



Policy on Provision of Overhead to Local/ National Partner Organisations

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Summary

The policy aims to create transparency and define how Diakonie Katastrophenhilfe (DKH) manages indirect costs (ICR) for local/national partner organisations receiving project grants from or through DKH. It will be applied with each new project funding agreement from 2024 onwards. The provision of overhead costs is considered crucial for the sustainability and crisis preparedness of humanitarian actors

The policy is aligned with the October 2022 IASC Guidance and key donor requirements. DKH recognises the needs of local/national organisations as equivalent to international NGOs and provides up to 7% ICR. In addition, a fair distribution of ICR is practised if there are no specific donor requirements and support is offered in setting up cost absorption systems. The aim is to establish consistent cost categories in accordance with the "Money Where It Counts" protocol and to enable local partners to cover their costs sustainably and become self-sufficient.

Introduction

Cost sharing with local/national partner organisations is an important element in the localisation and decolonisation agenda. This policy shall create transparency and inform Diakonie Katastrophenhilfe (DKH) staff, local/national partner organisations as well as donors on how DKH handles indirect cost recovery (ICR) for local/national partner organisations receiving project grants from or via DKH. It does not cover DKH own cost allocation nor indirect cost recovery when working with networks or international non-governmental organisations (INGOs).

This policy will be followed by a manual for partners on how to deal with indirect cost in projects funded by DKH.

This policy shall be applied with every new project funding agreement starting in 2024.

Background

Overheads are an intrinsic part of program delivery, enabling organisations to better serve people affected by crisis. ICR contributes to organisational sustainability, crisis preparedness, and response of humanitarian actors, including local and national non-governmental organisations (L/NNGOs).

The inconsistency of providing overheads to L/NNGOs can trap local/national organisations in a “starvation cycle” of underfunding.

The current funding arrangements reinforce sub-contractor mentality, undermine equitable partnerships, and erode trust between international and local/national organisations. Sharing or providing overheads is an essential step in realising commitments around localisation, local humanitarian leadership, and decolonisation of aid.

DKH sees this as one critical step towards local/national partner organisations being able to cover their costs in a sustainably way. However, the aim is to continue advocating for local/national organisations to have access to direct funding, robust fundraising instruments to cover their costs, and thereby become self-reliant.

All organisations face challenges in fully recovering indirect costs, but local /national organisations are disproportionately affected by inequitable funding practices.

Normative and legal framework guiding the policy

Following the World Humanitarian Summit in 2016, the Grand Bargain took up diverse topics related to localisation within its work streams and caucuses. One of the issues was the question of how to enable local and national organisations to maintain their operations and enhance their institutional resilience.

The topic of sharing and/or providing overheads to local and national partners was raised among Charter for Change (C4C) signatories’ directors in March and June 2023. It was agreed that C4C signatories would develop their own ICR-policy by end of 2023 if not already in place.

Taking into consideration that C4C signatories and endorsers interact directly or via networks like the Network for Empowered

Key Documents, Normative & Legal Framework

The "**IASC Guidance on the Provision of Overheads to Local and National Partners**" addresses the critical issue of overhead, or indirect cost, funding for local and national partners in humanitarian activities. This guidance, developed by the Inter-Agency Standing Committee (IASC), provides recommendations to improve policy and practice ensuring that these partners can access overhead funding necessary for efficient, effective, and safe operations. It highlights the need for international humanitarian organisations, such as UN agencies and international NGOs, to adopt a harmonised approach to the provision of overheads to support the foundational costs that are not directly tied to specific projects but are essential for the overall functioning of the organisation.

The associated research report on "**Overhead cost allocation in the humanitarian sector**" further elaborates on these themes by mapping current practices and suggesting ways to overcome challenges in funding overhead costs for local and national partners. This research underscores the importance of equitable funding practices to support the sustainability and effectiveness of humanitarian responses.

Aid Response (NEAR), with the Grand Bargain (mainly the localisation caucus) and considering that most donors (like the German Federal Foreign Office (GFFO) and the European Civil Protection and Humanitarian Aid Operations (DG ECHO) align with the outcome published by the Inter Agency Standing Committee (IASC), DKH has decided to incorporate the [IASC **Guidance on the Provision of Overheads to Local and National Partners**](#) from October 2022 into the present policy. This guidance was developed based on [research on overhead allocation in the humanitarian sector](#) in November 2022, commissioned by IASC.

It will also address the requirements of DG ECHO, which is both a Grand Bargain Signatory and ambassador of the Grand Bargain 3.0, as outlined in its guidance note on “**Promoting equitable partnerships with local responders in humanitarian settings.**”

Policy purpose

The purpose of this policy is to establish a systematic approach for addressing the recovery of indirect costs for local and national partner organisations. By formalising these procedures, this policy aims to contribute to the creation of more equitable partnerships, ensuring that all associated organisations are supported comprehensively and fairly in their collaborative endeavors.

Policy Key Definitions

Cost definitions as in the first component of the [Money Where It Counts protocol](#) (MWIC):

1. Direct costs: the necessary and reasonable costs incurred in delivering a specific programme or project.

These costs arise directly because of the activities required to implement the programme or project are 100% directly charged, allocated, or apportioned to the funding arrangement for that programme or project.

2. Indirect costs: 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. It is not practicable to charge indirect costs to individual funding arrangements in accordance with direct use or consumption, but without the functions they represent, projects and programmes could not be delivered effectively, efficiently, and safely.

3. Ineligible costs: certain specific costs are ineligible for funding under MWIC. These are as follows:

- a) Losses or provision for losses due to fraud and corruption
- b) Purchase of land and buildings (unless explicitly agreed in the funding arrangement)
- c) Interest/debt servicing costs (unless the funds are paid in arrears)
- d) Disallowed costs from activities funded through funding arrangements
- e) Costs of raising unrestricted or unearmarked funds
- f) Costs of gifts and donations
- g) Alcohol costs
- h) Entertainment costs

Based on their programme approaches and aims, agencies have different organisational structures and geographic presences. Direct costs and indirect costs definitions constitute all the necessary and reasonable inputs required to undertake the *functions* necessary for the related activities, wherever they may be located or sited within the agency. Under this Protocol, agencies map their entire cost base against these categories, in order to ensure that only the direct costs of the relevant activities are included in proposal budgets, and that the agency's indirect cost rate is calculated accurately without double funding of costs.

Policy Statement

DKH recognises local/national organisations 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.

To contribute to a harmonised approach, DKH will follow the IASC Guidance on the Provision of Overheads to Local and National Partners, October 2022 in the following way:

- I. DKH provides up to seven percent (7%) ICR when funding programming/projects of local/national partner organisations from DKH's own privately raised funds.
- II. DKH provides "fair sharing" of ICR with local/ national partner organisations when a donor does not stipulate or provide guidance on ICR sharing with local/national partner organisations.
- III. DKH applies the same conditions for ICR to local/national partner organisations as specified by the donor and complies with the relevant donor regulations.
- IV. DKH provides capacity strengthening support to local/ national partner organisations where necessary, such as for the development of internal cost recovery policies and systems.
- V. DKH works to match our policies and project agreements with the cost definitions in the Money Where It Counts protocol, aiming to make cost categories consistent.
- VI. DKH advocates to make sure discussing overhead costs for all partners is a regular part of meetings with donors and new funding proposals. DKH also aims to help local and national partners talk directly with donors on this topic.

Approach

- I. DKH provides up to seven percent (7%) ICR when funding programmes/projects of local/national partner organisations from DKH's own privately raised funds.

The minimum provided rate will be three point five percent (3.5%) and can go up to a maximum of seven percent (7%). The basis for calculating the percentage are direct project costs, and the rate will be mutually agreed upon, taking into consideration:

1. if a standard calculation of indirect cost rate based on its actual costs in its last complete financial year exists this rate will be applied as long as it does not exceed seven percent (7%),
2. if the local/national partner has a cost sharing policy that guarantees an accurate, transparent and equitably applied recovery of indirect costs; this policy shall be followed as long as the ICR does not exceed seven percent (7%),
3. the absolute amount of annual indirect costs of the partner organisations shall be the base for the recovery of indirect costs. ICR from projects and funding sources within a given year shall not exceed this amount,
4. available direct funding of indirect costs/overhead will reduce the amount of indirect costs recovered via projects
5. the three point five percent (3.5%) will be applied for local/national partner organisation that have not yet set up policies and procedures that guarantees accurate, transparent and equitable recovery of indirect costs from all projects and funding sources; development of such policies and procedures shall be a requirement for further funding and be part of a wider

partnering agreement between DKH and the local/national partner organisation,

- II. DKH provides "fair sharing" of ICR with local and national partners when an institutional donor does not stipulate or provide guidance on ICR sharing with local/national partner organisations.

DKH applies a fixed share of 50 percent with local/national partner organisations. If a project is implemented with multiple local/national partner organisations, the 50 percent is distributed as a proportionate share in accordance with the budget executed by the respective local/national partner organisation.

- III. DKH applies the same conditions for ICR to local/national partner organisations as specified by the donor and complies with the relevant donor regulations. Conditions may include restriction to specific costs, subject to individual project audits, or time-bound with the project duration. As basic requirement local/national partner organisations shall have a cost sharing policy that guarantees a fair, accurate and transparent charging system. The cost sharing policy of the local/national partner organisation will be fully applied in case no conditions exist.

- IV. DKH provides capacity strengthening support to local/ national partner organisations where necessary, such as for the development of internal cost recovery policies and systems.

Besides supporting policy and systems development, DKH also strives to provide and facilitate information and

transparency on DKH own costs and possibilities of cost recovery from donors to local partners, with the aim of strengthening their negotiation power on cost recovery.

V. DKH works to match our policies and project agreements with the cost definitions in the Money Where It Counts protocol, aiming to make cost categories consistent.

DKH will introduce the cost definitions of MWIC in the budgets for projects funded by DKH.

Since each local /national organisation has its own specific funding system, this must be

taken into account while applying the above rules (e.g. part of ICR may be covered by complementary institutional funding agreements). The application of MWIC will demand a specific methodology and set up. Therefore, it will become a process to see and discuss with partner organisations if the foreseen percentages are reasonable and justified.

The main focus will be on local partners having an internal cost recovery policy and procedures that ensures comparable application and recovering of indirect costs without double funding of cost.

Terms and Definitions

1. Local and national non-state actors are “Organisations engaged in relief that are headquartered and operating in their own aid recipient country and which are not affiliated to an international NGO”.

Note: “A local actor is not considered to be affiliated merely because it is part of a network, confederation or alliance wherein it maintains independent fundraising and governance systems”.

2. National and sub-national state actors are “State authorities of the affected aid recipient country engaged in relief, whether at local or national level” (text endorsed by GB signatories).

No national and local actors:

- Internationally affiliated organisations: Organisations that are affiliated to an international organisation through inter-linked financing, contracting, governance and/or decision-making systems. This category does not include local and national organisations that are part of networks, confederations or alliances wherein those organisations maintain independent fundraising and governance systems.
- Southern international NGOs: NGOs based in aid recipient countries that are not OECD member countries, carrying out operations outside of the aid recipient country in which they are headquartered and not affiliated to an international NGO. The same organisation can be classified as a national NGO/CSO when carrying out operations within the country in which they are headquartered.
- International NGOs: NGOs not based in an aid recipient country and carrying out operations in one or more aid recipient countries.
- Multilateral organisations: Agencies of the United Nations (UN) and other international organisations.
- International Red Cross and Red Crescent Movement: the International Committee of the Red Cross (ICRC) and the International Federation of Red Cross and Red Crescent Societies (IFRC), as well as Red Cross/Red Crescent National Societies operating outside of their own country.
- International private sector organisations: Organisations run by private individuals or groups as a means of enterprise for profit, that are not based in an aid recipient country and carrying out operations in one or more aid recipient countries.

List of Abbreviations

C4C	Charter for Change
DG ECHO	Directorate General European Civil Protection and Humanitarian Aid Operations
DKH	Diakonie Katastrophenhilfe
GB	Grand Bargain
GFFO	German Federal Foreign Office
IASC	Inter Agency Standing Committee
ICR	Indirect Cost Recovery
ICRC	International Committee of the Red Cross
IFRC	International Federation of Red Cross and Red Crescent Societies as well as Red Cross/Red Crescent National Societies
INGOS	International Non-Governmental Organisations
L/NGO	Local/National Non-Governmental Organisation
MWIC	Money Where it Counts Protocol
NEAR	Network for Empowered Aid Response
UN	United Nations

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