

Research Report

OVERHEAD COST ALLOCATION IN THE HUMANITARIAN SECTOR

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Executive summary

“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

This study was 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 allocation of overhead costs to local and national NGOs (L/NNGOs). This workstream was established in early 2021 under the IASC RG5 as a follow up to a request made by IASC Principals in their December 2020 meeting to address this issue. The aim of this research was to map current practices across UN agencies and INGOs (international non-governmental organisations) around the provision of overheads to local and national partners (also referred to as indirect costs or indirect cost recovery (ICR) in this report) and to identify current and emerging good practice. This informs the IASC guidance note on best practice around the provision of overheads to local and national partners.

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.¹ 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.

It is the responsibility of organisations who act as donors to others to cover the full direct and indirect costs of that organisation. This could be through ensuring the indirect costs of the partner are sufficiently budgeted for, or ensuring the pass-through, or 'sharing', of indirect costs provided by the donor. It is important to note the differences around the provision of overheads between UN agencies and INGOs. In cases where UN agencies provide overhead funding, it is generally not shared from the specific indirect costs they receive from donors. Rather, funding provided to cover partners' indirect costs is reported back to donors as direct programme costs, such as under an implementing partner's budget line. The concept of 'sharing' overheads is therefore generally not applicable to UN agencies and relates more to INGOs who do sometimes share the ICR they receive from donors. Very occasionally, INGOs might receive additional overheads from donors that are designed to be passed on to downstream national partners.

Why are overheads important for L/NNGOs?

- **L/NNGOs are critical to humanitarian operations.** Donors and international organisations have committed to shifting more resources and power to those directly affected by crisis, including first responders.
- **Overheads are an intrinsic part of programme delivery.** They contribute to the sustainability and preparedness capacity of humanitarian actors, including L/NNGOs.
- **L/NNGOs require overheads for the same reasons as international organisations.** Depending on how indirect costs are defined, this could be to put in place the overarching policies and processes that enable organisations to deliver quality, effective humanitarian activities, to implement reserves policy, to manage risk, and to deal with unforeseen expenditure. L/NNGOs that remain in communities affected by crisis once acute shocks have passed must build preparedness capacity, for which overheads are particularly critical.
- The current humanitarian financing structure means that **L/NNGOs receive most international funding through an intermediary organisation**, rather than directly from traditional donors.
- **It is therefore essential that intermediaries provide costs to cover the full indirect costs of downstream partners** or pass on or share indirect costs provided by donors with L/NNGOs. It is important that this funding is provided in the same way as it is received from the donor (i.e., as unrestricted, flexible, non-time-bound funding that is calculated as a proportion of the total grant).

What are the current practices and what does good practice look like?

Practice around providing overheads to L/NNGOs is inconsistent and indirect costs are often not provided. Not all UN agencies and very few INGOs have policies in place regarding the provision of overheads to local and national partners. Four of the eight UN agencies mapped do have policies which set out a percentage – or percentage range – of indirect costs that local and national partners are eligible to claim (UNHCR, UN Women, UNFPA and IOM). Only two of the 13 INGOs mapped currently have policies (Christian Aid and CAFOD) though nearly all are currently in the process of developing such a policy. The Start Fund and OCHA's Country-based Pooled Funds (CBPFs) have policies which provide indirect costs equally to both international and national fund recipients.

Despite a lack of standardised organisational approach or guidance, some organisations still provide overheads in practice, normally led by negotiation and advocacy at country level (e.g., Oxfam in Myanmar, Trócaire ECHO funding in Sierra Leone, Cordaid humanitarian programming, WHO in Iraq and the Start Fund in Bangladesh). It is therefore not uncommon for organisations to provide overheads, through this can vary considerably internally between projects and countries. Where organisations either do not have a policy on providing overheads or are unable to 'share' the ICR they receive, some ask L/NNGO partners to translate indirect costs into direct budget lines. Some organisations (such as UNICEF) expect L/NNGO partners to be able to recover all costs in the direct budget.

There are also examples of donors incentivising change around the fairer provision of overheads to L/NNGOs. Some donors are providing additional funding to recipients to specifically cover the indirect costs of their downstream partners, including within Danida's new 2022–2025 guidelines for strategic partnerships with Danish CSOs (civil society organisations), as part of the UK Foreign, Commonwealth & Development Office's (FCDO) Humanitarian Response Funding guidelines for the Rapid Response Facility (RRF) and the UK Disasters Emergency Committee (DEC). Other donors, such as the Dutch Ministry of Foreign Affairs, are beginning to stipulate that INGO recipients 'share' the overhead funding received with L/NNGOs partners.

For L/NNGOs partners interviewed, their experiences of receiving overheads were very mixed, with some still not able to access any overheads as part of grants. Where overheads were received, the following was identified as good practice:

- **Overheads provided as unrestricted funding.** Good practice included where overheads were provided as unrestricted funding, not subject to individual project audit, and were not time-limited. Overheads were also calculated on the whole partner budget, not just a proportion. L/NNGOs report this is both a matter of principle – that L/NNGOs should receive overhead funding in the same way that INGOs do – but also a matter of effectiveness, as itemised overhead funding undermines its value.
- **Providing overheads in addition to administrative and project support costs.** Examples of good practice included where the provision of overheads did not undermine or squeeze direct project costs. This meant that L/NNGOs do not need to use the overhead to plug gaps in programme budgets but could use the funding to strengthen and develop their organisation.
- **Having clear policies and transparent funding partnerships.** Examples of good practice included where intermediary partners were transparent with L/NNGOs about overall project budgets and donor overhead allowances and where intermediary organisations had clear and consistent policies on the provision of overheads (e.g., UNOPS Nexus Response Mechanism in Myanmar which stipulates proportional overhead sharing and the CBPFs which has clear policies on overheads).

Recommendations

This study identified a number of barriers to providing overheads to L/NNGOs. These included a lack of transparency around how funding is currently passed to local actors; the lack of common cost classifications which limits meaningful comparison between different budgets; the potential financial implications for both donors and intermediaries of providing sufficient funding to cover the direct and indirect costs of L/NNGO partners; and current regulatory and internal organisational policy barriers to providing overheads.

As a result, separate recommendations have been identified for intermediary organisations and for donors. It is important to note that UN agencies and INGOs define, access and manage indirect costs in different ways. The following recommendations are therefore designed to be broad enough to provide overall guidance for a range of different

organisations. However, they will inevitably need unpacking and contextualising for individual organisations in order to be actioned.

Recommendations for UN agencies and INGO intermediaries:

- 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.² 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,³ UNFPA,⁴ and UNOPS⁵. **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 evidence⁶ 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 the below recommendations.

Recommendations for wider systemic change:

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 [Dioptre 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.

Recommendations for donors:

- 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.**⁷ 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.

Introduction

Background to the study

To fully recover the costs of delivering humanitarian programmes, organisations must have access to overheads. Overheads – also referred to in this report as ‘indirect costs’ or indirect cost recovery (ICR) – support a range of functions. Being able to recover such costs is considered one of the most effective ways to strengthen the capacity of organisations and support their long-term sustainability. Despite their critical importance, local and national NGOs (L/NNGOs) are often unable to access overheads. International intermediaries including UN agencies and INGOs – [through which the overwhelming majority of funds received by L/NNGOs pass](#) – have been criticised for not passing on a fair share of overhead costs to downstream partners.

Indirect cost recovery (ICR) is a complex issue and practice is inconsistent and often opaque. There are various challenges involved for both intermediaries and donors in the process of providing local and national partners with fairer overheads. Nevertheless, there is a clear and recognised need for change and providing overheads is a tangible way to realise some of the high-level rhetoric and commitments made around localisation.

Various discussions around the issue of cascading overheads to L/NNGOs have taken place within the framework of the Inter-Agency Standing Committee (IASC) Results Group 5 (RG5) and other fora at technical and policy levels related to more efficient and effective humanitarian action. In March 2021, an RG5 core group led by UNICEF and Oxfam was established to investigate current practices related to indirect cost coverage and the provision of indirect costs to downstream partners. In parallel, the UN High Commissioner for Refugees (UNHCR) and the Norwegian Refugee Council (NRC) are also leading a separate RG5 workstream on the harmonisation of cost classification.

Box 1. ‘Sharing’ overheads versus providing overheads

It is important to clarify the distinction between UN agencies and INGOs around the allocation or ‘cascading’ of overheads to partners. In cases where UN agencies provide overhead funding, it is generally not shared from the specific indirect costs they receive from donors. In the majority of cases where unrestricted overhead funding is provided to partners, it is reported back to donors as direct programme costs, such as under an implementing partner’s budget line. The concept of ‘ICR sharing’ is therefore not applicable to UN agencies and relates more to INGOs who do sometimes share the ICR they receive from donors. Very occasionally, INGOs might receive additional overheads from donors that are designed to be passed onto downstream national partners.

This research was carried out by DI with UNICEF and Oxfam between January and April 2022 to support the work of the RG5 core group. It aims to investigate the current state of overhead sharing by mapping current practice across UN agencies and INGOs and

identifying pockets of current and emerging good practice to understand the priorities of local and national actors. The findings of the study will be used to inform a guidance note on best practice in sharing overheads with local and national partners for wider IASC endorsement.

The study sought to answer the following questions:

1. What are the current practices of UN agencies and INGOs related to the provision of overhead and indirect costs to local and national implementing partners?
2. What does good practice in providing indirect costs look like for local partners?
3. What are the main barriers and enabling factors in providing indirect costs to local partners?

Approach

To complete the mapping of current practice, requests for information were submitted through the IASC group and other relevant networks (including Charter 4 Change, ICVA and NEAR). In total, DI mapped the practices of 22 organisations, including eight UN agencies, 13 INGOs and one Red Cross and Red Crescent organisation. To identify examples of good practice and ongoing challenges, representatives from 26 L/NNGOs from 11 countries were consulted via focus-group discussions and interviews. DI also conducted interviews with four UN agencies, 10 INGOs and four donors. This report presents findings from the mapping (detailed in Annex 1) and interviews as well as case studies of good practice.

Indirect costs recovery: policy context

Indirect cost recovery is critical for local and national partners for many of the same reasons as it is for INGOs and UN agencies. L/NNGOs require overheads to fund non-project costs essential to day-to-day operations as well as to invest in institutional capacity development. L/NNGOs do not generally receive direct funding from bilateral government donors; instead, they secure humanitarian funds through UN or INGO intermediaries. Given the projectised funding model through which international funding often reaches national partners, there can be an expectation that L/NNGOs only claim for direct project delivery costs. There is growing evidence – including a recent study that quantifies the extent of national organisations' underfunding⁸ – highlighting the issues that arise when local organisations are unable to recover indirect costs. These include:

- Reliance on negative coping strategies to meet uncovered costs, including re-directing funds from critical programmes; not paying staff salaries; under-managing security and operational risks; and adopting poor cash management practices.⁹
- Inability to build organisational capacity, such as the development of policies and systems to allow actors to better meet the requirements for receiving direct international funding.

- Inability to invest in staff to avoid turnover and the loss of institutional knowledge; inability to resource staff to participate in response coordination outside of specific projects.¹⁰
- Inequitable funding practices based on a sub-contracting model that reinforces asymmetric power dynamics.¹¹
- Ultimately, a reduction in local actors' ability to prepare and respond to humanitarian crises.

Box 2. What do we mean by 'indirect costs' or 'overheads'?

There are no standardised definitions of the different cost categories. Broadly speaking, 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 lumpsum 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, and donors and international organisations take different approaches. Broadly, overheads are used to refer to expenditures necessary for an organisation to deliver its mission that fall outside the normal programme implementation costs.¹² 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.¹³ 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)¹⁴
- "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)¹⁵

These costs may also be referred to as core or support costs, administration fees and general operating support.¹⁶ 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. **This report therefore uses the terms 'overheads', 'indirect costs' and 'indirect cost recovery (ICR)' interchangeably.**

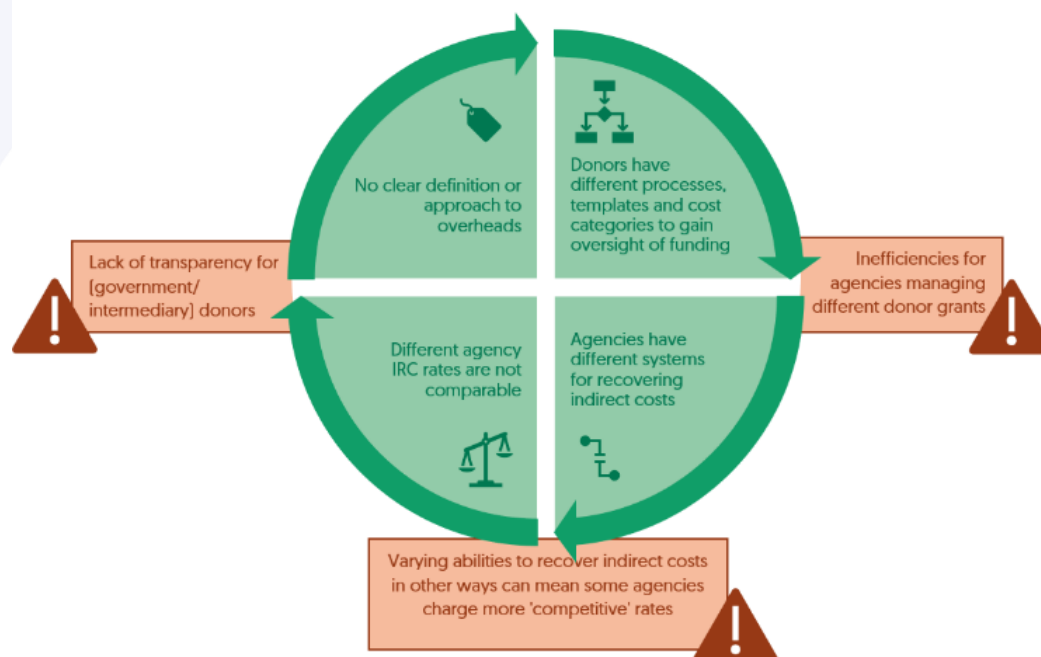
Perhaps more useful than a specific definition is focusing on the characteristics of the type of funding typically provided to cover these types of cost, i.e., as an unrestricted percentage of the total project grant. This was the description used as a reference point in interviews and discussions.

Commitments around quality funding and localisation made in the Grand Bargain have increased attention on the issue of overheads, and the importance of providing core funds to local partners is increasingly recognised.¹⁷ Allocating unearmarked overhead costs for the institutional development of L/NNGO partners has been identified as a key component of localisation¹⁸ and equitable pass-through of overheads has become a top advocacy priority for many organisations.¹⁹ For instance, signatories of the Charter for Change have called for a fair and consistent approach to overheads for local partners. Recent IASC guidance on localisation and the Covid-19 response also emphasised the importance of providing overheads to local partners in new partnership agreements.²⁰ A small number of Grand Bargain signatories have made progress on sharing equitable overheads and the 2021 Annual Independent Review of the Grand Bargain highlighted that more widespread provision of increased core costs could be 'transformative' in driving the localisation agenda and empowering local actors as leaders of humanitarian response.²¹

Box 3. What initiatives to harmonise approaches to indirect costs already exist?

Approaches to the classification and quantification of indirect costs are varied, complex and often opaque. Overheads are just one element of the complex strategies developed by humanitarian organisations to fully recover all their costs. There is not one standard approach to defining, classifying, and calculating humanitarian overheads; making it difficult to compare the indirect costs of different organisations.²² The lack of transparency around the breakdown of indirect cost rates means that lower overheads are often considered a sign of efficiency by donors.²³ As a result, organisations have often competed to lower rates; giving organisations with access to higher amounts of unrestricted funding a distinct advantage, while smaller ones – including national organisations – can appear uncompetitive.²⁴ Without a harmonised approach to indirect costs, donors and international organisations have had to develop their own approaches to cost classification to gain the required visibility over downstream costs; setting out eligible and ineligible costs within their own budget and reporting templates. As has been documented in previous studies, **the flat-rate approach traditionally applied to overheads is not a true reflection of an organisation's indirect costs, because organisations classify and fund overhead costs in different ways.**²⁵ Complying with these different systems places a large administrative burden on partners. The Boston Consulting Group (BCG) estimates that a potential 2.3 million hours could be regained each year if harmonised and simplified solutions were implemented.

Figure 1: The absence of any harmonised approach to classifying overheads creates inefficiencies within the system



One initiative seeking to rectify the inconsistency in cost classifications is the [Money Where it Counts \(MWIC\) protocol](#), developed by NRC and BCG. The protocol proposes a harmonised approach to cost categories, cost charging and financial reporting. The simplified definitions for cost classifications provide the foundations of the protocol and inform the cost-charging methodology and standard financial reporting templates for international funding of humanitarian agencies. It is based on the principle that donors agree to pay the full, indirect costs of activities. It also provides a standard, indirect cost-rate calculation that uses the implementing organisation's actual costs in the last complete financial year.²⁶ An RG5 sub-group led by the UNHCR and the NRC is taking forward work to harmonise agency cost classifications based on the first component of the MWIC protocol.

Other relevant NGO-led initiatives that establish a common cost classification include the [Dioptra tool](#) for cost-efficiency analysis, developed by the International Rescue Committee (IRC). Similar to the cost classification component of the MWIC protocol, the Dioptra tool distinguishes between 'direct costs', 'shared costs' and 'indirect cost recovery'. The [IFR4NPO](#) is another initiative born from the need for an international accounting standard for non-profit organisations (both humanitarian and development). The guidance is being developed through consultation in three phases with release scheduled for 2025. Within the UN system, an [inter-agency working group](#) of the Finance and Budget Network is focused on harmonising UN cost classifications.

What are organisations' current overhead cost allocation practices?

International organisations take very different approaches to the provision of overheads to local and national partners. The results from the mapping of current practices of 22 UN agencies and international NGOs (INGOs) are shown in Annex 1. Key findings are detailed below.

Not all UN agencies and very few INGOs have policies in place regarding their local and national partners' overheads

UN agencies vary in their approaches to providing overheads. Four of the eight agencies mapped have policies which set out a percentage – or percentage range – of indirect costs that local and national partners are eligible to claim: UNHCR (4%), UN Women (up to 8%), IOM (up to 7%, unless donor agrees to cover a higher rate) and UNFPA (up to 12%). This is provided to the partner to be used at their discretion and is calculated as a proportion of actual programme expenditure. Only UN Women include partners' use of this funding in audits. Three of the agencies mapped – WHO, FAO, and UNICEF – have no policies on providing overheads to local partners.

Of the 13 INGOs mapped, the majority (11) have no global policies on the sharing or provision of overheads to local and national partners. The remaining two organisations (CAFOD and Christian Aid) do have policies, including splitting donor ICR 50-50 between themselves and their partners. For projects funded by non-grant income streams (such as public donations), both organisations agree a suitable rate with the partner to cover their indirect costs. This is generally around 10% for Christian Aid and 7% for CAFOD.

Despite their lack of policies, some INGOs still tend to share ICR in practice. For example, Kindernothilfe (KNH) provides partners with 10% in overheads as standard. Other INGOs have also begun to share ICR while organisational policies are under development. For example, Cordaid's humanitarian team made the decision to begin sharing ICR with partners before it became the subject of an organisation-wide discussion. Indeed, as noted below, it is not uncommon for organisations to share some ICR, but this can vary considerably between projects.

This study looked at two pooled funds: OCHA's Country-based Pooled Funds (CBPF) and the Start Network's Start Fund. Both have clear equitable practices, with the CBPF committing a 7% overhead fund for both national and international recipients (in 2020, [26% of the CBPF budget was allocated to national organisations](#)). As per the stipulations of the CBPF Grant Agreements, recipients must ensure that overheads are fairly distributed among any sub-grantees; proportionate to the project budget and activities undertaken by each party. The Start Fund also provides 10% in overheads to both international and national partners, although there are currently no policies on the pass-through of overheads from INGO recipients to national partners (see Case study 1).

Most ICR sharing is provided on a case-by-case basis and is not systematised

Most INGOs have decentralised grant management. This means that **there are often discrete examples of ICR sharing within organisations where country offices have individually negotiated arrangements**. Often country offices are at the forefront of innovative ICR sharing, which in some cases drives change at a head office level. This generally happens in contexts where there is a strong localisation initiative. For example, Trócaire in Sierra Leone decided to equally split the overhead funds received from ECHO grants (7%) between the country office, headquarters, and partners.

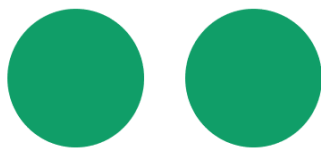
In affiliate organisations like Oxfam, approaches to ICR sharing often vary between affiliates depending on their donor partnerships and funding models (i.e., levels of unrestricted income). Some affiliates within larger network organisations demonstrate more progressive practices. For example, Oxfam GB in Myanmar has been sharing ICR as standard for several years. Start Fund Bangladesh has also been leading the Start Fund's thinking on the issue of ICR sharing (see Case study 1).

Some UN agencies also gave examples of country offices negotiating overheads with long-standing partners, despite the lack of a global organisational policy. For example, WHO in Iraq has been providing overheads to local and national partners. The range of different approaches adopted means that the provision of overheads often varies widely within the same organisation.

Box 4. What do ICR sharing models look like for INGOs?

The practices mapped in this study included various models of INGO ICR sharing. The following models listed below refer to the lead partner (the first-level recipient of funding from a donor – generally an INGO) and the implementing partner (sub-contracted by the lead partner – often a L/NNGO):

50-50:



The lead partner shares the ICR received from the donor 50-50 with the implementing partner, regardless of the size of each partners' budget. This model is used by INGOs such as Concern and Christian Aid. For example, a US\$1 million grant with 10% ICR would mean each partner receives 5% (US\$50,000).

Proportional:



The ICR is shared between the lead and implementing partner proportional to the size of each partners' grant. For example, if an implementing partner is only responsible for US\$20,000 of a US\$1 million grant, they would only receive 10% overhead on their budget (US\$2,000). The LIFT fund in Myanmar is one example of proportional ICR sharing (see Case study 4). The benefit of this model is that ICR is fairly weighted according to each partner's level of implementation. However, there is a risk that this could discourage localisation, as INGOs might still incur the same costs while receiving less ICR. This may result in them choosing to implement more programming directly to retain a higher proportion of the overhead.

Negotiated share:



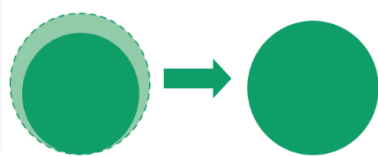
In many cases, INGOs negotiate a specific ICR sharing agreement which may or may not be split evenly, depending on the different partners' needs. For example, a 10% ICR share might be split 7%-3% or it might only be applied to certain parts of the partner's budget, rather than the whole project. Various examples of this were shared, including consortium arrangements where the grant manager may take a small overhead charge (e.g., 2%) with the rest of the ICR shared proportionately among implementing partners.

Increasing the ICR available:



There are some rare examples of donors increasing the volume of ICR available so that both the lead and implementing partners can fully recover the indirect costs incurred through their delivery of a given programme. In this case, the lead partner does not have to share their ICR as an additional percentage is made available. For example, Danida's new guidelines for Danish CSOs reference the provision of additional ICR for local and national partners (see section below on donor-led change). There are various challenges to this approach, not least that donors may not wish to increase the proportion of total funding for overhead costs. On the other hand, such a model may better represent existing costs and is clearly linked to localisation commitments.

Incentivised model:



Another emerging idea (although this study did not identify any current examples) is an incentivised model. This is where the ICR is shared proportionately, but INGOs who channel funding through L/NNGOs are given additional ICR to incentivise localisation. This model offsets some of the challenges of the proportional approach to ICR sharing.

Organisations provide direct project support costs, sometimes in lieu of overheads

Most intermediary organisations are committed to covering the costs of their partners. If they are unable to provide a percentage overhead, some ask partners to translate overhead costs into direct project costs. Regardless of whether overheads are provided, most INGOs and UN agencies also provide funds for partner project support or administrative costs within the direct budget. For some organisations such as UNICEF, there is an expectation that all relevant costs incurred by partners can be included in the direct budget. FAO also allow a portion of direct support costs to be charged as a percentage of the total budget. While these funds are provided as a lumpsum, they must only be used for activities linked to project implementation.

For other organisations like UNFPA, all expenses associated with the project – including what has been defined here as project support costs – are included in the direct budget. UNFPA also pays an overhead-type cost to be used at the discretion of the partner for any costs that are not directly attributed to project activities. For example, if a partner is tasked with running a workshop, UNFPA will cover all the workshop costs as well as all the relevant support costs related to the following: personnel involved in the workshop, admin staff managing logistics, finance personnel making workshop-related payments, technical personnel developing workshop content and the coordinator overseeing the workshop via the direct budget. They will also provide an overhead as a mutually agreed upon percentage (up to 12%) of total incurred expenditures.

Localisation – including the fair provision of overheads for local and national partners – is a live issue for many organisations

Many of the INGOs mapped in the study see equitable sharing of overheads as key in actioning the localisation agenda. Most of these are in the process of developing policies on ICR sharing. Both Concern and Trócaire are currently establishing organisational strategies that include indicators specifically related to the development of an ICR policy. As donors do not generally grant sub-contracted partners additional ICR, INGOs must manage the loss of income involved in ICR sharing internally (see section on challenges below). Some UN agencies are currently (re-)considering their overhead policies. For example, UNHCR recently increased the ICR allowance for local and national partners while

WHO is developing a Localisation Strategy for its World Health Emergencies programmes that addresses the issue of allocating overheads. However, DI's mapping suggests that there is more dynamism around this issue within INGOs than UN agencies.

Case study 1. Start Fund Bangladesh

The Start Fund is an NGO-managed pooled fund that provides rapid financing to combat humanitarian crises. In 2017, a national Start Fund was established in Bangladesh with the aim of directing more funding to national and local responders. Start Fund Bangladesh (SFB) started with 20 INGO members and now includes an additional 27 L/NNGO members who receive funding through INGO partners as well as directly from the SFB. The Start Fund allows all recipients to claim up to 10% ICR on project grants.

Despite L/NNGOs accounting for 83% of SFB project implementation costs in 2019, they received no ICR from the INGO partners that subcontracted them. These INGOs were only sharing ICR with other INGO partners. One of the reasons for this was that contracts were often held by INGO headquarters that tended to deduct ICR before the funds reached the INGO Bangladesh office. This meant that funding was passing through four to five different layers before it reached the local partner. By this point, there was no ICR remaining.

To limit these transaction layers, SFB changed the way in which funding is transferred. By pre-positioning funds at a country level and mandating that funds be transferred between national actors only (including INGO country offices), they reduced the role played by INGO head offices. This allowed INGOs to negotiate with their headquarters to pass on ICR costs to their local implementing partners. An ICR-sharing pilot was subsequently developed together with three INGOs: Save the Children, World Vision, and Care Bangladesh.

As a result, the amount of ICR transferred to L/NNGOs increased significantly with INGOs sharing 25% of total ICR received from SFB with implementing partners in 2020 – up from 0% in 2019. L/NNGOs can now also access the SFB directly and received 52% of the fund's total ICR in 2020. SFB capacity assessment monitoring found that organisations receiving ICR saw a 16% increase in organisational capacity scores. Receiving ICR has also given L/NNGOs leverage in their ICR sharing negotiations with other partners. Furthermore, as more L/NNGOs receive funding direct from SFB, INGOs are adopting a more consistent approach to ICR sharing to avoid losing their partners. The Start Network are now developing global guidance on ICR sharing, in part thanks to the work of the SFB.

What does good overhead allocation practice look like for local and national partners?

Current practice around overheads varies, both between and within international organisations. As a result of this, local and national partners' experiences of receiving overheads depends very much on the partner and the donor. This section outlines some of the examples of good practice identified in interviews and focus-group discussions; L/NNGOs' priorities for future overhead sharing; and some examples of donor-led good practice.

L/NNGO experiences and priorities

The local and national organisations interviewed reported that they have been able to claim overheads more frequently over time. However, while most could give examples of partners providing overheads, provision was generally inconsistent and percentage rates varied. In some cases, L/NNGOs were still not receiving any overheads.

According to the L/NNGOs interviewed, receiving indirect costs allowed them to cover expenses that were vital for the running of their organisations but were not included in direct budgets. Common examples of uses for indirect funding included capacity building, such as staff training; organisational development activities, such as improving financial management systems, communications, and publications; and other operating costs, such as auditing fees or rent. Organisations also use overheads to invest in emergency response reserves and to manage other financial risks.

Aside from developing and strengthening their organisations, L/NNGOs also gave examples of having to use overheads to cover project costs that were not fully covered in direct budgets, such as office rent, utilities, and security staff. This clearly demonstrates that direct project costs are not always fully covered by project budgets. Interviewees reported that this was due to partners not always accepting all their costs or disallowing certain costs. L/NNGOs would prefer to use overheads to develop their institutional capacity – for example, building the reserves necessary to respond to emergencies – but in many cases are required to use them for project-related costs they are unable to recover via the direct budget.

“I would prefer not to spend unrestricted funds on rent of a warehouse or an office; I would prefer to keep that to one side for emergencies and cover any shortfall with funding. We are unable to build up reserves.” National NGO

Overall, L/NNGOs want to receive ICR on the same terms as international organisations.

This is a matter of principle and fairness – L/NNGOs should not be subject to more scrutiny over overhead spending than INGOs. In cases where overheads were provided, the following characteristics were identified as good practice:

1. **Providing funding to cover overheads as unrestricted funding.** International organisations can request that L/NNGOs include indirect costs within direct programme budgets, rather than providing this funding as a percentage of the total grant to cover indirect costs. This requires identification of specific expenditure for each budget which undermines the value of unrestricted funding that in part can be used for unforeseen needs, as per an organisation's overhead policy (where this exists). This is separate to the calculation of an organisation's indirect cost recovery rate. If overhead-type costs are only permitted as itemised direct budget lines, partners are also unlikely to prioritise the same things. For many L/NNGOs, overheads are the only source of flexible funding they have access to.
2. **Providing overheads that are not time limited or subject to individual project audit.** Having to spend ICR within a fixed time period and provide proof of expenditure for project auditing undermines the value of overheads, especially in the case of short-term projects.
3. **Providing overheads as a proportion of the partner's total budget.** In some cases, ICR is only provided on part of the partner's budget – such as operating costs – rather than the total project budget. This means that for some types of project, e.g. in-kind or cash programming, organisations only receive overheads based on a small proportion of their overall project budget which is accordingly a limited sum.
4. **Covering overheads in addition to administrative and project support costs.** Overhead allowances should not undermine other expenses. Administrative and support costs associated with any given project should be included as direct costs so that overheads can be used to develop and strengthen the institution as a whole. Due to the inconsistent provision of ICR, L/NNGOs are often obliged to use what ICR they do receive to plug gaps in programme budgets, rather than investing in their organisation's sustainability and development. This is because L/NNGOs already find it difficult to recover direct project costs from partners, particularly direct admin costs. Other requirements – such as co-funding where partners are required to contribute their own resources to the project – can also undermine overhead provision. This is because organisations may have to use the entire overhead funding they receive to cover co-funding requirements. Some INGOs and L/NNGOs expressed a concern that moving to a set percentage overhead rate may ultimately mean fewer resources for some local partners. A capped overhead percentage may mean there is pressure on L/NNGOs to reduce the costs they include in the direct budget due to an assumption they should be covered by the overhead. This is partly due to the lack of formal definitions on what is meant by direct or indirect costs.
5. **Open and transparent budget negotiations and partnerships with international organisations.** L/NNGOs are not always told who the back donor is or the amount of ICR received by the intermediary partner where this is relevant. In some cases, L/NNGOs receive different ICR from partners with the same back donor. L/NNGOs would like to see greater clarity regarding donor and partner overhead regulations so that they receive them on a more consistent basis. This will allow them to improve their own financial management and forecasting.

6. **Clear and harmonised policies on overheads.** The Country-Based Pooled Funds (CBPFs) were consistently mentioned by local and national partners as being an example of good practice; in part, because their budget regulations are clear and are not subject to negotiation. Similarly, UNHCR's set rate was also mentioned as a notable improvement, though the percentage (4%) was still considered by some interviewees to be too low to cover all indirect costs.

Case study 2. Somalia Nexus platform

Nexus is a platform of Somalia- and Somaliland-based civil-society organisations. It was formed in 2019 by nine Somali NGOs. Two INGOs (Oxfam Novib and Save the Children International) were invited to join as international partners to support the start-up of the consortium.²⁷ Nexus seeks to advance locally led approaches to emergency responses, peacebuilding, and development programming – in part by facilitating increased provision of direct funding and investment to L/NNGOs.

Given the barriers L/NNGOs face in receiving funding directly from donors, the platform appointed Oxfam as the fund manager and acting intermediary partner. It was tasked with conducting due diligence assessments where appropriate. Nexus projects receive 8% ICR from donors of which the fund manager (Oxfam) shares half (4%) with the consortia members implementing the project. This half is shared proportionately based on each implementing organisation's budget and is provided as unrestricted, unaudited funding. This model is based on a similar one implemented by Oxfam as fund manager in the EU-funded Durable Peace Programme in Myanmar which was led by a coalition of L/NNGOs.²⁸

Nexus' model was highlighted as being somewhat progressive, given that ICR INGOs in Somalia do not generally share ICR with L/NNGO partners – with tangible impacts for the local consortium members. These funds have allowed one L/NNGO – Save Somali Women and Children (SSWC) – to cover costs that they would be otherwise unable to. These costs include rent, utilities, and security costs as well as costs related to activities that help strengthen the organisation, such as staff capacity-building which has with retention of key staff members. However, given that ICR is one of the few sources of flexible funding available to L/NNGOs in Somalia, Nexus Core Members originally advocated for full proportionate sharing of the full amount of ICR available (8%), rather than the current negotiated model. There were various barriers to this; not least Oxfam's internal organisational policies around ICR sharing and negotiations between the country office and headquarters.

Overhead enabling factors

Various enabling factors were identified by L/NNGOs as helping facilitate access to overheads.

- Only a few organisations consulted had been able to successfully receive **direct funding from donors**. In these instances, accessing overhead funding is much easier

as there is no intermediary organisation. One example given was a national NGO who was able to receive funding directly from USAID's Bureau for Humanitarian Assistance and received 5.3% for indirect costs. This enabled the organisation to update their internal systems.

- **Joint local advocacy** around overheads can be more effective than acting alone. Many of the good examples shared had emerged from consortium arrangements where L/NNGOs were able to jointly negotiate with international organisations. In some countries, such as Myanmar and Indonesia, L/NNGOs have been more active on advocacy around this issue than in other contexts.²⁹ For example, the Joint Strategy Team – a consortium of nine L/NNGOs in Myanmar implementing the EU-funded Durable Peace Programme – were together able to negotiate an equal split of ICR from the INGO grant holder.
- Receiving overheads gave some L/NNGOs the **leverage to negotiate ICR** with other intermediary partners which can create a snowballing effect. It can also give L/NNGOs the confidence to refuse to partner with international organisations if overheads are not negotiated which can be a powerful advocacy tool. For example, one national NGO interviewed progressed from receiving very minimal overheads to having almost 80% of their grants include ICR.
- There is a perception that more well-established organisations are better able to secure overheads from international organisations. Local and national partners face very different realities when it comes to negotiating overheads. Organisations with a good understanding of partner localisation commitments (for example, those with partners who are Grand Bargain signatories) and who can afford to negotiate and potentially lose grants, have an advantage over L/NNGOs who are often smaller and more dependent on project grants. In some cases, these organisations may also be unaware that they are entitled to claim overheads.

“We reached a point where we started negotiating and telling our partners that if they're not demonstrating some positive action towards localisation and recognising that L/NNGOs need to cover their overheads, we will name and shame you.” National NGO

International organisations identified many of the same enabling factors as well as the following:

- ICR sharing (for those organisations who do not have a standard policy) is more likely to be negotiated in contexts where organisations have long-standing relationships with local partners, where local partners are perceived by intermediaries to have good capacity, and where there is a strong local advocacy around localisation and overheads.
- Strong commitment to localisation and a willingness to cede power among INGO staff at both headquarters and country office level was also a key factor. The

importance of workplace champions is clear, especially in financial management positions.

- Donor engagement with the issue of overheads is a key driver of change. This could be donors requesting recipients report how ICR is shared with onward partners. Both INGOs and L/NNGOs interviewed reported how this transparency request forces a more open discussion around how ICR is cascaded. More concretely, some donors have provided additional funding for downstream partner overheads (see section on 'Donor-led change' below). In the example of the Dutch Relief Alliance and the Netherlands, donor regulations that stipulate ICR sharing are affecting policy change within the alliance (see Case study). Furthermore, donor interest and movement on this issue gives staff within international organisations further leverage to advocate for internal policy change.

Case study 3. Consortium models – an example from Lebanon

Consortia have provided opportunities for more equitable ICR sharing to be negotiated. In Lebanon, the French Agency for Development (AfD) has funded several consortia in the education and health sector that are composed of both international and national NGOs. Amel, a national Lebanese NGO, was the lead partner in one of these consortia which had both INGO and L/NNGO members.

The overhead for the consortium (10%) was shared between all members using a proportional model, whereby each partner applied a 10% overhead on the total grant they implemented. The overhead was provided as fully flexible, unrestricted funding which had to be 'related to the mission of the NGO' but did not have to be related to project implementation. However, supporting documents for the overhead were still required and it was also subject to audit.

The main enabling factor for ICR sharing was that AfD asked for the division of overheads to be reported back. This request for transparency in part forced the consortium members to consider how the overhead would be shared and what would be most equitable. The ICR allowed Amel to cover areas that they were not formerly able to cover with direct project funding, such as capacity-building activities and publications. It also allowed Amel to resource a position which meant they could act as the health sector co-lead, therefore enhancing their involvement in the coordination of the response. This arrangement has also given Amel leverage to request the same overhead sharing structure from donors in other consortia.

Case study 4. UNOPS in Myanmar

UNOPS was identified by several L/NNGOs in Myanmar as having good practices around the provision of overheads. The Livelihoods and Food Security Fund (LIFT) in Myanmar is a multi-donor fund established in 2009 that operates under the management of UNOPS. LIFT funding guidelines include indirect costs which are provided as up to 6% of direct

programme costs. In the cases of partnerships and consortiums, the guidelines stipulate that the 6% should be shared among all implementing partners – proportionate to their implementation budget – including with local civil society organisations.³⁰ UNOPS also manages an EU-funded programme called the Nexus Response Mechanism in Myanmar which takes this proportional sharing requirement further. When the full allowable percentage of indirect costs is not passed through to a sub-grantee, the Secretariat requires a written explanation “as overheads are the critical investment tool of organisational strengthening and producing sustainable results.”³¹ These regulations ensure that a proportional and fair share of ICR reaches L/NNGOs and is not left to negotiation between partners where local partners may have less leverage.

Donor-led change in overheads for local and national partners

As well as change being led by local and national actors, there are some examples of donors stipulating greater ICR sharing or providing additional ICR for L/NNGO partners, which is leading to changes in practice.

- **Danida’s new 2022–2025 guidelines for strategic partnerships with Danish CSOs** includes provision of 7% overheads for Danish INGO recipients as well as an additional administrative fee to support local partner overheads. This can be up to 7% and must be justified based on the organisation’s knowledge and assessment of the local partner’s capacity. The “usual requirements for annual financial audit” still apply. Danida cost categories are aligned with the cost classification component of the Money Where It Counts (MWIC) protocol. While these are guidelines and therefore not mandatory, Danish CSOs are now required to report on the transfer of these funds to Danida.
- The **Rapid Response Facility (RRF)** is a UK FCDO funding tool that can provide funding to pre-registered NGOs in the immediate aftermath of crises. The RRF is governed by the CHASE Humanitarian Response Funding guidelines.³² As part of the RRF allocation to the Covid-19 response in 2020, additional funding for L/NNGO overhead costs was provided. Budgets included direct costs; indirect costs known as Non-Project Attributable Costs (NPAC); and Localisation Support and Administrative Costs (LSAC) – the latter two of which are equivalent to overheads. The guidelines stipulate that lead partners must pass on LSAC to local and national downstream partners either at their own NPAC rate or at 10%; whichever is highest. The guidelines state that “for downstream partners to be able to manage project-related risks effectively, and to strengthen their ability to provide essential services to the communities they support, it is essential that they have access to indirect costs.” Furthermore, RRF recipients are required to report the value of indirect costs they pass onto downstream partners. The LSAC is provided as unrestricted and unaudited.
- The **UK Disasters Emergency Committee (DEC)** allows INGO recipients to claim a 7% overhead. It also allows downstream partners to negotiate an overhead percentage.

Overheads are not subject to audit by DEC, though audits are carried out by members themselves.

Case study 5. Dutch Relief Alliance

The Dutch Relief Alliance (DRA) is an alliance of 14 Dutch INGOs established in 2015 and funded through the Netherlands Ministry of Foreign Affairs (MFA). In 2020, EUR 79 million was channelled through the DRA in 18 joint responses.³³ The DRA, through its partnership with the MFA, has evolved into a testing ground for operationalising Grand Bargain and Core Humanitarian Standards commitments, including those pertaining to localisation and quality funding. The DRA is committed to increasing funding to L/NNGOs and aims for 35% of funding to the DRA to flow as directly as possible to L/NNGOs. DRA's new strategy for 2022–2026 reiterated the coalition's commitment to localisation with the aim of becoming the leading example in humanitarian reform.³⁴

As part of this, the DRA are now working on a proposal on behalf of the MFA that would mandate sharing ICR with L/NNGO partners. The MFA allows the DRA members to claim 8% of the project budget as indirect costs. In previous agreements before 2022, the MFA had allowed DRA individual members to manage ICR according to their own policies. To push this issue forward, MFA proposed in the latest framework agreement that from 2022 onwards, the DRA share this 8% ICR with downstream partners based on a proportional split in line with each partner's budget. For the DRA, ICR is necessary to cover the costs of all partners in the response as well as those of international and national NGOs. In its strategy, DRA has committed itself to investing in the capacity and leadership of local and national NGOs and ensuring the costs associated with the role and responsibilities of local and national NGOs are covered. However, MFA's proposition posed a number of concerns for the DRA. Firstly, they worried that in the short term, this type of proportionate split would mean DRA members are able to recover fewer resources despite playing the same role and incurring the same costs. This is in the context of increasing due diligence, compliance and financial administration demands being placed on DRA members, as well as the increasing complexity of humanitarian response more generally. Secondly, they were concerned that INGOs who implement primarily through local and national NGOs would receive little ICR and be forced to cover the costs of their intermediary role themselves. This would run counter to the localisation agenda. The MFA acknowledged these concerns and have given the DRA space to consult and propose their own model for the equitable sharing of ICR with local partners with the aim of having a workable policy implemented by the end of 2022.

Equitable overhead provision: barriers and opportunities for change

The discussion around the provision of overheads to local and national partners is more than just a financial issue – it also has operational, regulatory, and ethical dimensions. While some of the issues raised by cascading ICR present challenges, they also provide opportunities to improve the system. This section of the report presents the key findings to come out of interviews with L/NNGOs, INGOs, UN agencies and donors regarding the complex barriers to sharing ICR and the potential solutions. These barriers have different implications and levels of relevance for individual organisations and require further unpacking to address.

Barriers to providing ICR

Transparency

There is a lack of funding transparency across the humanitarian sector. It is unclear how much funding is passed onto local actors, let alone how ICR is passed through transaction layers with financial tracking platforms not currently recording this information. Local actors struggle with a lack of clarity regarding overall budgets and are often unsure if the variation in ICR rates is due to donor guidelines or decisions made by intermediaries. This reinforces a 'sub-contracting' dynamic as opposed to an equitable partnership. Furthermore, donors are often unaware of the amount of ICR passed on by recipient organisations which further limits the extent to which they can advocate for the cascading of indirect costs.

"There's a perception that local humanitarian actors are just there to implement without contributing to the direction of the project." Local NGO

Common classifications

As highlighted above, the different terminology and definitions used to classify direct or indirect costs is a critical issue. A lack of common definition means that there is often considerable overlap between the overhead and direct support cost or administrative cost categories. What some agencies would classify as 'overheads' may well be considered shared direct programme costs for others. Ultimately, the issue for local and national partners is funding restrictions – when funding is provided to cover indirect costs as an unrestricted percentage of the total grant, partners have a lot more flexibility in how they use it.

There is also a risk that partners given an overhead rate might find their direct project support costs being squeezed. Both the INGOs and L/NNGOs interviewed raised this as an

issue, alongside the risk that L/NGOs could actually end up receiving less funding overall if they claim an overhead. This point was also highlighted by Humentum in a recent study into the coverage of national NGOs' administrative costs which found that, within the sample, mandatory direct charging led to lower levels of under-recovery than if the funder provided indirect cost rates.³⁵ Clear, harmonised definitions of cost types would help with this, as well as transparent budgeting of costs required to deliver programmes.

“The classification of what falls under programmatic and what falls under support, and what falls under overhead; we have never seen similar guidelines across our partners.”
National NGO

Financial implications of overhead provision

As outlined above, donors do not generally provide additional overheads for downstream partners. As a result of this, intermediaries – especially INGOs – are faced with the challenge of having to ‘share’ the ICR they receive which they rely on to run their operations. This poses clear practical challenges for both INGOs and UN agencies; mainly in terms of structuring ICR sharing models and compensating for the potential loss of organisational income. Amending ICR practices may also involve challenging restructures of internal systems for budgeting and reporting.

Various factors effect intermediaries' abilities to ‘share’ overheads. Organisations with larger unrestricted income streams or less projectised funding – such as faith-based organisations or agencies like the UNHCR – have greater financial flexibility to cover partner overheads. INGOs and UN agencies that rely more on project funding than core funding may have less flexibility and face different challenges. For example, these organisations may be less able to cover partners' indirect costs if they are not specifically budgeted within projects. The regulations around this type of grant funding (i.e., the degree of flexibility) are therefore critical to organisations lacking additional sources of less restricted income.

Whether or not international organisations are able to absorb the loss of income in other ways, discussion around ‘sharing’ overheads with local and national partners raises wider questions around the suitability of the traditional 7% set rate provided by many donors. For many intermediaries, existing ICR rates are not based on actual indirect costs incurred. They are also often insufficient and have to be complemented with additional income, such as private fundraising. Sharing ICR would not necessarily mean an organisation's overhead costs are proportionately reduced. Some intermediaries feel they are faced with a situation where they will have less resources for the same, if not more, responsibilities, as donor compliance requirements grow ever more stringent.

“The fact that overheads are arbitrarily capped at 7% doesn’t help. If donors were willing to meet real indirect costs for each partner, that would make a big difference. For us, 7% is not enough, so sharing that would put us in an untenable situation... If donors really are committed to localisation, they need to enable that.” INGO

One important dimension of this is risk management. As the overall grant holder, INGOs and UN agencies are ultimately accountable to their donors and often take on liability for programme delivery, including any ineligible costs. The additional cost of paying for the systems to mitigate this risk is part of the argument advanced by international organisations for requiring (relatively higher) overhead costs. If additional overheads are not provided by the donor, and existing overheads must be shared, should risk be passed to local and national partners too? There are various issues with this, not least that some donors purposefully fund intermediary organisations to provide this layer of accountability. While some more established L/NNGOs interviewed expressed a wish for risk to be more fairly shared, this may not be the case for all, especially those organisations who have not previously received overheads which are essential for building effective risk-management systems. Some INGOs interviewed also expressed concerns that their L/NNGO partners are not ready for this and that it would be unfair to expose them to such risks.

The wider risk-sharing debate should not impact on whether ICR is fairly provided to L/NNGOs. L/NNGOs face different – and arguably more – risks than intermediary organisations and must therefore be able to manage these risks through overheads. Without recovering overheads and developing reserves, L/NNGOs are also less able to manage risk effectively. ICR is also used by organisations for many other things beyond risk management. However, for some INGOs, the discussion around ‘sharing’ ICR does impact on wider conversations around where risk, responsibilities and costs fall within partnerships. This re-emphasises the importance of having more transparent conversations around whether the current overhead rates meet the true costs of all partners involved in the humanitarian response.

Regulatory barriers

International organisations face a number of regulatory barriers. Firstly, many intermediary cost-recovery policies only grant overhead funding to partners if it falls within donor regulations, yet most donors do not permit additional funding for partners’ overheads on top of the overall grant overhead. While some donors are experimenting with policy change around this (see section on ‘Donor-led change’ above), most do not currently allow the overall proportion of indirect funding to be increased. Secondly, some UN and INGO policies only allow ICR to be shared with international partners, perpetuating the idea that INGOs have greater support costs.

“If we are challenged ourselves, we can only share the challenge. The quality funding we provide is totally based on the quality funding we receive. If donors really are committed to localisation, they need to enable that.” (INGO)

In some cases, donor compliance regulations have prohibited INGOs from providing ICR to partners. For example, donors may have regulations around the auditing of overheads, the cost of which L/NNGOs may be unable to meet.

International organisations face other internal regulatory barriers to consistent provision of ICR. Many cost-recovery policies state that ICR should be used to fund the activities of international headquarters. Country office staff managing partnerships and negotiating grants have no power to change this. Organisations can also be divided internally over the issue of ICR provision to partners with varying levels of buy-in between departments and fields of responsibility, such as finance and policy. Many of the L/NNGOs interviewed felt that there was a disconnect between country offices and headquarters when it came to localisation rhetoric and actual practice. This means that country offices often face internal blockages when they attempt to share ICR with partners.

“There is a disconnect between the rhetoric at the headquarter level and the real practice at the country operation level. Perhaps the issue lies with the concept of ‘performance’ of the employees who negotiate the contracts with the partners. Those employees consider that the fewer resources we commit to local partners, the more the operation will be ‘efficient’.” National NGO

What needs to change?

Ultimately, the humanitarian community must live up to the commitments it made to channel more direct funding to local and national actors. Direct funding from donors is the easiest way for implementing organisations to recover all the costs associated with delivering efficient and effective humanitarian programmes as ICR does not need to be passed through an intermediary.

Commitment in principle and in practice

Discussions around the provision or sharing of overheads must start from a place of principle. L/NNGOs require overheads for the same reasons as international organisations. There are clear ethical and practical justifications for ensuring they can recover all indirect costs. INGOs and UN agencies must commit to the principle of sharing ICR equitably or providing adequate overheads that cover all the costs incurred by local and national partners on the front line of the humanitarian response. While this is generally accepted with many organisations reviewing their policies, intermediaries must also be willing to adjust their practices accordingly and be open to sometimes challenging operational

changes. To support these changes, buy-in is essential at all levels, including senior leadership.

“INGOs must also be willing to cede power and resources. If [you] come at it from a localisation perspective – while less ICR for INGOs might mean shrinking resources, [it] also means local actors receive more resources.” INGO

Clearer, more consistent definitions and policies

Consistency in the definitions and types of costs eligible for inclusion within indirect cost classifications are essential to more transparent and fairer provision of ICR. For INGOs, an understanding of the different costs involved would help with auditing and budget negotiations with donors. If intermediaries developed clear guidance or policies on ICR sharing, this would also help foster more equitable partnerships. These policies should be transparent and widely shared to raise awareness across the humanitarian sector; enable L/NNGOs to use them as negotiating tools in their conversations with country staff; and prompt other organisations to do the same.

“There should be consistency [of ICR] because, in my experience, this is a lifesaving safety net for us. We can use it for institutional capacity building purposes without any restrictions.” National NGO

Increasing donor incentives for change

There was broad consensus across interviewees that the most effective way to push this agenda forward would be for donors to incentivise change. This could be by mandating recipient organisations to share ICR or providing additional ICR specifically for L/NNGOs. As a minimum, donors should request transparency from recipient organisations regarding ICR sharing practices to demonstrate their commitment to this issue.

“Donors should push INGOs to share ICR costs and to work with local actors if they can't fund the local actors directly.” National NGO

“At times we can focus too much on donor behaviours that present barriers to equitable partnerships; we don't talk enough about how donors can use their power to drive change. As an example, I would like to see donors mandate equitable sharing of indirect costs.” INGO

Re-evaluating existing ICR practice

A broader understanding of the costs involved in delivering quality humanitarian programmes and the extent to which current donor ICR allowances meet actors' costs is essential. This is especially important as both donor compliance requirements and the complexity of humanitarian response grow. INGOs are calling on donors to increase the amount of allowable ICR. This will allow for coverage of both their indirect costs and the costs of their downstream partners; or alternatively, for headquarters' costs to be funded from direct programme budgets, thus enabling greater sharing and/or cascading. While this study did not seek to closely analyse donor practices, variable rate methodologies – such as USAID's [negotiated indirect cost rate agreement](#) (NICRA) and [FCDO's non-project attributable costs](#) (NPAC) – were mentioned by interviewees as being more accurate approaches to calculating overhead costs than flat-rate approaches. Further investigation of donor practice could inform future studies in this area.

Building trust

Many of the L/NNGOs interviewed felt that INGOs/UN agencies lacked trust in local actors. As a result, international organisations were reluctant to provide unrestricted funding. Some were concerned that they would lose some control by passing on overhead funding and that it would increase their own risk level. There was also a worry that the provision of additional overheads to partners would lower the overall amount spent on programming. Several intermediaries and local actors felt that the provision of specific capacity-strengthening support where necessary could help build more trust. For organisations that previously received no overheads, support with developing cost-recovery policies and building financial management's capacity to manage unrestricted funds could prove helpful. Open and transparent dialogue around the real costs of humanitarian programmes is also essential to drive change.

Advocating for greater ICR sharing

The L/NNGOs interviewed stressed the importance of stronger joint advocacy on overhead provision to international partners. They also felt that international actors should advocate to donors on their behalf. Intermediaries, donors and L/NNGOs need to promote emerging examples of good practice help the movement towards more equitable overhead provision gain momentum.

“Among local NGOs and CSOs, we need to talk openly without shame about ICR and the reality of what we need, instead of trying to conceal indirect costs elsewhere; and we need to build a common language among actors.” Local NGO

Notes

- ¹ 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/>.
- ² 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).
- ³ UNHCR, 2019. Guidance for partnering with UNHCR, 7th Draft v2. Available at: <https://www.unhcr.org/uk/5cf8c21c7.pdf>
- ⁴ 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
- ⁵ 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; LIFT, 2017. LIFT Operational Guidelines. Available at: <https://www.lift-fund.org/en/operational-guidelines-0>
- ⁶ 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; M. Kinyori, 2021. The power of indirect cost recovery. Killza blog. Available at: <https://kiliza.altervista.org/the-power-of-indirect-cost-recovery>
- ⁷ 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.
- ⁸ 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/>.
- ⁹ Humanitarian Outcomes, Interaction, USAID, 2019. NGOs & Risk, managing uncertainty in local-international partnerships. Available at: <https://www.humanitarianoutcomes.org/publications/ngos-risk2-partnerships>.
- ¹⁰ Global Protection Cluster, 2018. Advancing the localisation agenda in protection coordination groups, Learning Paper. Available at: <https://reliefweb.int/report/world/advancing-localisation-agenda-protection->

[coordination-groups](#).

- ¹¹ Global Protection Cluster, 2018. Advancing the localisation agenda in protection coordination groups, Learning Paper. Available at: <https://reliefweb.int/report/world/advancing-localisation-agenda-protection-coordination-groups>.
- ¹² Development Initiatives., 2008. Good Humanitarian Donorship Indirect Support Cost Study: Final Report. Available at: https://glocalisation.ifrc.org/110908rep_developmentinitiatives_e/?lang=es.
- ¹³ Bond., Mango., 2016. Cost Recovery: What it means for CSOs. Available at: <https://www.bond.org.uk/resources/cost-recovery-what-it-means-for-csos>.
- ¹⁴ Development Initiatives, 2008.
- ¹⁵ 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/AABaLGO-k_b08Hf5-DV83g5ka?dl=0.
- ¹⁶ Rana, R., 2017. Initial research: Provisions and conditions of core/overhead/indirect costs for local/national humanitarian actors. Available at: <https://glocalisation.ifrc.org/core-costs-localization-research-report-final/>.
- ¹⁷ Metcalfe-Hough, V., Fenton, W., Willitts-King, B. and Spencer, A., 2021. The Grand Bargain at five years: an independent review. HPG commissioned report. Available at: <https://odi.org/en/publications/the-grand-bargain-at-five-years-an-independent-review>.
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- ¹⁹ 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/publication-item/perspectives-on-localization-in-the-horn-of-africa/>.
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- ²¹ Metcalfe-Hough, V., Fenton, W., Willitts-King, B. and Spencer, A., 2021.
- ²² Development Initiatives., 2008.
- ²³ Development Initiatives., 2008.
- ²⁴ Bond., Mango., 2016.
- ²⁵ Development Initiatives, 2008.
- ²⁶ NRC., 2019.
- ²⁷ NEXUS, 2022. Governance and Structure. Available at: <https://heca.oxfam.org/latest/policy-paper/governance-and-structure-nexus-somalia>.
- ²⁸ Durable Peace Programme: <https://durablepeaceprogramme.com/en/background/>.
- ²⁹ For example, see this positioning paper on localisation and intermediary roles in Myanmar civil society, published in January 2022, available at: <https://www.near.ngo/voices/tag/Myanmar>.
- ³⁰ LIFT, 2017. LIFT Operational Guidelines. Available at: <https://www.lift->

[fund.org/en/operational-guidelines-0.](https://www.nexusresponsemechanism.org/partner-resources/)

³¹ Nexus Response Mechanism, 2021. Operational Guidelines, available at:

[https://www.nexusresponsemechanism.org/partner-resources/.](https://www.nexusresponsemechanism.org/partner-resources/)

³² FCDO, 2020. Humanitarian funding guidelines for NGOs applying for CHASE humanitarian response funding. Available at: [https://www.gov.uk/guidance/humanitarian-response-funding.](https://www.gov.uk/guidance/humanitarian-response-funding)

³³ DRA, 2020. Impact Brief, available at: [https://dutchrelief.org/overview-2020-responding-to-humanitarian-crisis-and-the-covid-19-pandemic/.](https://dutchrelief.org/overview-2020-responding-to-humanitarian-crisis-and-the-covid-19-pandemic/)

³⁴ DRA, 2022. 2022-2026 Strategy. Available at: [https://dutchrelief.org/dra-strategy-2022-2026/.](https://dutchrelief.org/dra-strategy-2022-2026/)

³⁵ Humentum, 2022.

Annex 1. Mapping of INGOs and UN agencies

Organisation	Is there a policy for providing overhead costs to L/NNGOs?	Current practice
INGOs		
CAFOD	Yes	CAFOD use the term 'overhead charge' and do not use the definitions set out in the first component of the MWIC protocol. For donor-funded projects, CAFOD shares 50% of the allowable ICR with partners. Where there is more than one partner, it is divided proportionate to each partner's budget. For CAFOD-funded projects, CAFOD aims to cover the appropriate level of core organisational costs for partners. The rate is based on need, negotiated on the country level, and generally does not exceed 7%. In both cases, overhead funding is given as an unrestricted contribution to the partner's core costs and does not need to be reported against.
Christian Aid	Yes	Christian Aid's definition of indirect costs is aligned with the cost classification definitions of the MWIC protocol. For donor-funded projects, Christian Aid shares 50% of the allowable ICR with partners. Where there is more than one partner or a consortium, the ICR split is negotiated on a case-by-case basis. For Christian Aid-funded projects (such as internal emergency funds) and Disasters Emergency Committee (DEC) funds, the practice is to offer 10% overhead costs. In both cases, overhead funding is given as an unrestricted contribution to the partner's core costs and does not need to be reported against.
Kindernothilfe (KNH)	Yes, in practice	KNH provides up to 10% of direct project budgets as overheads for partners. This is part of KNH's mandatory requirements for budgets, rather than a specific written policy. This is given as an unrestricted contribution to the partner's core costs. The exact rate is agreed upon with each individual partner. An overhead budget breaking down the planned costs is required if the overhead

		contributions from KNH (from various projects) exceed a certain amount (> EUR 25,000). Partners must submit (locally) audited financial statements that include the overhead costs. However, overheads are not the focus of in-house verification beyond an overall comparison of budget and actuals.
Save the Children	Not specifically, but part of its localisation policy	Save the Children are currently developing a definition of 'overheads' in line with the cost classification component of the MWIC protocol. Save the Children's overarching localisation policy states that the organisation will strive to provide around 10% additional resourcing beyond project direct costs; composed of 7% indirect costs and 3% capacity strengthening and adjusted based on context and donor conditions. However, the overhead sharing is not currently standard practice, nor is it tracked internally. When ICR is provided, the rate depends on donor policy or partner's established ICR policy. When provided, ICR is given as an unrestricted contribution to partner core costs. It can be subject to audit depending on donor requirements.
Cordaid	No, under development	Cordaid shares ICR with partners for its humanitarian programming with the rates decided on a case-by-case basis. This is not an official, organisation-wide policy and only concerns the humanitarian team, though it does occur within other projects at times.
Concern	No, under development	Concern's definition of indirect costs is aligned with the cost classification definitions in the MWIC protocol. Concern does not currently have a policy or guidelines on ICR sharing and it does not generally occur as a result. Concern is currently finalising its Global Partnership Strategy and has made the issue of sharing overhead costs and related indicators with partners a key priority.
CRS	No, under development	CRS does not have a policy or guidelines on ICR sharing but will often supplement local partner organisations using its private funds if the partner is not eligible to receive a share of ICR from a specific donor. CRS is currently developing a policy on ICR for local organisations from public and private funds that will include guidance on ICR sharing. CRS does allocate resources to support local organisations in developing their own ICR policies so they can access ICR direct from donors.
NRC	No	NRC does not have a policy or guidelines on ICR sharing. Current NRC regulations do not allow for overheads to be provided to partners as a lumpsum, although it does cover some overhead-type costs through partners' direct budgets. When partnering through a consortium, NRC's standard rule is that all members should receive lumpsum admin compensation at the same rate as that paid by the

		donor (unless this contradicts specific donor regulations). NRC uses the cost classification definitions in the MWIC protocol though not in relation to downstream partnership management.
Oxfam	No, under development	The Oxfam confederation does not have a global policy on ICR sharing. Oxfam affiliates have different cost-recovery mechanisms and vary in their approaches to ICR sharing, with some country offices more progressive than others. Oxfam GB is among those who have agreed to share ICR in principle and are piloting this policy.
DRC	No, under development	DRC does not currently have any policies or guidelines on ICR sharing. While some country offices break the mould, overheads don't tend to be shared or provided to partners, except in cases where the donor specifically allocates additional overhead to sub-granted partners. In those (rare) cases, the funding given is unrestricted, though it may need to be reported on and spent during the project period. Auditing depends on donor regulations. DRC is currently in the process of developing a policy around ICR for partners. DRC does not use the definitions of indirect costs set out in the first component of the MWIC protocol.
IRC	No, under development	IRC's indirect cost recovery policy for partners includes a commitment to recovering all partner costs. However, the policy contains requirements that sometimes prevent partners lacking a NICRA or equivalent from accessing indirect cost coverage. In most cases, IRC works with those partners to charge ostensibly 'indirect' costs as direct project costs. This policy is currently under review, with IRC aiming for more effective and equitable ICR sharing.
Trócaire	Draft policy under review	Trócaire has developed a draft policy on ICR sharing which is currently under review. Current practice is that Trócaire does not share ICR. However, certain country offices have taken more innovative approaches. For example, Myanmar and Sierra Leone have shared ICR with partners in the past. Trócaire's new partnership and localisation strategy ¹ includes a commitment to "more equitable sharing of indirect and core costs" along with an indicator that an organisational policy on ICR sharing will be developed in 2022.

¹ <https://www.trocaire.org/documents/partnership-and-localisation-strategy-2021-2025/>.

Start Fund	No, under development	The Start Fund allows both national and international recipients to claim up to 10% ICR on project grants. For recipients that sub-contract to partners, the organisation recommends that ICR be equitably shared according to the level of work and risk each partner shoulders in delivering the programme. However, this is not mandatory and does not have to be reported back to the Fund.
UN agencies		
IOM	Yes	IOM provides overhead-related expenses for international and national partners provided that they are in line with the established policies of the partner or in the absence of a policy, as "required for the successful implementation of the project to cover administrative support or management costs that are linked to the activities, but not otherwise covered by the budget." Overheads may not exceed the thresholds specified within the funding donor agreement, which is usually 7%. IOM assesses all partners using the same criteria, and the rates may differ in line with the partners' internal policies. The overhead is typically charged on the partner's total direct costs to cover the indirect costs linked to project implementation. IOM does not audit or verify the overhead reported by partners as a rule, except to check for duplicates in cost charges or where due diligence exercises identify a lack of related controls. IOM employs the definition of 'indirect costs' listed in the UNSDG Business Innovations Group Principles for Costing and Pricing Services.
UNHCR	Yes	UNHCR provides 4% indirect costs for local and national partners and 7% for international partners. Indirect costs are charged based on the partner's reported overall eligible programmatic expenditure. It is provided as an unrestricted contribution to partner core costs and does not need to be reported against. UNHCR uses the cost classification definitions set out in the MWIC protocol.
UN Women	Yes	UN Women provides overheads for local and national partners. The rate depends on the agreement with the donors and does not usually exceed 8%. Overhead funding is provided as an unrestricted contribution to partner core costs i.e., operating expenses, overhead costs and general costs connected to the normal functioning of an organisation/business. These include costs for support staff, office space and equipment that cannot be considered direct costs. This funding is subject to an annual independent partners' audit which includes verification of all expenditures. UN Women's

		definition of indirect costs is aligned with the cost classification definitions set out in the MWIC protocol.
UNFPA	Yes	UNFPA covers all costs directly related to the activities on its workplans. It also provides partners with a 0-12% 'support cost' rate to cover their overheads. This rate is negotiated with partners and is meant to take projected direct programme costs into account. For UNFPA partners who sub-contract to a local or national partner, an overhead can also be charged based on the first-level recipient's overhead policies. Overhead 'support cost' funding is paid based on total expenditures. UNFPA does not restrict what the partners uses the funds for, nor does UNFPA require our partners to report on how they were used.
FAO	No	FAO does not provide overhead or indirect costs to any of its civil society partners, including local and national partners. However, when direct costs incurred in connection with implementation of the project cannot be easily quantified, FAO accepts that a portion be charged as a percentage of total operating costs (these are known as 'support costs'). This is based on an assessment of the fiduciary risks of working with a partner organisation. This percentage cannot exceed the overhead rate that FAO receives, is provided as a lumpsum and is not audited. However, it is only applicable to costs associated with the direct implementation of the project.
WHO	No	WHO does not provide overheads or indirect costs to L/NNGOs as a rule. Unrestricted indirect costs of around 5-7% are allowed in certain cases; where this is not the case, partners may reflect their overheads as a direct cost. These should never exceed 10%. WHO is finalising a Localisation Strategy in 2022 for its World Health Emergencies Programmes with overheads expected to be included within this framework.
UNICEF	No	UNICEF does not provide overheads for local and national partners who are expected to cover all their costs through the direct programme cost categories. Conversely, INGOs can claim 7%.
OCHA CBPF	Yes	OCHA refers to overheads as 'Programme Support Costs' and defines them as costs incurred by the implementing partner that cannot be unequivocally traced to specific activities, projects, or programmes. Overheads are charged at a maximum of 7% of the partner's approved direct expenditure and are the same for international and national fund recipients. The corresponding funding amount does not need to be itemised in the project budget. As per the stipulations of the

		CBPF Grant Agreement, the grantee must ensure that any PSC is fairly distributed among any sub-grantees, in a manner that is proportionate to the project budget and activities undertaken by each party.
RCRC		
IFRC	No	IFRC does not have the concept of indirect costs for downstream partners (i.e., National Red Cross and Red Crescent Societies). All funding passed on to partners is considered a direct cost and the 'indirect cost' that IFRC recovers from donors is not shared. Partners can claim all costs relevant to the implementation of the project as direct costs, including administrative budget lines necessary for project implementation. Conversely, funding for specific non-project-related expenditures is not provided.

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