Iceland Liechtenstein Norway **Civil Society** Fund

Annex 2b

Guidelines for Budgeting

⚠ **Please note: Annex 2a (Budget Form) has distinct versions depending on the grant type:** small grants, medium and large grants, and organizational grants - **with the grant type indicated directly in the file name.** Before starting to draft the budget, make sure you have downloaded and are using the version that corresponds to the grant type for which you are submitting your application form.

1. BUDGET

Financial management is not limited to keeping accounting records. It is an essential component of project management and should not be treated as a separate activity. This annex provides information on drawing up the budget according to the type of grant applied for, as well as on financial management aspects at project level.

The project budget is an estimate of the costs required to achieve the project's objectives and implement the planned activities. It forms an annex to the Grant Contract and is an integral part of it.
The budget serves as a reference tool for monitoring the implementation of the project and verifying the expenditure reported by the Beneficiary. All budget estimates must be realistic, consistent and based on reasonable and justifiable assumptions. Drawing up a budget requires a clear understanding of the project and the planned activities, so that cost estimates are as realistic and accurate as possible. A well-founded budget helps to avoid situations of under- or over-budgeting and ensures the appropriate allocation of the resources required for project implementation. The budget must be drawn up in parallel with activity planning, as the two processes are interdependent. If the budget is not drawn up properly, the following problems may arise:

- a budget shortfall, indicating that the resources required to implement the project have not been adequately estimated, which may affect the achievement of the planned results;
- difficulties in interpreting expenditure categories or justifying costs, which may lead to certain expenditure being deemed ineligible or to requests for further clarification from the Fund Operator (FO) or the Financial Mechanism Office (FMO);
- an excessive number of budget amendments during project implementation, which may indicate insufficiently rigorous initial planning.

Key principles of the budget:

- the budget is a financial compliance tool, meaning that the amounts set out in the budget represent the maximum limits that may be spent;
- the budget is a planning and control tool used to monitor expenditure and verify the progress of implementation during the financial reporting phase;
- it is essential that the budget reflects as accurately as possible all projected expenditure in line with the funded activities;

- the budget is reflected in the financial report: for projects funded by medium and large grants (based on actual costs), the expenditure actually incurred for the implementation of activities will be reported and compared with the initial estimates in the budget Annex 2a sets out the project budget template specific to each type of grant available under the call for proposals.

Before consulting the specific recommendations, it is important to note that the budgeting rules and the methodology for calculating expenditure differ depending on the type of grant:

- **Small grants:** staff costs are budgeted on the basis of unit costs (simplified cost option). All other project expenditure, including direct costs, is covered by a flat rate of 100% applied to staff costs.
- **Medium and large grants:** staff costs are also calculated on the basis of unit costs, and indirect costs are covered by a flat rate of 15% of staff costs. **Unlike small grants, other project expenses are budgeted for and reimbursed on the basis of actual costs.**
- **Organisational grants:** specific requirements apply to proof of expenditure and reporting. Please see more details at the end of this annex.

Allocation for Organisational Development (Activity 3 of the Budget form)
Applicants for medium and large grants may allocate up to 20% of the total project budget to activities dedicated to strengthening the organisational capacity of the Applicant and the Romanian CSO Partner(s). This is a predefined activity under which funds must be planned and budgeted under specific cost categories. The activities do not need to be directly linked to the project but must address the organisation's actual needs and contribute to a clearly defined long-term organisational development objective (e.g. strategic planning, internal systems, human resources, or fundraising).

Allocation for the Monitoring and Rapid Response Mechanism (Activity 4 of the Budget form)
For medium and large grants, Applicants may allocate between 3% and 5% of the total project budget to the Monitoring and rapid response mechanism. This is a predefined activity budgeted as a global sum, without being broken down into cost categories and without the need to provide detailed information at the application stage. This mechanism is intended exclusively to finance immediate and unforeseen actions arising during project implementation that are not related to the activities originally planned but become urgently necessary to protect civic space, democracy, the rule of law, or human rights in Romania.

Recommendations on drawing up the budget:

- firstly, **this guide must be studied carefully** in order to understand all the provisions and then to apply the eligibility rules and the established categories of eligible and ineligible expenditure, the minimum and maximum amounts of funding to be awarded, etc.;
- t**he budget should only be drawn up once the project has been planned in detail**. It should also be prepared in collaboration with the person who drafted the funding application and the person proposed as project coordinator, if these are different individuals;
- the organisation's finance director must be involved in drawing up the budget, as they have an overview of the organisation's financial structure and can help to ensure that staff and administrative costs are estimated accurately;
- **the budget must be coherent and easy to follow**, and each activity must be clearly reflected in the budget structure;
- **human resources** must be budgeted in direct correlation with the activities that each member of the project team is required to carry out, in accordance with the principle of proportionality, so that tasks are

neither underestimated nor overestimated. Administrative (indirect) costs are calculated by applying a flat rate of 15% of the eligible direct costs relating to project staff;

- **Applicants for medium and large grants** should take into account the **two predefined optional budget allocations**: up to 20% of the total project budget may be directed towards developing the organizational capacity of the Applicant and the CSO Partner(s) from Romania **(Activity 3),** while between 3% and 5% of the total budget may be allocated to the rapid response and monitoring mechanism **(Activity 4)**. The former must be planned and detailed by cost category, in line with a clear long-term development objective of the organization, while the latter is budgeted as a global, non-itemized lump sum, intended exclusively for urgent actions arising during project implementation that aim to protect civic space, democracy, the rule of law, or human rights in Romania
- **particular attention must be paid to including in the budget items that are frequently omitted**, such as local transport or bank charges. The project budget must use the same structure and classification of expenditure as set out in the 'Direct Expenditure' section of this guide.

2. GENERAL PRINCIPLES OF ELIGIBILITY OF EXPENDITURES IN PROJECTS (section 4.1 of the Guidelines for Applicants)

Eligible project expenditure consists of expenditure actually incurred by the project Promoter and/or its Partners, which cumulatively meets the following criteria:

a) they are incurred between the first and last dates of eligibility for the project, as specified in the Grant Contract

Expenditure is considered to have **been incurred** when the following conditions are met:

- the cost has been **invoiced**: the invoice or equivalent accounting document must be issued by the supplier in the name of the project Promoter and/or Partner and recorded in the project's analytical accounts;
- the invoice has been **paid**: the invoice or equivalent accounting document must be paid by the project Promoter or Partner, and the payment recorded in the project's analytical accounts;
- the goods have been **delivered** or the services/works have been performed/provided: the delivery of the goods, or the provision of the services or the execution of the works, must have actually taken place.

Where the reimbursement of expenditure is based on **unit costs**, the activities forming the basis for reimbursement must be carried out between the start date and the end date of eligibility, in accordance with the provisions of the Grant Contract.
Where the reimbursement of expenditure is made on a **flat-rate** basis, the underlying costs must be incurred between the start date and the end date of the project's eligibility, in accordance with the provisions of the Grant Contract.
The start and end dates of the eligibility period are set out in the Grant Contract. The eligibility period may begin on the date the Grant Contract is signed or on a later date specified in the Contract. The Grant Contract will also specify the end date of the eligibility period for costs, which may not be later than **30 April 2031**. Costs incurred or activities carried out after this date are not eligible.

Exceptionally, costs for which an invoice was issued in the final month of eligibility are considered eligible, provided that they are paid within one month of the final eligibility date.

Indirect costs and depreciation of equipment are deemed to have been incurred when they are recorded in the accounts of the Project Promoter and/or Project Partner.

Example 1: Last date of eligibility as defined in the Grant Contract: 31 July 2030

Invoice date	10 July 2030	
Date of payment of the invoice	31 August 2030	Eligible cost
Invoice payment date	1 September 2030	Ineligible cost

Example 2: Staff salary costs for the final month of the project, which are paid in the following month, are eligible, provided they do not exceed one month from the project completion date.

b) The expenditure relates to the subject matter of the Grant Contract and is included in the detailed project budget

A breakdown of all eligible expenditure must be set out in the project budget. Eligible costs incurred during the implementation of the project must not exceed the amounts set out in the approved project budget. Any changes to the budget must be justified and notified as soon as possible, in accordance with the contractual provisions.The inclusion of a cost in the project budget approved by the Fund Operator does not constitute a prerequisite for its eligibility. For a cost to be eligible, it must meet all other eligibility criteria and be supported by an invoice, an accounting document of equivalent probative value, or the relevant deliverables.

c) Expenditure must be proportionate and necessary for the implementation of the project

Expenditure must be reasonable and justified. In this regard, each budgeted item of expenditure must be:

- proportionate to the scope and complexity of the project
- strictly necessary and justifiable for the achievement of the project's objectives

d) Expenditure is used for the sole purpose of achieving the project's objectives and intended results, in a manner consistent with the principles of economy, efficiency and effectiveness

All resources shall be used:

- for **the sole purpose of achieving the project's objectives**, which means that the sole reason for including an expenditure in the budget is its contribution to achieving the project's objectives;
- in accordance with the principles of sound financial management, namely in accordance with **the principles of economy, efficiency and effectiveness.**

Economy, efficiency and effectiveness – the '3Es' – define value for money and can be described as follows:

- **Economy** – the use of resources in such a way as to achieve the lowest possible cost for the resources used, whilst maintaining the necessary level of quality.
- **Efficiency –** the relationship between the goods or services obtained and the resources used to produce them, aiming to achieve results with optimal resource consumption.
- **Effectiveness –** the use of resources in such a way as to contribute directly and demonstrably to the achievement of the project's planned results and objectives.

For the amounts/rates/percentages established using the simplified cost options to be considered in accordance with the principles of economy, efficiency and effectiveness, they must be:

- applied correctly (e.g. the conditions for reimbursement are met);
- drawn up correctly in accordance with the programme-specific simplified costs and using a fair, equitable and verifiable method

e) Expenditure must be identifiable and verifiable, in particular through entry in the project promoter's accounting records, and determined in accordance with applicable accounting standards and generally accepted accounting principles. This criterion applies exclusively to budgets based on actual costs

To be eligible, costs must be identifiable and verifiable, in particular through their recording in the accounting records, using analytical accounts/cost centres specifically created for the project, and must be determined in accordance with the applicable accounting standards and generally accepted accounting principles. There must be adequate documentation proving that all expenditure incurred is related to the project's objectives and expected results. Expenditure not supported by supporting documents is not eligible.

The documentation must provide sufficient and appropriate evidence to demonstrate that the expenditure meets all eligibility criteria. The Project promoter must allow all authorised bodies/entities to carry out on-the-spot audits and checks, and to examine supporting documents, accounting records and any other documents relevant to the funding of the project.

Supporting documents and records must be filed in such a way as to facilitate examination during checks or audits, and kept readily available for a period of 3 (three) years from the date of approval by the OMF of the Programme's final report, not the final report for each individual project.

Internal accounting and audit procedures must allow for the direct reconciliation of expenditure and revenue recorded in the project's analytical/cost-centre accounts with the amounts reported in the project's financial reports and with the supporting documents.

By way of exception, for expenditure incurred by project Partners whose primary location is in one of the Donor States (Norway, Iceland or Liechtenstein), or by Project Partners that are international organisations, bodies or agencies, proof of the expenditure included/declared in the financial report shall take the form of a report issued by an independent auditor qualified to carry out statutory audits of financial records, certifying that the amounts reported have been incurred in accordance with the Grant Contract, the relevant legislation and national accounting practices.
In such a case:

- The financial report, accompanied by the audit report, shall be accepted by the Fund Operator (FO) as sufficient proof of the expenditure incurred and reported, without the need to submit copies of supporting documents;
- The cost of auditing the expenditure of Partners falling within the category mentioned in the previous paragraph is considered an eligible project cost, provided that it complies with the eligibility rules and is included in the project budget;
- At the request of the FO, FMO, the EFTA Board of Auditors or the Office of the Norwegian Auditor General or other authorised bodies, the project Partner shall grant access to the supporting documents on the basis of which the audit report was issued;
- The certification process is governed by **International Standard on Related Services (ISRS) 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" published by IFAC.**

The audit report shall describe the purpose and agreed-upon procedures of the engagement in **sufficient detail** to enable the reader to understand the nature and extent of the work performed. ISRS 4400 also sets out useful standards for engagement letters and reports on factual findings.

The audited annual financial statements and the audit report certifying the audit of an entity's annual financial statements cannot replace the specific certification provided by the auditor's audit report confirming that the reported expenditure has been incurred in accordance with the Grant Contract, the relevant legislation and national accounting practices.
Where the total grant allocation under a project to the Project Promoter or the relevant project Partner does not exceed EUR 50,000, proof of expenditure (audit report) shall be provided on a single occasion, at the end of the project.
Where the total grant allocated under a project to the Project Promoter or project partner exceeds EUR 50,000, proof of expenditure (audit report) shall be submitted no more than once a year.
As regards donor Partners in the project, proof of expenditure need not be submitted if the grant allocated to the Partner under a project does not exceed EUR 5,000.

With regard to simplified costs, the reimbursement of expenditure is made on the basis of fulfilment of the conditions set out in the project. This depends on the type of simplified cost option used and the agreed deliverables.

f) The costs comply with the requirements of the applicable tax and social security legislation

All expenditure shall comply with the tax and social security legislation applicable to the entity that incurred or carried out the expenditure.

The eligibility principles set out above shall apply mutatis mutandis to all expenditure incurred by the project Promoters and/or Partners.

When determining unit costs, any other costs directly related to the payment of wages, incurred and paid by the employer (e.g. payroll taxes and social security contributions, including pensions, benefits, annual leave and sick leave), in accordance with the legislation and standard national policies of the applicant or project partner, may be included in the calculation of the gross annual labour cost, which serves as the denominator for determining the hourly rate (unit cost) using the 1,720-hour method.

3. DIRECT COSTS (section 4.2 of the Applicants' Guide)

Eligible direct costs for a project are those costs identified by the Project Promoter and/or its Partner(s), in accordance with general accounting principles and standard internal rules, as specific costs directly linked to the implementation of the project and which can, therefore, be recorded directly in the project's analytical accounts/cost centre.

The following direct costs are eligible **only** if they comply with the eligibility principles listed above, depending on the budgeting method (simplified cost or actual cost):

a) Expenditure on project staff

To ensure the proper implementation of projects, it is recommended that, for all types of projects, the budget should include the posts of project manager and financial officer, employed under individual employment contracts for a period corresponding to the duration of the project's implementation.

The salary cost of staff assigned exclusively to the project will be budgeted according to the so-called 1,720-hour method: Hourly rate = Most recent documented gross annual labour cost / 1,720 hours.

Staff costs = Hourly rate × Number of hours actually worked on the project

The denominator, 1,720 hours, represents a standard annual 'working time' that can be used directly, without the Applicant being required to carry out any calculations. This figure is based on the average number of weekly working hours set by the European Commission, multiplied by 52 weeks, from which paid annual leave and the average number of public holidays per year are deducted. This figure may be used for all full-time employees (in most countries, this is based on a 40-hour working week). However, if, in accordance with national legislation or the applicable collective agreement, the full-time equivalent corresponds to fewer than 40 hours per week, the same figure (1,720 hours) is used.

This method may also be used in the following situations: where annual labour costs are not available – in this case, the available data (e.g. for 3–4 months) may be extrapolated to the annual gross labour cost.

The annual gross labour cost must be determined in accordance with the applicable national rules.

Please note! 'The most recent' documented gross annual labour cost means that the most recent data must be used. However, this does not have to relate to a calendar or financial year. What is important is that the data covers a 12-month period (i.e. the 12 months preceding the end of the reporting period, the 12 months preceding the signing of the Grant Contract, the 12 months of the previous calendar year, etc.)
Gross annual labour costs may be based on that person's actual labour costs. If the person has not worked for the whole month (e.g. the contract does not start at the beginning of the month and, therefore, the available data do not cover the whole month), extrapolated figures may be used to obtain a good approximation of the actual costs over a 12-month period.

Annual gross labour costs may also be based on the average labour costs of a larger group of employees, for example those of the same grade or in similar positions, which correlate with the level of labour costs. This means that this method can also be used for new employees.
Annual gross labour costs must be documented. This can be done using payroll records, references to employment contracts, publicly available documents, etc., and the supporting documents must be verifiable.

For part-time personnel working on the project: in this case, the corresponding proportion of the 1,720-hour benchmark must be used. Staff costs are then calculated by multiplying the hourly rate by the number of hours actually worked by the staff member on the project. Public holidays and annual leave cannot be included, as they are already deducted from the denominator (1,720 hours or the proportionate amount). Sick leave may be declared as a staff cost where that cost is borne by the project beneficiary. Where sick leave is covered by the budget of the National Health Insurance Fund or a similar body, the hours do not need to be reported. If a new team member is hired to replace an employee on sick leave (or on another type of leave), their working hours constitute a separate ceiling of 1,720 hours. This means that the newly hired person's working hours are

not included in the replaced employee's original limit of 1,720 hours. Instead, a new limit of 1,720 hours applies to the newly hired person, thereby ensuring the correct calculation of total eligible staff costs.

If these hours are not reported separately, the limit of 1,720 hours may be exceeded, which will result in some of the costs being deemed ineligible. The number of hours declared per person for a given year or month must not exceed the number of hours used to calculate the hourly rate: for full-time employees – no more than 1,720 hours; for part-time employees – no more than the corresponding proportion of 1,720 hours.

Example: If a person works 50% on the project (50% of a full-time position), the denominator becomes 860 hours: Hourly rate = 0.5 * the most recent documented annual gross staff costs / 860 hours.

Working hours must be recorded throughout the project period on project **timesheets** or via a system for recording hours worked, and must be duly substantiated by genuine and reliable evidence. The timesheets of staff assigned to the project must be signed, reviewed and approved by their line manager (e.g. the project manager). Where, within the same organisation, a person assigned to a project is working on several projects during the same period, an overview must be maintained and a consolidated monthly timesheet must be submitted, containing a record of the hours worked on each of the projects in which that person is involved. This practice is intended to ensure that the organisation can be certain that there is no possibility of the work carried out by project-assigned staff being funded twice (double funding);
The role specified in the individual employment contract should be equivalent to the position within the project.

In the case of public sector Partners, funding may only cover the additional costs arising from their involvement in the project. Staff costs for public sector Partners cannot be covered by the funding provided if they are funded from the state budget, the local budget or other sources of funding.

b) Travel and subsistence expenses for the Promoter's own staff and volunteers taking part in the project, provided this is in line with the Promoter's and the project Partner's usual practices regarding travel costs (itemised in the budget for medium and large grants, included in the flat rate for small grants).

The following categories of may be budgeted for:

- accommodation costs for staff and volunteers;
- transport costs for staff and volunteers;
- daily allowances for staff;
- meals for volunteers;
- other travel expenses for staff and volunteers

The following principles shall apply to travel and subsistence expenses:

- The journey must be clearly linked to the project, and those travelling must be employees or volunteers of the organisation;
- No expense covered by the daily travel allowance shall be eligible in addition to its amount;
- The amount of the daily travel allowance must comply with the relevant national legislation and the organisation's internal rules (where applicable);
- The principle of sound financial management shall apply to the choice of transport and accommodation;
- Supporting documents for the incurrence and payment of travel and subsistence expenses must be provided. These shall demonstrate that the journey actually took place and that it is directly linked to the

project (e.g. accommodation invoices, flight ticket invoices, flight tickets, e-tickets, boarding passes, invoices and tax receipts/vouchers for meals, payment orders for daily allowances, list of participants, minutes, event programme, etc.);
- Direct payment by a member of staff or a Partner organisation must be supported by evidence of reimbursement by the entity.

Transport and accommodation costs for participants in training courses/events must be budgeted for and reported under the section 'Costs of goods and consumables', budget line *1.4.1 'Participant costs' (which are not subcontracted)*.
Non-taxable and taxable daily allowance costs shall be budgeted under this line. In the case of taxable daily allowances, we recommend that these be shown separately from salary on the payslip.
In the case of staff costs that are reimbursed on the basis of a unit cost calculated using the 1,720-hour method, the unit cost covers only the staff costs included in the basis for calculating the hourly rate. Expenses relating to travel undertaken in the interests of the project, including daily allowances, are treated separately from staff costs and may be considered eligible only if they comply with the rules applicable to the category of travel and subsistence expenses and do not result in double funding.

c) Expenditure relating to new or second-hand equipment

Only the portion of depreciation corresponding to the duration of the project and the rate of actual use for the purposes of the project may be budgeted for and taken into account by the Fund Operator when approving the budget. The depreciation of equipment (new or second-hand) is eligible provided that the asset in question is acquired in accordance with the applicable procurement rules and recorded in the Promoter's/Partner's accounts in accordance with generally accepted accounting principles applicable to the entity and generally accepted for items of this type.

In the case of new or second-hand equipment purchased before the start date of the implementation period and which has not yet been depreciated, its depreciation may be eligible under the project subject to the following conditions:

- Depreciation must be recorded in the Promoter's/Partner's accounts in accordance with the generally accepted accounting principles applicable to the entity and generally accepted for items of this type.
- Only the portion of the remaining depreciation corresponding to the duration of the project and the rate of actual use for the purposes of the project may be taken into account.

Within this category, the following types of expenditure may be budgeted:

- depreciation of new or second-hand equipment;
- depreciation of software licences and applications necessary for the operation of new or second-hand equipment;
- the full cost of new or second-hand equipment, subject to the conditions set out in the following paragraphs;
- the full cost of software licences and applications

***Example 1* – Depreciation of equipment**

A Project Promoter owns a piece of equipment with a five-year depreciation period, and at the start of the project the equipment had already been in use for two years. Assuming that the equipment is used 100% for the project, the last three years of the equipment's useful life constitute an eligible cost of the project (assuming the project lasts for these three years), provided that it can be demonstrated that a procurement

procedure was carried out at the time of the equipment's acquisition, and that this procedure complies with the minimum requirements set by the Fund Operator.

The full purchase price of the equipment may be considered eligible if:

- the equipment is an integral and necessary component for achieving the project's results. Generally, this will not apply to equipment purchased when the project is at an advanced stage of implementation or at the end of implementation;
- The Fund Operator's decision regarding the above must be documented and the conclusion must be specified in the Grant Contract (the equipment is included in the approved budget);

d) Expenditure on goods and consumables, provided that these are identifiable and attributable to the project

Expenditure on goods and consumables is considered eligible if:

- they are identifiable and allocated to the project;
- the goods and/or consumables have been purchased in accordance with the applicable procurement rules;

Transport and accommodation costs for participants in training courses/events, reimbursed directly to them on the basis of expense claims, must be budgeted for and reported under this category.

All assets, including goods/inventory items and consumables, must be:

- kept safe and used for the purpose for which they were purchased within the project;
- legally and physically identified (e.g. by means of stickers, label numbers, etc.)

The following categories of expenditure, without limitation, may be budgeted for:

- consumables and supplies necessary for the implementation of the project;
- expenditure on transport and accommodation for participants (which is not subcontracted);
- expenditure on goods/inventory items;
- entertainment expenses;
- in-house refurbishment works, etc.

e) Costs arising from other contracts awarded by the Promoter for the purpose of carrying out the project (subcontracts)

Expenditure incurred through the project and arising from other contracts awarded by the Project Promoter is considered eligible if:

- The contracts are awarded by the Project Promoter for the purpose of carrying out the project activities;
- The award complies with the relevant procurement rules;
- The procurement procedure and the signing of the contract take place during the project's eligibility period (the procurement procedure cannot be launched beforehand);

Important! Expenditure incurred by a project Partner CANNOT be considered subcontracted.

Examples of expenses that may be budgeted:

- fees for experts contracted under a copyright agreement or as self-employed individuals (the experts' travel costs will be included in their fees);

- other subcontracted services (event organisation, service packages, Facebook advertising costs, Google advertising costs, etc.);
- refurbishment works (subcontracted). Costs relating to the reconstruction, renovation or refurbishment of a building must not exceed 50% of the project's direct eligible costs.

f) Expenditure arising directly from the requirements of the Grant Contract

Expenditure arising directly from the requirements of the funding contract is considered eligible if:

- the requirement is clearly specified in the project's Grant Contract;
- they have been procured in accordance with the procurement rules applicable to the CSF Programme in Romania.

The following categories of expenditure, without being limited to them, may be included in the budget:

- project audit costs for foreign Partners **only**;
- information, publicity, translations and specific evaluations arising directly from the requirements set out in the Grant Contract;
- bank charges for the project account(s), provided that these are specified in the funding contract;
- other costs directly arising from the Grant Contract;

Important! For procurement and the award of contracts under the Programme and projects, the procurement procedure set out in the annex to the Grant Contract must be followed.

For procurements with a value of EUR 15,000 or more, the project Promoter/Partner shall invite at least three suppliers of goods or services to submit tenders. The contract should be awarded to the tender offering the best value for money or the lowest price (as appropriate). The entire selection procedure must be documented.

4. INDIRECT COSTS

Indirect costs are all eligible costs that cannot be directly attributed to the project. They may not include any eligible direct costs. Indirect costs shall represent a fair apportionment of the overall overheads of the Project Promoter and/or project Partner(s).

This category of costs may not include eligible direct costs. A flat rate of 15% of the direct costs of eligible staff employed will be applied to each Project Promoter and each project partner to cover these costs. On a case-by-case basis, in the case of Partners that are international organisations or their bodies or agencies, indirect costs may be identified in accordance with the relevant rules laid down by those organisations.

Examples of indirect costs: recruitment costs, costs for accountants or cleaning staff, telephone, water or electricity bills, etc.

It is very important that the direct staff costs used to calculate the flat rate for indirect costs are 'clean' and do not include ineligible costs. Any adjustment to the base costs will have a direct impact on the amounts received by the project to cover indirect costs. For example, if staff costs are reduced due to irregularities, the amount reimbursed for indirect costs will be reduced accordingly.

In the case of small grants where a flat rate of up to 100% of direct staff costs is used to calculate a project's remaining costs, indirect costs cannot be included in addition to the flat rate. These are already included in the flat rate of up to 100%.

Examples of indirect cost calculations:

Budget preparation stage	
Total estimated eligible staff costs included in the project budget:	€50,000
Indirect cost rate based on total project personnel costs	15%
Total estimated indirect **costs** budgeted for the project (15% × 50,000):	**€7,500**

Financial reporting period	
Total amount of eligible staff costs to be reported within a reporting period:	€10,000
Indirect cost rate based on total project personnel costs	15%
Total eligible indirect costs to be reported during the defined reporting period (15% × 10,000):	**€1,500**

5. INELIGIBLE COSTS

The following costs are not considered eligible:

- interest payable, costs relating to debts and late payment penalties (e.g. costs for loans taken out in connection with the project, penalties/charges relating to late payment of invoices, penalties and interest for late payment of contributions and taxes to the state budget, etc.);
- expenses relating to financial transactions and other purely financial costs, with the exception of costs arising from the project's special accounts requested by the Fund Operator, provided that these are specified in the Grant Contract, and the costs of financial services required by the Grant Contract;
- costs relating to the purchase of land or buildings (ONLY costs relating to the construction, reconstruction, renovation or refurbishment of a building may be considered eligible, but these shall not exceed 50 per cent of the project's direct eligible costs);
- provisions for losses or for potential future liabilities;
- losses due to exchange rate differences;
- VAT that is recoverable in accordance with the legal regulations in force;
- costs covered by other sources; double funding must be avoided (e.g. if the full cost of a piece of equipment, purchased previously, was funded by another grant, the depreciation of that equipment cannot be an eligible expenditure under the project);
- fines and penalties (e.g. fines imposed by public authorities due to a lack of safety measures in a building, parking fines, late payment fines), and costs relating to legal disputes, except where the dispute forms an integral part of the project and is a necessary component for achieving the project's results;
- excessive and unjustified expenditure (these must be assessed in relation to the principle of eligibility of expenditure, according to which expenditure must be 'proportionate and necessary for the implementation

of the project' (e.g. business class travel, the purchase of state-of-the-art equipment where the same needs could be met by cheaper alternatives).

Organisational grants are awarded as a lump sum and are entirely independent of any justification based on actual or unit costs. The Applicant must demonstrate in the funding application the specific way in which this grant will contribute to the implementation of its strategy and to strengthening organisational capacity. Consequently, the Applicant must include in the funding application the organisation's overall budget for implementing the strategy (to illustrate the context in which the grant will be used). The Applicant must align the timeline for achieving strategic outcomes with the payment schedule, to ensure a sustainable cash flow for the implementation of the grant.

Although Project Promoters are not required to provide evidence of expenditure of the organisational grant under the lump-sum funding model, funded CSOs must retain all accounting records, supporting documents and audit trails in accordance with applicable national legislation, relevant accounting standards and generally accepted accounting principles