

## **Guidance**

# **PROVISION OF OVERHEADS TO LOCAL AND NATIONAL PARTNERS**

IASC Results Group 5 on Humanitarian Financing

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Endorsed by IASC OPAG

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**“Overheads are very important for Civil Society Organisations’ survival and sustainability; donors must understand the need to provide this to the local organisations.” Local NGO**

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## **I. INTRODUCTION**

This guidance note is based on research carried out by Development Initiatives in collaboration with UNICEF and Oxfam, through the Inter-Agency Standing Committee (IASC) Results Group (RG) 5 workstream on the provision of overheads to local and national NGOs (L/NNGOs). This workstream was established in early 2021 under the IASC RG 5 as a follow up to a request made by IASC Principals in their December 2020 meeting to address this issue. The guidance is aimed at UN agencies, INGOs (international non-governmental organisations) and other organisations who act as funding partners to local and national partners.<sup>1</sup> The findings from the research are published separately to this guidance note.

## **II. CONTEXT**

There is no standardised definition of the different types of costs incurred by L/NNGOs, and donors, UN agencies and INGOs take different approaches. Broadly, overheads (also referred to as indirect costs or indirect cost recovery (ICR) in this guidance) are used to refer to expenditures outside of normal programme implementation costs that are necessary for an organisation to deliver its mission (see Annex A for definitions of ‘overheads/indirect costs’). Overheads or indirect costs are intrinsic to programme delivery. They contribute to the sustainability and preparedness capacity of humanitarian actors, including L/NNGOs. Enabling L/NNGOs to recover their full direct and indirect costs is

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<sup>1</sup> Notwithstanding IASC endorsement, each entity has to comply with its financial rules and regulations including advice from its controller translating this guidance into practice.

critical for more efficient and effective humanitarian action. The failure of donors and intermediaries (referring to UN agencies and INGOs) to provide funding that covers their partners' overhead costs ultimately undermines the quality and effectiveness of humanitarian response by trapping L/NNGOs in a 'starvation cycle' of under-funding.<sup>1</sup> While providing overheads will not independently 'solve' localisation, it is an important step in enabling more locally led humanitarian practice. It is also an important point of principle and a step toward redressing some of the inequities in the humanitarian financing system.

### **III. ACTIONS FOR UN AGENCIES AND INGO INTERMEDIARIES**

*To take forward in the IASC structure (e.g., Deputies Forum, Localisation Task Force), and the relevant Grand Bargain coordination groups (e.g. the Caucus on Funding for Localisation). Actions are ordered with initial 'quick wins' first, followed by actions that may take longer to achieve.*

It is important to note that UN agencies and INGOs define, access and manage indirect costs in different ways. The following actions are therefore designed to be broad enough to provide overall guidance for a range of different organisations. However, to be actioned they will inevitably need unpacking and contextualising to individual organisations.

- 1. Start to provide or share overheads with partners, where possible.** Organisations may not need to wait for organisational policies on overheads to be developed and finalised to start providing overheads to partners. Depending on the organisation type, this could be through including partner indirect costs in programme budgets or encouraging country offices to start sharing overheads. Pilots and learning can be used to inform such policies and advocate internally and externally on this issue.<sup>2</sup> Organisations should start including overheads in each new funding agreement with partners, including within consortia and bring the issue of full indirect cost recovery for L/NNGOs to their donors. As well as providing overheads, organisations should also support local partners, where relevant, to develop their own internal indirect cost policies and systems for the allocation and use of overhead funding.
- 2. Prioritise generating organisational buy-in to the issue.** There needs to be widespread socialisation of the importance of this issue across all organisation departments, to ensure there is both political and technical buy-in to the issue. Organisations could assemble cross-departmental technical teams, including finance, grant management and donor management colleagues, to identify key barriers and drill down into the

necessary operational detail. Senior-level leadership on this issue is critical given the potential implications for changes in organisational practice.

**3. Develop organisational policies on overheads for local and national partners in delivering humanitarian action.** While a one-size-fits-all approach may not suit all organisations, intermediaries need to develop organisational policies and/or guidance for country offices to standardise an equitable approach to partnership with national organisations. The starting point for these policies should be a commitment to cover all of the costs incurred by partners while delivering the objectives of a partnership agreement. While many INGOs are currently in the process of developing such policies, UN agencies need to also make this an internal priority urgently, as part of wider efforts to realise 'localisation' commitments. Providing overheads to partners does not negate the need for UN agencies and INGOs to also cover their own overheads. Existing policies and examples that are publicly available include UNHCR,<sup>3</sup> UNFPA,<sup>4</sup> and UNOPS<sup>5</sup>. **Organisational policies could include the following (and will depend on the type of organisation and funding model):**

- Recognise L/NNGOs and their operational needs as equal to INGOs and their needs, and that all organisational partners, whether international or local should have their eligible indirect and direct costs fully covered.
- Recognise the role funding intermediaries have in leveraging resources for partners, including overheads, and facilitating direct connection between partners and donors where feasible.
- Stipulate that all partnership agreements with L/NNGOs must include agreements on covering indirect costs.
- Stipulate, for INGOs, that all partnership agreements include a split of the overhead provided by donors to the grant holder, either a fixed approach or guidelines for negotiation (e.g., proportional split, 50-50, negotiated share, etc.).
- Clarify that overheads are provided to partners with the same conditions as specified by the donor (i.e., unrestricted, flexible funding, not subject to individual project audit and not time-bound with a project duration) and comply with the relevant donor regulations.
- Align, to the extent possible, organisational policies and partnership agreements with the cost definitions in the first component of the [Money Where It Counts protocol](#) to harmonise cost classifications.
- Make the issue of covering overhead costs for all partners an agenda item in regular meetings with donors, and in all new funding proposals.
- Provide capacity strengthening support to local partners where necessary, for example supporting the development of internal cost recovery policies.

4. **Publicise widely the issue of providing overheads to L/NNGOs and be transparent with local and national partners about current and evolving practice.** UN agencies and INGOs should publish their organisational strategies and guidance on overheads for partners, share learning with other organisations and raise the issue as a critical priority in relevant networks and fora (e.g., IASC, Grand Bargain, Charter for Change, ICVA and SCHR, etc.). Intermediary organisations must be open and transparent with local and national partners about how overheads are received and provided or shared. They should also publicise evidence and learning about the impacts of enabling L/NNGOs to fully recover their costs.
5. **Listen to partners and create opportunities for local and national actors to advocate to donors, directly and alongside UN agencies and INGOs.** There is plenty of evidence<sup>6</sup> around the challenges L/NNGOs face because of not being able to access overhead funding. Intermediaries need to understand the challenges faced by their partners and the actual costs they incur to reach a common understanding around what humanitarian programming costs. They should continue and expand advocacy efforts on this issue and create opportunities for L/NNGOs to speak to donors directly. This may enable donors to better understand, recognise, and address the challenges faced by many L/NNGOs, and the need for L/NNGOs to fully recover all their direct and indirect costs. Intermediaries should also more systematically advocate with donors about the barriers they face in providing or sharing ICR, including through the '[Key advocacy asks for donors](#)' as listed in this guidance note.

#### **IV. ACTIONS FOR WIDER SYSTEMIC CHANGE**

*To take forward in the IASC structure ((e.g., Deputies Forum, Localisation Task Force), and the relevant Grand Bargain coordination.*

6. **Adopt a clear and harmonised approach to cost classification.** A blockage in providing overheads is the lack of common cost classifications. There is not currently a common understanding of what types of costs are defined as overheads, making it difficult to identify where specific costs are carried within budgets. Relevant cost-harmonising initiatives – such as the first component of the [Money Where It Counts protocol](#) on cost classification and the [Dioptra tool](#) – provide useful high-level models and could be integrated with other cost harmonisation projects such as the [UN Finance and Budget Network](#) and the [IFR4NPO](#). A harmonised approach to cost classifications and setting out clearly the direct and indirect costs incurred by organisations, is the starting point for more honest conversations about the true cost of quality humanitarian programming and whether the current system is covering these costs sufficiently.

## V. KEY ADVOCACY ASKS TO DONORS

*To take forward by donors in the relevant Grand Bargain coordination groups (e.g. the Caucus on Funding for Localisation) and donor coordination fora (such as the Good Humanitarian Donorship network); advocacy on these points to be taken forward by INGOs and UN agencies through relevant coordination groups and networks (e.g., Grand Bargain, IASC, Charter for Change, ICVA, SCHR, VOICE and BOND).*

- 7. The issue of recovering full costs, including indirect costs, for L/NNGOs should be selected as a priority issue in relevant donor fora, such as the Good Humanitarian Donorship (GHD) initiative and the Grand Bargain.**<sup>7</sup> There is a need for collective donor action on this issue and consensus around the importance of covering the full legitimate indirect costs of both local partners and intermediaries. Donor agreement on this will ensure greater coherence and help facilitate change on a system-wide level. Donor coordination will also increase knowledge of best practices. Donors should also create opportunities to communicate directly with L/NNGOs to better understand the reality and urgency of the situation.
- 8. Donors need to commit to covering the full direct and indirect costs incurred by all implementing partners in delivering activities.** The simplest way to ensure L/NNGOs receive overheads is for donors to directly fund them. Where L/NNGOs are funded by donors through one or more intermediaries, there needs to be clarity around the true direct and indirect costs of all organisations in the transaction chain, so that programmes can be funded in a way that allows all parties to fully recover their costs. To support this, donors should have honest conversations with recipients that are intermediaries and who do not have policies on the provision of overheads to local partners about the barriers they face in providing these indirect costs. Intermediaries face different challenges in providing overheads that vary between different organisations and between INGOs and UN agencies. These challenges include being able to adequately finance their intermediary function (including compliance, risk management, etc.) as well as meeting donor compliance regulations (e.g., around auditing). Overheads do not always cover all implementing organisations' indirect costs and ICR sharing will only stretch these resources further. Donors should therefore assess whether the resources they provide are sufficient based on partners' responsibilities, or whether costs could be better carried in different parts of programme budgets.
- 9. Donors should actively incentivise change.** As noted above, this should start from a commitment to covering the full direct and indirect costs of all partners' activities. Donors could incentivise change among grant recipients (depending on the organisation type) by:

- Requesting policies on the provision of overheads to L/NNGOs from UN agencies and INGOs. This would send a clear signal to intermediaries that fully covering the overheads of L/NNGOs is a priority area for donors. It would also help to initiate more productive conversations around the reality of ICR and ICR sharing. An example of this is the Netherlands Ministry of Foreign Affairs who have requested the Dutch Relief Alliance develop an ICR-sharing policy in 2022 for future funding agreements.
- Stipulating in funding agreements that all partners in the funding chain receive funding to meet their overhead costs.
- Requesting that overheads for local partners are included in partner budgets as a specific budget line.
- Requesting reporting on how overheads will be/have been passed through funding chains.
- Requiring written justification in cases where overheads are not provided to downstream partners.
- Allocating funding specifically to support L/NNGOs to develop overhead policies and systems.

## **ANNEX A: WHAT ARE 'INDIRECT COSTS' OR 'OVERHEADS'?**

There are no standardised definitions of the different cost categories used in humanitarian programme budgeting. Broadly, partners can receive three types of cost:

- Direct itemised costs of project activities.
- Administration, support, or shared costs incurred as a direct result of the project activities. These costs are either itemised or provided as a lump sum in some cases, on the proviso that the partner provides a detailed breakdown of planned spending.
- Indirect costs or overheads that cannot be directly attributed to project activities that are often calculated as a proportion of direct project expenditure.

However, there is no standardised definition of these different types of costs or agreement on what type of cost falls in each category, and donors and international organisations take different approaches. Broadly, overheads are used to refer to expenditures outside of normal programme implementation costs that are necessary for an organisation to deliver its mission.<sup>8</sup> These outgoings could cover central support costs, such as senior management positions; or functions, such as establishing and maintaining overarching organisational policies and systems. Overheads ultimately enable an organisation to deliver programmes effectively, efficiently, and safely.<sup>9</sup> Two useful definitions of overheads/indirect costs are:

- "A percentage charge applied to an organisation's expenditure for programme-related costs that are not directly attributable to a specific programme." (DI, 2008)<sup>10</sup>
- "The necessary and reasonable costs incurred to manage the organisation as a whole, provide oversight over all its activities and put into place the overarching policies, frameworks and systems that enable it to operate." (Money Where It Counts protocol, 2019)<sup>11</sup>

These may also be referred to as core or support costs, administration fees and general operating support.<sup>12</sup> A broad definition of indirect costs and overheads was adopted in this study in order to map a wide range of practices. The issue of cost classifications and definitions is being explored by a separate RG5 sub-group on cost classification led by UNHCR and NRC. Perhaps more useful than a specific definition is focusing on the characteristics of the type of funding typically provided to cover these types of cost, i.e., as an unrestricted percentage of the total project grant. This was the description used as a reference point in interviews and discussions for the development of this guidance note.



## NOTES

- <sup>1</sup> Humentum, 2022. Breaking the starvation cycle: How international funders can stop trapping their grantees in the starvation cycle and start building their resilience. Available at: <https://humentum.org/policy/administration-costs-research-project/>
- <sup>2</sup> Many INGOs and UN agencies already have pockets of overhead sharing/provision within their organisations (see report: IASC, Forthcoming. Overhead cost allocation in the humanitarian sector, Indirect cost recovery for local and national partners: a mapping of current overhead practices in the humanitarian sector).
- <sup>3</sup> UNHCR, 2019. Guidance for partnering with UNHCR, 7<sup>th</sup> Draft v2. Available at: <https://www.unhcr.org/uk/5cf8c21c7.pdf>
- <sup>4</sup> UNFPA, 2021. Policies and Procedures Manual. Policies and Procedures for preparation, Management and Monitoring of Workplans. Available at: [https://www.unfpa.org/sites/default/files/admin-resource/PROG\\_Workplans.pdf](https://www.unfpa.org/sites/default/files/admin-resource/PROG_Workplans.pdf)
- <sup>5</sup> Two examples of UNOPS programme funding guidelines: Nexus Response Mechanism, 2021. Operational Guidelines. Available at: [https://www.nexusresponsemechanism.org/wp-content/uploads/2021/02/NRM\\_Operational-Guidelines\\_Final\\_Feb-2021.pdf](https://www.nexusresponsemechanism.org/wp-content/uploads/2021/02/NRM_Operational-Guidelines_Final_Feb-2021.pdf); LIFT, 2017. LIFT Operational Guidelines. Available at: <https://www.lift-fund.org/en/operational-guidelines-0>
- <sup>6</sup> For example, Humentum, 2022; Global Protection Cluster, 2018. Advancing the localisation agenda in protection coordination groups, Learning Paper. Available at: <https://www.globalprotectioncluster.org/wp-content/uploads/GPC-Learning-Paper-on-Localisation.pdf>; Feinstein international Center, Tufts University and Save the Children Denmark, 2019. Views from the Ground: Perspectives on localisation in the Horn of Africa. Available at: [https://fic.tufts.edu/wp-content/uploads/FIC\\_LocalizationAfrica\\_7.233.pdf](https://fic.tufts.edu/wp-content/uploads/FIC_LocalizationAfrica_7.233.pdf); M. Kinyori, 2021. The power of indirect cost recovery. Killza blog. Available at: <https://kiliza.altervista.org/the-power-of-indirect-cost-recovery>
- <sup>7</sup> A Grand Bargain caucus on funding for localisation has since been established (July 2022) with the aim of reaching an agreement on a common minimum overhead figure for local and national actors. The IASC localisation Task Force is also taking forward this discussion on overhead.
- <sup>8</sup> Development Initiatives, 2008. Good Humanitarian Donorship Indirect Support Cost Study: Final Report. Available at: <https://www.ghdinitiative.org/assets/files/Resource%20Center/Humanitarian%20Financing/Funding%20Management/35.%20Indirect%20Support%20Cost%20Study%202008.pdf>
- <sup>9</sup> Bond, Mango, 2016. Cost Recovery: What it means for CSOs. Available at: <https://www.bond.org.uk/sites/default/files/resource-documents/cost-recovery-0216.pdf>
- <sup>10</sup> Development Initiatives, 2008.
- <sup>11</sup> NRC, 2019. Money Where It Counts. A protocol for the harmonisation of cost classification, cost charging and financial reporting for donors and not-for-profit agencies. Available at: [https://www.dropbox.com/sh/zt0scodmk0nqnxh/AABaLGQ-k\\_b08Hf5-DV83g5ka?dl=0](https://www.dropbox.com/sh/zt0scodmk0nqnxh/AABaLGQ-k_b08Hf5-DV83g5ka?dl=0)
- <sup>12</sup> Rana, R., 2017. Initial research: Provisions and conditions of core/overhead/indirect costs for local/national humanitarian actors. Available at: <https://glocalisation.ifrc.org/wp-content/uploads/2018/06/Core-Costs-Localization-Research-Report-FINAL-.pdf>