ANNEX I

BACKGROUND AND METHODOLOGY

Introduction

1. A single rate for ISC income to fund the PSA budget was introduced in January 2000. The ISC recoveries arising from the application of this rate are WFP's main source of funding for its PSA budget.

2. The single ISC rate is subject to review, and "may be revised on an annual basis should the situation so warrant" (WFP/EB.1/99/4–A).

3. During 2000, the first year of implementation, no meaningful review could be carried out because at that time the Secretariat was implementing the new corporate information system and the financial information necessary for the review was not readily available.

Preliminary Review

4. A preliminary review of the ISC rate was conducted and presented at the Board's 2002 Annual Session (WFP/EB.A/2002/6–A/1). The scope included the following:

   a) a brief chronology of the evolution of the ISC recovery as a PSA funding mechanism;

   b) an analysis of the 2000–2001 PSA budget, comparing budgeted and actual levels of expenditure, and PSA expenditure with the actual volume of operations for the past three biennia;

   c) a review of the difference between income generated from ISC recoveries and actual PSA expenditures;

   d) a presentation of issues related to PSA and ISC recovery, including ways to fund eventual gaps; and

   e) preliminary observations, proposed "next steps" to finalize analyses and recommendations to the Executive Board.

Next Steps

5. The preliminary review recommended a series of next steps. In its decision 2002/EB.A/7 the Executive Board, "agreed with the following next steps set out by the Secretariat to complete the review, with a view to establishing an appropriate rate:

   a) complete the analysis of the structural imbalances and the review of the existing accounting conventions for recording income and expenditures;

   b) analyse the PSA cost structure, including fixed and variable costs, the structure of country offices and the effects of changes in volume and value of operations in order to assess the cost-effectiveness of the PSA level;

   c) in analysing the rates and the fixed and variable costs in the PSA, examine other funding options, including those initially presented by the working group in 1998;

   d) embark on a comparative study of the funding and costs for the administrative and support budgets of comparable United Nations organizations to the extent feasible;

   e) present the outcome of these analyses and the study to the external auditor for review, with the auditor's recommendations to be presented in October 2002;

f) develop recommendations on methods of calculations for charging and collecting or levying this ISC income in order to fund the PSA at the appropriate level and at the appropriate time; and

g) recommend or formulate other policies that may emerge from this study."

Annotated Outline

6. In early June 2002, an annotated outline of the current paper was circulated to members of the Board to outline the ground that will be covered. Some comments on the annotated outline were received from Board members and have been incorporated into the current document to the extent feasible. This has resulted in some changes to the structure and content of the current paper from that contained in the annotated outline.

Purpose of Current Paper

7. The purposes of this paper are to outline the results of the next steps taken by the Secretariat and:

a) to complete the analysis of actual PSA costs and ISC funding for the 2000–2001 biennium;

b) to review the structural imbalances and accounting conventions for recording income and expenditure and their impact on the ISC recovery;

c) to analyse the PSA cost structure for appropriateness, including an analysis of:

   i) the fixed and variable elements of PSA costs; and

   ii) the categorization of costs between Headquarters, regional offices, cluster offices and country offices; and

d) to review and analyse the other funding options for PSA, including those options presented by the working group in 1998;

e) to present the outcome of a comparative study of administrative and support budgets of comparable NGOs and United Nations organizations to the extent feasible; and

f) to present general conclusions and recommendations, and outline policies that may emerge from the study.

Steps and Methodology

8. The work undertaken to develop and present this document included:

a) a comparison of the 2000–2001 PSA budget figures to the final audited financial statements, identifying the PSA gap and quantifying the differences and their causes;

b) a review of accounting conventions used in the preparation of the budget document and the financial statements and an examination of alternative ways of recognizing income in the financial statements, including a discussion of the appropriate trigger points for the recognition of income;

c) an examination of the implications of changes in direct input prices on ISC income;

d) an examination of the implications of changes in the level of operational activity on ISC income;

e) analysis of PSA trends and associated operational costs and tonnages over the past five biennia;

f) a PSA sensitivity analysis, which included:

   i) a survey of all branch and division managers within WFP to identify how PSA requirements would change as a result of changes to WFP's overall operational volume; and

   ii) the collated results of this survey as a means of identifying possible fixed and variable elements of PSA;

g) the Review of Funding Options for Country Offices, presented by the working group in 1998;

h) a theoretical analysis of how a possible ISC dual-rate mechanism might reduce uncertainty in the ISC planning process;

i) an analysis of the possible impact of direct input prices on 2002–2003 ISC income; and

j) a comparative study of the support costs of WFP and UNICEF, UNDP, UNFPA and UNHCR. This involved:

   iii) a review of budgetary, financial and other documentation;

   iv) visits to the organizations to collect additional information and interview key staff;

   v) drafting the ISC Comparative Study Report; and

   vi) discussion with other organizations before finalizing the report.

9. A similar study of NGOs has also begun. This entails a three-month comparative review, the results of which will support the preparation of an information paper, to be presented to the Executive Board in February 2003.

ANNEX II

PSA GAP ANALYSIS

Introduction

1. A PSA gap can be defined as the difference between PSA income and PSA expenditure for a given period. The PSA gap can be a shortfall, where PSA expenditure exceeds PSA income, or a surplus, where PSA income exceeds PSA expenditure.

PSA Gap—Causes

2. The preliminary review paper identified some of the factors that contribute to PSA gaps. It highlighted several structural imbalances that give rise to such gaps, including the use of different accounting conventions and the impact of changing direct input prices and changing volume.

3. This paper analysed the PSA gap and disaggregated the impact of each of these variables by comparing the original PSA budget figures with the corresponding audited financial statement figures. The original PSA budget figures are used as a base and the variances from this base are analysed.

Recent Biennia

4. Using this methodology, the PSA gaps for the last three biennia can be attributed to the differences outlined in Table A.

TABLE A: PSA GAP ANALYSIS

	1996–1997		1998–1999		2000–2001	
PSA gap per financial statements (shortfall) (US$ million)		-43.7		-8.3		-40.1
A. Accounting convention difference (US$ million)						
ISC income per financial statements (cash basis) (US$ million)	-178.0		-215.7		-188.5	
Actual direct costs x actual ISC rate (accrual basis) (US$ million)	179.5		208.1		228.6	
Income difference due to accounting conventions (US$ million)		**1.5**		**-7.6**		**40.1**
PSA gap restated using accrual concept for income recognition: shortfall (US$ million)		**-42.2**		**-15.9**		**0.0**
B. Price difference						
Average budgeted direct cost per mt (US$)	504.6		509.5		477.1	
Less: Average actual direct cost per mt (US$)	434.2		431.0		416.9	
Average direct cost per mt difference (US$)	70.4		78.5		60.1	
Multiplied by budgeted thousand mt	5 600		4 381		5 165	
Total direct cost price difference (US$ million)	394.4		343.9		310.7	
Reduced ISC income due to direct cost price difference (US$ million)		**32.1**		**33.0**		**24.2**
C. Volume difference						
Budgeted volume in thousand mt	5 600		4 381		5 165	
Actual volume in thousand mt	4 916		6 182		7 031	
(Increase) decrease in thousand mt	684		-1 801		-1 866	
Average actual direct cost per mt (US$)	434.2		431.0		416.9	
Increase in direct costs due to volume (US$ million)	297.0		-776.2		-778.0	
Reduced/(additional) ISC income due to volume difference (US$ million)		**24.2**		**-74.4**		**-60.7**
D. PSA other income difference						
Other income per budget (US$ million)	0.0		0.0		2.0	
Other income per financial statements (US$ million)	4.5		6.8		7.3	
Additional other income (US$ million)		**-4.5**		**-6.8**		**-5.3**
E. Difference due to increased PSA expenditure						
Original PSA expenditure budget (US$ million)	230.0		214.0		194.0	
Actual PSA expenditure (US$ million)	226.2		230.8		235.9	
(Reduced)/additional PSA expenditure: budgeted and incurred (US$ million)		**-3.8**		**16.8**		**41.9**
F. Difference due to programme category mix						
Actual direct costs x budgeted ISC rate* (US$ million)	174.9		255.9			
Actual direct costs x actual ISC rate* (US$ million)	180.7		208.5			
(Additional)/reduced ISC income due to ISC rate difference as a result of changes to the programme category mix (US$ million)		**-5.8**		**47.5**		**0.0**
Rounding difference (US$ million)		**0.0**		**-0.2**		**-0.1**

* For the 1996–1997 and 1998–1999 biennia, these rates are based on the average rate in the financial statements and PSA budget document.

Working Calculations

5. The figures in Table A are calculated by comparing the original PSA budget with the audited financial statements. The detailed calculations required for this are presented in Table B.

TABLE B: WORKING CALCULATIONS

	1996–1997	1998–1999	2000–2001	2002–2003
Original PSA budget document				
Total expenditure (US$ million)	**3 091**	**2 491**	**2 742**	**2 931**
Less:				
PSA expenditure (US$ million)	-230	-214	-194	-210
Other General Fund expenditure (US$ million)	-35	-45	-84	-57
Total direct costs* (US$ million)	**2 826**	**2 232**	**2 464**	**2 664**
Budgeted tonnage thousand mt	5 600	4 381	5 165	5 471
Average budgeted direct costs per mt (US$)	**504.6**	**509.5**	**477.1**	**486.9**
Audited financial statements				
Total expenditure (US$ million)	**2 377.8**	**2 917.5**	**3 189.6**	
Less:				
PSA expenditure (US$ million)	-226.2	-230.8	-235.9	
Other General Fund expenditure (US$ million)	-17.0	-22.4	-22.4	
Total direct costs* (US$ million)	**2 134.6**	**2 664.3**	**2 931.3**	
Actual tonnage (delivered) thousand mt	4 916.0	6 182.0	7 031.0	
Average actual direct costs per mt (US$)	**434.2**	**431.0**	**416.9**	

*These figures include SOs and bilaterals, which are not strictly tonnage-related. Their inclusion does, however, result in a better general indicator of WFP average direct costs per mt.

Conclusion

6. Based on a comparison of the original PSA budgets and the financial statements, the PSA gaps for the last three biennia can be attributed to the types of difference outlined in Table A.

ANNEX III

ACCOUNTING CONVENTIONS

Introduction and Background

1. The preliminary review outlined the accounting policies currently applied by the Programme in the preparation of its Financial statements:

   a) “WFP uses the **cash method** of accounting for income, in which income is recorded only at the time of actual receipt of the contribution.”

   b) “WFP uses the **accrual method** of accounting for expenditures … expenditures are recognized and recorded upon receipt of goods and services ordered during the biennium and for purchase orders or contracts that are executed or released to the relevant suppliers or vendors as at the end of the biennium.”

2. The application of the cash method for income recognition and the accrual method for expenditure recognition is inconsistent and leads to distortions or imbalances between income and expenditure.

3. In the note submitted to the Executive Board in May 2002, the external auditor indicated that a policy of recognizing both income and expenditure on an accrual basis was preferable. This change in accounting policy is recommended by the external auditor in the audit report for the 2000–2001 biennium.

4. The Advisory Committee on Administrative and Budgetary Questions (ACABQ) expressed the view that comparisons between expenditure and income would be more transparent if both are recorded using the same basis of accounting.

5. The application of these policies gives rise to the following types of imbalances:

   a) Imbalances between operational income and operational expenditures.

   WFP policies allow for operational expenditures to be incurred on the basis of a confirmed contribution by a donor. Expenditures can therefore be incurred before the contribution has been received in cash by WFP and recorded as income.

   This could result in expenditures being recorded in one financial period and income in another when the receipt of income is delayed. There is also a mismatch of income and expenditure during a financial period if all income received is not expended in the period.

   Conversely, expenditures incurred on an accrual basis may exceed income received on a cash basis in the same financial period.

   b) Imbalance between PSA income and PSA expenditures.

   In the case of the ISC, the imbalance occurs at two stages. First, there is an imbalance due to ISC being computed on operational incomes recognized on the cash basis rather than on an accrual basis. Second, ISC income is recorded only when the cash is actually received.

   ISC income is estimated when preparing the biennial budget on the basis of anticipated operational activity for a biennium expressed in financial terms. The ISC income together with anticipated GCCC income for the biennium represents the PSA income expected to cover PSA expenditures.

PSA expenditure is incurred as the need arises to support operational activities during a biennium. Under the current policy, PSA income is dependent on the timing of cash receipt from donors.

Matching Principle

6. An accounting principle that needs to be considered in the recognition of income and expenditures is the principle of matching income and expenditures, which “involves the simultaneous or combined recognition of revenues and expenses that result directly and jointly from the same transaction or other events”.

Proposed Change in the Accounting Convention for the Recognition of Income

7. In order to achieve a closer matching of income with operational expenditure and to minimize the imbalances described above, a change in the present accounting conventions is proposed. Income should be recognized at the time it is earned and not when the funds are actually confirmed or received. In this case, total operational income would match the total operational expenditures within a given financial period more closely than under the present accounting convention. Consequently, ISC income would be earned and recognized as operational incomes are earned and accrued.

8. Before considering the options for identifying the optimal point at which income can be considered as earned, it is necessary to examine the project cycle.

Project Cycle

9. A contribution is programmed for implementation following confirmation of a contribution by a donor, and on the basis of an approved project and resource requisition. Purchase orders for commodities and shipping are raised and a bill of lading is issued on delivery of the commodities to the port of loading.

10. Based on the bill of lading, authority is given to incur expenditures for other direct operating costs (ODOC), landside transport, storage and handling (LTSH) and DSC through cumulative allotments. Purchase orders are raised against these allotments as financial implementation of the project proceeds. These purchase orders are liquidated and expenditures are recorded on the registration of goods-receipt notes, processing of invoices, county office returns and posting of payroll and travel expenditures. When implementation is completed, the project is designated as operationally and financially closed. This project cycle can be summarized as follows:

(i) confirmed contribution by donor;

(ii) programming of funds to projects;

(iii) issue of purchase orders for commodity and external transport;

(iv) raising of bill of lading;

(v) issue of cumulative allotments for ODOC, LTSH and DSC;

(vi) issue of purchase orders for ODOC, LTSH and DSC;

(vii) purchase order liquidation and expenditure posting on receipt of goods and services or other expenditure postings;

(viii) completion of project on reaching its end date;

(ix) operational closure; and

(x) financial closure.

Options for Recognizing Income

11. The project cycle was reviewed with a view to identifying the optimal stage in the project cycle at which income should be accrued and achieving a close matching of income with expenditures. Three options were examined for determining the optimal stage in the project cycle at which income could be accrued, or trigger point.

⇨ *Option 1: Bill of Lading/Release of Cumulative Allotments*

12. Under this option, income would be recognized at the time the bill of lading and would be equal to the purchase order (PO) values of commodities and external transport and the contributions released as cumulative allotments to cover anticipated ODOC, LTSH and DSC expenditures.

13. This option has the advantage of having a directly identifiable event for recognizing income. The option has the disadvantage of delaying recognition of income for commodity and external transport until after the issue of POs and the accrual of expenditure for these cost components.

⇨ *Option 2: Purchase Order and Release of Cumulative Allotments*

14. Under this option, income would be recognized:

a) at the time of issue of the POs for commodity and external transport; and

b) on release of contributions as cumulative allotments to cover anticipated ODOC, LTSH and DSC expenditures.

15. The advantage under this option is that income is recognized for commodity and external transport at the same time as expenditures are accrued through the issue of POs. The income for the associated cost components of ODOC, LTSH and DSC are recognized at a clearly identifiable stage in the project cycle and immediately before costs begin to be incurred.

⇨ *Option 3: Purchase Orders and Expenditure Postings for all Cost Components*

16. Option 3 recognizes income as POs are raised and other expenditures incurred for all cost components—commodity, external transport, ODOC, LTSH and DSC.

17. This option has the advantage of ensuring that income and expenditures would match exactly at the global level, but has major operational limitations in that POs issued and other expenditures incurred from the cumulative allotments are not identifiable at the donor level. This is because once the bill of lading is issued, donor contributions are made available as cumulative allotments. The volume of POs and other expenditure postings such as payroll and travel would result in multiple income transactions, which would be impractical to implement.

Income Recognition

18. Option 2 above identifies the optimal basis on which income should be recognized to achieve a close matching of operational income with operational expenditure within a financial period.

19. In the case of LTSH, ODOC and DSC, income will be recognized before expenditure. It is impractical to recognize it at the time expenditure is incurred, because transfers into cumulative allotments lose their direct relationship to a donor.

20. It should be noted at this stage that ISC income is recognized based on the corresponding operational income. The ISC income would be calculated as a percentage of operational income.

21. The stages at which income for operational activities and ISC would be recognized are therefore as follows:

i) commodity and external transport—at the time of issue of the PO;

ii) ODOC, LTSH and DSC—on the basis of the release of cumulative allotments; and

iii) ISC—as a percentage of (i) and (ii) above.

Effect of Policy Change

22. The following tables show the operational income that would have been earned in 2000-2001 by applying the income recognition modality described under option 2. The implications on the ISC income and expenditures are also shown.

TABLE A: INCOME EARNED AND ACCRUED, 2000-2001 (US$ million)

	Accrual basis	Cash basis
Expenditure/income per Financial statements	3 189.6	3 301.6
Less expenditure/income of General Fund	258.3	300.1
Less trust fund interest		6.9
Income*	2 931.3	2 994.6
Released cumulative allotments**	339.5	0.0
Income	**3 270.8**	**2 994.6**

* Calculated on the basis of expenditures incurred during the period through the recording and/or liquidation of obligations (POs, contracts, or other legal commitments) including those issued against cumulative allotments.
** These represent the balance of the released cumulative allotments, that is amounts not included in the above expenditure, because no obligations had been recorded against these allotments by 31 December 2001.

TABLE B: ISC INCOME, 2000-2001 (US$ million)

	2000–2001
ISC income—accrual basis	255.1
(Based on 7.8% of 3 270.8)	
ISC income—cash basis	188.5
(recognized in 2000–2001 Financial statements)	
Income recognition difference	**66.6**

23. This income recognition difference represents the amount by which ISC income would increase for 2000–2001 if the accrual method of income recognition were applied.

Conclusions

24. One conclusion to be drawn from the above analysis is that the proposed change in the accounting convention for income recognition would result in a closer matching of income for DOC with expenditures within a financial period. The recognition of ISC income on the basis of income earned on operational activities will reduce the imbalance between ISC income and PSA expenditures caused by timing differences in the receipt of ISC cash contributions.

Next Step

25. The current accounting policy on income recognition will be changed to recognize income as follows:

a) commodity and external transport—at the time of issue of the PO;

b) ODOC, LTSH and DSC—on the basis of the release of cumulative allotments; and

c) ISC—as a percentage of (i) and (ii) above.

26. The Executive Director has decided to make this change in accounting policy for income recognition, effective from 1 January 2002.

ANNEX IV

THEORETICAL ANALYSIS OF THE IMPACT OF DIRECT COST PRICE AND VOLUME CHANGES ON ISC INCOME

Introduction

1. ISC income results from amounts recovered from contributions through the application of the ISC rate. The ISC rate is applied to the direct costs (DOC plus DSC).

2. It follows that any changes to direct costs will have an effect on ISC income. Direct costs can be said to change as a result of two factors: the prices of direct inputs and the operational volume.

3. The following sections discuss the theoretical effects of these two factors on ISC income.

Price Differences—Due to Changes in Prices of Direct Inputs

4. Table A shows theoretical variations in the level of ISC income arising from changes in the prices of direct inputs, based on the 2002–2003 PSA budget.

TABLE A: PRICE EFFECT ON THE LEVEL OF ISC INCOME, WITH CONSTANT VOLUME

Change	ISC income (US$ million)	ISC income change (US$ million)	% change in ISC income
Base: ISC income—original budget 2002–2003	208.0	-	-
Increase of 12.5% in commodity prices	220.5	12.5	6.0
Increase of 12.5 % in commodity and ocean transport prices	224.1	16.1	7.7
Increase of 12.5% in all DOC prices	231.6	23.6	11.3
Increase of 12.5% in all direct cost (DOC + DSC) prices	234.0	26.0	12.5
Decrease of 12.5% in commodity prices	195.5	-12.5	-6.0
Decrease of 12.5% in commodity and ocean transport prices	191.9	-16.1	-7.7
Decrease of 12.5% in all DOC prices	184.4	-23.6	-11.3
Decrease of 12.5% in all direct cost (DOC + DSC) prices	182.0	-26.0	-12.5

5. Using the original budgeted level of operations of 5,471 million mt for 2002–2003 and the corresponding ISC income of US$208 million as a base, changes in the prices of inputs of plus or minus 12.5 percent would yield ISC income ranging from US$182.0 million to US$234.0 million, a range of US$52 million.

6. This change in ISC income could occur without any change to the ISC rate or the actual level of operations. The considerable time lag between PSA budget creation and actual project expenditure makes the occurrence of such price differences more likely.

Volume Differences—Due to Changes in Operational Volume

7. In addition to changes in the prices of inputs, ISC income can vary considerably as a result of changes in operational volume (measured in mt).

8. It should be borne in mind that there is a considerable time lag between setting the PSA budget, and its assumed operational volume, and actual shipping. This makes it likely that the expected volume will not match the actual volume for a given biennium.

TABLE B: VOLUME EFFECT ON THE LEVEL OF ISC INCOME, WITH CONSTANT PRICES

Change	Volume (thousand mt)	Change in volume (thousand mt)	Budgeted ISC income (US$ million)	Change in ISC income level (US$ million)	% change in ISC income level
Base: ISC income—original budget 2002–2003	**5 471**	**-**	**208.0**	-	-
Increase of 10 percent in volume	6 018	547	226.9	18.9	9.0
Decrease of 10 percent in volume	4 924	-547	189.1	18.9	-9.0

Note: These figures are based on all DOC changing as a result of volume changes. DSC is assumed to be unaffected by these volume changes.

9. This shows that for a tonnage ranging from 4,924 million mt to 5,471 million mt, ISC income ranges from US$189.1 million to US$226.9 million, a difference of US$37.8 million. If prices are held constant, and assuming DSC is not affected by the volume change, a 10 percent variation in volume leads to a 9 percent variation in ISC income.

10. There is a mechanism in place that allows the revision of the PSA budget if the actual volume differs from the budgeted volume by more than 10 percent. The above changes (up to 10 percent) could still occur, however, without triggering such a change in the PSA budget. This would mean ISC income could vary by as much as US$37.8 million dollars due to the effects of changing volume before any change is made to the budgeted expenditure levels.

Price and Volume Differences Combined

11. When the effect of potential price changes is combined with the effect of potential changes in operational volume, ISC income becomes even more unpredictable.

12. Table C shows theoretical variations in the level of ISC income arising from both changes in prices of operational inputs and changes in operational volume.

TABLE C: VOLUME EFFECT ON THE LEVEL OF ISC INCOME, WITH CONSTANT PRICES

Change	Volume (thousand mt)	Change in volume (thousand mt)	Budgeted ISC income (US$ million)	Change in ISC income level (US$ million)	% Change in ISC income level
1. Base: Original budget 2000–2001	5 471	-	208.0	-	-
2**. Increase** of 10 % in volume and **increase** of 12.5 % in all direct costs (DOC + DSC)	6 018	547.1	255.0	47.0	22.6
3. **Increase** of 10 % in volume and decrease of 12.5 % in all direct costs (DOC + DSC)	6 018	547.1	198.3	-9.7	-4.7
4. **Decrease** of 10 % in volume and **increase** of 12.5 % in all direct costs (DOC + DSC)	4 924	-547.1	212.6	4.6	2.2
5**. Decrease** of 10 % in volume and **decrease** of 12.5 % in all direct costs (DOC + DSC)	4 924	-547.1	165.3	-42.7	20.5

Note: These figures are based on all DOC changing as a result of volume changes. DSC is assumed to be unaffected by these volume changes.

13. This shows that combining the effect of a 10 percent change in the level of volume with a 12.5 percent change in prices would yield ISC income ranging from US$165.3 million to US$255.0 million, a difference of US$89.7 million. This represents over 42 percent of the 2002–2003 PSA expenditure budget.

Conclusions

14. The ISC recovery rate is just one of many factors affecting the level of ISC income. Even with no change in the ISC rate, ISC income can change significantly due to variations in operational volume or the prices of direct inputs.

15. Changes in the prices of direct inputs (price) by plus or minus 12.5 percent can result in an ISC income variation of US$52 million.

16. Changes in the level of operations (volume) by plus or minus 10 percent can result in an ISC income variation of US$37.8 million.

17. The combination of these two changes (price and volume) could result in an ISC income variation of up to US$89.7 million. This represents over 42 percent of the 2002–2003 PSA expenditure budget.

18. ISC income is dependent on direct costs, which can vary substantially. The unpredictability of direct costs, and consequently ISC income, cannot be totally removed. PSA gaps will therefore almost always occur.

ANNEX V

PSA COST SENSITIVITY ANALYSIS

Introduction

1. One aspect of the Executive Board decision resulting from the preliminary review of the ISC rate is a recommendation to:

- “analyse the programme support and administrative (PSA) cost structure, including fixed and variable costs … and the effects of changes in volume … of operations in order to assess the cost effectiveness of the PSA level”.

2. This section of the review concentrates on the analysis of PSA costs into fixed and variable elements.

Definitions

3. Before establishing the variable elements of PSA, it is first necessary to consider the definitions of fixed and variable costs.

⇨ *Variable costs*

- "vary directly with the volume" (FAO Finance Committee); or
- have a "direct relationship with the size of the operation" (R&LTF).

⇨ *Fixed costs*

- "do not vary with the volume" (FAO Finance Committee); or
- "do not vary with the size of the operation" (R&LTF).

4. From a WFP perspective, the focus of all operations is the delivery of food, measured in mt. There is generally a direct correlation between the size of a given WFP operation and the quantity of food delivered.

5. It was therefore decided to use the quantity of food delivered as the basis for determining the fixed and variable elements of PSA.

6. 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.

Methodology

⇨ *Data Collection*

7. In order to establish the fixed and variable elements of PSA costs using the above definition, the approved 2002–2003 PSA budget was taken as a starting point.

8. All organizational units in Headquarters and regional offices were requested to complete a form indicating how their current PSA budget could vary under the following different tonnage ranges, referred to as operational bands:

- up to 4 million mt for the biennium;

- 4 to 5 million mt for the biennium;
- 5 to 6 million mt for the biennium; and
- 6 to 7 million mt for the biennium.

9. The approved PSA budget for 2002–2003 was based on an expected operational volume of 5.5 million mt. The approved budget figures were therefore included under the 5 to 6 million mt operational band to provide a benchmark for completing the forms.

⇨ *Combining Data*

10. When the completed forms were returned, all items of expenditure were totalled up to the basic categories of PSA costs:

- programme support—regional offices;
- programme support—headquarters;
- management—headquarters; and
- administration—headquarters.

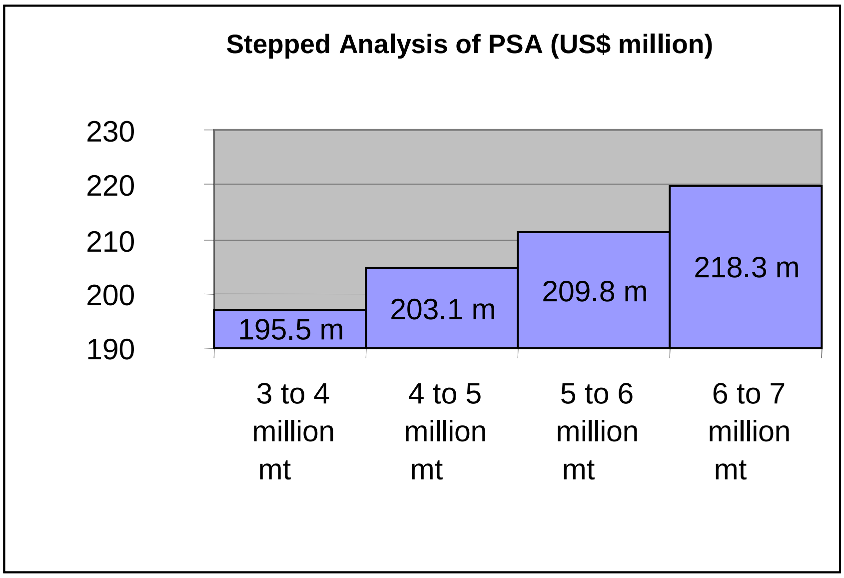
11. The results are summarized in Table A.

TABLE A: PSA REQUIREMENTS FOR TONNAGE BANDS (US$ million)

	Up to 4 million mt	4–5 million mt	5–6 million mt	6–7 million mt
Programme support				
Country offices*	44.3	44.3	44.3	44.3
Regional offices	35.9	40.3	43.4	47.6
Headquarters	17.9	18.4	44.3	19.5
Management	40.2	40.6	41.3	41.7
Administration and statutory requirements	57.2	59.5	62.1	65.2
Total PSA	**195.5**	**203.1**	**209.8**	**218.3**

* Country office PSA costs were not examined under this exercise, but are considered fixed as they were set centrally using a standard configuration for all country offices.

12. This can be represented graphically as follows:



⇨ *Data Analysis*

13. In addition to compiling the data for the three theoretical levels of tonnage (and the current level), it was decided to perform a linear analysis to determine the possible fixed element of PSA.

14. To perform this analysis an assumption had to be made that PSA changed at a **constant rate** relative to changes in tonnage, that is, the relationship could be represented by a straight line.

15. Although this assumption was not strictly borne out in all cases, the data received indicated that it was a logical assumption to make, especially when amalgamated to the organizational level.

16. The theoretical fixed level of PSA at zero tonnage was then determined through linear interpolation of the data collected.

Results

➯ *Fixed Element of PSA Costs*

17. Table B indicates the estimated theoretical level of PSA costs at zero tonnage, which could be considered fixed:

TABLE B: FIXED PSA REQUIREMENTS

	2002–2003 budget	Fixed amount	Fixed costs
Programme support costs	(US$ million)		(%)
Country offices	44.3*	44.3*	*
Regional offices	43.4	23.0	53
Headquarters	18.7	16.8	90
Total programme support	**106.4**	**84.1**	
Total programme support (excluding country offices)	**62.1**	**39.8**	**64**
Management	41.3	38.6	94
Administration	59.2	44.9	76
Statutory requirements	3.0	3.0	100
Total PSA	**209.8**	**170.6**	
Total PSA (excluding country offices)	**165.5**	**126.3**	**76**

* Country office PSA costs were not examined under this exercise, but are considered fixed as they were set centrally using a standard configuration for all country offices.

➯ *Variable Element of PSA Costs*

18. Separating the fixed element of PSA costs from the approved budget for 2002–2003, the following variable PSA costs are obtained for the budgeted level of activity:

TABLE C: VARIABLE PSA REQUIREMENTS (US$ million)

	2002–2003 budget	Fixed amount	Variable amount
Programme support costs			
Country offices	44.3*	44.3*	0*
Regional offices	43.4	23.0	20.4
Headquarters	18.7	16.8	1.9
Total programme support	**106.4**	**84.1**	**22.3**
Total programme support (excluding country offices)	**62.1**	**39.8**	**22.3**
Management	41.3	38.6	2.6
Administration	59.2	44.9	14.3-
Statutory requirements	3.0	3.0	0.0
Total PSA	**209.8**	**170.6**	**39.2**
Total PSA (excluding country offices)	**165.5**	**126.3**	**39.2**

* Country office PSA costs were not examined under this exercise, but are considered fixed as they were set centrally using a standard configuration for all country offices.

19. This indicates that of the US$165.5 million budgeted for Headquarters and regional offices, US$39.2 million could be considered variable.

20. The existence of a variable element of PSA costs means that these costs change as the operational level changes and are therefore attributable to a certain degree to these operations.

21. Under the Financial Regulations, in order to be classified as DSC, costs must have a "direct link with the provision of support to an operation".

22. If this direct link can be established and properly identified or isolated from the present PSA level for the US$39.2 million variable costs outlined above, there appears to be a strong case for the variable component of the present PSA to be reclassified as DSC and funded from these sources instead of from PSA income.

23. After the identification there is also the issue of, and the need for, setting up a system of cost attribution to projects and of how DSC funding will be used for such costs.

Conclusions

24. From the above analysis the following conclusions can be drawn.

a) There was some variation in PSA expenditure requirements as a result of changes to the level of WFP operations. A large portion of PSA requirements did not vary when the operational level changed from one operational band to the next.

b) From this analysis, a theoretical fixed level of PSA was determined. This was approximately three quarters of the 2002–2003 approved PSA budget (excluding country office costs).

c) PSA costs are funded mainly from ISC recoveries, which vary directly with tonnage changes. Consequently, when there is a change in the operational volume, the implications for PSA funding do not appear to match the implications for PSA costs. This is because the variation in PSA costs as a result of changes to the operational level is likely to only be one quarter the size of the variation in ISC income.

d) If a direct link with the provision of support to an operation can be established for the variable element of PSA, estimated at US$39.2 million for the 2002–2003 budget, there is a strong case for these costs to be reclassified as DSC, with the establishment of a system for the appropriate attribution of these costs to projects and allocation for various uses.

ANNEX VI

WORKING GROUP FUNDING OPTIONS

Introduction

1. Country office PSA expenditures were not analysed in the Sensitivity Analysis, as they had been set centrally using a “standard configuration” for all country offices.

2. This approach was approved by the Board as a result of the 1999 Report of the Formal Working Group on Resource and Long-Term Financing (R&LTF).

R&LTF Working Group Options

3. This working group reviewed three options for PSA in country offices. These were:

- **Option 1 :** country PSA budget based on the tonnage;
- **Option 2 :** moving costs from the PSA to DSC; and
- **Option 3 :** the current option (i.e. applying the ‘1,2,3—55k’ formula).

4. Following the approach in Option 3, country offices receive PSA for a minimal country office structure:

a) one International Professional (Country Director);

b) two national officers;

c) three General Service staff; and

d) US$55,000 per year for local operating expenses.

5. This annex revisits these options and analyses them with reference to the two biennia, 2000–2001 and 2002–2003.

⇨ *Option 1: Country Office PSA Based on Tonnage Bands*

6. This option would use the PSA budget in country offices to fund a “core staffing and operational structure, based on the tonnage throughput of each office”.

7. The staffing levels, non-staff costs and tonnage bands used in Table A are those outlined in the working group's report, applied to 2000–2001 and 2002–2003.

TABLE A: SUMMARY OF WORKING GROUP OPTION 1

	Working group option 1 (US$ million)	Budget per current option* (US$ million)	Increase required (US$ million)	Percentage increase required
2000–2001 biennium				
Country office PSA	118.2	43.3	74.9	173
Other PSA	201.4	201.4	0.0	0
Total PSA	**319.6**	**244.7**	**74.9**	**23**
2002–2002 biennium				
Country office PSA	99.6	44.3	55.3	125
Other PSA	165.5	165.5	0.0	0
Total PSA	**265.1**	**209.8**	**55.3**	**26**

* for 2000–2001, these are the revised budget figures.

8. This shows that the application of this option, following the methodology of the working group, would require an increase in the PSA Budget of 26 percent for 2002–2003. This would require a corresponding increase in the ISC rate, bringing it up to over the 9.6 percent rate identified by the working group.

9. Therefore an alternative (lower) core staffing and operational structure was analysed. This considered alternative tonnage bands, staffing structure and non-staff requirements, as detailed in Table E. The application of this would result in:

TABLE B: SUMMARY OF WORKING GROUP REVISED OPTION 1

	Adjusted working group option 1 (US$ million)	Budget per current option* (US$ million)	Increase required (US$ million)	Percentage increase required
2000–2001 biennium				
Country office PSA	59.9	43.3	16.6	38
Other PSA	201.4	201.4	0.0	0
Total PSA	**261.3**	**244.7**	**16.6**	**7**
2002–2002 biennium				
Country office PSA	59.9	44.3	15.6	35
Other PSA	165.5	165.5	0.0	0
Total PSA	**225.4**	**209.8**	**15.6**	**7**

* for 2000–2001, these are the revised budget figures.

10. The application of this lower core staffing and operational structure would necessitate an increase in the PSA budget of 7 percent. This would require a corresponding increase in the ISC rate, of approximately 0.5 percent.

11. The advantages identified by the working group as arising from the application of option 1 include:

- "It would minimize the risk of jeopardizing the continuity of essential support functions in country offices. PSA would fund the necessary core country office structure in relation to the level of commodity throughput and activities;
- WFP would maintain the flexibility to use the PSA funding to strategically reinforce country offices where necessary [….]
- stable contractual conditions can be provided for key international and national staff in relief operations working under difficult conditions; and
- minimum adjustment would be required to the current budgeting, accounting and information systems".

12. However, some disadvantages were also highlighted:

- a higher ISC rate would be required (this disadvantage can be partially circumvented by the use of the lower core structure identified in the "Adjusted" Option 1); and
- there would be less pressure to adjust country office staffing and support cost levels quickly when resources levels decreased (again, this disadvantage can be partially circumvented by closely monitoring the tonnage of each country office, and adjusting the PSA Budget according to the tonnage bands).

⇨ *Option 2: Reclassifying Additional Costs from PSA to DSC*

13. This option examined the possibility of moving additional costs from PSA to Direct Support Costs (DSC), resulting in a reduction in PSA costs and the ISC rate.

14. Various alternatives for moving additional costs to DSC have been identified. The theoretical effects of this have been updated as analysed in Tables F and G.

15. These effects can be summarized as follows:

TABLE C: SUMMARY OF WORKING GROUP OPTION 2

	Estimated ISC rate 2000–2001 (%)	Estimated ISC rate 2002–2003 (%)
Transferring all country office costs to DSC	5.5	6.2
Transferring all regional bureau costs to DSC	6.8	6.4
Transferring all country office, regional bureau and cluster office costs to DSC	4.5	4.6
Transferring all country office, regional bureau, cluster office and Headquarter programme support costs to DSC	3.1	3.9

16. The following are some of the advantages of option 2 identified by the working group:

- "It is more 'forward-oriented'. It adapts to the trend in cost recovery by linking costs to operations as much as possible, thereby ensuring a structure more flexible to expand and contract according to the level of resources;
- support functions remaining under the PSA would be more clearly of indirect nature …;

- this option would establish a drastically lower ISC rate, which would appear 'competitive' by most standards”.

17. Some of the disadvantages identified include:

- “WFP would have to take a high risk of incurring DSC expenditures when donors may or may not direct their contributions…;
- the risk involved in committing DSC funds … would be significantly higher” and
- heavy administrative and system requirements.

⇨ *Option 3: Current Option*

18. This is the current option, which transferred 25 percent of country office PSA costs to DSC and introduced the 7.8 percent ISC rate. This option uses ISC to fund all Headquarters support costs, regional office support costs and a standard minimal country office structure considered essential for a WFP presence.

19. Tables H and I outline how this option has been applied in the PSA budgets for the 2000–2001 and 2002–2003 biennia, respectively.

TABLE D: OPTION 1 - CORE COUNTRY OFFICE PSA STRUCTURE FOR TONNAGE BANDS

2000-2001

COUNTRY OFFICE CORE STRUCTURE TO BE FUNDED BY PSA

Country office Core structure	**No.**	(A) **Above 40 000**	**No**	(B) **Above 20 000 tons**	**No**	(B) **Above 6 000 tons**	**No**	(D) **Below 6 000 tons**	**TOTAL PSA**
		Under D-2		Under D-1		Under P-5		Under P-4	
International Professional staff	4	1 168 000	3	879 000	2	574 000	1	287 000	
National officers	4	255 000	3	191 250	2	127 500	1	63 750	
General Service staff	12	334 800	9	251 100	6	167 400	3	83 700	
Non-staff cost		185 000		145 000		105 000		55 000	
Total		1 942 800		1 466 350		973 900		489 450	
No. Country offices		38		14		22		5	79
Country office PSA		73 826 400		20 528 900		21 425 800		2 447 250	118 228 350

2002-2003

Country office Core structure	**No.**	(A) **Above 40 000**	**No**	(B) **Above 20,000 tons**	**No**	(B) **Above 6,000 tons**	**No**	(D) **Below 6,000 tons**	
		Under D-2	3	Under D-1		Under P-5		Under P-4	
International Professional staff	4	1 002 960	3	775 640	2	527 720	1	300 400	
National officers	4	204 000	9	153 000	2	102 000	1	51 000	
General Service staff	12	282 348		211 761	6	141 174	3	70 587	
Non-staff cost		185 000		145 000		105 000		55 000	
Total		1 674 308		1 285 401		875 894		476 987	
No. Country offices		28		18		30		7	83
Total Country office PSA		46 880 624		23 137 218		26 276 820		3 338 909	99 633 571

TABLE E: REVISED OPTION 1 ADJUSTED TO LOWER CORE STRUCTURE FOR EACH TONNAGE BAND

2000–2001

		(A)		**(B)**		**(B)**		**(D)**	
Country office	**No.**	**Above**	**No**	**Above**	**No**	**Above**	**No**	**Below**	**TOTAL PSA**
Core structure		**40 000**		**20 000 tons**		**6 000 tons**		**6 000 tons**	
		Under D-2		**Under D-1**		**Under P-5**		**Under P-4**	
International Professional staff	1	382 000	2	617 000	2	574 000	1	287 000	
National officers	2	127 500	3	191 250	3	191 250	1	63 750	
General Service staff	3	83 700	4	111 600	4	111 600	3	83 700	
Non-staff cost				75 000		75 000		55 000	
Total		593 200		994 850		951 850		489 450	
No. Country offices		38		14		22		5	79
Country offices PSA		22 541 600		13 927 900		20 940 700		2 447 250	59 857 450

2002–2003

COUNTRY OFFICE CORE STRUCTURE TO BE FUNDED BY PSA

		(A)		**(B)**		**(B)**		**(D)**	
Country office	**No.**	**Above**	**No**	**Above**	**No**	**Above**	**No**	**Below**	**TOTAL PSA**
Core structure		**40 000**		**20 000 tons**		**6 000 tons**		**6 000 tons**	
		Under D-2		**Under D-1**		**Under P-5**		**Under P-4**	
International Professional staff	1	367 800	2	563 920	2	527 720	1	300 400	
National officers	2	102 000	3	153 000	3	153 000	1	51 000	
General Service staff	3	70 587	4	94 116	4	94 116	3	70 587	
Non-staff cost				75 000		75 000		55 000	
Total		540 387		886 036		849 836		476 987	
No. Country offices		28		18		30		7	83
Total Country Office PSA		15 130 836		15 948 648		25 495 080		3 338 909	59 913 473

TABLE F: OPTION 2: Moving costs from PSA to DSC 2000-2001

SCENARIOS	(A) Total PSA expenditure under current option (US million dollars 235.9 less non-recurring)	(B) Transfer to DSC (US$ million)	(C) Adjusted PSA (C) =(A)-(B) (US$ million)	(D) DOC (US$ million)	(E) ISC RATE (E)=(C)/(D) (%)
A) Transferring all country office to DSC	214.8	55.1	159.7	2 899.10	**5.5%**
B) Transferring all clusters to DSC	214.8	11.7	203.1	2 899.10	**7.0%**
C) Transferring all regional/bureau to DC	214.8	17.4	197.4	2 899.10	**6.8%**
D) Transferring all country offices and clusters to DC	214.8	66.8	148.0	2 899.10	**5.1%**
E) Transferring all regional/bureau and clusters to DC	214.8	29.1	185.7	2 899.10	**6.4%**
F) Transferring all country, regional /bureau and clusters to DSC	214.8	84.2	130.6	2 899.10	**4.5%**
G) Transferring county offices, regional/bureau, cluster and Headquarters programme support to DSC	214.8	125	89.8	2 899.10	**3.1%**

TABLE G: OPTION 2: MOVING COSTS FROM PSA TO DSC (2002–2003)

	(A) PSA budget under the current option	(B) Transfer to DSC	(C) Adjusted PSA (C) = (A)-(B)	(D) DOC	(E) ISC rate (E) = (C)/(D)
	(US$ million)				(%)
CURRENT					
A) Transferring all country office to DSC	209.8	44.3	165.5	2 664	6.2
B) Transferring all clusters to DC*	209.8	4.9	204.9	2 664	7.7
C) Transferring all regional bureau to DC*	209.8	38.5	171.3	2 664	6.4
D) Transferring all country office and cluster to DC	209.8	49.2	160.6	2 664	6.0
E) Transferring all regional bureau and cluster to DC	209.8	43.4	166.4	2 664	6.2
F) Transferring all country, regional bureau and cluster to DSC	209.8	87.7	122.1	2 664	4.6
G) Transferring country office, regional bureau, cluster and Headquarters programme support to DSC	209.8	106.4	103.4	2 664	3.9

* three clusters left, six regional bureau

TABLE H: OPTION 3: CURRENT OPTION 2000-2001

Minimal Country office structure to be funded from ISC	No	US$
WFP Representative	1	319 800
National Officers	2	127 500
General Service Staff	3	83 700
Non-staff costs		55 000
Total		586 000

	Original	Revised
	US$	
Country office budget	40 445 200	42 739 600
Bureau	6 190 340	15 606 840
Clusters	26 470 710	26 893 344
Field	73 106 250	85 239 784
Headquarters	117 888 000	150 822 690
Headquarters and field	190 994 250	236 062 474
Statutory requirements	2 888 000	3 663 672
Total PSA	**193 882 250**	**239 726 146**

TABLE I: OPTION 3 - CURRENT OPTION 2002-2003

Minimal Country office structure to be funded from ISC	No	(US$)
WFP Representative	1	323 600
National Officers	2	102 000
General Staff Staff	3	70 587
Non-staff costs		55 000
Total		551 187

Country office budget	44 318 890
Bureau	38 485 992
Clusters	4 917 380
Field	87 722 262
Headquarters	119 109 738
Headquarters and field	206 832 000
Statutory	2 968 000
Total PSA	**209 800 000**

ANNEX VII

COMPARATIVE STUDY OF INDIRECT SUPPORT COSTS IN WFP AND OTHER UNITED NATIONS ORGANIZATIONS

EXECUTIVE SUMMARY

Introduction

The Executive Board of WFP requested the Secretariat to embark on a comparative study of the support budgets of comparable United Nations organizations. In order to achieve this, the Secretariat conducted a unilateral study of the treatment of support costs in UNDP, UNFPA, UNICEF, UNHCR and WFP.

The study was carried out through a review of public documents and in-depth interviews with the staff of the organizations concerned. It was carried out by a number of WFP professionals led by a consultant with extensive professional experience in and outside the United Nations system.

The results of the study are outlined in the following paragraphs, which follow the structure of the study itself.

Organizational Mandates, Strategies, Activities and Sizes

The organizations have very different objectives and mandates, which require a different mix of direct inputs to achieve the various results.

Fundamental differences in the nature and strategies of the organizations require different levels of management, administration and support. Associated costs will therefore be different across the organizations.

This paper attempts to compare the different organizational costs and structures; it does not attempt to explain how these arise from the strategies adopted by each organization.

The implementation modalities used by the organizations, which vary from almost full direct implementation to almost no direct implementation, also result in different levels of support costs.

The organizations differ significantly in terms of expenditure: the largest is over ten times the size of the smallest.

These fundamental differences in the nature of the organizations reduce the comparability of their support costs.

This comparative study was limited to the resources, financing, cost categories, organizational size and structure. It does not compare outcomes or levels of output, or the varying strength of the organizations'infrastructures and competencies, because these are difficult to measure and compare. The varied nature of the results achieved by the organizations reduces the comparability of inputs, including support inputs.

Organizational Structure

The organizations are similar in structure—the decentralized nature of WFP's and UNICEF's regional offices being the main exception to this. Geographical coverage varies considerably, as indicated by the following country office numbers:

	Number of country offices
WFP	83
UNICEF	126
UNDP	136
UNFPA	110
UNHCR	123

Budgetary Practices

As a result of the harmonization exercise initiated by UNICEF, UNDP and UNFPA, the budgetary practices in place in each of the organizations have similarities, particularly in terms of their support budgets.

Except for UNHCR, the organizations currently prepare their support budgets on a biennial basis. They all apply the harmonized definitions to their support budgets, classifying costs into:

- programme costs;
- support costs, subdivided into:
  - programme support-country offices;
  - programme support-headquarters; and
  - management and administration.

Accounting Conventions

The policies on income recognition and expenditure recognition can be summarized as follows:

	Recognition of contribution income	Recognition of expenditure
WFP	Cash receipt basis	Accrual basis*
UNICEF	Accrual basis	Accrual basis *
UNDP	Cash receipt basis	Accrual basis **
UNFPA	Accrual basis	Accrual basis **
UNHCR	Accrual basis	Accrual basis *

* Except staff expenditure, which is recognized on the basis of disbursements.
** Except staff and projects executed by governments and NGOs, which are accounted for on the basis of cash disbursements.

Resourcing and Financing of Support Costs

Except for WFP, the organizations use their regular resources, or untied contributions, to fund a base level of support costs. Non-regular contributions are used to fund incremental support costs, not a pro-rata share of all support costs.

Cost Categories

UNICEF, UNDP, UNFPA and UNHCR classify all costs that are not included in their support budgets as programme costs. They have no cost category equivalent to WFP's DSC to seperately identify costs that are support in nature but directly related to a project.

This makes a straight comparison of direct and indirect support costs difficult.

Budgeted Cost Analysis

In order to prepare a more meaningful comparison of indirect support costs—that is, to compare like with like—other organizations' costs were re-categorized into indirect and direct using the methodology applied in WFP.

WFP charges a standard configuration of staff and non-staff costs in country offices to indirect support costs; the rest is charged to direct costs.

Applying this methodology to the other organizations—that is, moving country office costs that exceed the WFP standard configuration to direct programme costs—would give rise to the following budgeted indirect support costs as a percentage of total costs for 2002 and 2003:

	2002–2003 (%)
WFP	7.2[a]
UNICEF	14.0
UNDP	13.0[b]
UNFPA	25.7[c]
UNHCR	13.1

[a] The use here of total costs, direct and indirect, as the denominator gives a different result from the WFP ISC rate (currently 7.8 percent), which uses only direct costs as the denominator.
[b] These support costs include 5.7 percent relating to support of the operational activities of the United Nations.
[c] these support costs include 5.1 percent relating to technical and administrative support paid to other agencies.

Given the information available and the uniqueness of WFP's DSC category, these figures represent the most appropriate comparison of indirect support costs possible in the time-frame of the current study.

SECTION 1—INTRODUCTION

1. One element of the WFP Executive Board's decision resulting from the preliminary review of the ISC recovery rate is a recommendation for WFP to:
   - "embark on a comparative study of the funding and costs for the administrative and support budgets of comparable United Nations organizations to the extent feasible".
2. This comparative study will focus on United Nations organizations with harmonized budgets: UNDP, UNFPA and UNICEF. Because of its similarities to WFP, UNHCR will also be examined.
3. The study compares the treatment of support costs in these United Nations organizations by examining the following aspects:
   - organizational mandates, strategies, activities and sizes;
   - organizational structures;
   - budgetary practices;
   - accounting conventions;
   - resourcing and financing modalities;
   - cost categorization; and,
   - budgeted support costs.

SECTION 2—ORGANIZATIONAL MANDATES, STRATEGIES, ACTIVITIES AND SIZES

4. Comparison of support costs among United Nations agencies must first be put in the context of their differing mandates and functions. These affect the nature and level of the management, administration and programme support costs—collectively referred to as support costs—required by each organization.

WFP

5. The purposes of WFP are to:
   - use food aid to support economic and social development;
   - meet refugee, emergency and protracted relief and recovery food needs; and
   - promote world food security.
6. To achieve these purposes, WFP "implements food aid programmes, projects and activities" [Ref. 1] by procuring, transporting and distributing food contributions to projects.
7. In the 2000–2001 biennium, WFP delivered over 7 million mt of food, incurring expenditures of over US$3.1 billion. [Ref. 1]

UNICEF

8. UNICEF is "mandated by the United Nations General Assembly to advocate for the protection of children's rights, to help meet their basic needs and to expand their opportunities to reach their full potential".[Ref. 2]

9. UNICEF focuses its efforts on achieving five priorities: girls' education, early child development, immunization "plus", fighting HIV/AIDS and improved protection of children from violence, exploitation, abuse and discrimination.

10. In the 2000–2001 biennium, UNICEF expenditures exceeded US$2.3 billion.[Ref. 2]

UNDP

11. The mission of UNDP is to "help countries in their efforts to achieve sustainable human development".[Ref. 5] UNDP is the "United Nations global development network, advocating for change and connecting countries to knowledge, experience and resources to help people build a better life".[Ref. 6] UNDP funds and manages the resident coordinator system.

12. UNDP's mission is achieved by "focusing much less on project work … instead [UNDP] … provides cutting-edge advisory services for developing countries while helping to drive a new global effort to … meet development targets".[Ref. 7]

13. UNDP activities therefore focus less on implementing projects and more on "providing funds and helping developing countries to attract aid for development and use it effectively".[Ref. 8]

14. UNDP incurred expenditure of almost US$5.4 billion in the 1998–1999 biennium.[Ref. 24]

UNFPA

15. UNFPA is mandated to "extend assistance to … countries … to help them address reproductive health and population issues, and raise awareness of these issues in all countries".[Ref. 9]

16. To achieve this, it primarily "assists in the mobilization of resources from both developed and developing countries".[Ref. 9]

17. UNFPA "has three main programme areas:

- reproductive health: UNFPA supports the provision of reproductive health care;
- population and development strategy: UNFPA helps countries formulate, implement and evaluate comprehensive population policies; [and]
- advocacy: [UNFPA is an] advocate for International Conference on Population and Development (ICPD) and ICPD+5 goals".[Ref. 10]

18. The focus of UNFPA activity has increasingly been on funding, advocacy and technical advice, and decreasingly on project implementation.

19. UNFPA incurred expenditure of over US$533 million during the biennium ended 31 December 2001.[Ref. 25]

UNHCR

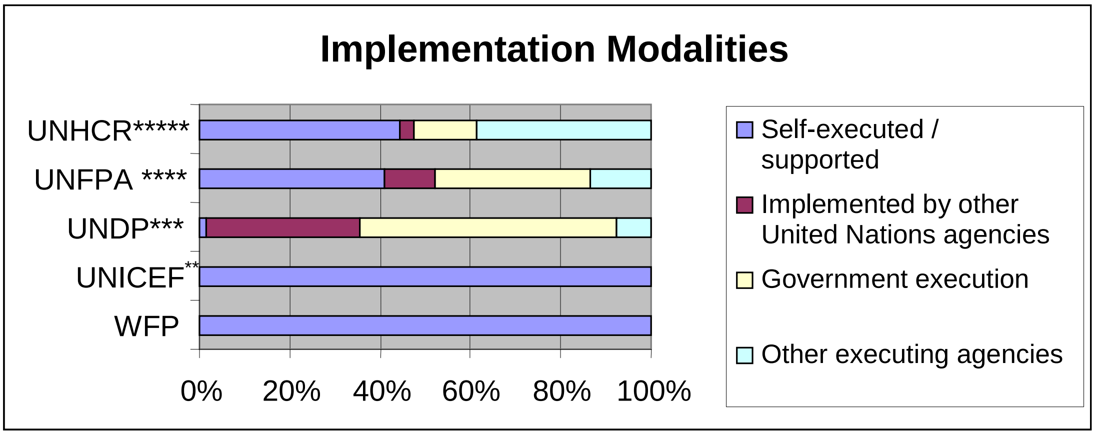
20. UNHCR is "mandated by the United Nations to lead and coordinate international action for the worldwide protection of refugees and the resolution of refugee problems".[Ref. 11]

21. To achieve this objective, UNHCR has "developed substantial material assistance programmes to meet refugee needs".[Ref. 12]

22. Although UNHCR prepares its accounts on an annual basis, total UNHCR expenditure for the two years 2000 and 2001[Ref. 38] was US$1.6 billion.

Implementation Modalities

23. All the organizations follow the principle of national execution, where the ownership of the programme resides with the country. The organizations have different degrees of involvement in support for programme planning and preparation. The following chart indicates the modality of implementation for each organization.



** Ownership of the programme resides with the country itself. UNICEF assists national and local partners to implement agreed activities and supports the building of their capacities.
*** Based on regular resource programme expenditure for 1999 and 2000.[Ref. 26]
**** Based on analysis of programme expenditure.[Ref. 25]
***** Based on UNHCR Current Implementation Patterns for 2000[Ref. 20] adjusted to remove programme support, management and administration costs.

24. The information, time frames and methods of calculation used for compiling this chart are not directly comparable for each organization. *It should be used as a general indication of the preferred implementation modalities* rather than for direct comparison. Some organizations, such as UNICEF and WFP in the case of development, provide full support to assist the country in all aspects of programmes from planning to implementation, while national authorities and partners are responsible for managing the development programme and for achieving planned results.

Conclusion

25. The organizations have very different objectives and mandates, which results in a wide range of activities and direct inputs that necessitate different levels of support, management and administration.

26. Support costs will therefore vary as a result of the different natures of these organizations.

27. Implementation modalities also vary significantly from one organization to another, which has an impact on the support costs required by each organization and reduces their comparability.

28. The different sizes of the organizations, as indicated by expenditure levels, reduce comparability of support costs associated with variations in economies of scale.

	Biennial expenditure (US$ billion)
WFP	3.1
UNICEF	2.3
UNDP	5.4
UNFPA	0.5
UNHCR	1.6

SECTION 3—ORGANIZATIONAL STRUCTURE

29. To achieve its mandate, each organization is structured differently. Organizational structure affects the level and nature of support costs; it must be understood to place any analysis of support costs in context.

WFP

30. WFP has recently undertaken a decentralization initiative to “delegate as much authority to field officers and offices as is possible to improve the response time in emergencies and to increase the quality of development activities … moving most operational decision making into the field offices”.[Ref. 13]

31. This has involved moving six regional bureaux out of Rome, with a consequent shift in support costs. One bureau will remain in Rome for logistical reasons.

32. WFP has budgeted for 72 country offices for the 2002–2003 biennium, in addition to the regional bureaux.

UNICEF

33. UNICEF operates in a comparable decentralized manner, with eight regional offices located outside New York and 126 country offices covering 162 countries and territories.

UNDP

34. UNDP operates a regional structure of five regions. The regional offices are located in New York.[Ref. 15]

35. They operate through country offices in 136 countries.[Ref. 16]

UNFPA

36. UNFPA has four geographical divisions and two technical divisions located in New York that cover its global operations. These divisions, which are further sub-divided into clusters, are “responsible for coordinating at headquarters to provide the required support to the country offices”.[Ref. 17]

37. UNFPA has recently decentralized operational controls to its country offices.[Ref. 17] There are 110 UNFPA country offices in approximately 160 countries.

UNHCR

38. UNHCR has five regional bureaux in Geneva that direct and support regional operations.

39. At the beginning of 2001, UNHCR had 123 representational offices located throughout the world for operational implementation.

Conclusions

40. The decentralized nature of WFP and UNICEF’s regional offices is the main difference between the organizations in terms of geographical structure.

41. The number of country offices in each organization varies as follows:

	Number of country offices
WFP	72
UNICEF	126
UNDP	136
UNFPA	110
UNHCR	123

SECTION 4—BUDGETARY PRACTICES

WFP

➪ *Support and Administrative Budget*

42. WFP presents a consolidated programme, programme support and administrative budget to its Executive Board on a biennial basis. This budget is reviewed by the Executive Board, which may:

- take note of operational levels and projected expenditure components; and
- review and approve the net PSA appropriation for each of the following:
  - programme support-regional and country offices;
  - programme support-headquarters; and
  - management and administration;

(*Note*: approval of these amounts authorizes the Secretariat to incur the full amount as expenditure.)

- authorize the WFP Executive Director to adjust the PSA budget when there is a variation in the volume of operations of more than 10 percent.

43. A guideline for setting the value of the PSA budget is that it should be less than 7.8 percent of the budgeted direct costs for the biennium.

⇨ *Programme Budgets*

44. The Executive Board of WFP shall "review, modify … and approve programmes, projects and activities submitted to it by the Executive Director".[Ref. 21] Such approval authorizes the Executive Director to issue allotments, subject to availability of resources. The Board has delegated this authority in certain cases:

a) **development projects:** approval of projects in line with an approved country programme and projects for which the food value does not exceed US$3 million (with some exceptions);

b) **EMOPS**, where the food value does not exceed US$3 million; above that level, approval is given jointly by the Executive Director and the Director-General; and

c) **PRROs**, where the food value does not exceed US$3 million.

UNICEF

⇨ *Support and Administrative Budget*

45. UNICEF presents a biennial support budget to its Executive Board. The Executive Board may then:

- approve the gross appropriation for both the regular-resource–funded and other-resource–funded components for:
  - ◊ programme support: regional and country offices;
  - ◊ programme support: headquarters; and
  - ◊ management and administration;

(*Note*: approval of these amounts gives authority to incur the full amount as expenditure.)

- authorize the Executive Director to redeploy resources between appropriation lines up to a maximum of 5 percent.

46. The support budget is based on the expected support needs of all programmes identified through the Country Programme Management Plan (CPMP) exercise. Before the budget preparation exercise, regional ceilings are established.

⇨ *Programme Budgets*

47. The authority to incur programme expenditure within UNICEF is granted in the following ways:

- **country programmes**, **funded by regular resources** are approved by the Executive Board; an annual level is authorized based on recent trends;

- **country programmes funded by other resources** are approved by the Executive Board; authority for spending is not given until funding has been received; and
- **emergency operations**: approved by the United Nations as part of the overall appeal process, not by Executive Board.

UNDP

⇨ *Support and Administrative Budget*

48. UNDP submits a biennial support budget to its Executive Board, which may:

- approve the gross appropriation for the regular-resource-funded component for:
  - ◊ programme support-regional and country offices;
  - ◊ programme support-headquarters;
  - ◊ management and administration; and
  - ◊ support to the operational activities of the United Nations;
- authorize the Executive Director to redeploy resources between appropriation lines up to a maximum of 5 percent.

49. For support and administrative costs funded by recoveries from other resources, the authority to incur expenditure is not issued until the resources are received.

50. The biennial support budget is based on the expected needs for support costs rather than a percentage of expected funding.

⇨ *Programme Budgets*

51. The authority to incur programme expenditure in UNDP is granted by the approval of country programme budgets by the Executive Board.[Ref. 22]

UNFPA

⇨ *Support and Administrative Budget*

52. The biennial support budget is submitted to the Executive Board, which may approve the gross appropriations for each of the following:

- ◊ programme support: country offices;
- ◊ programme support: headquarters; and
- ◊ management and administration.

53. The Executive Board may authorize the Executive Director to redeploy resources between appropriation lines up to a maximum of 5 percent.

➪ *Programme Budgets*

54. UNFPA follows a separate process for the approval of their programme budget. A “programme expenditure authority” is approved by the Executive Board on a biennial basis.

UNHCR

➪ *Support and Administrative and Programme Budgets*

55. UNHCR presents a combined Annual Programme Budget document covering all categories of expenditure, including support costs, on an annual basis to its Executive Committee. This document includes budgeted amounts for the following:

- programme components;
- support components:
  - programme support: country offices;
  - programme support: headquarters; and
  - management and administration.

56. The Executive Committee may approve this combined budget in its entirety.

57. The support element of this budget is determined on a needs basis by compiling the requirements from all locations and using the organizational and operational priorities to determine the final amounts for each area.

58. During the course of a year:

- budgeted amounts may be moved between budget lines, for example from programme to programme support, without any external authority;
- additional requirements that arise during the year, but that have not been included in the annual budget, are referred to as supplementary budget requirements; they must be approved by the internal Operations Review Board; approval by the Executive Committee is not required;
  - supplementary funding must be obtained for supplementary budget activities unless the use of the operational reserve is approved;
  - in addition to the programme component, supplementary activities can have a programme support component, which is reported to the Executive Committee for information only; and
- if actual resources during a year are less than forecast, the support components of the budgets are usually adjusted downwards in proportion to the total resource reduction; this is voluntary measure, as there is no official external requirement to do so.

Conclusion

59. Budgetary practices in each of the organizations have similarities, particularly in terms of support budgets.

60. Except for UNHCR, the organizations currently prepare their support budgets on a biennial basis. All the organizations apply the harmonized format to their support budget, classifying support costs into:

- programme support-country offices;
- programme support-headquarters; and
- management and administration.

SECTION 5—ACCOUNTING CONVENTIONS ON INCOME AND EXPENDITURE RECOGNITION

WFP

⇨ *Income*

61. "All [WFP] income, other than interest, is recognized when received".[Ref. 23]

⇨ *Expenditure*

62. WFP applies the accrual basis to the accounting of expenditures, except for staff costs, which are recognized on the basis of disbursements.

UNICEF

⇨ *Income*

63. UNICEF recognizes income "on the basis of funds or pledges received for the current year", where a pledge is defined as "a written commitment by a prospective donor to make a voluntary contribution to UNICEF".[Ref. 2]

⇨ *Expenditure*

64. Expenditures in UNICEF "are accounted for on an accrual basis, except for those relating to staff entitlements, which are accounted for on the basis of cash disbursements".[Ref. 2]

UNDP

⇨ *Income*

65. Except for interest and income accrued on government letters of credit, UNDP "income is accounted for on a cash basis".[Ref. 24]

⇨ *Expenditure*

66. "All UNDP expenditure is accounted for on an accrual basis, except for that relating to staff entitlements … and project components implemented by

governments and NGOs, which are accounted for on the basis of cash disbursements”.[Ref. 24]

UNFPA

⇨ *Income*

67. All income in UNFPA is “recorded on an accrual basis”.[Ref. 25]

⇨ *Expenditure*

68. UNFPA expenditure “is accounted for on an accrual basis, except for that relating to staff entitlements and projects executed by governments and NGOs, which is accounted for on the basis of cash disbursements”.[Ref. 25]

UNHCR

⇨ *Income*

69. In UNHCR, “voluntary contributions from Member States and other donors are recorded as income upon receipt or on the basis of a written pledge from the donor. Pledges from governments are fully recognized as income at the time of acceptance of the pledge”.[Ref. 12]

⇨ *Expenditure*

70. UNHCR applies the accrual basis for the accounting of expenditures, except for staff costs, which are recognized on the basis of disbursements.

Conclusion

71. The above policies can be summarized as follows:

	Recognition of contribution income	Recognition of expenditure
WFP	Cash receipt basis	Accrual basis*
UNICEF	Accrual basis	Accrual basis *
UNDP	Cash receipt basis	Accrual basis **
UNFPA	Accrual basis	Accrual basis **
UNHCR	Accrual basis	Accrual basis *

* Except staff expenditure, which is recognized on the basis of disbursements.
** Except staff and projects executed by governments and NGOs, which are accounted for on the basis of cash disbursements.

SECTION 6—RESOURCING AND FINANCING

WFP

72. WFP applies a policy of full cost recovery to all contributions received: "each donor to WFP must pay all costs related to its contribution, including its fair share of administration and management costs".[Ref. 27] There are instances of waivers of some costs, but these are exceptional.

73. All contributions to WFP must therefore cover each of the following components:

- **DOC**: "any costs incurred by WFP in providing inputs that are utilized directly in activities". These costs are funded by specific, individual donor contributions.
- **DSC**: "any cost incurred by WFP that can be directly linked with the provision of support to an activity and which is not an Indirect Support Cost nor a Direct Operational Cost". These costs are funded by individual donor contributions to the relevant project.
- **ISC**: "any cost incurred in staffing and operating the WFP Headquarters and regional offices, and the standard […] structure at country offices, that cannot be attributed to any programme category or activity".[Ref. 27] These costs are funded on an aggregate level by a recovery from all donor contributions. The current recovery rate is 7.8 percent of direct costs for all contributions.

UNICEF

74. UNICEF has a very broad funding base, with income totalling US$2.3 billion generated from the following sources during the 2000–2001 biennium:[Ref. 2]

- 63 percent from governments—"virtually all governments of both industrialized and developing countries contributed to UNICEF in the period";
- 31 percent from private-sector fund-raising, sale of greeting cards and individual donations; and
- 6 percent from other sources including interest income.

75. Unlike WFP, UNICEF accounts for a large portion of its income as regular resources (46 percent in 2000–2001); these are "commingled and untied".[Ref. 28] These resources are pooled to form a single fund, which is used for the following cost categories:

- programme;
- programme support; and
- management and administration.

76. In UNICEF, other resources—that is, "other than regular resources, which are received for a specific programme purpose",[Ref. 28]—are levied with a 5-percent recovery charge to cover programme support and management and administrative costs.

77. For the 2002–2003 biennium, UNICEF's projected funding of its biennial support budget is made up as follows:

	A Funding of programme budget	B Funding of net biennial support budget	B/A Support budget as a % of programme budget*
	(US$ million)		
Source of funding			
Regular resources	670.0	477.9	71.3
Other resources	1 124.0	56.5	5.0
Trust funds	435.0	9.0	2.0
Total	**2 229.0**	**543.4**	**24.3**

* Ratio of support budget against programme budget.

78. A higher percentage of regular resources is used to fund the support budget because other resources and trust funds are only required to fund the incremental support costs. They are not expected to bear a proportional share of the total support costs.

79. This incremental approach, outlined in the JIU report, means that other resources are being "in effect subsidized by core (regular) resources".[Ref. 29] This arises because the approach "assumes that an organization has core functions—'fixed costs'—which should not be financed from extra budgetary resources".[Ref. 29] Regular resources are used to fund "organizational capacity";[Ref. 30] other resources do not bear any share of these costs, only the incremental or marginal support costs that they are deemed to give rise to.

80. The interest earned on the other resources cash balances are recorded as part of miscellaneous income in regular resources. This is used to reduce the recovery rate to 5 percent.

81. The UNICEF recovery policy, which set the current 5-percent recovery rate for other resources, is currently under review and may be revised in the near future.

UNDP

82. UNDP's contribution income, totalling US$4.8 billion, came from the following sources during 1999 and 2000:[Ref. 26]

- regular resource contributions: 27.2 percent;
- third-party co-financing, including third-party cost-sharing, Management Services Agreements (MSAs) and trust funds: 28.5 percent;
- programme country cost-sharing: 39.7 percent; and
- other sources: 4.6 percent.

83. UNDP's definition and treatment of regular resources are similar to those of UNICEF.

84. UNDP levies recovery charges on its other resources. Where UNDP is not implementing the relevant programme, the recovery charge is 5 percent. Where UNDP is implementing, an additional recovery of up to 8 percent is charged on top of the 5 percent.

85. For the 2002–2003 biennium, UNDP's projected funding of its biennial support budget is as follows:

	A Funding of programme budget	B Funding of net biennial support budget	B/A Support budget as a % of programme budget*
	(US$ million)		
Source of funding			
Regular resources	1 176.1	502.6	42.7
Other resources (donor co-financing)	1 276.4	120.1	9.4
Other resources (government cost-sharing)	1 807.7	75.1	4.2
Total	**4 260.2**	**697.8**	**16.4**

* Ratio of support budget against programme budget.

86. A higher percentage of regular resources is used to fund the biennial support budget. UNDP has a "general mandate from the Executive Board for cost recovery of incremental costs associated with the administration of activities funded from supplementary resources".[Ref. 8]

87. The above percentages indicate that other resources bear a lower percentage of support costs than regular resources.

88. This implies that other resources are subsidized by regular resources in a way similar to UNICEF.

UNFPA

89. UNFPA is wholly funded by voluntary contributions. During the 2000-2001 biennium, it received contribution income of US$787 million:

- US$520 million to regular resources (66 percent); and
- US$267 million to other resources (34 percent).

90. The definition and treatment of regular resources at UNFPA is the same as at UNICEF and UNDP, that is they are commingled and untied.

91. UNFPA has a complex method of recovering amounts from other resources for their biennial support budget. They have a "separate rate for substantive support costs (AOS) and for managerial support costs (MSS)".[Ref. 31] Different recovery rates are applied depending on the type of funding and the implementation modality being used.

92. The total forecast contribution to the biennial support budget for the 2002–2003 biennium is as follows:[Ref. 17]

	A Funding of programme budget	B Funding of net biennial support budget	B/A Support budget as a % of programme budget*
	(US$ million)		
Source of funding			
Regular resources	393.4	146.4	37.2
Other resources (donor cofinancing)	118.9	18.4	15.5
Other funding for gross biennial support budget*		4.4	N/A
Total	**512.3**	**169.2**	**33.0**

*Ratio of support budget against programme budget.
**the recoveries for UNFPA only appear in the funding of the gross biennial support budget. As a result, this table analyses the funding of the biennial support budget; the corresponding tables for UNICEF and UNDP analyse the funding for the net biennial support budget.

93. In setting its recovery rates, UNFPA has recognized "the need to balance cost recovery with the ability to be competitive in attracting (other) resources".[Ref. 32] As a result it acknowledges that the "unrecovered or balance of administrative and operational support costs incurred … is absorbed by the funds Biennial Support Budget".[Ref. 31]

UNHCR

94. All contributions to UNHCR are voluntary, except for United Nations regular budget contributions which account for 2-3 percent of total resources. They "come from a narrow donor base whereby six donors contribute 75 percent of all voluntary contributions, and ten donors 90 percent".[Ref. 33]

95. UNHCR defines regular resources differently from the other agencies: the term does not mean untied contributions. Although contributions are received with and without restrictions (about 75:25 [Ref. 20]), no separate budgets are prepared for tied and untied contributions and they are not accounted for separately.

96. Support cost recoveries from specific contributions are relatively rare, although they do occasionally occur when agreed by a donor, or where a donation gives rise to an identifiable extra support cost such as an additional person hired to produce the reports required for a donation.

97. Contributions that are restricted completely to programme costs will be used for programme costs. Tied contributions that have fewer restrictions may be used for support costs if required, provided such use does not contravene the donor's restrictions.

98. All donors utilize the information from the annual global report. Additional reports on contribution usage are produced for tied contributions if requested by the donor.

99. The *projected* income for UNHCR for 2000 and 2001 (accounts are not available) is US$1.6 billion, broken down as follows:

- governmental contributions: 90 percent;
- private-sector contributions: 2 percent;
- United Nations regular budget: 2 percent; and
- other income: 6 percent.

100. The total forecast contribution to the 2002 Revised Annual Support Budget can be analysed as follows:

	A Share of programme expenditure	B Funding of annual support budget	B/A Support budget as a % of programme budget*
	(US$ million)		
Source of funding			
Annual resources	574.4	227.3	39.6
Supplementary resources	188.2	13.3	7.1
Contribution from United Nations regular budget		20.1	N/A
Junior Professional Officers	7.0		N/A
Total	**769.6**	**260.7**	**33.9**

* Ratio of support budget against programme budget.

101. This table shows that a higher proportion of annual resources than of supplementary resources are used to fund the support budget.

102. This is as a result of the UNHCR policy of funding supplementary operations, including the support component, in their entirety from supplementary resources. This means that supplementary resources are funding the true incremental support costs, not a percentage approximation of them.

103. UNHCR does not account or budget for its tied and untied contributions separately. In 2000, it "received 25 percent of cash contributions untied or unearmarked…" and "the resourcing of activities in headquarters in 2000 was assured by … unearmarked resources (48 percent) and specifically earmarked resources (30 percent) and from the United Nations regular budget (22 percent)".[Ref. 20]

Conclusion

104. With the exception of WFP, the organizations all utilize regular resources as a basis to fund a substantial portion of their biennial support budgets.

105. The extent of this is shown by the following:

	Biennial support budget 2002–2003	Funded from regular resources		Funded from other resources and trust funds	
	(US$ million)	(US$ million)	%	(US$ million)	%
WFP	209.8	0	0.0	209.8	100.0
UNICEF	543.4	477.9	87.9	65.5	12.1
UNDP	697.7	502.6	72.0	195.1	28.0
UNFPA	146.4	146.4	100.0	0	0.0

106. UNHCR does not account or budget for its tied and untied contributions separately. However, the use of untied contributions, which account for 25 percent of total contributions, to fund 48 percent of support costs in headquarters, and the application of all its regular income from the United Nations to management and administration is consistent with the other organizations using a larger portion of regular resources to fund their support costs.

SECTION 7—COST CATEGORIES

Harmonization

107. In January 1997, UNDP, UNFPA and UNICEF agreed on policies and procedures for a harmonized approach to their biennial support budgets. This included agreement on:

- common formats for presentation of the budget;
- common terms and definitions; and
- common methodology for budget preparation.

108. The definitions of cost categories adopted under this harmonization initiative, which are currently in use by UNDP, UNFPA and UNICEF (see Table A) are as follows:

- programme costs*:* “Direct Inputs needed to achieve the objectives of a specified project or programme”;[Ref. 35] this may typically include experts, support personnel, supplies and equipment, sub-contracts, cost assistance and individual or group training;
- programme support costs*:* “the development, formulation, delivery and evaluation of an organizations programmes”.[Ref. 35] In all the organizations these costs are sub-categorized into:
  - ◊ programme support-headquarters; and
  - ◊ programme support-regional and country offices; and
  - ◊ management and administration costs: “the maintenance of the identity, direction and well being of the organization”.[Ref. 35]

109. In 2000, UNHCR adopted the harmonized approach and applied the above definitions and cost categories to the support components of their annual budget.

Agency and Support to United Nations Operational Activities

110. In addition to the above cost categories, two of the organizations budgeted support costs under the following categories:

- programme support, agencies: used by UNFPA for payments to other agencies for technical and administrative support; and
- support to the operational activities of the United Nations: used by UNDP for the following costs:
  - programme support to resident coordinators;
  - costs associated with the UNV Special Voluntary fund; and
  - country office support, UNDG offices, UNVs and inter-agency procurement service offices.

111. These costs are included as support, but are highlighted separately throughout this paper.

WFP

112. WFP prepares its biennial budget "in line with the common format established under the harmonization of budgets",[Ref. 34] and uses the above categories for its biennial support budget, but its main cost categories are:

- **DOC**: "any costs incurred by WFP in providing inputs that are utilized directly in activities";
- **DSC**: "any cost incurred by WFP that can be directly linked with the provision of support to an activity and which is not an ISC or a DOC"; and
- **ISC**: "any cost incurred in staffing and operating the WFP Headquarters and regional offices, and the standard maximum structure at country offices, that cannot be attributed to any programme category or activity";[Ref. 27] this category includes the following sub-categories:
  - management and administration costs;
  - programme support-headquarters costs; and
  - programme support-regional and country office costs.

113. In order to compare costs across organizations, it is first necessary to compare the content of WFP's cost categories with those of the other agencies.

Management and Administration

114. A complete detailed functional review of divisions within each organization is beyond the scope of this paper. An initial review and comparison of the content of the management and administration category is presented in Table B.

115. This review indicates that, in terms of function, the management and administration category is directly comparable across all the organizations.

116. The management and administration category in WFP is therefore directly comparable to management and administration in the other organizations.

Indirect Support Costs—Programme Support Headquarters

117. A similar comparison is made for "Programme support—headquarters" in Table C. This shows less overlap between the functions because of the diverse nature of the programmes being supported and the fact that WFP and UNICEF have decentralized their regional offices.

118. This category of costs represents all headquarters costs excluding the management and administration category in each of the organizations. This makes a comparison meaningful provided it is remembered that these costs will be different because of the different natures and structures of the organizations.

119. The programme support—headquarters category in WFP is therefore indirectly comparable to programme support—headquarters in the other organizations.

Indirect Support Costs—Programme Support Regional Offices and Programme Support Country Offices

120. As described in Section 3, UNICEF and WFP have moved their regional bureaux out of their headquarters. UNFPA, UNDP and UNHCR retain these functions in their headquarters. This must be factored into any comparison of costs.

121. For country offices, the category includes all country office indirect costs, that is, costs that are not classified as direct costs.

122. However, the level of country office indirect costs varies significantly between organizations, depending on:

- the size of the country office; and
- the distinction between indirect and direct applied by each organization.

123. In WFP, a standard configuration is charged as indirect costs (ISC) for all country offices. Amounts exceeding this level are considered direct and are charged to DSC.

124. For the other organizations, the methods used to distinguish programme support for country offices vary significantly.

Direct Support Costs

125. WFP's DSC category separately identifies costs that are support in nature but are directly related to a project. This category of costs is not separately identified in the other organizations, which can account for these costs in either of two categories:

- programme support; country and regional offices; or
- programme costs.

126. The category varies depending on organizational and funding exigencies.

127. In WFP, these costs would be classified as the DSC of a project, which makes them immediately identifiable.

Conclusion

128. The DSC category in WFP is not comparable to any cost category in the other organizations. A corollary of this is that the "programme support—regional and country offices" category of other organizations is not comparable with that of WFP; some costs classified in this category in the other organizations are classified under DSC in WFP.

129. The relationship between the costs categories is summarized in Table D.

130. To make a comparison the team identified and examined three different scenarios:

a) including WFP's DSC as programme costs;

b) including WFP's DSC as programme support costs; and

c) recategorizing other organizations' costs.

131. These scenarios, using budgeted support expenditure for 2002–2003, are set out in Section 8.

SECTION 8—BUDGETED COST ANALYSIS

Introduction

132. The ratios presented in this section use the budgeted projections for 2002–2003 as a basis of comparison. It should be noted that more optimistic or higher projections of programme costs lead to lower ratios.

133. To circumvent this, a review of the actual percentages based on the audited financial statements for 2000–2001 of the organizations will be made when they become available.

Including WFP's Direct Support Costs as Programme Costs

134. Without making any adjustments to reflect the above cost categorization issues, the management and administration and programme support costs are as follows, expressed as a percentage of total costs, for the 2002–2003 biennium (see Table E):

%	WFP	UNICEF	UNDP	UNFPA	UNHCR
Programmes	**92.8**	**80.4**	**83.2**	**73.8**	**74.7**
Programme support					
Field offices	3.0	10.5	6.6	10.3	15.9
Headquarters	0.6	2.5	2.1	4.7	3.8
Agencies/United Nations support*	0.0	0.0	5.7	5.1	0.0
Subtotal	**3.6**	**13.0**	**14.4**	**20.1**	**19.6**
Management and administration	3.6	6.6	2.4	6.1	5.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Programme support, management and administration: total	**7.2**	**19.6**	**16.8**	**26.2**	**25.3**

* These support costs are for support of the operational activities of the United Nations in the case of UNDP and technical and administrative support paid to other agencies in the case of UNFPA.

Including all DSC as Programme Support Costs

135. The above percentages include all WFP's DSC as programme costs. To compare like with like, at least a portion of these should be included under support costs.

136. If all WFP's DSC were included as programme support, the percentages would be as follows (see Table F):

%	WFP	UNICEF	UNDP	UNFPA	UNHCR
Programmes	**84.4**	**80.4**	**83.2**	**73.8**	**74.7**
Programme support					
Field offices	11.4	10.5	6.6	10.3	15.9
Headquarters	0.6	2.5	2.1	4.7	3.8
Agencies/United Nations support*	0.0	0.0	5.7	5.1	0.0
Subtotal	**12.0**	**13.0**	**14.4**	**20.1**	**19.6**
Management and administration	3.6	6.6	2.4	6.1	5.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Programme support, management and administration: total	**15.6**	**19.6**	**16.8**	**26.2**	**25.3**

* These support costs are for support of the operational activities of the United Nations in the case of UNDP and technical and administrative support paid to other agencies in the case of UNFPA.

137. Including all DSC does not result in an appropriate comparison, however, because the other organizations include some costs of this nature under programme costs, not under support costs (see cost categorization discussion above).

Re-categorizing Costs—Aligning Other Organizations to WFP's Indirect Support Costs

138. One method of attempting to compare like with like is to classify a certain structure in country offices across all organizations as indirect costs, with the balance of country office costs classified as direct costs.

139. This approach would align the other organizations' support costs with WFP's ISC; WFP classifies a standard country office configuration as ISC, with all remaining country office support costs classified as DSC.

140. In WFP, the current standard configuration charged to ISC is "in most cases … one International Professional (Country Director), two national officers and three General Service staff, plus US$55,000 per year for local operating expenses".[Ref. 34] For the 2002–2003 biennium, this amounted to US$44.3 million for 72 country offices, or US$615,000 per country office.

141. If this standard configuration were applied to the other organizations for the 2002–2003 biennium, it would result in the following rates (equivalent to WFP ISC):

	Amount transferred from indirect costs to direct costs (US$ million)	Re-categorized: indirect costs as % of total costs
WFP [Table E]	-	7.2
UNICEF [Table G]	154.8	14.0
UNDP [Table H]	197.1	13.0[a]
UNFPA [Table I]	3.9	25.7[b]
UNHCR [Table J]	251.3	13.1

[a] These support costs include 5.7 percent that relates to the support of the operational activities of the United Nations.

[b] These support costs include 5.1 percent that relate to technical and administrative support paid to other agencies.

142. Given the information available and the uniqueness of WFP's DSC category, these figures represent the most appropriate comparison of indirect costs possible in the time frame of the current study.

Table A: Definition of Cost Categories of Harmonization Document

	Programme costs	Programme support costs	Management and administration costs
Definitions	"Direct Inputs needed to achieve the objectives of a specific project"	"the development, formulation, delivery and evaluation of an organisations PROGRAMMES"	"the maintenance of the identity, direction and well being of the ORGANIzATION"
Includes:	Programme inputs	Backstopping of PROGRAMMES:	ORGANIZATIONAL:
		- technical backstopping	- Executive Direction
		- thematic backstopping	- policy
		- geographic backstopping	- evaluation
		- logistical backstopping	- external relations
		- administrative backstopping	information systems and administratio

TABLE B

Comparison of Organizational Units included in Management and Administration
(based on extracts from the biennial budgets for 2002–2003 for all organizations)

WFP	UNICEF	UNDP	UNFPA	UNHCR
Office of Executive Director (including office of Audit, Evaluations and Oversight)	Office of Executive Director	Office of Administrator/Associate Administrator	Office of Executive Director	Office of the High Commissioner
	Evaluation Office	Evaluation Office		Evaluation and Policy Analysis Unit
	Office of Internal Audit	Office of Audit and Performance Review (Headquarters and Country Offices)	Office of Oversight and Evaluation	Office of Inspector General
Resources and External Relations Division	Office of Secretary of the Executive Board	Bureau for Resources and Strategic Partnerships	Information, Executive Board and Resource Mobilization Division	Division of Communication and Information
	Office of United Nations Affairs and External Relations			
	Office for Japan			
	Office for Geneva			
	Division of Communication	Communication Office		
	Programme Funding Office			
Strategy and Policy	Division of Policy and Planning			
Finance Division	Division of Financial and Admin Management	Bureau of Management and Headquarters and Country Office Central Overheads	Division for Management Services	Division of Financial and Supply Management
Information and Communications Technology Division	Information Technology Division			Information Technology and Telecommunication Services
Management Services Division	Central management and Admininistration Headquarters			
Human Resources Division	Division of Human Resources		Office for Human Resources	Division of Human Resource Management

TABLE C

Comparison of Organizational Units included in Programme Support Headquarters

WFP	UNICEF	UNDP	UNFPA	UNHCR
Programming Support Services	Programme Division			
Office of Development Activities, Humanitarian Affairs and Vulnerability Analysis Mapping	Office of Emergency Programmes	Bureau for Development Policy and Special Unit for Technical Cooperation among Developing Countries (TCDC)	Technical Support Division	Division of Operational Support and Emergency and Security Services
Transport Division				
	Supply Division			
				Department of Internal Protection
	Division of Policy and Planning		Strategic Planning and Coordination	CASWANAME (Central Asia, Southwest Asia, North Africa and Middle East) Bureau
		Regional Bureau for Africa	Africa Division	Bureau for Africa
		Regional Bureau for Arab States	Division for Arab States and Europe	
		Regional Bureau for Asia and Pacific	Asia and Pacific Division	Bureau for Asia and the Pacific
		Regional Bureau for Latin America and Caribbean	Latin America and Caribbean Division	Bureau for the Americas
	CEE Regional Office	Regional Bureau Europe and Commonwealth of Independent States		Bureau for Europe
	Headquarters Programme Support – Central	Headquarters - Central		Part of Headquarters support (DFSM)
	IT-PROMS Programme Manager System) and field support			Part of IT support
	Regional Office for Europe - Emergency Section			
	Supply Division			
	Innocenti Research Centre, Florence			

TABLE D: Comparison of Support Cost Categories: Graphical Summary (not to scale)

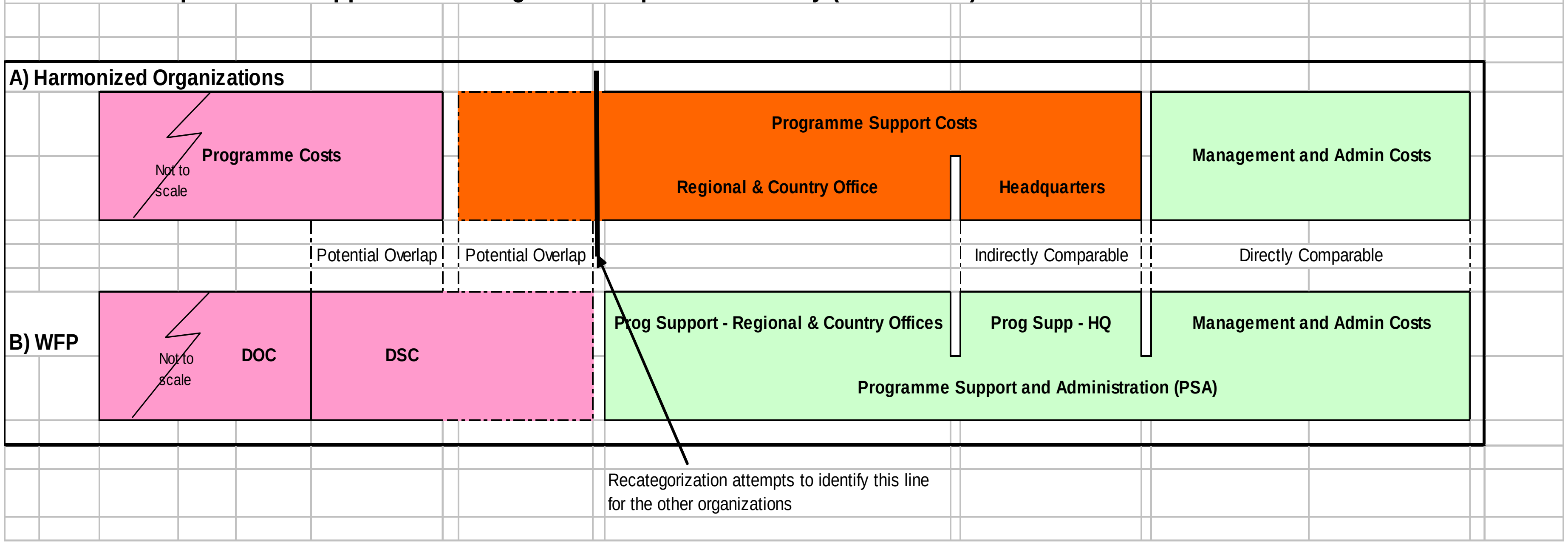


TABLE E: COMPARATIVE BUDGET [(1)] - UNDP, UNFPA, UNICEF, UNHCR & WFP (WFP FIGURES SHOWING ONLY ISC AS PROGRAMME SUPPORT)

2000-2001 and 2002-2003

	2000-2001										2002-2003									
	UNDP		UNFPA		UNICEF		UNHCR		WFP		UNDP		UNFPA		UNICEF		UNHCR		WFP	
(In million US$)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
A. Programmes	4 180.2	85.0%	526.1	76.7%	1 708.0	76.7%	1 126.2	70.3%	2 953.7	92.6%	4 260.2	83.2%	512.3	73.8%	2 229.0	80.4%	1 539.2	74.7%	2 721.5	92.8%
B. Programme support																				
1. Country offices	308.5	6.3%	64.1	9.4%	274.1	12.3%	300.4	18.7%	78.6	2.5%	338.1	6.6%	71.5	10.3%	290.6	10.5%	326.9	15.9%	87.7	3.0%
2. Headquarters	93.0	1.9%	23.7	3.5%	67.7	3.0%	66.0	4.1%	35.6	1.1%	107.9	2.1%	32.7	4.7%	69.0	2.5%	77.5	3.8%	18.7	0.6%
3. Agencies/Support [(2)]	219.1	4.5%	32.1	4.7%							289.6	5.7%	35.6	5.1%						0.0%
Subtotal	620.6	12.6%	119.9	17.5%	341.8	15.4%	366.4	22.9%	114.2	3.6%	735.6	14.4%	139.8	20.1%	359.6	13.0%	404.4	19.6%	106.4	3.6%
C. Management and administration	119.5	2.4%	39.5	5.8%	175.9	7.9%	109.7	6.8%	121.7	3.8%	125.6	2.5%	42.3	6.1%	183.8	6.6%	117.1	5.7%	103.4	3.5%
TOTAL	4 920.3	100.0%	685.5	100.0%	2 225.7	100.0%	1 602.3	100.0%	3 189.6	100.0%	5 121.4	100.0%	694.4	100.0%	2 772.4	100.0%	2 060.7	100.0%	2 931.3	100.0%
Programme support, management and administration as a percent of total budget	740.1	15.0%	159.4	23.3%	517.7	23.3%	476.1	29.7%	235.9	7.4%	861.2	16.8%	182.1	26.2%	543.4	19.6%	521.5	25.3%	209.8	7.2%
Change from 2000-2001 to 2002-2003											121.1	16.4%	22.7	14.2%	25.7	5.0%	45.4	9.5%	(26.1)	-11.1%

[(1)] Source of budget data obtained from the agencies' 2002-2003 Biennial Budgets.

[(2)] Amounts for Agencies / Support under UNDP pertain to support to operational activities of the United Nations while UNFPA pertain to technical and administrative operational support to other agencies.

[(3)] UNCHR budget proposal is on an annual basis. The 2000-2001 data are based on actual expenditure. The 2002-2003 data are based on 2002 projections also applied in 2003.

TABLE F: COMPARATIVE BUDGET [1] - UNDP, UNFPA, UNICEF, UNHCR & WFP (WFP FIGURES SHOWING ISC AND ALL DSC AS PROGRAMME SUPPORT)

2000-2001 and 2002-2003

	2000-2001										2002-2003									
	UNDP		UNFPA		UNICEF		UNHCR		WFP		UNDP		UNFPA		UNICEF		UNHCR		WFP	
(In million US$)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
A. Programmes	4 180.2	85.0%	526.1	76.7%	1 708.0	76.7%	1 126.2	70.3%	2 583.1	81.0%	4 260.2	83.2%	512.3	73.8%	2 229.0	80.4%	1 539.2	74.7%	2 473.7	84.4%
B. Programme support																				
1 Country offices	308.5	6.3%	64.1	9.4%	274.1	12.3%	300.4	18.7%	449.2	14.1%	338.1	6.6%	71.5	10.3%	290.6	10.5%	326.9	15.9%	335.5	11.4%
2. Headquarters	93.0	1.9%	23.7	3.5%	67.7	3.0%	66.0	4.1%	35.6	1.1%	107.9	2.1%	32.7	4.7%	69.0	2.5%	77.5	3.8%	18.7	0.6%
3. Agencies/Support [2]	219.1	4.5%	32.1	4.7%		0.0%				0.0%	289.6	5.7%	35.6	5.1%		0.0%				0.0%
Subtotal	620.6	12.6%	119.9	17.5%	341.8	15.4%	366.4	22.9%	484.8	15.2%	735.6	14.4%	139.8	20.1%	359.6	13.0%	404.4	19.6%	354.2	12.1%
C. Management and administration	119.5	2.4%	39.5	5.8%	175.9	7.9%	109.7	6.8%	121.7	3.8%	125.6	2.5%	42.3	6.1%	183.8	6.6%	117.1	5.7%	103.4	3.5%
TOTAL	4 920.3	100.0%	685.5	100.0%	2 225.7	100.0%	1 602.3	100.0%	3 189.6	100.0%	5 121.4	100.0%	694.4	100.0%	2 772.4	100.0%	2 060.7	100.0%	2 931.3	100.0%
Programme support, management and administration as a percent of total budget	740.1	15.0%	159.4	23.3%	476.1	23.3%		29.7%	606.5	19.0%	861.2	16.8%	182.1	26.2%	543.4	19.6%	521.5	25.3%	457.6	15.6%
Change from 2000-2001 to 2002-2003											121.1	16.4%	22.7	14.2%	25.7	5.0%	45.4	9.5%	(148.9)	-24.6%

[1] Source of budget data obtained from the agencies' 2002-2003 Biennial Budgets.

[2] Amounts for Agencies / Support under UNDP pertain to support to operational activities of the United Nations while UNFPA pertain to technical and administrative operational support to other agencies.

[3] UNCHR budget proposal is on an annual basis. The 2000-2001 data are based on actual expenditure. The 2002-2003 data are based on 2002 projections also applied in 2003.

TABLE G: UNICEF - RECATEGORIZATION OF COUNTRY OFFICE SUPPORT COSTS
(To align with WFP Country Office ISC 'Standard Configuration')

	2002-2003								
(In million US$)	Total	%	*Regional Office Costs*	*Total Country Office Costs*	*Assuming 'Standard Configuration' (126 Offices x $ 615K)*	*Transfer from Support to Programme (Note 1)*	*Recategorized Costs $*	*Recategorized Costs %*	*WFP Equivalent %*
A. Programmes	2 229.0	80.4%				154.8	2 383.8	86.0%	92.8%
B. Programme support									
1. Country and regional offices	290.6	10.5%	58.3	232.3	77.5	(154.8)	135.8	4.9%	3.0%
2. Headquarters	69.0	2.5%					69.0	2.5%	0.6%
Subtotal	**359.6**	**13.0%**					**204.8**	**7.4%**	**3.6%**
C. Management and administration	183.8	6.6%					183.8	6.6%	3.5%
TOTAL	**2 772.4**	**100.0%**					**2 772.4**	**100.0%**	**100.0%**
Programme support, management and administration as a percent of total budget	**543.4**	*19.6%*					**388.6**	*14.0%*	7.2%

Note 1:

less Regional Office Programme Support from Table 9 of UNICEF BSB). Assuming only WFPs 'Standard Configuration' was charged to support costs (at an average of $ 615,000 per Country Office), UNICEFs Country and Regional Office Programme Support Costs would be analysed as follows:

- US$ 154.8 million to be transferred to 'Programme Costs' (i.e. the equivalent of WFPs DSC)
- US$ 77.5 million would remain as Country Office Programme Support costs (i.e. the equivalent of WFPs ISC)
- US$ 58.3 million would remain as Regional Office Programme Support costs (i.e. also the equivalent of WFPs ISC)

TABLE H: UNDP - RECATEGORIZATION OF COUNTRY OFFICE SUPPORT COSTS

(To align with WFP Country Office ISC 'Standard Configuration')

	2002-2003								
(In million US$)	**Total**	***%***	***Centrally Managed Support and IT costs (Note 1)***	***Total Country Office Costs***	***Assuming 'Standard Configuration' (136 Offices x $ 615K)***	***Transfer from Support to Programme (Note 2)***	***Recategorized Costs $***	***Recategorized Costs %***	***WFP Equivalent %***
A. Programmes	4 260.2	83.2%				197.1	4 457.3	87.0%	92.8%
B. Programme support									
1. Country & Regional Offices	338.1	6.6%	57.4	280.7	83.6	(197.1)	141.0	2.8%	3.0%
2. Headquarters	107.9	2.1%					107.9	2.1%	0.6%
3. Agencies	289.6	5.7%					289.6	5.7%	0.0%
Subtotal	**735.6**	**14.4%**					**538.5**	**10.5%**	**3.6%**
C. Management and administration	125.6	2.5%					125.6	2.5%	3.5%
TOTAL	**5 121.4**	**100.0%**					**5 121.4**	**100.0%**	**100.0%**
Programme support, management and administration as a percent of total budget	**861.2**	*16.8%*					**664.1**	*13.0%*	7.2%

Note 1: UNDP 'Centrally Managed Country Office Support Costs' ($ 41.7 million - from Table 6 of Biennial Support Budget) and 'Country Office Business Process Re-engineering and Systems Development' ($ 15.7 million from Table 10 of BSB) must be removed to identify

Note 2: UNDP have 136 Country Offices which will cost $ 280.7 million for the biennium. Assuming only WFPs 'Standard Configuration' was charged to support costs (at an average of $ 615,000 per Country Office), UNDPs Country Office Programme Support Costs would be analysed as follows:

- US$ 197.1 million to be transferred to 'Programme Costs' (i.e. the equivalent of WFPs DSC)
- US$ 83.6 million would remain as Country Office Programme Support costs (i.e. the equivalent of WFPs ISC)
- US$ 57.4 million would remain for central and IT costs (see Note 1 above)

TABLE I: UNFPA - RECATEGORIZATION OF COUNTRY OFFICE SUPPORT COSTS

(To align with WFP Country Office ISC 'Standard Configuration')

	2002-2003							
(In million US$)	UNFPA Total	%	*Total Country Office Costs*	*Assuming 'Standard Configuration' (110 Offices x $ 615K)*	*Transfer from Support to Programme (Note 1)*	*Recategorized Costs $*	*Recategorized Costs %*	*WFP Equivalent %*
A. Programmes	512.3	73.8%			3.9	516.2	74.3%	92.8%
B. Programme support								
1. Country & Regional Offices	71.5	10.3%	71.5	67.7	(3.9)	67.7	9.7%	3.0%
2. Headquarters	32.7	4.7%				32.7	4.7%	0.6%
3. Agencies	35.6	5.1%				35.6	5.1%	0.0%
Subtotal	**139.8**	**20.1%**				**136.0**	**19.6%**	**3.6%**
C. Management and administration	42.3	6.1%				42.3	6.1%	3.5%
TOTAL	**694.4**	**100.0%**				**694.4**	**100.0%**	**100.0%**
Programme support, management and administration as a percent of total budget	**182.1**	*26.2%*				**178.3**	**25.7%**	***7.2%***

Note 1: UNFPA have 110 Country Offices which will cost $ 71.5 million for the biennium (i.e. Country Office Programme Support costs from Table 7 of UNFPA BSB). Assuming only WFPs 'Standard Configuration' was charged to support costs (at an average of $ 615,000 per Country Office), UNFPAs Country Office Programme Support Costs would be analysed as follows:

- US$ 3.9 million to be transferred to 'Programme Costs' (i.e. the equivalent of WFPs DSC)
- US$ 67.7 million would remain as Country Office Programme Support costs (i.e. the equivalent of WFPs ISC)

TABLE J: UNHCR - RECATEGORIZATION OF COUNTRY OFFICE SUPPORT COSTS
(To align with WFP Country Office ISC 'Standard Configuration')

	2002-2003								
(In million US$)	*2002 Total*	*Two Year Amount*	*%*	*Total Country Office Costs*	*Assuming 'Standard Configuration' (123 Offices x $ 615K)*	*Transfer from Support to Programme (Note 1)*	*Recategorized Costs $*	*Recategorized Costs %*	*WFP Equivalent %*
A. Programmes	769.5	1 539.0	74.7%			251.2	1 790.2	86.9%	92.8%
B. Programme support									
1. Country & Regional Offices	163.4	326.8	15.9%	326.8	75.6	(251.2)	75.6	3.7%	3.0%
2. Headquarters	38.8	77.5	3.8%				77.5	3.8%	0.6%
Subtotal	**202.2**	**404.4**	**19.6%**				**153.2**	**7.4%**	**3.6%**
C. Management and administration	58.6	117.1	5.7%				117.1	5.7%	3.5%
TOTAL	**1 030.2**	**2 060.5**	**100.0%**				**2 060.5**	**100.0%**	**100.0%**
Programme support, management and administration as a percent of total budget	**260.7**	**521.5**	*25.3%*				**270.3**	*13.1%*	7.2%

Note 1: UNHCR has 123 country offices which will cost US$326.8 million for the two years 2002-2003.
Assuming only WFPs 'Standard Configuration' was charged to support costs (at an average of $ 615,000 per Country Office), UNHCRs Country and Regional Office Programme Support Costs would be analysed as follows:

- US$ 251.2 million to be transferred to 'Programme Costs' (i.e. the equivalent of WFPs DSC)
- US$ 75.6 million would remain as Country Office Programme Support costs (i.e. the equivalent of WFPs ISC)

Note 2: As UNHCR prepare annual budgets, these figures are based on the 2002 Revised Annual Budget - multiplied by 2 (this approach was agreed by UNHCR as representing an appropriate view of the budgets for the two years).

ANNEX VIII

COMPARATIVE STUDY—TERMS OF REFERENCE

Introduction

1. One aspect of the WFP Executive Board decision resulting from the Preliminary Review of the Indirect Support Cost Rate (WFP/EB.A/2002/6-A/1) is a recommendation to:

   - “embark on a comparative study of the funding and costs for the administrative and support budgets of comparable United Nations organizations to the extent feasible”.

2. This comparative study will focus on UNHCR and the United Nations organizations with “harmonized” budgets (UNDP, UNFPA and UNICEF).

Objectives of Comparative Study

3. The objectives of the comparative study are as follows:

   i) to obtain an adequate understanding and knowledge of the budgetary conventions for “administrative and support costs” and “programme/ project” costs of each of these United Nations organizations;

   ii) to develop and prepare a table of comparison for both the programme/project budgets and administrative and support budgets;

   iii) to modify the categorization of the costs (if necessary) to make them comparable across agencies;

   iv) to present a table of comparable costs of the four agencies and WFP;

   v) to identify the mechanisms used to fund or resource these budgets and the manner by which these are collected from donors, and compare these to those used by WFP;

   vi) to ascertain the accounting conventions applied for these funds by each organization and compare them with those of WFP;

   vii) to obtain an understanding of how these United Nations organizations relate their business plans and apply results-based principles to their budgets and to actual accomplishments; and

   viii) to also obtain appreciation of the United Nations organizations’ mechanisms for assessing the cost-effectiveness of their programme support and administrative budgets.

Visits to Other Agencies

4. In order to achieve these objectives, a review of the budgetary and relevant financial documentation of the agencies has been initiated. This review will be followed by a visit to each of the agencies.

5. The documentation review and field trips will concentrate on examining the following:

i) the **organizational background** of each agency, to place the examination of costs and funding in context; this will include a review of each agency's:

- function
- operational model and
- organizational arrangement

ii) the budgetary practices of each agency;

iii) the accounting conventions used, in particular those used for the recognition of administrative and support expenditure and income as well as that of programme/project funds;

iv) the resourcing (i.e. the source of contributions) and financing (i.e. the manner of levying or charging these contributions and actual payment by donors) of each agency will be examined, with particular emphasis placed on the administrative and support categories;

v) the definition, description and content of each relevant cost category, to ensure comparability;

vi) the actual costs—actual administrative and support costs and programme/project costs—for the biennium 2000–2001, to establish comparative figures; and

vii) the actual funding for the biennium 2000–2001, to make a comparison with WFP.

CONCLUSION

6. The results of the documentation review and field trip will be compiled into the tables, referred to above, for submission to the WFP Executive Board. These results (and associated working papers) will be shared with UNHCR, UNDP, UNFPA and UNICEF prior to finalization of the report.

REFERENCES IN ANNEX VII

1. WFP: financial statements for the biennium ended 31 December 2001.
2. UNICEF: financial statements for the biennium ended 31 December 2001.
3. UNICEF: Medium-Term Strategic Plan.
4. UNICEF: Annual Report, 2001.
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27. Guide to WFP's Resource and Long-Term Financing Policies.
28. UNICEF Biennial Support Budget for 2002–2003.
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30. The UNICEF Recovery Policy, 1998.

31. UNFPA—A Review of Multi-Bilateral Trust Fund Arrangements: Report of the Executive Director.
32. UNFPA: Administrative and Operational Support Costs Reimbursed to UNFPA: Report of the Executive Director.
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34. WFP Biennial Support Budget, 2002–2003.
35. Harmonization of Budgets: UNDP, UNFPA and UNICEF—DP/1997/2.
36. UNICEF: Typology of Support Budget Structure for Country Offices.
37. Resource and Long-Term Financing—Annex I: Comparative Study.
38. UNHCR Accounts for the Year 2001 (with 2000 comparatives).

GLOSSARY OF TERMS USED IN ANNEX VII

For the purpose of this study, the following definitions apply.

Regular resources:

UNICEF, UNDP and UNFPA: resources of a voluntary funded organization that are co-mingled and untied.

Other resources:

resources of a voluntary funded organization, other than regular resources, that are received for a purpose consistent with the mandate of the organization.

Support costs:

generic term used to refer to the management, support and administration costs of an organization.

Programme support costs:

costs arising from the development, formulation, delivery and evaluation of programmes which cannot be directly linked to the implementation of any specific project.

Programme costs:

term used to refer to the cost of all the inputs that are directly identifiable to the implementation of projects and programmes such as DOC and DSC.

Management and administration costs:

costs arising from the maintenance of the identity, direction and well-being of the organization.

Untied contributions:

contributions for which the organization determines the projects, programmes or activities on which the contribution may be used.

Executive Board of WFP:

A Board jointly established by the United Nations and FAO responsible for providing intergovernmental support and policy direction to, and supervision of, the activities of WFP.

Accrual basis of accounting:

a basis of accounting under which transactions and other events are recognized when they occur and are recorded in the accounting records and reported in the financial statements of the periods to which they relate.

Cash basis of accounting

a basis of accounting under which transactions and other events are recognized when the associated cash movement occurs and are recorded in the accounting records and reported in the financial statements on that basis.

ACRONYMS USED IN THE DOCUMENT

ACABQ	United Nations Advisory Committee on Administrative and Budgetary Questions
ADS	Administrative Support Costs
BSB	Biennial Support Budget
CO	Country office
CP	Country Programme
CPMP	Country Programme Management Plan
DOC	Direct operational costs
DSC	Direct support costs
EMOP	Emergency operation
FAO	Food and Agriculture Organization of the United Nations
FAQ	Frequently Asked Questions
GCCC	Government Counterpart Cash Contributions
HQ	Headquarters
IAPSO	Inter-Agency Procurement Service Office
ICPD	International Conference on Population and Development
IRA	Immediate Response Account
IRG	International Resources Group
ISC	Indirect support costs
JIU	Joint Inspection Unit
LTSH	Landside transport, storage and handling
NGO	Non-governmental organization
ODOC	Other direct operational costs
PO	Purchase order
PRRO	Protracted relief and recovery operation
PSA	Programme support and administrative
RLTF	Resource and Long-Term Financing Policies
TCDC	Technical Cooperation among Developing Countries
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees

UNICEF	United Nations Children’ s Fund
UNV	United Nations Volunteers
WINGS	WFP Information Network and Global System