

Draft Budget: Oversight Mechanism of the International Code of Conduct for Private Security Service Providers (ICoC)

Introduction and Methodology

Since starting its work in late 2010, the Temporary Steering Committee (TSC) has received frequent questions regarding the potential costs of the oversight mechanism required by the ICoC. The TSC understands that cost is a concern, and that excessive cost will affect enthusiasm for and implementation of the ICoC. In creating the Draft Charter, released for public comment on 16th January 2012, the TSC attempted to strike a balance of effectiveness and efficiency. The Draft Charter for the ICoC Oversight Mechanism purposely leaves a number of structure and scope issues within the purview of the Board of the Oversight Mechanism. This gives the Board the flexibility to establish, and hopefully enhance, capabilities consistent both with its resources and its responsibilities.

As a result of this approach, a number of decisions that impact cost will occur after the Board is constituted. However, there are a number of functions explicitly and implicitly suggested by the Draft Charter that may be used to create potential budget models. To facilitate discussion regarding the Draft Charter, the TSC has compiled this document and the accompanying tables, which set forth possible budget models for the ICoC Oversight Mechanism. This is not a definitive budget, but rather an outline of possible budgetary approaches in order to facilitate multi-stakeholder review of the Draft Charter.

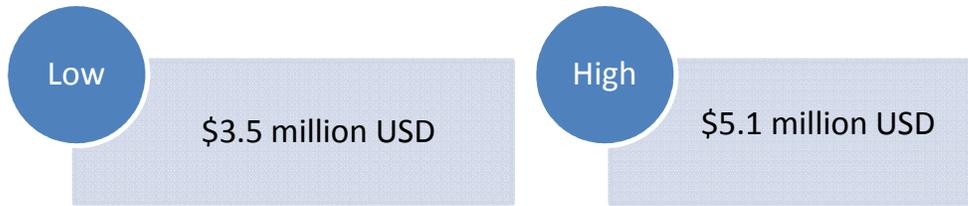
In preparing this information, the Temporary Steering Committee (TSC) made a number of assumptions. For example, the costs are assumed to be for a mechanism in its initial years of operation; this information does not, therefore, reflect the gradual escalation of a budget over time as the organization hires personnel, establishes a permanent office, and matures into a sustainable organization. The model also assumes, for the purposes of determining possible staffing levels needed to conduct the certification, performance assessment and other activities of the organization, that the number of companies participating in the mechanism will be approximately 300. The model further assumes that the Oversight Mechanism will be based in a European city.

Certain information is not included in this model, including information related to assumed revenue levels that may be available through annual dues from member companies or from voluntary contributions from other sources, including governments. In particular, the model does not reflect off-setting contributions that may be available from the government in the host-nation. The TSC is actively soliciting expressions of interest from governments who may wish to host the Oversight Mechanism, and notes that the Government of Switzerland has made a formal offer to host the mechanism that includes contributions that would significantly off-set certain costs related to staffing and administrative overhead.

Overall Cost of the Mechanism

The TSC has done an initial survey of already existing organizations with similar missions and mandates.² Extrapolating from this survey and from an analysis of the functions and activities contained within the Draft Charter, it is estimated that the overall cost of the fully functioning oversight mechanism would range between **\$3.5 million USD to \$5.1 million USD per annum.**

² For example, the International Security Sector Advisory Team (ISSAT) based in Geneva, Switzerland: ISSAT's 2011 budget was 3.185 million CHF for 15 personnel members and 65 field missions and activities.



Regarding the manner in which these funds would be spent, similar organizations' budget expenditures, e.g. the International Security Sector Advisory Team (ISSAT), typically follow a formula similar to this: 40%-50% for salary costs, 35-40% to cover operation costs associated with conducting assessments, and some 10-15% to cover rent and other administrative costs.



Adding all of these costs together and dividing by an estimated 16 personnel members would result in a per employee ratio of \$220000 USD to \$320000 USD.

Note that this estimate does not include the costs of certification that are expected to be borne by the PSC seeking certification.

Secretariat Staff

The draft charter proposes that the Secretariat shall consist of one full-time Executive Director, one Chief of Performance Assessment, and such other staff as the Board approves. Using the comparative data of similar organizations, 40-50% of the \$220,000 USD to \$320,000 USD per employee ratio is typically used to cover salary costs. Annex A lays out a potential model of staffing with 16 staff. The 16-person staff has been validated in comparison to the explicit and implicit functions suggested by the Draft Charter.

Overhead Costs

Overhead costs include office and meeting-space rent, office equipment, IT set-up and legal support and may be estimated to make up approximately 10-15% of the \$220,000 USD to \$330,000 USD per employee ratio. E.g. assuming the lowest estimate and staff of 16, this would amount to a cost of \$350,000 USD per year.

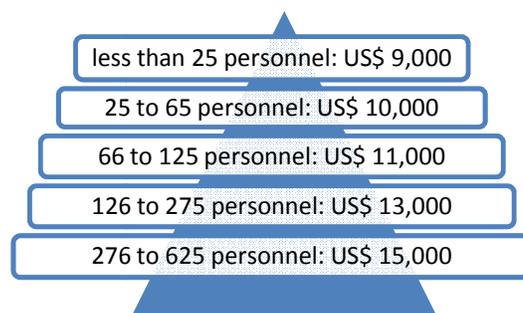
Costs related to Certification

The budget figures set forth in Annex B seek to predict the cost to an individual Signatory or Member Company for the ICoC certification as defined in section VIII of the draft charter. The model assumes two general categories of costs: first, the costs (i.e. daily rate, travel and other costs) associated with a headquarters-level audit by independent auditors accredited under section VII of the draft Charter; and second, the costs (expressed in terms of staff hours devoted to Oversight Mechanism review of audit

results, assumed to be 5 days at 8 hours per day) that will be directly incurred by the Mechanism in verifying that certification requirements were met and issuing the certification.

Both categories of costs are expected to be borne directly by the PSC seeking certification; the first set of costs could be paid by the company to the auditors retained for the audit; the second set of costs would be expressed as a fee payable by the company to the mechanism which would then be treated as revenue earmarked to cover the staff and other internal costs associated with evaluating certification applications.

As indicated in the draft Charter, these certification costs are expected to be incurred once every three years by a company. The estimated costs of certification for a range of sizes of companies are set out in Annex B and are based on comparator data available from other entities that conduct certification or similar activities:

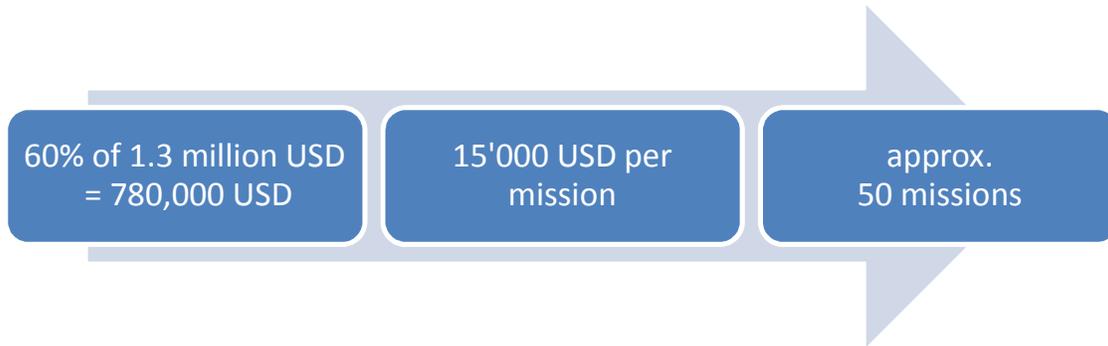


Costs related to Performance Assessment and Third Party Complaints

Under the draft charter, monitoring missions are envisaged to be designed to allow review of the activities of multiple Member Companies within specific complex environments. There is also the possibility of voluntary mediation missions in respect of a third party complaint; however, it is expected that the majority of resources and funding would be applied to monitoring missions. Under the formula expressed above, it is envisaged that the budget for Performance Assessment and Third Party Complaints would range between \$1.3 million USD to \$2 million USD. It is assumed that security for the monitors or mediator would be provided gratis by the PSCs that are being visited as part of the Performance Assessment process or third party complaint, as relevant.

For the purposes of these models, it has been assumed that the Oversight Mechanism will draw upon the services of two general categories of individuals to participate in performance assessment and third party complaint activities: 1) regular, salaried staff members and/or 2) individuals who have been accredited under section VII as independent monitors or as mediators. In this latter category, it is assumed for budgetary purposes that such external, independent monitors or mediators may include both individuals from within the country in which the review or mediation will take place and individuals from outside countries. As a budgetary matter, the costs associated with accredited monitors or mediators from inside the country will be lower (both because travel and per diem costs will be reduced or avoided altogether and because, generally, fees associated with such local monitors are lower than fees charged by experts from outside of such countries). Based on an initial survey, high quality independent monitors can be obtained for a daily rate between 500 and 600 USD or less. Therefore, based on the assumption that 60% to 80% of the performance assessment and third party complaints budget is paid to independent monitors, this results in up to 50 monitoring or mediation missions per year, assuming a mission lasts 10 days and needs three independent monitors or mediators. The remaining 20% to 40% of the budget

would be allocated to travel costs and expenses, which will vary depending on location of effort and composition of personnel.



Costs related to the Governance Structure

The Draft Charter provides for three organs of the Mechanism: the Plenary, the Board and the Secretariat. Plenary and Board participation are unpaid positions and so it is envisaged that much of their work would be carried-out with strong secretariat support.

Revenues and Cost Implications for Individual Member Companies

The annual operating costs of the mechanism are expected to be met primarily from dues and fees levied on Signatory and Member Companies, from off-setting contributions from the government in the host nation, and from voluntary contributions from other governments and outside sources. The TSC believes, depending on how many Signatory Companies continue to participate in the ICoC, that any dues structure may be comparable in scale to dues charged by existing industry associations.

Applying this methodology, Member Companies may expect to incur two categories of costs in relation to participation in the Oversight Mechanism. As noted above, Member Companies may expect to cover costs once every three years in relation to certification by the Oversight Mechanism in the form of direct payments to auditors retained for this purpose and in the form of a certification fee (estimated average certification fee: 2500 USD) payable to the Oversight Mechanism. In addition, the Oversight Mechanism will be required to establish annual dues that effectively cover the annual operating costs of the Oversight Mechanism after taking into account the off-setting contributions from the government of the host nation and other voluntary contributions from outside sources.

Annex A – Secretariat Staff Costs - Potential model of staffing with 16 staff:

(These salary figures assume base salary + 16% employer's charges)

<u>Section</u>	<u>Position</u>	<u>No. of people</u>	<u>Lower estimate</u>	<u>Higher estimate</u>
Executive Director	Executive Director	1	\$175,000	\$220,000
	Executive Assistant	1	\$80,000	\$100,000
Certification	Chief	1	\$150,000	\$180,000
	Specialist	1	\$110,000	\$130,000
Performance Assessment	Chief	1	\$160,000	\$200,000
	Monitors	2	\$220,000	\$260,000
Complaints	Complaints Manager	1	\$110,000	\$130,000
	Complaints Specialist	1	\$110,000	\$130,000
	Certifications, Performance Assessment and Complaints Executive Assistant	1	\$80,000	\$100,000
Policy, Programs and Membership	International Relations Representative	1	\$110,000	\$130,000
	Membership Liaison	1	\$110,000	\$130,000
Human Resources	Human Resources Specialist	0.5	\$50,000	\$75,000
Financial Management	Chief	1	\$130,000	\$150,000
	Financial Management Specialist	1	\$110,000	\$130,000
General Administration	Administrative Officer	1	\$80,000	\$100,000
Information Technology	IT Specialist	0.5	\$50,000	\$100,000
Total Annual Cost of Proposed Staff		16	\$1,830,000	\$2,226,000

Annex B

Certification Services

<u>Size of the PSC</u>	<u>Auditor Days</u>	<u>Daily Rate</u>	<u>Administrative Total Cost</u>	<u>Travel (1)</u>	<u>Certification (2)</u>	<u>Total for Oversight Mechanism Certification</u>
>25	3	\$1,500	\$4,500	\$1,754	\$2,500	\$8,754
25-65	3.5	\$1,500	\$5,250	\$2,003	\$2,500	\$9,753
66-125	4	\$1,500	\$6000	\$2,253	\$2,500	\$10,753
126-275	5	\$1,500	\$7500	\$2,752	\$2,500	\$12,752
276-625	6	\$1,500	\$9000	\$3,251	\$2,500	\$14,751

(1) Travel and Per Diem to London from Geneva

(2) Contribution to IGOM staffing costs for verifying that certification requirements were met and issuing the certification. IGOM will take into account certification that has already been obtained under other bodies to the extent it determines it meets its certification requirements.

Additional Notes:

- **Total Administrative Cost** and **Travel** would be paid by a company to the external auditor
The **Total for Oversight Mechanism Certification** would be incurred once every three (3) years as part of the certification process.