NATIONAL NGOS SERVING AS PRS EXCLUDED FROM THE GLOBAL FUND'S POLICY ON PERCENTAGE-BASED OVERHEAD COSTS

Policy covers primarily international NGO PRs

Some concerns that the policy is being applied inconsistently

Concerns have been expressed that the Global Fund's new policy on percentage-based overhead costs for international NGOs excludes national NGOs, except in very limited circumstances, and that there is no equivalent policy for national NGOs.

On 18 April 2011, the Global Fund adopted a new policy on percentage-based Headquarters overhead charges for international NGOs (INGOs) serving as principal recipients (PRs) and sub-recipients (SRs). The policy applies to INGO PRs and SRs that have certain services provided by their "Headquarters" (including regional offices) located in another country. The INGO PRs and SRs have to be able to demonstrate strong Headquarters involvement in their operations.

According to the policy, for services provided by Headquarters, an INGO PR can charge a maximum of 3% of the costs of procuring health products; up to 7% of other costs incurred by the PR directly; and up to 5% of the funds managed by SRs. These maximums are reduced in certain instances. For example, if a procurement agent is used, an INGO PR can only charge 1% of the costs of procuring health products (not 3%).

INGOs serving as SRs are entitled to charge a maximum of 3% of the costs of procuring health products; and can charge up to 5% of other costs incurred by the SR directly.

The policy states that the services provided by Headquarters for which a percentage-based overhead fee can be charged include financial accounting, treasury management and reporting support; management support and oversight; human resources administration support; legal support; IT support; internal audit; routine technical assistance and capacity building of in-country staff and structures; and procurement services.

The policy states that it specifically excludes national NGOs and U.N. agencies serving as PRs and SRs. Despite this, the policy includes a section on national NGOs. It says that national entities may not charge percentage-based overhead fees, but should be able to "directly charge" any support provided by Headquarters "using a reasonable basis of apportionment." Further, the policy states that in exceptional cases, where a national entity is managing multiple programmes and apportionment is not practical due to the low value of the Global Fund grant compared to other funding sources, a percentage-based charge may be applied.

Many national NGOs are upset about the fact that they are not permitted to charge percentage-based overhead costs in most situations. A spokesperson for one national NGO PR told GFO that in order to include any Headquarters cost as a direct cost in the programme budgets, detailed and tedious justifications are required. "One may say this brings about accountability," the spokesperson said, "but this does not assist the national NGO to grow beyond what it is today. Costs that go directly towards strengthening the governance structure of the organisation or increasing office space would be questioned by those [in the local fund agent and in the Secretariat] carrying out the review."

The Civil Society Principal Recipients Network (CSPRN), a network of 46 international and national PRs, expressed concern about the exclusion of national NGOs from the overhead policy. "As with INGOs," the CSPRN said, "national NGOs incur costs that are not directly related to Global Fund implementation but that have an overall impact on organizational effectiveness." The CSPRN formally recommended to the Global Fund that it develop an indirect cost recovery policy for national NGO implementers. The CSPRN said that such a policy would reduce conflict and delays during grant negotiations and would reinforce the Global Fund's objective of country ownership.

The CSPRN has set up a task force to advocate for a new policy on overhead costs for national NGOs or, alternatively, for the extension of the INGO policy to cover national NGOs.

The CSPRN also said that the new policy implemented in April 2011 has sometimes been misunderstood, misinterpreted and inconsistently applied by various stakeholders involved in grant negotiation processes. The CSPRN cited as examples the fact that there have been contradictory messages from local fund agents and fund portfolio managers concerning how the policy should be interpreted, and the fact that there have been instances of treating direct implementation costs as Headquarters support costs.

One member of the CSPRN told GFO that the Global Fund is attempting to apply the policy to grants signed before the policy came into effect. The member said that this is a violation of the signed agreements for these grants.

The Fund's policy on overhead costs for INGOs is contained in an operational policy note in Section 6.1.5 of "The Global Fund's Operational Policy Manual," available here. Some of the information for this article came from a paper describing the recommendations and meeting outcomes from a CSPRN meeting held in October 2011, on file with the author.

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