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Agenda item 6

For consideration

ISSUES ON FINANCIAL POLICIES

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Note to the Executive Board

This document is submitted for consideration by the Executive Board.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

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Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact the Supervisor, Meeting Servicing and Distribution Unit (tel.: 066513-2328).

Executive Summary

A review of the resource and long-term financing (R&LTF) policies was initiated following endorsement of the Programme of Work and Annotated Outline for the 2003 Review of Resource and Long-Term Financing Policies[1] by the Executive Board in the First Regular Session 2003.

During the review and informal consultations of the Board, it was agreed that the term R&LTF was unsuitable. It is therefore proposed that the term Financial Policy Framework (FPF) be used in future to refer to the policies on financial arrangements.

The initial review found that comprehensive evaluation of these policies was not practical without also reviewing the underlying business processes necessary to implement them, with the aim of ensuring that the policies are implemented efficiently and effectively.

The review should also incorporate the ongoing work on the Strategic and Management Plans. It is therefore proposed that the review of financial policies in future be integrated with the strategic and management planning processes of the Programme.

Progress has been made in achieving some of the original objectives of the policies under review, most notably in funding associated costs. These objectives are still broadly relevant to the Programme, as reflected in the consultations on the Strategic Plan. It is proposed that any changes to the policies be evaluated in light of WFP's strategic objectives.

Progress is also being made in harmonizing policies and procedures with other United Nations organizations, but a review revealed that WFP's policy of full-cost recovery (FCR) was unique among the organizations studied. The impact of this difference on funding modalities and resource and cost classifications was also found to be considerable.

An evaluation of FCR and the flexibility of resources indicated that resource usage could be enhanced within the existing policies by changing the way contributions were managed. Such changes must be reviewed and made before the policies can be comprehensively evaluated.

The review also examined the effects of contribution directedness and conditionality, which resulted in reaffirmation of the conclusion of the 2000 resource strategy that WFP should assertively advocate for more multilateral contributions.

The increased emphasis on the private sector as a source of additional income, as outlined in the consultations on the Strategic Plan, has highlighted the importance of policies in this area. Current WFP policies are based on two underlying principles:

a) the Guidelines on Cooperation between the United Nations and the Business Community, issued by the Secretary General; and
b) treatment of contributions from the private sector on the same basis as contributions from Member States.

The forthcoming zero-based budgeting exercise, which will be applied in the preparation of the 2004–2005 Management Plan, will identify fixed and variable support costs and support costs currently considered indirect that could be directly linked to an operation and therefore reclassified as direct support costs (DSC).

[1] Programme of Work and Annotated Outline for the 2003 Review of Resource and Long-Term Financing Policies (WFP/EB.1/2003/5-A/1).

The current funding and financing mechanisms are being examined in the following context:

a) to increase utilization of resources by identifying alternative sources of funding for contingency expenditures;

b) to minimize the risks to beneficiaries associated with under-preparedness and pipeline breaks; and

c) to make these mechanisms reflect the levels of past and prospective operations.

The issue of government counterpart cash contributions (GCCC) was also examined, with the conclusion that these contributions should be treated as far as possible in the same manner as all other contributions to the Programme.

Draft Decision*

The Executive Board:

a) endorses this review of the financial policies and its conclusions in document WFP/EB.A/2003/6-A/1; and

b) supports the incorporation of future reviews of these policies in WFP's strategic and management planning processes.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.

SECTION A: INTRODUCTION

Background

1. The Annotated Outline for the Review of Resource and Long-Term Financing Policies[2] was endorsed by the Executive Board during the First Regular Session of 2003. This included a Programme of Work, which proposed that all issues in the Annotated Outline be addressed during the Annual Session of the Board in May or the Third Regular Session of the Board in October.

2. During the informal consultations of the Board on 5 March and 28 March 2003, however, it was pointed out that many of the policies under review overlap with issues addressed in:

   - the Strategic Plan of 2004–2007, due for presentation to the Board at the Third Regular Session in October;
   - the Management Plan of 2004–2005, also due for presentation to the Board at the Third Regular Session in October.

3. The current review of policies has clarified the need for a business process review (BPR), as highlighted in the informal consultation of 28 March 2003 in particular. Such a review has already commenced, and initial indications are that the business processes can be improved to maximize the utility of existing policies. Comprehensive evaluation of existing policies without taking into account the proposed changes is therefore premature.

4. The BPR will continue to examine the issues outlined at the informal consultations and other issues relevant to improving WFP's efficiency and effectiveness. The resulting process changes will be reflected as far as possible in the 2004–2005 Management Plan.

Conclusion 1: The current review of these policies will be completed in tandem with the 2004–2007 Strategic Plan and the 2004–2005 Management Plan.

5. There is a need to review aspects of the FPF policies quite frequently, as evidenced by the 1999 review, the review of the indirect support cost (ISC) rate in 2002 and the current review. As the organization evolves, the financial policies need to be kept under regular review. The review of these policies should therefore be incorporated in the ongoing planning processes of the Programme.

Conclusion 2: It is proposed that in future these policies be reviewed on an ongoing basis as part of the strategic and management planning processes.

Terminology

6. The term "resource and long-term financing" was introduced in the mid-1990s to describe an initiative that led to the introduction of new policies in 1996. Since then, these new policies have been referred to as the "R&LTF policies".

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[2] Part II of the Programme of Work and Annotated Outline for the 2003 Review of Resource and Long-Term Financing Policies (WFP/EB.1/2003/5-A/1).

7. During the current review, many of those involved expressed the view that the term was cumbersome and not very intuitive. At the informal consultations of the Board there appeared to be general consensus that the term should be changed to "Financial Policy Framework". It is therefore proposed that this term be used in future to refer to these policies. The remainder of this document reflects this change in terminology.

Conclusion 3: The term "Financial Policy Framework" will be used to refer to the policies created as a result of the R&LTF initiative and all associated policies.

Annotated Outline and Structure of the Current Document

8. As decided at the First Regular Session of the Board, the Annotated Outline will form the "conceptual framework and definition of scope" for the current review. This document therefore follows the same structure as the Annotated Outline, which was:

- Section A: Introduction;
- Section B: Overview of the Financial Policy Framework;
- Section C: Full-Cost Recovery Principle;
- Section D: Funding Windows and Donor Categories;
- Section E: Programme Categories;
- Section F: Cost Categories;
- Section G: Funding and Financing Mechanisms; and
- Section H: Other FPF Issues.

SECTION B: OVERVIEW OF THE FINANCIAL POLICY FRAMEWORK

Policy Objectives

9. The five original aims and objectives of the FPF policies were described in the Annotated Outline[3] and can be summarized as follows:

a) to increase:

  i) the *predictability* of resources, and

  ii) the *flexibility* of their use;

b) to secure the required *level of resources* to be provided to WFP, and to optimize their use;

c) to ensure *funding for administrative* and other costs;

d) to *broaden the resource base*; and

e) to retain the *ability to draw on different line items* in donor budgets.

[3] Part II of the Programme of Work and Annotated Outline for the 2003 Review of Resource and Long-Term Financing Policies (WFP/EB.1/2003/5-A/1).

10. These aims and objectives have been evaluated and the following conclusions were reached:

a) **Predictability of resources:**

- As WFP is a voluntarily-funded organization, its overall resource levels are difficult to predict because donor governments are usually unable to commit resources beyond specific approved appropriations. The policies therefore do not appear to have had a significant impact on *overall* resource predictability.
- Introduction of the FCR principle, however, has improved the predictability of resources for associated costs and support costs, which are now confirmed at the same time as the associated commodity contribution.

b) **Flexibility of resource usage:**

- In some ways, resource usage appears to have become less flexible since the introduction of the policies (see the discussions of flexibility and contribution restriction below), as evidenced for example by the increase in directed multilateral resources noted below.
- This may not have been a result of the policies themselves so much as of the practices and processes introduced to implement them—for example the management of funds at the cost-component level (see the discussion of flexibility below)—and of changes in the external environment outside WFP's control.

c) **Securing the required level of resources:**

- It is difficult to determine whether the policies have had any direct impact on the overall levels of resources, which have remained high since the policies were introduced. They have been beneficial in securing the required level of funding for administrative and other costs, however, as indicated below.

d) **Ensuring the funding of administrative and other costs:**

- The ISC paper discussed at the 2002 Third Regular Session of the Board[4] outlined the current funding arrangements for administrative costs. It highlighted the uncertainty of the current funding mechanism and the potential for programme support and administrative (PSA) budget gaps—differences between PSA expenditure and the corresponding funding—in a given period.
- A review of the situation prior to the introduction of the FPF policies, however, has indicated that the funding of administrative costs was then even more uncertain and certainly less secure than under the current policies.[5]
- Similarly, the funding of "other costs"—associated costs—is also more certain because the FCR principle ensures that other costs are provided with the commodity or cash-for-commodity contribution.
- Improved funding for administrative and other costs has resulted in significant benefits to the organization, such as easier planning and increased predictability, and is one of the main advantages of the policies.

[4] Final Report on the Analysis of the Indirect Support Cost (ISC) Rate (WFP/EB.3/2002/5-C/1).

[5] For example, the Regular Resource balance—the monies available for PSA funding—declined from US$65.6 million at the end of 1987 to US$9.3 million at the end of 1995.

e) **Broadening of the donor base:**

- In the consultations on the Strategic Plan, the broadening of the donor base was outlined as a central component of WFP's Resource Strategy. As noted in the information document for the consultations on the Strategic Plan, the number of donors to WFP has increased by about 50 percent since 1996, but the level of burden sharing has not.
- The increase in number of donors is unlikely to be a direct result of the FPF policies, however. It is more likely that this trend is due to WFP's resource mobilization efforts and the response of the new donors to particular operations in their regions, such as the emergencies in Afghanistan, the Democratic People's Republic of Korea and Kosovo.

f) **Retention of the ability to draw on donor budget line items:**

No direct impact could be established.

11. At the informal consultation of the Board on 5 March 2003, it was noted that some of these objectives are contradictory. In some cases, for example, attempts to broaden the donor base may cause difficulties in funding administrative and other costs.

Conclusion 4: Although these objectives reflected the prevailing priorities when the policies were first developed in the mid 1990s, they are generally still relevant and are reflected in the current strategy of WFP as outlined in the discussions on the 2004–2007 Strategic Plan. Any changes to the current policies will be evaluated in the light of WFP's strategic objectives, as outlined in the Strategic Plan.

Harmonization

12. The Secretariat and many members of the Board consider harmonization of policies with other United Nation organizations to be of fundamental importance.

13. The Secretariat is actively pursuing opportunities to enhance the overall impact of the activities of the United Nations system through synergies and coordination with other organizations. The initiatives being undertaken in this regard include:

- adoption of the United Nations Development Programme (UNDP)/United Nations Population Fund (UNFPA) programme approval procedure, approved at the Third Regular Session of the Board in 2002;
- use of the harmonized format for biennial budgets adopted by other voluntary-funded United Nations programmes;
- harmonization of cost categories with other United Nation organizations;
- development of guidance on preparation for joint programming with UNDP, UNFPA and the United Nations Children's Fund (UNICEF); and
- ongoing participation in the work of the United Nations Development Group (UNDG) towards harmonization in the areas of:
  - ◊ common premises and services;
  - ◊ personnel policies;
  - ◊ project and programme implementation modalities;
  - ◊ resident coordinators; and
  - ◊ financial policies.

14. A review of the policies equivalent to WFP's FPF in UNICEF, UNDP, UNFPA and the Office of the United Nations High Commissioner for Refugees (UNHCR) is attached as Annex I. The main conclusions from this review are outlined in the following paragraphs.

15. **FCR principle:**

- In WFP, the FCR principle refers to donors providing the "full operational and support costs related to their *commodity* contribution".[6] WFP is in the unusual position of having a main direct input—the commodity—with which other costs such as transport can be associated. This may be one of the reasons why the FCR principle is not applied in the other four organizations.
- WFP is different from these organizations in the following respects:
  - ◊ Funding for the costs associated with a commodity contribution must be supplied by the donor of that commodity.
  - ◊ ISC is recovered equally from all the contributions made to WFP.

16. **Funding windows:**

WFP classifies its contributions into categories of "multilateral", "directed multilateral" and "bilateral"

UNHCR contributions are treated as either "annual resources" or "supplementary resources"

Contributions to UNICEF, UNDP and UNFPA are treated as either "regular resources" or "other resources".

17. **Programme categories:**

- WFP classifies its operations into four categories—"development", "emergency", "protracted relief and recovery" and "special operations"—according to the nature of the operations.
- The other organizations use a variety of classifications for their operations as indicated in Annex I.

18. **Cost categories:**

- As outlined in the ISC paper,[7] WFP has harmonized its cost categories with those of the other organizations.
- The DSC category is unique to WFP, however. In the other organizations, costs that are similar in nature to DSC, such as support costs that can be directly linked to an operation, are classified as "programme costs", i.e. they are combined with all other programme costs.
- This may be because of the nature of WFP's operations, which allows a reasonably clear distinction to be made between support costs and operational costs.

19. **Funding and financing mechanisms:**

- The current FPF seems to make the nature of the DSC advance facility and the Immediate Response Account (IRA) unique to WFP.

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[6] General Rule XIII.4 (a) [Emphasis added].

[7] WFP/EB.3/2002/5-C/1.

SECTION C: FULL-COST RECOVERY PRINCIPLE

Strengths and Weaknesses of FCR

20. An evaluation of the FCR principle conducted as part of the current review revealed the following:

a) **Strengths of FCR:**

- ◊ Generally, all donors are treated equally.
- ◊ There are no unfunded costs: funding is assured before spending occurs.
- ◊ Project management is enhanced by having assured funding for the costs associated with a commodity contribution.
- ◊ PSA funding is reasonably assured.
- ◊ The application of a single ISC rate simplifies the processes.
- ◊ There is transparency: all direct costs are identified to donor contributions.
- ◊ Absence of cross-subsidization of contributions enhances the confidence of multilateral donors in particular.
- ◊ It reflects operational needs and simplifies resourcing and planning, as commodity contributions come with contributions for associated costs.

b) **Weaknesses of FCR:**

- ◊ It is complex to implement because of changing operational requirements, differing timeframes of expenditures among cost categories and varying donor conditions.
- ◊ It can limit the ability to take commodity donations or other in-kind donations.
- ◊ As all contributions fund all cost components, earlier contributions to a project cannot be used to fund the earliest needs of that project. Hence advance facilities are needed, such as the Direct Support Cost Advance Facility (DSCAF).
- ◊ The confirmed contribution is imposed as a limitation on spending. In an uncertain environment this can mean that budgets are prepared conservatively.

Flexibility and Resource Usage

21. The objective of the current review of FPF is to "assess the effectiveness and efficiency of the policies and to review the issues and difficulties encountered in their implementation".[8] As outlined at the 2003 First Regular Session of the Board, the focus of the review is the impact of these policies on implementing WFP's operations.

22. The issues of flexible resource use and maximizing the utilization of resources are central to effectiveness and efficiency; they are also key elements in addressing problems associated with cash balances and the balances of closed projects.

[8] Part I of the Programme of Work and Annotated Outline for the 2003 Review of Resource and Long-Term Financing Policies (WFP/EB.1/2003/5-A/1).

Policy versus Practice

23. The review commenced by examining the flexibility of current policies, in particular the use of cost components and the FCR principle.

24. The Secretariat's implementation of the current policies involves controlling donor funds at the cost component level for all contributions. An examination of the closed project balances at 31 December 2001 reveals that this method can result in significant unspent balances in one cost component and minimal corresponding balances in other components. Rigid adherence to the allocation of contributions by cost components means that utilization of these balances can be problematic, for example where a balance to purchase a commodity is available but no transport funds are available.

Conclusion 5: An examination of the policies reveals that the present method of implementing them is not the only option. To increase the flexibility of resource use under the existing policies, the following approach will be adopted:

- FCR will be applied to the contribution at the time it is confirmed, using the calculation criteria outlined in General Rule XIII.4, (which states that "donors shall provide sufficient [resources] to cover the full operational and support costs related to their contribution, using the following [defined] criteria for the calculation of operational and support costs");
- subsequently, each individual contribution will be controlled at the project level rather than the individual cost component level, unless there is an overriding donor legislative restriction; and
- the changing requirements of the project will be used to determine the breakdown of the contribution among the cost components.

An example of this is attached in Annex II for clarification.

SECTION D: FUNDING WINDOWS AND DONOR CATEGORIES

Contribution Directedness and Conditionality

25. One of the objectives of the FPF was to secure flexibility in resource use, so the level and nature of the restrictions that donors place on contributions is of central importance to any evaluation of FPF policies.

26. WFP is mandated to "use food aid to support economic and social development; to meet refugee and other emergency and protracted relief food needs; [and] to promote food security in accordance with the recommendations of the United Nations and the Food and Agriculture Organization of the United Nations (FAO)".[9] The WFP Mission Statement, which is designed to complement and amplify this purpose, states: "targeted interventions are needed to help to improve the lives of the poorest people".[10] The ability to target interventions in order to ensure that resources are provided to the most vulnerable is central to WFP's mandate.

[9] General Regulations Article II: The Purpose and Functions of WFP.

[10] WFP Mission Statement.

27. In an environment where resources are limited, such targeting would be complex even if the nature of the needs were relatively static. When the fluid nature of the needs, the lack of adequate response time for most emergencies and the increasing level of emergencies are also considered, ensuring that resources—even multilateral ones— are used for the most vulnerable people becomes even more demanding.

28. The added layer of complexity associated with donor directedness and conditionality in this context further complicates the targeting of the most vulnerable people and timely delivery of resources.

29. Since implementation of the FPF policies, the share of directed multilateral resources as a percentage of total resources received has increased from 48.3 percent to 65.8 percent. This does not represent a comprehensive picture because:

a) "a certain amount of negative earmarking[11] [is considered to be] within the parameters of a multilateral contribution";[12] and

b) it does not reflect other conditions that donors apply to contributions.

It does, however, indicate a continuation of the trend "away from multilateral contributions", highlighted in the Resource Mobilization Strategy.[13]

Effects of Directedness and Conditionality

30. This trend away from multilateral contributions complicates WFP's ability to target its resource usage, as described above. It also:

a) can reduce the Programme's ability to respond quickly to critical needs, and delay implementation of operations;

b) increases the labour-intensiveness and cost of negotiating, programming, spending and reporting contributions;

c) adversely affects operations, for example by creating an uneven timing for the flow of resources;

d) reduces WFP's capacity to fund less popular but equally needy programmes and operations; and

e) in the case of the increased conditionality of *multilateral* contributions, raises the issue of how these are defined in terms of the kind of conditions, if any, that can be allowed if a contribution is still to be considered multilateral.

Ways to Reduce Directedness and Conditionality

31. The 2000 Resource Mobilization Strategy[14] identified measures to promote multilateral contributions in order to enhance flexibility. The strategy included "more assertive advocacy for greater multilateral contributions; better demonstration of the positive results of WFP's interventions; and provision … of Standardized Project Reports (SPRs) for multilateral donors … enabling donors to negatively earmark … and … drafting an appropriate program of recognition for multilateral donors".

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[11] Negative earmarking allows donors to stipulate which countries their multilateral contribution may *not* be used for.

[12] A Mobilization Strategy for the World Food Programme (WFP/EB.3/2000/3-B).

[13] WFP/EB.3/2000/3-B.

[14] WFP/EB.3/2000/3-B.

32. In this context, the following initiatives are ongoing:

- greater application of results-based management to demonstrate positive results to donors, thereby increasing confidence in WFP's work and reducing the need for contribution directedness;
- a review of the acceptability of contributions that impose an excessive administrative burden on WFP, unless the donor is willing to cover the additional costs that are required to accommodate these;
- development of reports for donors on the utilization of multilateral contributions; and
- improved quality and timeliness of reporting to donors: some donors have expressed the view that improved reporting would enhance their confidence to the extent that they would reduce the restrictions on their contributions; significant improvements have been made in this regard: for example all SPR's for 2002 have been submitted to donors.

Conclusion 6: As outlined in the Resource Mobilization Strategy[15] the organization will continue to "use all the means available … to assertively advocate for increased multilateral contributions" while recognizing the legislative and other constraints under which its donors operate.

Non-Traditional Donors

⇨ *Terminology*

33. Currently, the term "non-traditional donor" includes "countries in transition, IDA-eligible[16] developing countries, private corporations, public or private foundations, non-governmental organizations (NGOs) or individuals".[17]

34. For the purposes of this document, the category of non-traditional donor will be discussed in two subcategories:

a) emerging donors: all countries in the non-traditional donor category; and

b) private-sector donors: all other donors in the non-traditional donor category.

⇨ *Emerging Donors*

35. As outlined in the consultations on the Strategic Plan, the encouragement of emerging donors is a central element in the Programme's resource strategy: every Member State should contribute to the work of the Programme, according to its means.

36. The strategy also recognizes that many emerging donors can face difficulties in matching commodity or in-kind resources with funding for associated costs such as transport costs and other direct operational costs, direct support costs and indirect support costs.

[15] WFP/EB.3/2000/3-B.

[16] IDA = International Development Association.

[17] Guide to WFP's Resource and Long-Term Financing Policies (WFP/EB.3/99/INF/18).

37. The current FPF allows exceptions to FCR where “a non-traditional donor is unable to provide cash to cover the associated … costs, provided the contribution is in the interest of WFP and the beneficiary groups concerned and there is no disproportionate reporting or administrative burden for the Programme”.[18] Such exceptions are allowed if alternative funding can be found for the associated costs by:

a) inviting other donors to provide the cash to meet such costs;

b) monetizing part of the contribution, where appropriate and cost-effective; and

c) as a last resort, the WFP Executive Director may authorize use of the WFP Fund to meet the costs concerned.

38. These mechanisms have not always generated sufficient funds in a timely enough manner to capitalize fully on the in-kind contributions of emerging donors. As outlined in the consultations on the Strategic Plan, approaches being considered involve better utilization of the cash contributions available to WFP in order to leverage commodity contributions from emerging donors. The objective of these approaches is to maximize the food that can be delivered to beneficiaries.

39. The alternatives and their potential policy implications are as follows:

a) Individual cash contributions being “twinned” with commodity contributions from emerging donors; this is in line with the current FPF, as outlined in point (a) in paragraph 37.

b) Cash donations from one donor being used to purchase a portion of the food from an emerging donor to provide sufficient cash to meet the associated costs of the emerging donor, provided that the tests of timeliness, quality and cost are met; this is within the current FPF under point (b) in paragraph 37, which allows monetization; however there are also purchasing policy implications and donor conditionality issues to be considered.

c) Creation of a funding mechanism or other financial facility to fund the associated costs of emerging donors in certain cases; this would require procedural changes and guidelines relating to its use, including:

◊ principles governing when and in what circumstances the facility could be used; and

◊ principles governing the funding of the facility.

⇨ *Private-Sector Donors*

40. Contributions from and partnerships with the private sector (including private corporations, foundations and individuals) also form a central part of WFP’s Resource Strategy. It is not foreseen, however, that private-sector donors will require any major changes to WFP’s current policies. In particular, governance of WFP and determination of policy will remain the exclusive domain of the Executive Board. Private sector donors will have no role in the governance or policy setting of WFP.

[18] WFP/EB.3/99/INF/18.

41. The policies currently used to govern WFP's relationship with the private sector are based on two underlying principles:

a) The *Guidelines on Cooperation between the United Nations and the Business Community,*[19] which were issued by the Secretary-General and are expanded in the Report of the Secretary-General to the General Assembly,[20] form the basis for the current relationship. These guidelines and the associated Global Compact launched by the Secretary-General in 1999[21] provide:

i) principles for choosing business partners;

ii) general principles on cooperation with businesses;

iii) guidance on use of the United Nations name and emblem; and

iv) modalities for entering into partnerships with the business community.

b) Contributions to WFP from the private sector will be treated on the same basis as contributions from Member States and must adhere to the same policies applied to Member State contributions.

42. As outlined in the consultations on the Strategic Plan, in coming years greater emphasis will be placed on engaging the private sector. The policies outlined above will be kept under review as progress is made. Any policy issues encountered while dealing with the private sector will be highlighted and addressed in the normal policy review cycle envisioned with the Strategic and Management Plans.

SECTION E: PROGRAMME CATEGORIES

43. During consultations on the 2004–2007 Strategic Plan, the current programme categories were discussed in the light of the proposed work objectives that arise from the Millennium Development Goals. The consensus from these discussions was that there should be no changes to the existing programme categories.

SECTION F: COST CATEGORIES

Fixed and Variable Support Costs

44. Fixed and variable costs were defined in the ISC paper[22] as follows:

a) Variable costs:

◊ "vary directly with the volume" (FAO Finance Committee); or

◊ have a "direct relationship with the size of the operation" (R&LTF).

[19] *Guidelines [on] Cooperation between the United Nations and the Business Community* available at www.un.org/partners/business/guide.htm.

[20] Report of the Secretary-General to the General Assembly on *Cooperation between the United Nations and all Relevant Partners, in particular the Private Sector*.

[21] See www.unglobalcompact.org

[22] WFP/EB.3/2002/5-C/1.

b) Fixed costs:

◊ "do not vary with the volume" (FAO Finance Committee); or

◊ "do not vary with the size of the operation" (R&LTF).

45. PSA costs are considered variable if they change as a result of a change in the tonnage. The fixed element of PSA is that which does not change as a result of a change in the tonnage.

46. As outlined in previous discussions with the Board, the biennial budget for 2004–2005 is being prepared according to a zero-based approach. Zero-based budgets work on the concept that the very existence of each activity and the amount of resources requested for that activity must be justified as if all activities were being undertaken for the first time. Each spending line item will be supported by analysis of the individual components that comprise it and a justification of why the planned expenditure is necessary.

47. The analysis of cost-effectiveness and the quest for optimal resource allocation required by zero-based budgeting will lead to improved understanding of costs and clearer cost classification.

Conclusion 7: The forthcoming zero based budgeting exercise for preparation of the 2004–2005 Management Plan will identify support costs that are fixed and those that are variable.

Support Costs: Fixed and Variable/Direct and Indirect

48. The current categorization of support costs divides them into direct – DSC, which can be "directly linked with the provision of support to a project"—and indirect—ISC, which "cannot be directly linked to the execution of a project". This categorization does not correspond to a division of these costs into "fixed" and "variable". As outlined in the ISC paper, 25 percent of the indirect support costs for 2002–2003 could be considered variable.

49. The Board has instructed the Secretariat to "review the reclassification of those PSA expenditures that were variable in nature and that could be directly linked to an operation, to make the PSA more fixed in nature".

Conclusion 8: This reclassification will be accomplished during the preparation of the 2004–2005 Management Plan by examining those costs currently considered indirect (PSA) to establish whether they can be directly linked to an operation. While this exercise may reveal that some of these costs can be directly linked to an operation and should therefore be considered DSC, it is unlikely that *all* variable ISC costs can be directly linked to an operation: under the current policies there will probably always remain ISC costs that are both variable and indirect in nature.

Country and Regional Office PSA

50. The application of zero-based budgeting to the preparation of the PSA budget for 2004–2005 should identify a level of PSA that is more appropriate to the changes in the organization of recent years, in particular to the decentralization initiative and the implementation of the WFP Information Network and Global System (WINGS).

Conclusion 9: To identify appropriate levels of support costs throughout the organization, the zero based initiative will be applied across all areas – Headquarters, regional offices and country offices. Such an approach will also address the external auditor's concerns regarding the "inconsistency in the recognition and application of direct support costs and programme and administrative costs" that are inherent in the current standard configuration of PSA in country offices.

SECTION G: FUNDING AND FINANCING MECHANISMS

Expenditure Tolerance

51. The current practices involve identifying funding, usually in the form of confirmed contributions, for direct expenditure before spending authorizations are issued. Such authorizations, as supported by WINGS, are limited to the value of the funding and act as a control on subsequent expenditures, thereby ensuring that all direct expenditure is fully funded.

52. Because no unfunded expenditure is allowed and the operations are uncertain by nature, the process for budgeting and authorizing expenditures can be conservative and can include contingency amounts to cater for the worst-case scenario.

53. From a policy perspective, an alternative approach would be to cater for the worst-case scenario through a funding mechanism specifically designed for these cases, rather than building contingencies into every spending authorization. This would allow allotments to be based on the norm rather than the worst case and would result in increased overall utilization of resources.

Risk Transference

54. As outlined in the consultations on the Strategic Plan, WFP is exposed to a major risk of under-preparedness for new operations and an inability to deal with major pipeline breaks, simply because it lacks the appropriate financing mechanisms. Some of this risk should be shifted from the beneficiaries to WFP and its stakeholders.

55. One option being considered is to make advances to projects the norm rather than the exception. This idea is in its early stages; it would involve increased emphasis on risk management by using the diversity of the programmes to hedge risk, as appropriate, and a method of "insuring" against the risk of incurring expenditure where no subsequent funding becomes available.

Additional Considerations

56. An initial review of the current funding and financing mechanisms—the IRA, the DSC Advance Facility and the Operational Reserve—indicates that:

- ➢ there are gaps in coverage between the mechanisms, the most notable being the absence of:
  - ◊ coverage for imminent breaks in the food pipeline in life-threatening situations;
  - ◊ coverage for preparedness activities; and
  - ◊ an advance mechanism for other direct operational costs (ODOC).
- ➢ the levels of funding and financing mechanisms are static and do not reflect the changing level of WFP's operations and cash flow, for example:
  - ◊ when the IRA level was set it represented approximately 20 percent of the relevant cash expenditure, at that time the International Emergency Food Reserve (IEFR); since then its use has expanded to include protracted relief and recovery operations (PRROs) and special operations (SOs) and the target level now represents approximately 2.5 percent of relevant expenditures; a

considerable increase would be needed to maintain the levels of flexibility and responsiveness provided originally;

◊ the operational reserve was set at a level representing the quarterly deficit between cash inflows and outflows;[23] since that time, the receipts and payments have both increased considerably, indicating that a substantial increase to the operational reserve is also required; and

➢ the levels of each funding and financing mechanism were set to accommodate a set of operational and funding assumptions that are constantly changing—in particular, the reduced flexibility of resources noted above and the increasing magnitude of humanitarian operations in recent years substantially increase the need for adequately resourced mechanisms.

Conclusion 10: The review of these mechanisms will continue in the light of the above and any conclusions or proposals arising from this will be presented in the 2004–2005 Management Plan or at subsequent Executive Board meetings as appropriate.

SECTION H: OTHER FPF ISSUES

Government Counterpart Cash Contributions

57. Annex III outlines the history of GCCC, describes the considerable time and effort expended on defining, negotiating and collecting these contributions over the years and outlines the disappointing return on this investment of time and effort.

58. WFP recognizes that substantial improvement is required in collecting these contributions; it is committed, as outlined in the consultations on the Strategic Plan, to expand the donor base—in particular with regard to emerging donors.

59. The current treatment of these contributions, however, means that there is less concentration and some duplication of effort, because they currently do not form a component of the main thrust of resource mobilization efforts. The focus of efforts to collect GCCC for PSA costs only may no longer be the most effective approach, especially in view of the introduction of the DSC category.

60. Aligning the treatment of these contributions with the treatment of all other contributions would:

a) be in line with the emphasis in the consultations on the Strategic Plan on broadening the donor base and the focus on emerging donors;

b) allow the Secretariat to focus its efforts on recipient government contributions to WFP's operations and to PSA costs;

c) ensure that these contributions are recorded in the same way and follow the same processes as all other contributions;

d) resolve any ambiguity over the accounting for these types of contributions; and

e) align the treatment of these contributions with General Regulations Article XIII, which states "that all contributions to WFP shall be on a voluntary basis".

[23] CFA 38/13.

Conclusion 11: In line with the above and the emphasis on emerging donors in the consultations on the Strategic Plan, it is proposed that these contributions be treated as far as possible in the same way as all other contributions to WFP. This would involve the following:

- The Programme would issue an annual request to the government of the recipient country for a contribution towards the PSA costs of the WFP country office. These requests would emphasize the expectation that the recipient government contribute a significant portion of these costs but would be similar in nature to an appeal for contributions to a project.
- Following negotiations between the Programme and the government, an agreement would be reached on the amount to be contributed. These agreements would:
  - ◊ follow as far as possible the same format as agreements for other contributions;
  - ◊ be accounted for in the same manner as other confirmed contributions;
  - ◊ be in line with Financial Regulation 4.7, which requires an agreement to record the extent of these contributions.
- The accounting treatment for these contributions would be the same as for all other contributions; recipient governments would be given recognition in the same manner as other donors.
- The Secretariat will develop additional procedures for the utilization of these contributions.

Conclusion 12: The issue of recognizing the in-kind element of recipient country contributions to PSA will be examined as part of the broader issue of recognizing in-kind contributions from recipient governments.

POLICIES OF OTHER ORGANIZATIONS

	WFP	UNICEF	UNDP	UNFPA	UNHCR
FCR	All donors required to *cover “the full operational and support costs related to their contribution”*.	“Commingled and untied funds” are pooled as a single fund of regular resources. Other resources required to fund only incremental support costs.	“Commingled and untied funds” are pooled as a single fund of regular resources. Other resources bear a lower percentage of support costs than regular resources.	“Commingled and untied funds” are pooled as a single fund of regular resources. Other resources bear a lower percentage of support costs than regular resources.	Annual resources accounted for separately from supplementary resources. Supplementary resources required to fund only incremental support costs.
Funding windows and donor categorization	Contributions classified into multilateral, directed multilateral and bilateral. Donors classified into traditional and non-traditional.	Contributions classified into regular (untied) and other resources. No donor classification?	Contributions classified into regular (untied) and other resources. No donor classification?	Contributions classified into regular (untied) and other resources. No donor classification?	UNHCR classifies contributions into annual and supplementary resources. No donor classification?
Programme categories	Used to classify operations based on the nature of the projects.	Activities classified into country programmes and emergency operations.	Activities classified into UNDP country programmes only.	UNFPA classify their activities into: cost sharing trust funds Junior professional officers (JPOs), and reimbursable and support services.	Activities classified into annual activities and supplementary activities.
Cost categories	PSA (programme support). DSC (programme). DOC (programme).	Programme support. Programme.	Programme support. Programme.	Programme support. Programme.	Programme support. Programme.

ANNEX II

EXAMPLE OF "VERTICAL" FLEXIBILITY IN CONTRIBUTION MANAGEMENT

Introduction

1. An examination of the closed project balances reported to the Board during 2002[24] revealed that a substantial portion of unused contributions at the end of a project were primarily in single cost components. This means that, for example, a portion of the contribution earmarked for external transport remained unspent at the end of the project while the amount earmarked for commodity purchase had been fully utilized.

2. To increase the utilization of resources and maximize the food that can be delivered within original programme and project budget totals, a more flexible approach to the breakdown of a contribution between cost components is necessary. As the needs of the project change over time the cost component breakdown of individual contributions must also change.

3. The objective of this Annex is to present an example of how this would work in practice by maximizing the utilization of contributions within an original budget limit. Note that this Annex outlines "vertical" flexibility, which is the flexibility of a single contribution between cost components. This does not involve "horizontal" flexibility, which is the pooling of contributions or "cross-subsidization" of one contribution by another.

Project Budget and Confirmation of Contributions

4. The approval of the project budget outlines the tonnage for the project and the budgeted amounts per cost component. Under General Rule XIII.4, the budget also defines for some of the cost components the amounts that should be confirmed by a donor to ensure FCR.

5. In Table A, an example of an approved project budget is shown with the criteria for calculating the amount to be provided by donors to ensure FCR.

[24] See the Final Report on Balances of Projects Closed prior to 2001 and Migrated to WINGS (WFP/EB.3/2002/5-E/1).

TABLE A: APPROVED BUDGET AND CALCULATION CRITERIA FOR FULL COST RECOVERY—PROJECT X		
	Approved project budget	**Basis of calculation of contribution amounts for FCR following General Rule XIII.4**
Tonnage	50 000 mt	
	(US$)	
Commodity	12 000 000	Actual cost: market price, FAC price or donor invoice price.
External transport	3 407 000	Estimated actual cost.
LTSH	1 500 000	Average per-ton rate of the project, US$30/mt.
ODOC	350 000	Pro rata share of budgeted amount, based on tonnage: US$7/mt.
DSC	500 000	Pro rata share of budgeted amount, based on tonnage: US$10/mt.
Subtotal direct costs	**17 757 000**	
ISC	1 243 000	Percentage of direct costs as set by the Board, currently 7 percent.
Total	**19 000 000**	

6. During the life of the project, contributions are confirmed and the amounts required to meet FCR are calculated using the above criteria. In this example, it is assumed that three contributions are confirmed for this project, leaving an amount of the project budget unresourced as indicated in Table B.

TABLE B: CONFIRMED CONTRIBUTIONS FOR PROJECT X					
	Confirmed contribution 1	**Confirmed contribution 2**	**Confirmed contribution 3**	**Unresourced project budget**	**Total project budget**
Type of contribution	**Cash**	**In-kind**	**Cash**		
Tonnage	25 000 m	10 000 mt	8 000 mt	7 000 mt	50 000 mt
			(US$)		
Commodity	5 500 000	2 698 270	2 136 000	1 665 730	12 000 000
External transport	2 075 000	650 000	440 000	242 000	3 407 000
LTSH	750 000	300 000	240 000	210 000	1 500 000
ODOC	175 000	70 000	56 000	49 000	350 000
DSC	250 000	100 000	80 000	70 000	500 000
Subtotal: direct costs	**8 750 000**	**3 818 270**	**2 952 000**	**2 236 730**	**17 757 000**
ISC	612 500	267 279	206 640	156 571	1 243 000
Total	**9 362 500**	**4 085 549**	**3 158 640**	**2 393 301**	**19 000 000**

Utilization of Contribution 1 (excluding ISC)

7. In this example, the 25,000 mt of Contribution 1 are delivered, but there is a significant saving of US$548,000 on external transport and savings on other cost components, as indicated in the "initial savings" column in Table C.

8. At this point, an analysis of the savings—and the remaining project needs and likely costs—s performed. In order to maximize the food delivered to the project, savings of US$420,000 could be moved from the external transport line and US$10,000 from the ODOC line to the commodity and landside transport, storage and handling (LTSH) lines, the "recycling" column, while leaving a sufficient balance to transport the food and implement the project, the "new availability" column. Note that for the purpose of this example it is assumed that the remaining DSC is needed to monitor the extra tonnage.

TABLE C: UTILIZATION OF CONTRIBUTION 1

	Original contribution amount	Actual expenditure	Initial savings	Recycling	New availability
			(US$)		
Commodity	5 500 000	5 495 000	5 000	+ 405 000	410 000
External transport	2 075 000	1 526 899	548 101	- 420 000	128 101
LTSH	750 000	725 368	24 632	+ 25 000	49 632
ODOC	175 000	165 000	10 000	- 10 000	0
DSC	250 000	242 681	7 319		7 319
Total direct costs	**8 750 000**	**8 154 948**	**595 020**	**0**	**595 020**

Conclusion

9. Controlling individual contributions at the project level rather than at the cost component level would allow this recycling of US$430,000—US$420,000 savings from commodity and US$10,000 ODOC savings—of Contribution 1. This would enable approximately another 1,870 mt to be purchased and transported to the project. This recycling:

- is still within the unresourced budgeted tonnage for the project, but would reduce the unresourced budget;
- is done independently of other contributions to the project;
- would not be undertaken where there is there is an overriding donor legislative restriction, and
- would not be undertaken if it requires monetization of an in-kind commodity contribution.

ANNEX III

INFORMATION ON GCCC ISSUES
Milestones in Government Counterpart Cash Contributions Modalities

Year	Event
Before 1977	The normal practice was to include a standard clause in each project agreement (Plan of Operations) indicating the government's responsibility to provide facilities, equipment, office premises and accommodation.
CFA 4th session 1977	CFA decision: instead of negotiating a separate contribution for each project, WFP should negotiate annual lump-sum contributions towards local operating costs.
CFA 7th session 1979	LDCs should continue to be exempted from the payment of local costs.
CFA 8th session 1979	CFA decision: non–LDC recipient countries should: i) provide office accommodation as mutually agreed; ii) make an annual contribution towards WFP's local operating costs, which should be mutually agreed at any level up to 50 percent of WFP's local operating costs on items other than office accommodation and hospitality; and iii) in cases of hardship, request and provide supporting evidence for an exemption from payment or for a waiver of all or a portion of the amount initially agreed.
CFA 12th Session 1981	Progress report submitted; it showed that there were still problems with the collection of GCCC: only 14 out of 53 countries responded to the CFA decision of 1977.
CFA 14th Session 1982	It was recommended that efforts be renewed to obtain annual cash contributions from governments.
1993-1995	Deliberations on the phasing-down/closure of WFP operations in non-LDCs; 20 countries identified for closure. CFA 38 established a Formal Working Group on Options for WFP Resourcing and Long–Term Financing; CFA 40 approved the final report on Options for WFP's R&LTF.
1996–1999	The closure of the 20 country offices put into effect; the GCCC received as a percentage of that requested dropped significantly. Revisions of Standard Agreements and discussions with recipient countries started. Implementation of the R&LTF policies; with implementation, the Financial Regulations were revised. Financial Regulation 4.7 *''Governments of recipient countries are expected to contribute a substantial portion of the costs of WFP country offices, in kind and in cash. The extent of this contribution shall be set out in an agreement between WFP and the government concerned. On the recommendation of the Executive Director, the Board may exempt specific countries from this regulation*.''
2000–2001	Implementation of the revised R&LTF, with a minimum standard country office structure funded under PSA. Revision of Standard Agreements and discussions with recipient countries continued.
2000–2002	The external auditor recommended that Financial Regulation 4.7 be enforced in full. Negotiations with recipient countries on Standard Agreements continue.

SECTION 1: OVERVIEW

Introduction

1. The purpose of this Annex is to highlight current provisions and practices associated with the calculation, recording and collection of GCCC to local operating costs and to outline the next steps to be undertaken in the context of the FPF review.

2. The Annex has three sections: section 1 provides background information on the current GCCC modalities, section 2 identifies GCCC issues and section 3 highlights the next steps to be undertaken.

History of the Current Provisions and Practices for GCCC

3. Until 1977, the normal practice except in the case of least-developed countries (LDCs) was to include a standard clause in each project agreement (Plan of Operations) indicating that it was the responsibility of the government to provide certain local facilities such as office accommodation, office equipment and supplies and secretarial assistance. Governments could provide the facilities in kind or, failing that, pay an annually negotiable cash contribution.

4. At its Fourth Session in October 1977, the Committee on Food Aid Policies and Programmes (CFA) decided that WFP should negotiate annual lump-sum contributions towards local operating costs instead of negotiating a separate contribution for each project.

5. Following a review of the experience gained in giving effect to implementing the new practice as established by the CFA 4th Fourth Session, and on the basis of a recommendation of the Executive Director, the CFA Eighth Session in October 1979 made the following decisions:

- With countries other than LDCs, an agreement should be negotiated as part of the Basic Agreement, or through an exchange of letters, but should not be linked to individual projects. The agreement should to provide that from an agreed date the country concerned should:
  - i) provide office accommodation as mutually agreed;
  - ii) make an annual contribution towards WFP's local operating costs, which should be mutually agreed at any level not exceeding 50 percent of WFP's local operating costs on items other than office accommodation and hospitality; and
  - iii) in cases of hardship, request and provide supporting evidence for an exemption from payment or for a waiver of all or a portion of the amount initially agreed. This exemption or waiver will be decided by the Executive Director; the amount agreed under ii) may remain stable for three years in order to facilitate budgeting; provisions would have to be made for timely review for future periods.

6. Current provision and practices for GCCC are based on the above CFA decision and Financial Regulation (FR) 4.7:

> "The governments of recipient countries are expected to contribute a substantial portion of the costs of the Programme's country office, in kind and in cash. The extent of this contribution shall be set out in an agreement between the Programme and the government concerned. On the recommendation of the Executive Director, the Board may exempt specific countries from this regulation."

7. To implement the above, a standard annual call letter was prepared until 1999 stating the expected amounts to be sought from each governments. The amounts were calculated using the formula shown in Table 1. When the revised R&LTF was implemented in 2000, this formula was not applied to the PSA allotments for 2000 and 2001, because PSA funded a standard country office structure staffed with one WFP representative, two national officers and three general service staff, and funded with an annual US$55,000 for non-staff costs; DSC funded the rest.

8. For the 2000–2001 biennium, country offices were advised to seek the same amount that they had sought for the 1998–1999 biennium. Late in the 1998–1999 biennium, work started on revising and negotiating the new basic agreements.

TABLE 1: FORMULA FOR CALCULATING THE ANNUAL GCCC TO BE REQUESTED

Item	Amount (US$)
Total WFP local operating costs	**241 800**
Plus local staff salaries	132 800
Subtotal	**374 600**
Less rent for office accommodation and hospitality	55 300
Subtotal	**319 300**
50 percent subtotal	159 650
Plus 100 percent rent	53 500
Total contribution to be requested from the recipient government	**213 150**

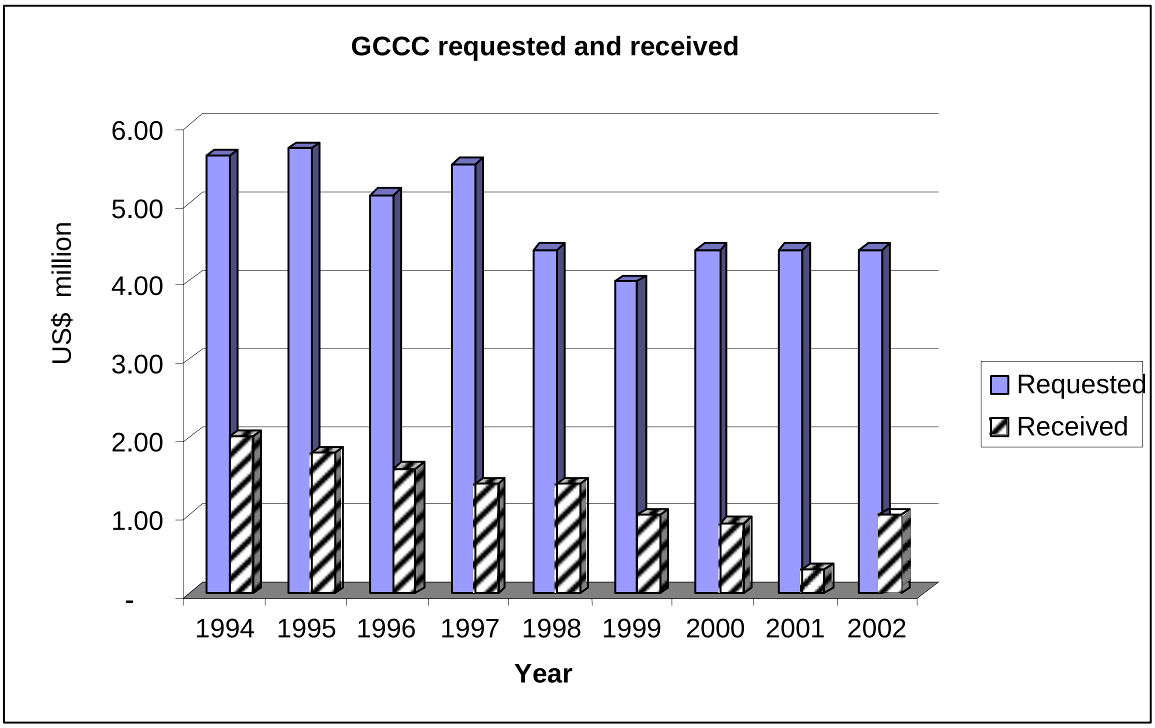
SECTION 2: GCCC ISSUES

Overview of Issues

9. A complex combination of internal and external events has led to a low level of GCCC receipts compared with the amounts requested (see Figure 1). During the last decade, WFP has received an average of 33 percent of the GCCC requested. Details of the internal and external events are provided below.

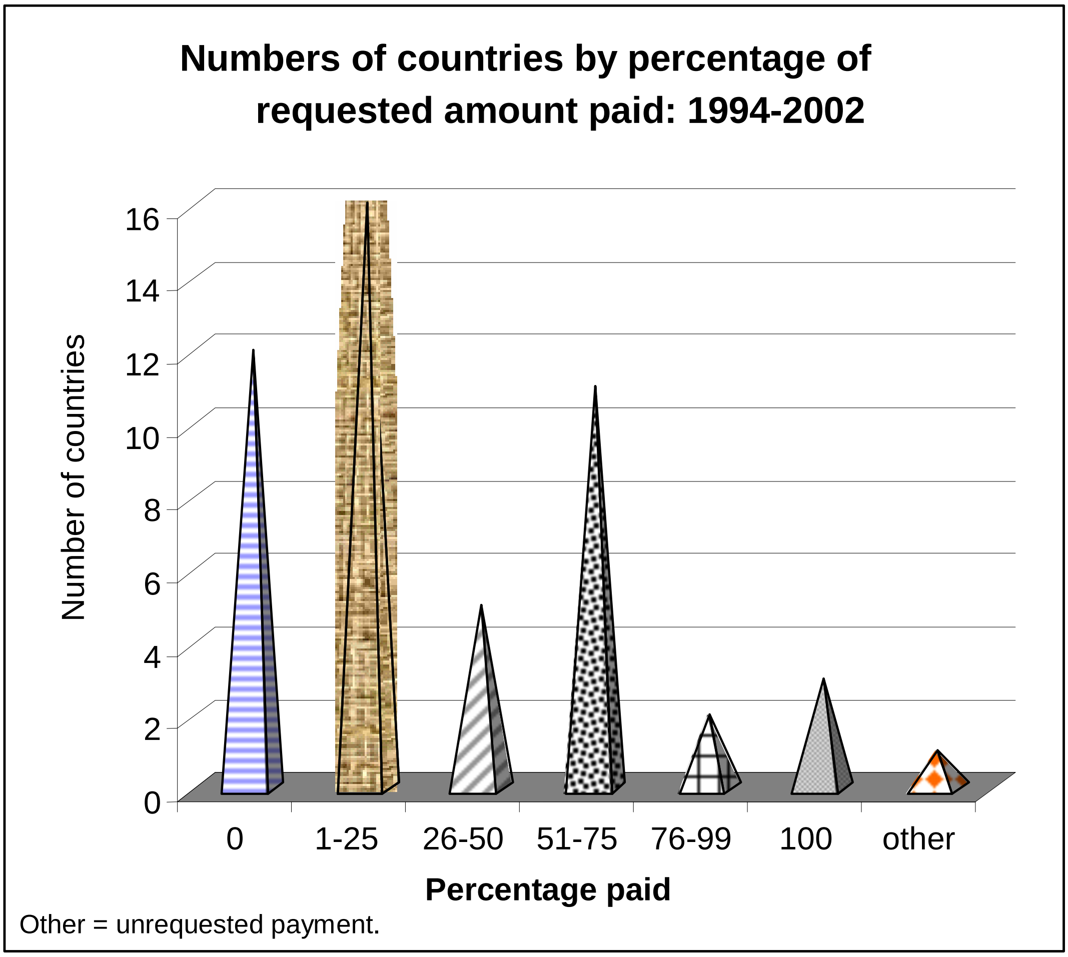
10. GCCC records show the following: (i) the low level of GCCC collection has preoccupied WFP for many years; (ii) a good deal of paper work and time have gone into the administration and collection of GCCC; (iii) GCCC has been discussed at length in CFA and Executive Board sessions; (iv) although the overall amount collected is very low, some countries have consistently paid a percentage of their GCCCs; and (v) both internal and external auditors have raised concerns regarding the administration of GCCC, the accounting treatment of GCCC and the low level of GCCC collection.

Figure 1



11. Further analysis of the amounts paid compared with the amounts requested shows: (i) on average, 12 countries out of an average of 50 countries requested for the period 1994–2002 paid none of the amount requested; (ii) 16 countries paid between 1 percent and 25 percent; (iii) 5 countries paid between 26 percent and 50 percent; (iv) 11 countries paid between 51 percent and 75 percent; (v) 2 countries paid between 76 percent and 99 percent; and (vi) 1 country paid an amount that had not been requested. Only three countries have paid the full amount requested (see Figure 2).

Figure 2



12. Complications in the collection and administration of GCCC could be attributed to:

a) the definition and scope of GCCC and the effectiveness and validity of Financial Regulation 4.7 in terms of mandatory requirements, adequacy and effectiveness;

b) the significant difficulties in finalizing and implementing the basic agreements with recipient governments as required under Financial Regulation 4.7;

c) the appropriate accounting treatment of GCCC, including alternative ways of recording GCCC;

d) the difference between donors' and host governments' views on the voluntary nature of these contributions;

e) the difficulty in establishing criteria for defining poor economic conditions as a reason for waiver;

f) lack of financial rules and criteria to complement the treatment of GCCC;

g) the valuation and recording modalities of in-kind GCCC contributions and any impact that these may have on the PSA; and

h) the relationship between GCCC and the PSA standard configuration in country offices on the one hand and the non-PSA options for treating GCCC on the other, including:

i) direct credits to individual country offices;

ii) crediting as miscellaneous income to the General Fund; and

iii) new bands for country office structures, as both PSA and DSC, or as a separate cost element.

SECTION 3: BACKGROUND POINTS AND NEXT STEPS

Issue 1

13. The definition and scope of GCCC and the effectiveness and validity of Financial Regulation 4.7 in terms of mandatory requirements and adequacy:

> "Governments of recipient countries are *expected* to contribute a *substantial portion* of the costs of the Programme's country office, in kind and in cash. The extent of this contribution shall be set out in an agreement between the Programme and the government concerned. On the recommendation of the Executive Director, the Board may exempt specific countries from this regulation."

➪ *Background Points*

- The current provisions and practices for GCCC have not mirrored the dynamic nature of WFP. The modalities for GCCC, as currently administered, date back to 1979 and have not undergone any significant major revisions in terms of guidance to country offices or recipient governments. WFP has evolved through implementation of the R&LTF, decentralization and the shifting of resources from development to emergency operations (EMOPs).
- What is the scope of GCCC? CFA 4/8 Sessions limited GCCC to non-LDCs. With implementation of the R&LTF in 1996, the financial regulations were revised. The revised 4.7, replacing FR 4.9, does not explicitly mention any exemptions for LDCs.
- There is a debatable obligation: the wording of Financial Regulation 4.7 and in particular its use of the expressions "expected" and "substantial portion" does not connote a binding legal obligation so much as a general policy guideline. The regulation envisages that the precise legal obligation of the recipient country's government will be set out in the agreement. The amount requested from non-LDCs each year therefore does not become legally binding for the recipient government until it agrees.

Issue 2

14. The significant difficulties in finalizing and implementing the basic agreements with recipient governments as required under Financial Regulation 4.7.

⇨ *Background points*

- There is a vicious circle: negotiations for GCCC with recipient governments can often be protracted for several years, leading to non-compliance with FR 4.7 in terms of creating a legal obligation.
- WFP has been concerned that attempting to obtain a government's consent to commit to a written agreement may unduly complicate the negotiating process and may result in no increase in collection. Despite the request to do so, the vast majority of representatives were not able to secure government's signatures to the letters of agreement concerning the contributions.
- The signing of agreements is not seen as a priority in times of crisis: there is reluctance to commit in writing during times of uncertain economic conditions.
- Some governments do not see why they should sign an agreement when WFP had been present for a number of years without such an agreement.

TABLE 2: PROPOSED TIME SCALE FOR THE FINALIZATION AND IMPLEMENTATION OF THE NEW BASIC AGREEMENTS (Bas)

Time scale	Countries with BA signed
Now	2
End of 2002	5
End of 2003	20
End of 2004	30
End of 2005	All

Issue 3

15. The appropriate accounting treatment of GCCC, including alternative ways of recording GCCC, for example as receivables or on a cash basis.

⇨ *Background points*

- GCCC due is not set up as accounts receivable: the contributions in question are *not* assessed, but purely voluntary contributions subject to negotiation at "any level not exceeding 50 percent"; the payment even of a negotiated sum cannot be enforced, and setting up accounts receivable for such sums could result in the accounts being overstated.

Issue 4

16. The difference between 'donors and host governments' views on the voluntary nature of these contributions.

⇨ *Background points*

- The requested amount is negotiated by the government and WFP until a mutual agreement has been reached. Notwithstanding the formal engagement undertaken during the negotiations, however, many governments tend not to take the obligation seriously.
- Within WFP there has always been a “feeling” that too much pressure should not be exercised on assisted countries for GCCC contributions, as distinct from pledges. WFP is aware of the financial stringency prevailing in many countries and would not wish this matter to be pressed in a manner that would seem insensitive or that might adversely affect good relations with the governments.

Issue 5

17. Difficulty in establishing criteria for poor economic conditions as a reason for waiver.

⇨ *Background points*

- Some recipient governments seek a waiver from the Executive Director citing the poor economic conditions of their countries.
- Sometimes countries contribute half the amount owed with the proviso that WFP agrees to waive the balance. For example, the amounts for previous years may be waived on the understanding that the current biennium’s amount will be collected in full.

Issue 6

18. Lack of financial rules and criteria to complement Financial Regulation 4.7.

⇨ *Background points*

- The external auditor has noted that there are no financial rules and instructions to complement FR 4.7 and to provide WFP with clear criteria and rules of procedure for applying GCCC and the valuation methods used to establish the amounts to be claimed.

Issues 1–6: Next Steps

19. It is proposed that these contributions be treated as far as possible in the same way as all other contributions to WFP. This would involve the following:

- WFP would issue an annual request to the government of the recipient country for a contribution towards the PSA costs of the WFP country office. These requests would emphasize the expectation that the recipient government contribute a significant portion of these costs, but would be similar in nature to an appeal for contributions to a project.

- Following negotiations between WFP and the government concerned, an agreement would be reached on the amount to be contributed, which would:
  - ◊ follow as far as possible the same format as agreements for other contributions;
  - ◊ be accounted for in the same manner as other confirmed contributions;
  - ◊ be in line with Financial Regulation 4.7, which requires an agreement to record the extent of these contributions.

  The accounting treatment for these contributions would be the same as for all other contributions; recipient governments would be given recognition in the same manner as other donors.

  The Secretariat will develop additional procedures for utilizing these contributions.

20. Aligning the treatment of these contributions with the treatment of all other contributions, as outlined above, would:

- be in line with the emphasis in consultations on the Strategic Plan on broadening the donor base and the focus on emerging donors;
- allow the Secretariat's efforts to focus on recipient government contributions to WFP's operations, as well as to PSA costs;
- ensure that these contributions are recorded in the same way and follow the same processes as all other contributions;
- resolve any ambiguity over the accounting for these types of contributions; and
- align the treatment of these contributions with the General Regulations Article XIII, which states that "that all contributions to WFP shall be on a voluntary basis".

Issue 7

21. The valuation and recording modalities of in-kind GCCC contributions and any impact that these may have on the PSA.

⇨ *Background points*

- The GCCC call letter covers the amounts of non-staff and local staff costs already budgeted for in the PSA. The original PSA does not include valuation of any in-kind contributions. If in-kind contributions were then to be valued and shown in WFP records, they would appear as amounts above the original approved PSA.
- Cash contributions are recorded in WFP's internal books, but no financial value or financial acknowledgement is accorded to in-kind contributions. For example, if a recipient government makes a cash contribution to WFP together with free telephone call services, rent-free premises and night guards, only the cash contribution is registered in WFP's books. Sometimes recipient governments provide offices; in other cases WFP advances the amount for rent and is reimbursed by the governments; on some occasions the governments pays the landlord directly.

Issue 7: Next Steps

22. This issue will be examined as one part of the broader issue of recognizing in-kind contributions from recipient governments.

Issue 8

23. The relationship between GCCC and the PSA standard configuration in country offices on the one hand, and the non-PSA options for treating GCCC on the other, including:

a) direct credits to country offices;

b) crediting as miscellaneous income to the General Fund; and

c) new bands for country office structures as both PSA and DSC or as a separate cost element.

⇨ *Background points*

The current modalities were introduced when WFP functioned under the concept of regular pledges— one third cash, two thirds commodities—at a time when country office operating expenses were met from the PSA.

Under R&LTF, the funding sources for local operating costs consist of both the PSA and DSC; the formula for arriving at a specific amount of GCCC to be sought in a contribution year has historically applied to PSA costs only.

With implementation of R&LTF, PSA funds a standard country office structure, as shown in Table 3; anything above the minimum is funded under the DSC. Thus, were the formula to be applied without taking into account the other office costs funded under DSC, 50 percent of US$55,000 (non-staff costs) would be below the amount that should be sought from the recipient.

TABLE 3: PSA-FUNDED COUNTRY OFFICE STRUCTURE

Minimal country office structure funded from PSA	Number	Amount (US$)
WFP representative	1	155 000
National officers	2	85 000
General service staff	3	65 000
Non-staff costs		55 000
Total		**360 000**

- In current practice, GCCC is considered to be part of PSA income: the amount contributed is not credited to the respective country office. It has been proposed that contributions would increase if the GCCC collected were spent in the country concerned and was not part of the PSA income.
- The above standard country office structure is limited to PSA funding; new bands for country office structure as both PSA and DSC are to be considered. There is also the possibility of creating a new cost element for GCCC.
- This issue will be considered when the zero-based budgeting exercise is completed.

ACRONYMS USED IN THE DOCUMENT

BA	Basic agreement
BPR	Business process review
CFA	Committee on Food Aid Policies and Programmes
DSC	Direct support cost
DSCAF	Direct Support Cost Advance Facility
EMOP	Emergency operation
FAO	Food and Agriculture Organization of theUnited Nations
FCR	Full-cost recovery
FPF	Financial Policy Framework
FR	Financial Regulation
GCCC	Government counterpart cash contributions
IEFR	International Emergency Food Reserve
IRA	Immediate Response Account
ISC	Indirect support costs
JPO	Junior professional officer
LDC	Least-developed country
LTSH	Landside transport, storage and handling
NGO	Non-governmental organization
ODOC	Other direct operating costs
PSA	Programme Support and Administrative Budget
PRRO	Protracted relief and recovery operation
R&LTF	Resource and Long-Term Financing (Policies)
SO	Special operation
SPR	Standardized Project Reports
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
WINGS	WFP Information Network and Global System