

Memo to MPSC on GGGI Overhead

April 6, 2018

Background

There are several Council decisions related to overhead costs at GGGI, namely:

1. Overhead rate GGGI charges on earmarked proposals is 7 to 13%ⁱ.
2. Management and Administration costsⁱⁱ should be 17% of the core resources by 2020.
3. Non-programmatic costs should be reduced from the then 41% to 30% of core by 2020.

As GGGI is rapidly moving from a situation with primarily core resource funding to a system with a significantly larger share of earmarked resources, it is important to ensure that the overhead costs are appropriately defined, and a target is agreed upon for a desirable rate.

This note lays out key principles for a sustainable overhead

Proposed principles

1. Overhead supports both core and earmarked resource funded projects and should be defined as a percentage of the total expenditures of GGGI, not as a percentage of core alone.
2. The overhead rate charged on earmarked projects should closely approximate the real rate, so that there is no subsidy of core resources to earmarked projects (full cost recovery).
3. The overhead of GGGI should not be higher than that of similar international organizations.
4. All costs that can be directly charged to projects should be charged out, to minimize overhead costs.

Actual situation

In the 2017-18 WPB, the non-programmatic costs are targeted to be below 30% of the core resource expenditures. At budgeted levels of \$47.6M in 2017 and \$50.04M for core resource expenditures that results in a non-programmatic budget of \$13.4M per annum.

For the 2019-20 WPB the forecast core resource expenditures are around \$26.2M per annum and at 30% of that, or \$ 9.86M a significant reduction is required. Both OED and ODG have initiated exercises to explore how costs can be reduced, particularly through a reduction in staff cost.

From informal comparison, we have determined that the overhead for similar organizations is around the 15-20% level, with significant pressure to reduce overheads from earmarked

resource donors. Donors often have regulations limiting overheads to a maximum of 15%, sometimes less.

While para 9.3 of the Finance Policies and Procedures, dated July 2016, provide a definition, and examples of direct-indirect cost structure, GGGI will need to work toward defining these better to enable them to be used to drive overhead costs down, and charge the largest possible share to projects.

It would be desirable for GGGI to move to a situation where the real total non-programmatic expenditure – the overhead costs – equaled the amount charged to earmarked project donors. A realistic target, at least in the medium term, would appear to be 15% overhead as a total of overall expenditures.

Proposed actions to be discussed with MPSC:

1. Propose a new Council decision to limit overhead costs (defined for now as ODG + OED) to a maximum of 15% of total (core plus earmarked) expenditures, and request management to reduce overheads to this level over the next 2-3 years, that is, by latest end 2020.
2. Request management to develop a more detailed direct-indirect cost structure to enable a more precise overhead definition and drive the overhead costs down, for adoption by Council
3. Propose that Council increases the standard overhead to be charged on earmarked projects from the current 13% to 15%, equal to the target overhead costs, to avoid subsidizing earmarked projects with core resources.

ⁱ **Decision on the approval of minutes from the sixth session of the Council [C/WRP/DC/9], December 16, 2014**

Reference to Decision on the Work Program and Budget 2015-2016 [C/6/DC/5]

a. To ensure transparency, accountability and ease of accounting, GGGI will charge 7% Project Support Cost (PSC) for earmarked projects funded by core contributing members of GGGI; and

b. To ensure core resources do not subsidize earmarked projects, funding partners who are not GGGI's core contributing members will be charged between 7% to 13% overhead cost, depending on the value and complexity of the projects

ⁱⁱ Programmatic Cost: Cost of all programs including Impact and Evaluation Unit; Non Programmatic Cost: Includes Management and Administration (M&A), Strategy, Policy and Communications (SPC), Office of the DG (replacing former Office of the Executive Management Group), Office of Internal Audit and Integrity (OIAI) and Capital Cost. <https://gggi365.sharepoint.com/teams/spc/AFSC/Draft%20Work%20Program%20and%20Budget%202015-2016.pdf>