

2nd Meeting

**REPORT ON INFORMAL TECHNICAL CONSULTATIONS
ON OVERHEAD COSTS OF NGO PARTNERS**

1. In a decision of the 1995 Executive Committee, the High Commissioner was requested to initiate a process of informal technical consultations on the question of overhead costs for non-governmental implementing partners, particularly headquarters costs (A/AC.96/860, para. 21 (i)). This report briefly describes this consultative process and presents for the Standing Committee's approval a draft decision (Annex 1) which reflects its outcome. It will be recalled that the same Executive Committee decision authorized the Standing Committee, if it saw fit, to decide on this issue in the course of its deliberations during 1996.

2. Four consultative meetings were held: 18 December 1995; 25 January, 29 February and 13 March 1996. Thirty-two Permanent Missions and the European Commission participated in the consultations. The Director of the Department of Humanitarian Affairs Office in Geneva and representatives of non-governmental organizations (NGOs) participated in the consultations on 29 February 1996.

3. In the course of the consultations, the following documentation was presented:

- *Background Note* (HCR/INFCON/1, 13 December 1995);
- *NGO Position Paper on Headquarters Overhead* (29 February 1996);
- *Summary of Informal Consultations on Overhead Costs* (HCR/INFCON/2, 6 March 1996).

A series of tables and correspondence related to the consultations were also made available.

4. The meeting on 13 March 1996 considered the *Summary of Informal Consultations on Overhead Costs* (HCR/INFCON/2) document prepared by UNHCR. This document, in providing a summary of the discussions to date, also proposed a modified and clarified UNHCR policy on NGO support costs. The elements of this policy are contained in the annexed decision. In introducing the document, the Director of the Division of Programmes and Operational Support drew attention to a number of issues. With regard to the proposed figure of 8 per cent, the Director noted that this was a median figure arrived at in consultations with NGOs. He pointed out, however, that if the actual support costs of NGOs were lower, then that percentage would apply. In his discussions with the NGOs, they had also highlighted the fact that there were sufficient pressures on them to reduce the level of their overhead costs. Given the number of variables associated with the proposal, UNHCR found it difficult, at this stage, to make an assessment of the net financial impact of the proposal.

5. In their comments on the proposed policy, delegations welcomed the constructive dialogue between UNHCR and its NGO partners which had enabled the consultations to progress to a point where a decision could be presented to the Standing Committee for endorsement. Some delegations, in endorsing this step, noted that they still awaited final instructions. Two delegations asked for further information on the basis for the proposed initial standard of 8 per cent. While it was recognized that it would be difficult for UNHCR to indicate the financial impact of the proposed modified policy (given the stipulated conditions under which it would be applied), several delegations, nevertheless, asked UNHCR for such an indicative figure. UNHCR undertook to consult further with NGOs on these issues and to report on the outcome of its discussions to the Standing Committee.

6. As to the proposed draft decision, one delegation felt that it should highlight the partnership principle, whereby NGOs contributed to refugee programmes with resources that they themselves raised; it was also felt that the related concerns of the Board of Auditors (A/AC.96/853, paras.85-90) and the ACABQ (A/AC.96/853/Add.1, para.10) should also be referred to. Another delegation felt that the need for sustained dialogue between UNHCR and NGOs to address other issues of mutual concern should also be mentioned in the decision. The meeting agreed that the document, HCR/INFCON/2 (without the initial draft decision) would also be attached (see Annex 2), for information purposes, to this report.

Annex I

Draft Decision on the Overhead Costs of NGO Partners

The Standing Committee,

OP1. Welcomes the proposals for a revised and clarified policy on support costs available to international NGOs set out in EC/46/SC/CRP.21;

OP2. Reaffirms the importance of the principle of partnership whereby NGOs contribute to refugee programmes with resources that they themselves raise;

OP3. Encourages all those in a position to do so to assist NGOs to continue to meet, or to develop the capacity to meet, these support costs, and particularly headquarters support costs, noting the already heavy burden on UNHCR voluntary funds;

OP4. Recognizes nevertheless that the headquarters support costs of international NGOs implementing programmes on behalf of UNHCR are a legitimate charge to UNHCR voluntary funds;

OP5. Decides that UNHCR should, on request from an NGO, participate in bearing headquarters support costs on the conditions set out below:

(a) that a standard percentage would be applied by UNHCR in respect of such costs to all funds provided by UNHCR, with the exception of funds provided for activities that do not entail headquarters support costs;

(b) that, in cases where the actual audited percentage of headquarters support costs of an NGO is lower than the standard percentage, the lower figure shall be applied;

(c) that, in order to qualify for such support, the contribution of an NGO to the programme concerned must be determined by UNHCR to be at least sufficient to offset UNHCR's total contribution to all support costs;

(d) that an NGO contribution to a programme shall be defined as an input which would otherwise be an appropriate charge on UNHCR funds;

(e) that the time frame over which an NGO contribution will be taken into account shall be the current and previous calendar years;

(f) that the geographical scope within which an NGO contribution will qualify for consideration shall be that of a UNHCR regional programme, where such a programme exists or, otherwise, of an entire country programme;

OP6. Concurs that the standard percentage should initially be set at 8 per cent;

OP7. Encourages UNHCR to continue dialogue with NGOs on other issues of mutual concern;

OP8. Requests the High Commissioner to keep the Standing Committee regularly informed on the implementation and financial impact of the modified policy, bearing in mind the observations of the United Nations Board of Auditors and the Advisory Committee on Administrative and Budgetary Questions.

Annex II

SUMMARY OF INFORMAL CONSULTATIONS ON OVERHEAD COSTS^{1 2}

I. INTRODUCTION

1. Documents EC/1995/SC.2/CRP.27 of 4 September 1995 ("UNHCR and its implementing partners") and HCR/INFCON/1 of 13 December 1995 (the background note prepared for the first meeting of these informal consultations) set out the historical background to UNHCR's partnership with NGOs and UNHCR's current policy on meeting costs incurred by NGOs as a result of their implementation of UNHCR-funded projects. At the third meeting of these consultations, on 29 February 1996, representatives of the NGO community presented their views and recommended a mechanism to provide for a UNHCR contribution to partially cover the headquarters component of these costs. At the same meeting, UNHCR presented its views. It was felt that significant progress had been made towards a solution to the problems that had occasioned these consultations. UNHCR was requested to prepare a position paper that took account of the views expressed in the consultations. This paper examines the issues and then suggests a modification of UNHCR's current policy.

II. DEFINITIONS

2. Many different terms are used to distinguish various types of cost and there are no agreed standard definitions. Commonly used descriptions of costs include: administrative; delivery; direct; headquarters; in-country; indirect; non-operational; operational; overhead; programme; and support. Depending on the context and practice, the same term may refer to different costs and different terms may refer to the same or overlapping costs. "Overhead costs" is perhaps the most widely used (and even potentially confusing) generic term, and frequently covers a broad portion of general operating expenses, calculated using a percentage. As some Governments have described their practices in these consultations, the term may also refer to a contribution in addition to that towards more directly assessed project support costs.

3. This paper uses two terms: operational costs, defined as those of the activity itself; and support costs, defined as those necessarily incurred in supporting and managing the activity. It should be noted that personnel may be either an operational or a support cost. Generally, the closer the personnel are to the activity site(s), the more likely they are to be an operational cost.

4. Support costs are often incurred at several locations. These may range from the activity site, through in-country and regional NGO offices, to an international NGO's headquarters. Support costs themselves range from those that are clearly and directly attributable to supporting the activity (for example, administrative personnel, travel and communications costs wholly dedicated to the activity) to those less clearly or directly attributable to the activity, and which for that reason are often determined *pro rata* (for example shared offices and utilities, common accounting and financial services). Certain costs, or even a *pro rata* share of them, are clearly not support costs in this context: for example, those related to an NGO's advocacy activities, fund-raising and external relations.

III. EXAMINATION OF THE ISSUES

5. The answers to three related questions are considered central to a resolution of the issues before the informal consultations. First, what is the nature and level of the contribution from an NGO that allows the relationship to be characterized as one of partnership, as opposed to a contract subject to the normal procedures for the procurement of services? Second, what support costs are a legitimate charge on UNHCR voluntary funds channelled through NGOs?

Third, if international NGO headquarters support costs are such a legitimate charge, what arrangements to meet them would be appropriate?

6. The first question has at its heart the contribution of the NGO to a common endeavour. The concept of partnership is predicated on a significant contribution from the NGO. That NGOs make such contributions is evident, and has long underpinned the assumption that the relationship is indeed one of partnership, not sub-contracting. Assessing the level of this contribution has proved extremely difficult for a number of reasons. What should be counted as a contribution has often been unclear, as has what indicative value should be placed upon it. A measure for what type and minimum level of international NGO contribution constitutes a partnership is necessary to resolve this question, and is suggested in the proposal below.

7. Should the NGO contribution not reach this minimum level, the relationship in the implementation of that project would be considered as one for a contractual service, and UNHCR would determine whether it was appropriate to proceed on that basis or whether other implementing arrangements would be more appropriate. In this regard, it may be noted that there are occasions when UNHCR requests an NGO to undertake project implementation of activities which the NGO does not consider a priority for the contribution of its own funds. It may also be noted that, in the interests of capacity-building and ensuring an appropriate response, UNHCR allows local NGOs considerable latitude in the determination of what contribution constitutes a partnership. These situations are not addressed in this paper.

8. In considering the second question, a distinction may be made between what is legitimate and what is desirable. As defined above, support costs are a legitimate charge on UNHCR voluntary funds, as they are a necessary consequence for an NGO of an agreement to implement a project with UNHCR funds. With regard to the desirability of these costs being borne by UNHCR, UNHCR policy has sought to encourage local NGOs by allowing considerable flexibility in meeting their support costs. The policy for international NGOs has, however, been that they should meet their own support costs, though more flexibility is allowed for their in-country (and any regional) support costs than for their headquarters support costs. UNHCR has hitherto sought to avoid meeting the latter unless the circumstances were considered exceptional. Defining such circumstances has proved difficult, and the practice has not been consistent.

9. The difference in approach to international NGO support costs incurred in-country and at headquarters in part reflects the fact that the former are generally more easily identified and itemized. It is also UNHCR's position that NGOs should avoid dependence on UNHCR funding for the maintenance of their headquarters establishment. It is recognized that the smaller the part of the NGO's total activities that is funded by UNHCR, the less the dependence. More generally, UNHCR believes that the relationship with its international NGO partners has benefited from UNHCR's not having a financial involvement in their headquarters operating costs, and not being considered as an institutional donor.

10. UNHCR recognizes that this approach requires its international NGO partners to devote more of their own funds to support costs than would be warranted by the volume of operational activities that they themselves fund. Some partners are unwilling, and some may be unable, to support this extra burden. Others have chosen not to seek headquarters support costs from UNHCR for operational activities funded by UNHCR. The proposal below takes account of these factors.

11. The third question, and the most difficult issue to resolve, is that of the headquarters support costs of international NGOs. There are a number of possible practical arrangements should UNHCR meet these costs. Three options that have been considered by UNHCR are briefly examined below.

IV. OPTIONS

12. The following are among the options for a UNHCR contribution to the headquarters

support costs of international NGOs.

12.1 Option 1: these costs could be calculated on a case-by-case and itemized basis. This has the disadvantage that the costs must be renegotiated for each agreement and that the results are unlikely to be either transparent or consistent.

12.2 Option 2: these costs could be calculated using a percentage specific to that NGO, reflecting actual headquarters support costs as incurred across all its operational activities. A number of NGOs use this method for their own budgeting, with the level of the percentage reviewed regularly by their auditors. While simpler and more transparent than option 1, this option could be seen to favour those NGOs with relatively higher headquarters costs, and - other elements being equal - could be expected to lead UNHCR to seek to work with those NGOs with the lower percentages.

12.3 Option 3: these costs could be calculated using the same standard percentage for all NGOs and projects, except that if an NGO's actual audited headquarters support costs represented a lower percentage, that would be used. This option is the simplest, most transparent and consistent of the three.

13. Option 3, with the requirement that the NGOs contribute an amount at least equal to UNHCR's total contribution to support costs, is broadly that proposed by the NGOs on 29 February 1996. It would be UNHCR's preferred option. As the NGOs noted, definitions are required as to what would count as a contribution and what period and geographical area would be taken into consideration. Parameters for these are included in the proposal below.

V. PROPOSED MODIFIED APPROACH FOR INTERNATIONAL NGO HEADQUARTERS SUPPORT COSTS

14. UNHCR believes that its practice on headquarters support costs for international NGOs should be modified. At an NGO's request, UNHCR would be prepared to adopt option 3 if the conditions outlined below were met. The standard percentage would initially be set at 8%, as proposed by the NGOs. This percentage - or the NGO's actual audited percentage if lower - would be applied to all funds provided by UNHCR except those to be used for purposes that did not incur headquarters support costs, such as significant local procurement, the example cited by the NGOs.

15. The first main condition for this modification would be that the contribution of the NGO to that particular partnership was considered by UNHCR to be at least sufficient to effectively offset UNHCR's total contribution to support costs. This corresponds to the NGOs' proposal. The second main condition, already implicit in the formulation above, would be that the contribution resulting from the percentage calculation did not exceed the actual headquarters support costs incurred in implementing the UNHCR-funded project.

16. In assessing whether an NGO's contribution met the first main condition, the following parameters would be used. First, what was counted as an NGO's contribution would be that which would otherwise be an appropriate charge on UNHCR funds. (NGOs carry out and provide a wide range of other activities and assistance that directly or indirectly benefit persons of concern to UNHCR, but that would not be undertaken by UNHCR, and thus would not be taken into consideration.) Second, the time frame over which an NGO's contribution would be taken into consideration would be the current and the previous calendar years. (Thus, if an NGO contributed well in excess of the "offset" requirement last year but was unable to sustain its contribution at even offset level this year, last year's excess would be considered.) Third, the geographical scope within which an NGO's contribution would qualify for consideration would be that of a UNHCR regional programme, where such existed, or otherwise of a whole country programme. If the proposal were adopted, elaboration of the framework for its implementation would take place directly between UNHCR and the NGOs.

VI. IMPLICATIONS

17. It is difficult to estimate the net increase in the burden on UNHCR funds and the impact on resources available in the field should this proposal be adopted. There would be no change to the high level of assistance for support costs now available to local NGOs. In many agreements, a significant part of international NGO in-country support costs is already met by UNHCR. Some of the exceptional arrangements that have been made for headquarters support costs provide a larger contribution than would be the case with the proposed arrangements. More international NGOs would be expected to request a contribution to headquarters support costs than currently benefit from exceptional arrangements. However, if their own funds thereby released were then reprogrammed for in-country activities that would otherwise have been funded by UNHCR, this would offset the increase as a result of UNHCR's contribution under this proposal. The definition of what counts as an NGO's contribution would encourage NGOs to focus their own resources on activities that would provide direct additionality in the field. UNHCR would keep the actual impact under close review.

VII. CONCLUSION

18. A modification and clarification of the present policy is required. The above proposal represents a compromise among differing opinions. Its adoption would allow easier, more transparent and more consistent application than does present practice. It would meet the request of the Board of Auditors that "UNHCR should establish appropriate norms to regulate the overhead costs of implementing partners whenever such payments are unavoidable and monitor the same regularly" (A/AC.96/853, para.90), and would address the related concerns of the ACABQ, which also strongly endorsed the Board's view that UNHCR should take this action (A/50/560, para.11). More generally, the modified and clarified policy would help UNHCR in its efforts to improve the effectiveness and management of its arrangements for implementation through NGOs.

¹ This document, dated 6 March 1996, was submitted to the 13 March 1996 meeting of the Informal Technical Consultations on Overhead Costs of NGO Partners under the symbol HCR/INFCON/2.

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