implementation of the project.

*Indirect operating costs (IOC):* costs that are not directly linked to the implementation of the project, including costs for administration and support functions incurred by the grant recipient.

*Funding for indirect operating costs (IOC):* a contribution towards the grant recipient’s IOC. IOC must be clearly identified in the budget and reported on in the project accounts, but the Ministry/Norad will not require any further specification of these costs. The decision on whether and how much funding should be provided for IOC will be based on an assessment of total IOC in the applicant’s budget.

Normally, funding for IOC shall not exceed 5% of the project’s direct operating costs. But in the case of projects entailing very extensive involvement of, and very high costs for, the grant recipient’s headquarters, funding may be provided for up to 7% of the project’s direct operating costs. Exceptions from these rates must be explained. Programme officers must check whether the grant recipient has previously received a grant from Norway where an exceptional amount of funding for IOC has been awarded.

What types of grant will not qualify for funding for IOC?

- mandatory contributions/membership fees or voluntary core contributions to multilateral and international organisations
- core funding (Grant Management Regime II)
- grants under Grant Management III that involve full financing (funding provided as payment of an invoice)
- funding to governmental recipients
- cases of procurement

**State Aid**

*Funding for indirect operating costs* to organizations engaged in economic activity (i.e. suppliers of goods and services in a market) may be problematic, as such support may involve State Aid. This applies even if subsidies are granted to the nonprofit part of an actor engaged in both business and non-business activities.

Examples of costs that the Ministry and Norad generally consider to be IOC include:

- Rent and related operating costs (lighting, heating, cleaning, etc.) for the main office
- Accounting and auditing of the grant recipient’s activities as a whole
- Salaries for staff in support and management functions who are not employed in the project itself
- Security measures, bank guarantees and legal assistance not covered by the project
- Rent and purchase of equipment that is used in day-to-day operations and is not directly linked to the project
- Communication costs (telephone, postage, banking)
- Printing and copying of general materials for day-to-day operations (not project-related)
- Taxes, fees and charges
- Normal maintenance costs
- Office supplies
- ICT services and equipment

Example of calculating the amount of funding to be provided for IOC:

The direct operating costs set out in the proposed budget and that the Ministry/Norad are requested to approve amount to NOK 95 000.

The programme officer has found that the maximum rate for funding for IOC for this type of project is 5% of the direct operating costs.

**The funding for IOC will amount to:** NOK 95 000 · 5% = NOK 4 750

**The total grant will therefore be:** NOK 95 000 + NOK 4 750 = NOK 99 750

Funding for IOC is normally calculated as a percentage (5–7%) of the direct project costs that will be covered by the Ministry/Norad/embassy. Any financial contribution to be provided by the grant recipient is to be deducted from the direct project costs. For projects where several donors are involved, the funding for IOC is calculated on the basis of the share of direct project costs to be covered by the Ministry/Norad/embassy. If the amount of funding for IOC that has been applied for is less than 5% of the direct project costs, it is this (lower) amount that is to be covered.

Any unused funding for IOC is to be repaid in line with unused funding for the project itself.