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de Alimentos

**Executive Board  
Third Regular Session**

**Rome, 19 - 22 October 1999**

# **INFORMATION NOTES**



Distribution: GENERAL

**WFP/EB.3/99/INF/18**

6 February 2009

ORIGINAL: ENGLISH

## **GUIDE TO WFP'S RESOURCE AND LONG-TERM FINANCING POLICIES**

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**GUIDE TO  
WFP'S**

**RESOURCE  
AND  
LONG-TERM  
FINANCING  
POLICIES**





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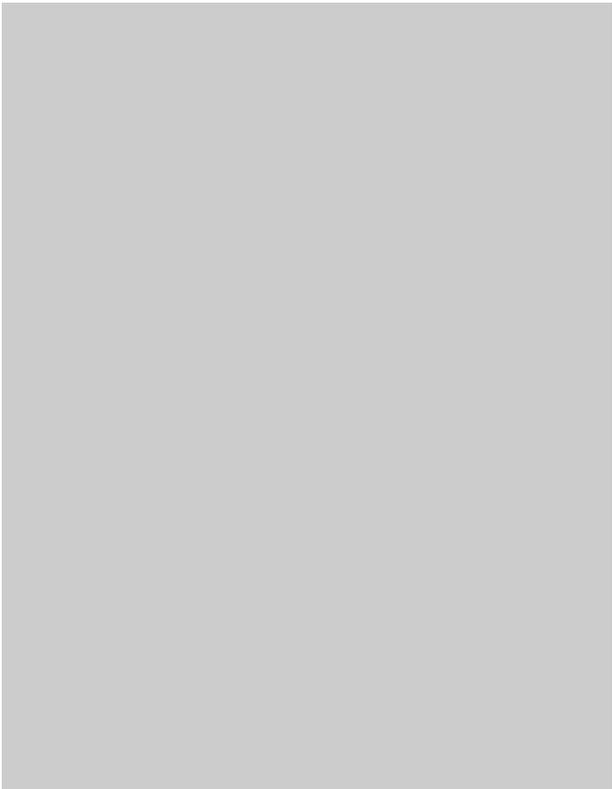


# Introduction

This Guide to WFP's Resource and Long-term Financing (R&LTF) policies is designed to provide practical information on the policies and how to apply them to contributions to WFP. Such information should prove helpful not only to donors, but also to WFP staff.

The new 1999 guide is designed to replace the previous version that was released in 1996. This is particularly timely given the recent completion of a review of R&LTF policies after their first biennium of implementation. This guide seeks to clarify the changes approved by the Executive Board to the original R&LTF policies as a result of the review and the effect they will have on how WFP does business after their implementation on 1 January 2000.





**PART I:  
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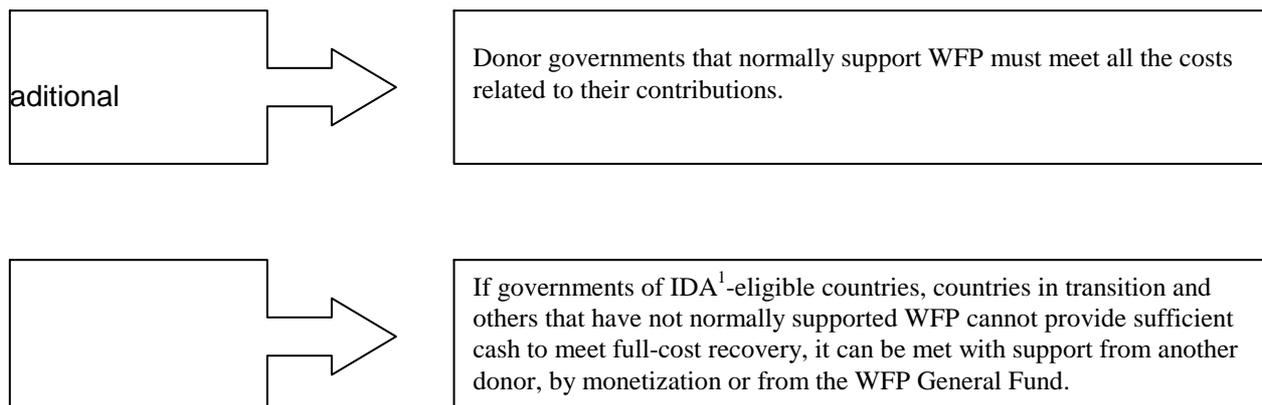
**NTLY ASKED  
QUESTIONS ON  
CONTRIBUTION  
S TO WFP**



# So you want to support WFP ...

## 1 DOES IT MATTER WHO I AM?

WFP can accept support from government and private sources, provided their contribution is in the interest of WFP's beneficiaries and meets full-cost recovery (i.e. that their contribution covers all the costs related to its implementation). However, this is applied differently if you are a:



For further information, see page 10.

**If a new funding source within the government of a traditional donor provides a contribution for the first time, is this contribution from a traditional or non-traditional donor?**

The definition of traditional and non-traditional donors makes reference to donor countries, not funding sources within a donor country government. Thus, if the donor country is considered a traditional donor, all funding sources within its government structures are traditional donors.

**If an embassy wishes to make a contribution to a WFP operation in a beneficiary country, does this contribution have to meet full-cost recovery?**

If it is the embassy of a traditional donor, the contribution must meet full-cost recovery.

**Who should I contact if I want to make a contribution to WFP?**

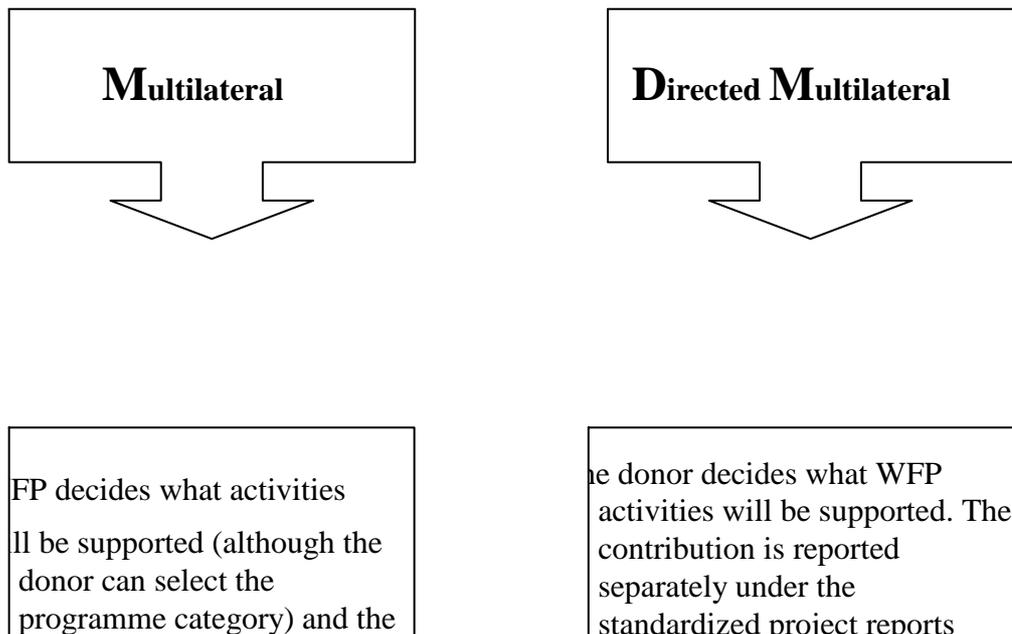
You should contact the Resources and External Relations Division, at 39-06-65131. You can also contact [resources@WFP.org](mailto:resources@WFP.org) and your message will be directed to the appropriate person.

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<sup>1</sup> International Development Association of the World Bank.

## 2 HOW CAN I SUPPORT WFP ACTIVITIES?

Support to WFP activities can be provided in two ways: Multilateral and Directed Multilateral. These are referred to as funding windows.



A third funding window is Bilateral, where WFP provides services to donors implementing their own food aid programmes. Food channelled through this funding window is not intended for WFP activities. For further information on funding windows, see page 12.

### **What if I make a contribution where WFP decides how the funds are allocated but I want a specific report on my contribution afterwards?**

Your contribution would be considered Directed Multilateral. For a contribution to be considered multilateral, it must meet both the criteria regarding “directedness” and reporting. You will find detailed information on your contribution in the WFP standard project report. If you require more information than that included in the standard project report, you will have to reimburse WFP the

cost of providing such additional information. For further information on reporting, please refer to pages 13 and 22.

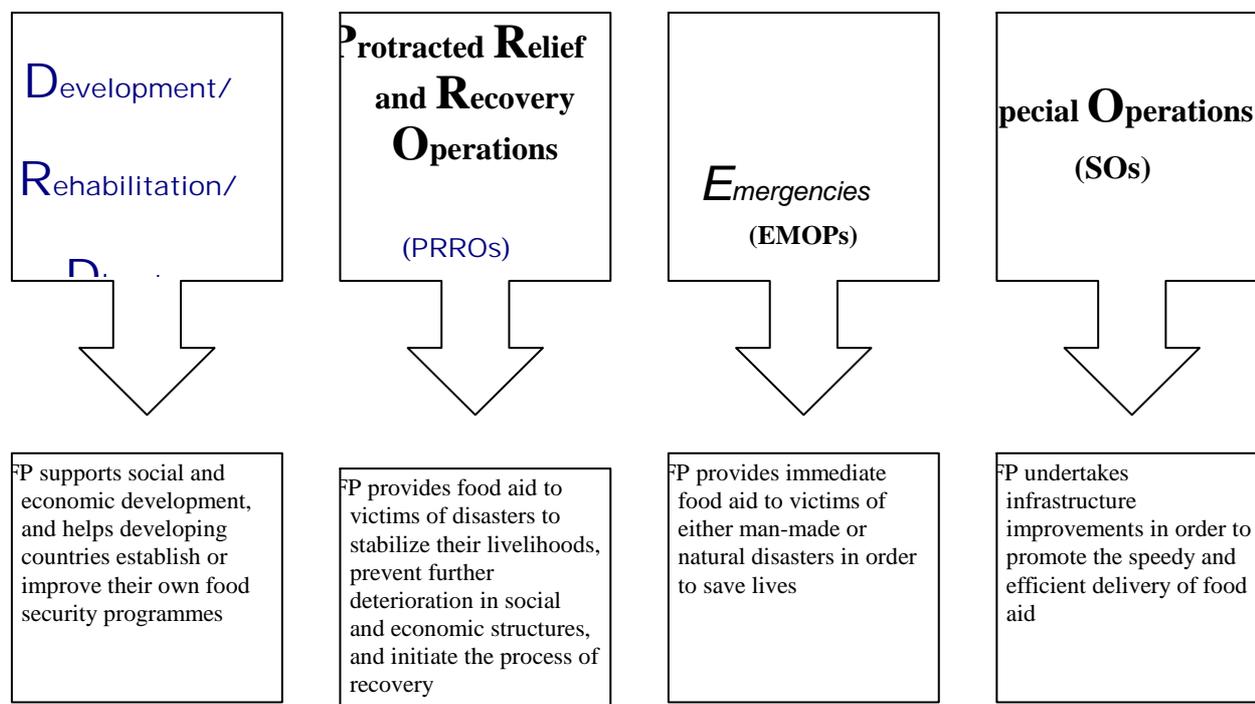
**What types of bilateral services can WFP provide?**

In order to assist donors in implementing their own food aid programmes, WFP can purchase commodities, transport goods and/or monitor operational implementation as part of bilateral services. Bilateral resources are not intended to support WFP activities.

These services are provided on a full-cost recovery basis, with the donor providing funds to cover all related costs. Once a bilateral service has been implemented, WFP will provide a donor with a financial and operational report. Further information on bilateral services can be found in Annex 1, page 28.

**3 WHAT ACTIVITIES CAN I SUPPORT?**

WFP activities are grouped into four programme categories:



For more information on programme categories, see page 14.

#### 4 HOW IS MY CONTRIBUTION UTILIZED?

Each contribution to WFP is used to cover the full cost of implementing the activities concerned. These costs are separated into three categories, Direct Operational Costs (DOC), Direct Support Costs (DSC) and Indirect Support Costs (ISC).

**DOC:** Any cost incurred by WFP in providing inputs that are utilized directly in activities by beneficiaries, the government of the recipient country or other implementing partners, such as the cost of commodities, ocean transport, air lifts, landside transportation, storage and handling (LTSH), and other non-food items used in project implementation. For contributions made in cash, these costs are established on the basis of the estimated price for the commodity (taking into account where the purchase will be made), the estimated shipping rates at the time the contribution is made for ocean and air transport, and the average LTSH cost per ton for the project/operation concerned.

**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, such as staff, vehicles and office rental, are estimated at the time the project/operation is prepared. DSC is recovered on a cost per ton basis from all contributions to the project/operation concerned.

Under the policy of full-cost recovery, each contribution must cover all the costs related to its implementation. Therefore, WFP recoups all its costs from the most direct to the indirect (a

**How does WFP recover its costs?**

Under the policy of full-cost recovery, each contribution must cover all the costs related to its implementation. Therefore, WFP recovers all its costs from the most direct to the indirect (administration and management costs) through each contribution to its activities. WFP has no source of funding other than the individual voluntary contributions made to its programme activities.

**What is the basis of the Indirect Support Cost (ISC) rate?**

Every biennium, the ISC rate is fixed by the Executive Board. The ISC rate is determined by applying the approved Programme Support and Administration (PSA) budget to the projected Direct Operational Costs (DOC) and Direct Support Costs (DSC) of the activities for the biennium. For example, if the approved PSA is US\$100 and the projected activities valued at US\$2000, the ISC rate would be 5 percent.

**Why does WFP charge an Indirect Support Cost (ISC) rate on contributions?**

Unlike most other organizations that have additional sources of income to fund their administrative and management costs, WFP has no other source beyond the voluntary contributions to its activities. Thus, ISC is charged on each contribution to the Programme. This is also consistent with the full-cost recovery principle, where each donor to WFP must pay all costs related to its contribution, including its fair share of administrative and management costs.

For further information on cost categories please refer to page 17.

## 5 WHAT CAN I GIVE?

For WFP to successfully provide food to hungry people, it requires not only commodities and cash resources, but also trucks, planes, staff, computers and many other items. WFP accepts cash to purchase the required items, contributions in-kind or contributions of services.

### What types of food commodities are useful for WFP operations?

WFP generally provides the most basic and low cost, yet nutritionally balanced, food commodities, namely cereals, pulses and oil. However, this may vary according to local needs, habits and other factors, and specific food baskets may have to be developed by WFP for different beneficiary groups. Food contributions in-kind should therefore be consistent with the food basket of the beneficiary group for which the contribution is intended.

### If I provide a contribution in-kind, do I have to provide anything else?

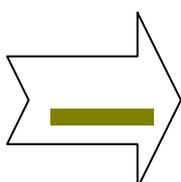
It depends on whether the in-kind item you provide is attributable to Direct Operational Costs (DOC), Direct Support Costs (DSC) or Indirect Support Costs (ISC).



Donors providing in-kind food, transport or other DOC items must provide sufficient cash, acceptable services or non-food items to cover the full cost of their contribution.



Contributions in-kind to DSC generally require additional cash to meet full-cost recovery. ISC on such contributions may be waived by the Executive Director if it is in the interest of the beneficiaries and there are no



Donors providing in-kind or cash contributions for Programme Support and Administration (PSA) or related activities do not have to provide any additional cash or services to cover the full cost of their contribution, as long as their contribution is untied and carries no special conditions.

For more information regarding contributions to WFP, please refer to page 2.

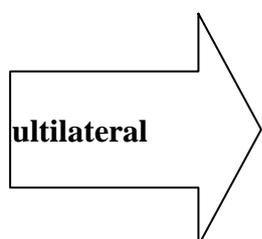
### How is my contribution in-kind valued in WFP statistics?

Contributions in-kind of food commodities are valued by WFP on the basis of world market prices, at the Food Aid Convention price or at the donor's invoice price. Contributions of services are valued either at world market prices or, where the service is of a local nature, at the price contracted by WFP. Contributions of personnel services are valued at the WFP standard cost. Further information can be found in WFP General Rule XIII.6.

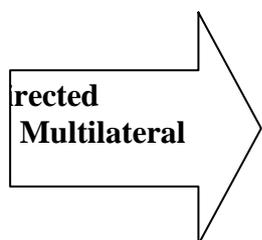
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## 6 WHAT INFORMATION WILL WFP PROVIDE REGARDING MY CONTRIBUTION?

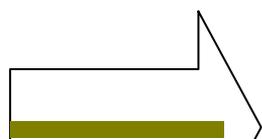
It depends on the funding window through which your contribution is given, Multilateral, Directed Multilateral or Bilateral.



You will receive WFP's annual reports to the Executive Board. The total value of Multilateral contributions received, as well as the names of these donors, are also mentioned in the Standard Project Report, but not at the same level of detail as Directed Multilateral



You will receive the Annual Standard Project Report on each supported project/operation. The report provides an overview of the activities under the project and shows the breakdown and use of financial resources by donor.



You will receive contribution-specific operational and financial reports that vary according to the service

### **What is the Standard Project Report?**

The Standard Project Report is designed to show the use of resources provided to WFP and the results obtained. The report gives an overview of the project/operation, laying out the objectives, mode of implementation, resources used for implementation, and the results obtained. It also shows the breakdown and use of financial resources, by donor, in relation to all Directed Multilateral contributions. The report is provided on an annual basis until the project/operation is closed. For further information on the Standard Project Report please refer to page 22.

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### **ADDITIONAL QUESTIONS....**

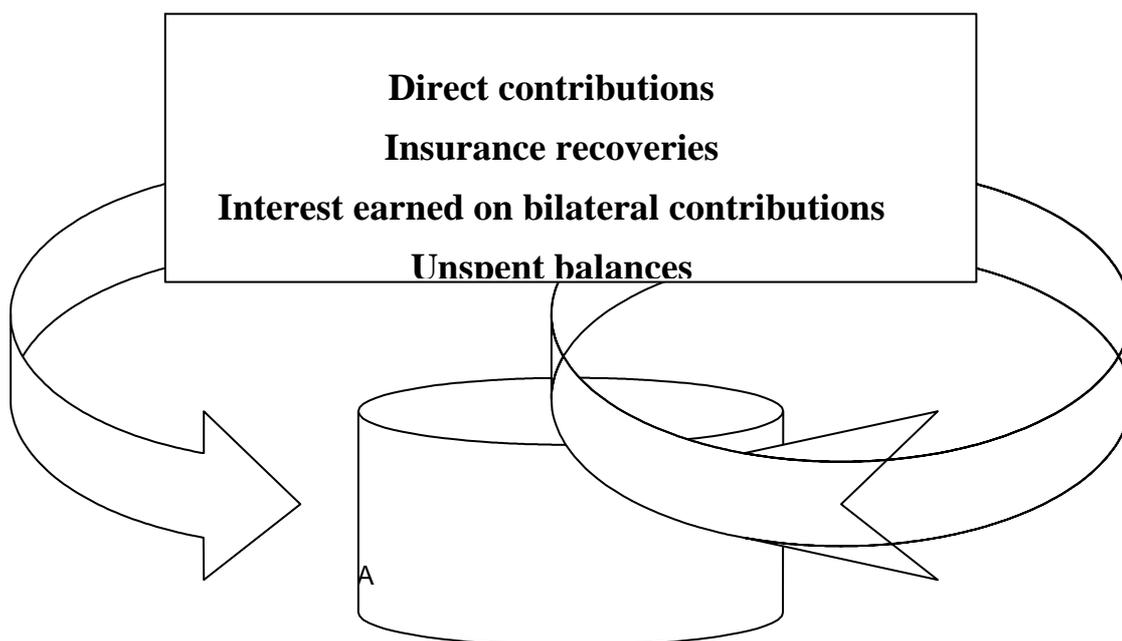
### **How are contributions to WFP considered under the Food Aid Convention (FAC)?**

A new FAC came into force, effective as of 1 July 1999. WFP will follow the FAC Rules of Procedure in defining FAC-eligible contributions. For all FAC-eligible contributions, WFP will report to the International Grains Council (IGC) the actual tonnage shipped during a given FAC year. WFP will not normally report to the IGC on a donor's contributions. It should be understood that tonnages are reported on the basis of shipping date, not on the date the contribution was made to WFP.

**What is the Immediate Response Account and how can I support it?**

The Immediate Response Account (IRA) is an important multilateral tool available to WFP. It enables WFP to make immediate allocations of food and other items in the early stages of a new emergency or when there is a sharp change in operational circumstances in an ongoing Emergency Operation (EMOP) or Protracted Relief and Recovery Operation (PRRO). This allows WFP to act even before donors have formally responded to an appeal.

The IRA is supported in several ways:



However, the IRA has a target level of only US\$35 million, with US\$30 million to cover food and US\$ 5 million to cover non-food costs. It allows WFP to provide initial support to beneficiaries in an emergency, but WFP cannot continue a relief operation without further donor contributions. For more information on the IRA, please see page 25.



**PART II:  
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N OF WFP'S  
RESOURCE AND  
LONG-TERM  
FINANCING  
POLICIES**

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DONORS TO WFP

*Traditional Donor:*

**Definition:** A contributor to WFP that has normally provided contributions to WFP on a full-cost recovery basis and is included in Lists D or E of the United Nations/Food and Agriculture Organization (FAO) Member States Listings for Elections for the WFP Executive Board—unless also recognized as a country in transition, and including the European Commission and Saudi Arabia.

In applying the above definition, WFP considers traditional those core donors that have historically provided contributions to the Programme on a full-cost recovery basis. These countries are listed below.

Argentina	Greece	Norway
Australia	Hungary	Portugal
Austria	Iceland	Republic of Korea
Belgium	Ireland	Spain
Brazil	Israel	Sweden
Canada	Italy	Switzerland
Cyprus	Japan	Turkey
Denmark	Luxembourg	United Kingdom
Finland	Malta	United States of America
France	Netherlands	
Germany	New Zealand	

For countries not included in this list, the Executive Director may approve a waiver of the requirement for full-cost recovery, upon the recommendation of the Director of the Resources and External Relations Division.

**Contributions:** Traditional donors are required to meet full-cost recovery on all contributions, thus covering in cash or in-kind all operational costs and a pro-rata share of the Direct and Indirect Support costs.

### *Non-traditional donor*

<p><b>Definition:</b> A contributor to WFP that is not defined as a traditional donor, as determined by the WFP Executive Board.</p>
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Examples of non-traditional donors include countries in transition, IDA-eligible developing countries, private corporations, public or private foundations, non-governmental organizations (NGOs) or individuals.

**Contributions:** If a non-traditional donor is unable to provide cash to cover the associated Indirect Support, Direct Support and Direct Operational costs, provided the contribution is in the interest of WFP and the beneficiary groups concerned and there is no disproportionate reporting or administrative burden for the Programme, WFP can ensure full-cost recovery by:

- inviting traditional donors to provide the cash to meet such costs
- for commodity contributions, monetizing part of the contribution, where appropriate and cost-effective
- if full-cost recovery cannot be met in either of the above two ways, the WFP Executive Director may waive the full-cost recovery requirement and authorize the use of the WFP General Fund to meet the costs concerned.

Contributions accepted from non-traditional donors using one of the above methods to meet full-cost recovery will be reported to the WFP Executive Board annually.



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## FUNDING WINDOWS

There are two funding windows through which contributions can be made to WFP: Multilateral and Directed Multilateral. The essential difference between the two is the amount of involvement of the donor in determining the use of the contribution and the type of report provided by WFP.

### Multilateral

**Definition:** A contribution for which WFP determines the Country Programme or WFP activities in which the contribution will be used and how it will be used, or a contribution made in response to a broad-based appeal for which WFP determines, within the scope of the broad-based appeal, the Country Programme or WFP activities in which the contribution will be used and how it will be used, and for which the donor will accept reports submitted to the Board as sufficient to meet the requirements of the donor.

Multilateral contributions can be made as general contributions to the Programme, as contributions to the Immediate Response Account (IRA), as contributions to specific Programme Categories and as contributions towards specific broad-based appeals. The flexibility of such multilateral resources allows resources to be used in the most cost-effective manner, enhances WFP's ability to avert pipeline breaks and helps to fund those operations that do not attract special donor attention.

**Broad-based appeals:** If, under a broad-based appeal, WFP requests support for its activities in countries X, Y and Z, and a donor responds to the appeal with resources which can be allocated at WFP's discretion to either X, Y or Z, and accepts reports submitted to the Executive Board as sufficient, then this contribution is considered multilateral.

**Reporting:** Multilateral contributions are not reported in the same level of detail in the Standard Project Reports as Directed Multilateral Contributions. However, the standard reports do indicate the donors providing Multilateral contributions that have been allocated to the project concerned. If a donor makes a contribution which in terms of "directedness" meets the above definition of Multilateral, but the donor requires specific information on the expenditures related to its contribution as outlined in the standard project reports, then this contribution will be considered Directed Multilateral.

**Interest:** Interest on Multilateral contributions is accrued to the related special account (which is defined as an account established by the Executive Director for a special contribution, or for monies earmarked for specific activities, the balance of which may be brought forward to the

succeeding financial period, such as the Financial Management Improvement Programme (FMIP) or the self-insurance account) or to the WFP General Fund, as appropriate.

## Directed Multilateral

**Definition:** A contribution, other than a response to a broad-based appeal made by WFP, or by WFP and other agencies, which a donor requests WFP to direct to a specific activity or activities initiated by WFP or to a specific Country Programme or Country Programmes. Reporting for Directed Multilateral contributions is provided through the Standard Project Reports.

Under a Directed Multilateral contribution, WFP is not free to allocate the resources provided by a donor according to operational requirements, but is obliged by the donor to channel the resources to a specific country or activity. This includes directing resources to a specific country or activity that is part of a broad-based appeal.

**Broad-based appeals:** If under a broad-based appeal, a donor chooses a specific country or activity to support, then such a contribution is considered Directed Multilateral. For example, if WFP makes an appeal for support to its activities in countries X, Y and Z, and a donor responds to the appeal with resources which it wants to go only to country Y, then this contribution is considered Directed Multilateral. Further, if a donor responds to a broad-based appeal without directing its contribution to a specific country but requires a Standard Project Report, then this contribution is considered Directed Multilateral.

**Reporting:** Reporting on Directed Multilateral contributions is done through the WFP Standard Project Reports. These reports include contribution-specific operational and financial information on each Directed Multilateral contribution, in addition to detailed information on the overall implementation of the project to which the contribution was made. For more information on WFP standard project reports, please refer to page 25.

**Interest:** Interest on Directed Multilateral contributions is accrued to the related special account (which is defined as an account established by the Executive Director for a special contribution, or for monies earmarked for specific activities, the balance of which may be brought forward to the succeeding financial period, such as FMIP or the self-insurance account) or to the WFP General Fund, as appropriate.

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## PROGRAMME CATEGORIES

The activities of WFP are broken down into four programme categories:

- Development/Rehabilitation/Disaster Preparedness
- Protracted Relief and Recovery Operations (PRRO)
- Emergencies (EMOP)
- Special Operations (SO)

### Development/Rehabilitation/Disaster Preparedness

Projects in this category use assistance with food consumption to encourage investment, and leave behind lasting assets, either physical assets or human capital, which help the community or household after the food is gone. WFP interventions are initiated only in order to focus upon the following:

- alter household trade-offs in favour of adequate nutrition for young children
- alter the trade-offs in favour of education for girls and women
- make it possible for poor families to gain and keep assets
- mitigate the effects of natural disasters in areas vulnerable to recurring crises of this kind
- enable households that depend on degraded natural resources for their food security to make a shift to more sustainable livelihoods.

Projects are designed and implemented with strong community participation. Implementation is usually carried out by the national government with WFP support and monitoring. NGOs and local government bodies are often project partners of WFP, as are the World Bank and other multilateral organizations from within and without the United Nations system.

In May 1999, WFP completed a review of its activities under this programme category. The definition of this programme category will be modified in the WFP General Regulation, if necessary, in the near future.

### Protracted Relief and Recovery Operations (PRRO)

Natural and man-made crises displace large numbers of people as refugees and internally displaced persons. Accompanying this population displacement and exposure to violence is the erosion of social structures and human capital; damaged housing, schools, health facilities and infrastructure; and reduced productive capacity. People in these circumstances need assistance to stabilize and secure their livelihoods, prevent further deterioration in social and economic structures, establish foundations for recovery and reconciliation, and help avert future emergencies. WFP, having assessed with partner agencies and governments the need for food aid, uses food under this programme category to assist in meeting needs, using a variety of modalities. The modalities range from free food distribution to market support and are programmed flexibly to adjust to the often changing progress and deterioration of the situation. The strategy to guide countries from relief through recovery to development is planned as early as possible, including during the emergency phase, and reviewed as the situation moves into one of protracted relief; from crisis to recovery.

Although the definition of this programme category was modified by the Executive Board in 1998, the WFP General Regulations do not yet reflect these changes.

### Emergencies (EMOP)

The Emergencies programme category covers activities which respond to acute emergency needs requiring food aid assistance because normal access to food is no longer possible. The emergencies arise from man-made and natural causes such as wars, civil conflict, droughts, floods, earthquakes and hurricanes.

The first priority of EMOPs is to save lives. They are designed to then provide for the continued relief of the affected peoples in ways that assist them to retain their assets for return to a normal life and strengthen their opportunities for recovery and rehabilitation. Only in exceptional circumstances should EMOPs exceed two years in duration since a continuing situation has different characteristics more appropriately responded to through the PRRO programme category.

The resources provided under this programme category are considered part of the International Emergency Food Reserve (IEFR).

### Special Operations (SO)

Special Operations are those WFP initiatives that are designed to improve infrastructure in order to promote speedy and efficient delivery of food aid, while also serving as a vehicle for rehabilitation and future development. Examples of activities undertaken as part of this programme category

include projects to rehabilitate road, rail, airport and port infrastructure or to improve communications infrastructure. No commodities are provided under this programme category.

## FULL-COST RECOVERY

The principle of full-cost recovery has been reconfirmed by the Executive Board as one of the pillars of the R&LTF policies. Full-cost recovery means that each donor is required to meet each contribution's share of all associated costs, including the full operational costs, a pro-rata share of the Direct Support Costs and Indirect Support Costs.

In the past, each of the WFP programme categories had a different Indirect Support Cost rate. However, from 1 January 2000, there will be one WFP-wide Indirect Support Cost rate to be charged to all contributions, regardless of programme category. This rate will be approved by the Executive Board on a biennial basis.

For example, for a donor to meet full-cost recovery on a contribution of one ton of a food commodity, the donor would have to provide funds to pay for:

- ✓ the purchase of the commodity (or provide the commodity in-kind);
- ✓ the cost of transporting the commodity to the beneficiaries (ocean transport, including port costs, trucking costs in the beneficiary country, etc.);
- ✓ the donor's pro-rata share of WFP's costs in the beneficiary country of implementing the project/operation to which the food goes; and
- ✓ a fixed percentage to meet WFP's indirect costs, such as the operations of its headquarters, and regional and country offices.

In practice, donors generally contribute to WFP activities in accordance with cost estimates which allocate funds to fully cover all three cost elements: Direct Operational Cost, Direct Support Cost and Indirect Support Cost. For those contributions that do not require a cost estimate, it is WFP's responsibility to assure that all the associated costs are met from the funds provided by the donor.

The application of full-cost recovery on a contribution-by-contribution basis is essential, since WFP does not have assessed contributions or a core budget with a separate funding mechanism. All WFP costs, including management and administration, must be funded from each of the contributions made to specific operations.

In the case of IDA-eligible developing countries, countries in transition and other non-traditional donors (see page 12), full-cost recovery can be met with the support of another donor, by the monetization of part of the contribution, or from the WFP General Fund, provided the contribution

is in the interest of the beneficiaries of the Programme and does not result in excessive administrative or reporting burdens.

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## COST CATEGORIES

Each WFP project document encompasses the full cost of implementing the activities concerned. These costs are separated into Direct Operational Cost (DOC), Direct Support Cost (DSC) and Indirect Support Cost (ISC). The definitions of the three cost categories have been revised. The revised definitions and related recategorization of costs will become operational as of 1 January 2000.

This transparent cost presentation means that the total cost of implementing an activity is clearly stated. This includes the costs related to the WFP administrative and management structures at the headquarters, regional office and country office levels. *A recent comparative cost analysis of United Nations agencies, taking into account all sources of income, found WFP support costs to be the lowest of all the agencies considered.*

### Direct Operational Cost (DOC)

**Definition:** Any cost incurred by WFP in providing activity inputs that are utilized directly in activities by beneficiaries, the government of the recipient country or other implementing partners, including the cost of commodities, ocean transportation and related costs, and landside transportation, storage and handling (LTSH).

DOC can be considered the basic WFP input to a project or activity. It is not the item itself that determines its classification under DOC but the fact that the item is used directly by beneficiaries, government counterparts or implementing partners. The following are examples of the types of cost that are included in DOC:

- cost of commodities;
- ocean transport and related costs;
- LTSH costs; and
- other operational costs, including:
  - non-food items (NFIs) utilized by beneficiaries, i.e. tools, utensils and agricultural inputs;
  - NFIs provided to the government of the recipient country or implementing partners, such as vehicles, computers and audio-visual equipment, and storage facilities;
  - project personnel such as United Nations Volunteers (UNVs) who act in a direct advisory capacity to the government, normally working on counterpart premises;

- identifiable costs related to counterpart training;
- government, NGO and other implementing partners' operational costs not covered under LTSH;
- aircraft, airlifts and other costs related to operations;
- technical assistance financed by WFP and provided by United Nations agencies, NGOs and others; and
- milling and rebagging costs.

**Recovery:** DOC is charged directly to WFP projects/operations.

### Direct Support Cost (DSC)

**Definition:** Any cost incurred by WFP that can be directly linked to the provision of support to an activity and which is not an Indirect Support nor Direct Operational Cost.

DSC are those costs, generally at the country office level, which are incurred directly in support of activities and in addition to the ISC-funded standard, maximum structure of country offices. In some cases, additional staffing resources in regional offices and headquarters for the direct support of activities are categorized as DSC. It is not the item itself which determines classification as DSC but the fact that the item is intended for use by WFP in implementing the project/operation concerned. Below are some examples of the types of cost would be classified as DSC:

- staff (additional to the maximum staffing structure);
- office rental;
- vehicles and maintenance costs;
- communications equipment;
- computer equipment; and
- security equipment.

**Recovery:** DSC is charged directly to WFP projects/operations at a fixed rate per metric ton.

### Indirect Support Cost (ISC)

**Definition:** 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 easily to any programme category or activity.

The ISC distributes the Programme Support and Administration (PSA) costs across all WFP activities. The PSA budget is composed of those administration and management costs which, by their nature, cannot be allocated to any particular WFP activity. These include staff and operating costs of the WFP headquarters and regional offices, and a standard maximum office structure in all country offices. This standard maximum structure is composed of the WFP Representative, two national officers, three general service staff and a set amount of non-staff costs. There may be some minor deviations to the structure, depending on the circumstances of the WFP office concerned.

**Recovery:** ISC is recovered as a rate charged on the DOC and DSC of WFP projects/operations. The rate is the same for all programme categories.

### Implementation of cost recategorization

The revised DOC/DSC/ISC definitions outlined above will be implemented in the biennium beginning 1 January 2000. Thus, the 2000-2001 and subsequent PSA budgets will be prepared on the basis of revised definitions. Further, budget revisions will be made of all existing WFP projects/operations to reflect the new cost category definition. New projects/operations under preparation that are expected to continue beyond 31 December 1999 will utilize the revised cost category definitions.

### Support cost recovery

Under the original R&LTF policies introduced in 1996, the WFP PSA budget was recovered through the application of differential ISC rates for each programme category. These rates were determined on the basis of a cost study. However, it was decided that both the process of determining the various ISC rates and the use of differential rates for the various programme categories was unduly complicated and cumbersome.

As a result, the Executive Board has decided that as of 1 January 2000, the ISC rate will be the same for each programme category. This single rate will be determined by applying the approved PSA budget to the projected DOC and DSC of the activities for the biennium, taking into account income received from other sources, such as interest and Government Counterpart Cash Contributions (GCCC). The single rate will be fixed for a biennium; however, it may be revised by the Executive Board on an annual basis, if necessary.

If at the end of the biennium, there is an imbalance between the approved PSA budget and the actual ISC recovered, the General Fund may be used to bridge the gap, subject to the approval of the Executive Board.

### Guarantee mechanism for Direct Support Cost (DSC) advance

When WFP undertakes a new operation, it usually needs to hire staff, rent office space, purchase vehicles and pay other related costs immediately. However, a time-lag frequently occurs between the start of the operation and funding availability. Often, contributions are not received for the new operation, or the contributions that have been received are not sufficient to cover upfront costs at the time WFP makes the financial commitment.

To assure adequate immediate funding for operational start-up and to fund bridging and early-phase requirements for DSC, a guarantee mechanism has been developed under the R&LTF policies.

WFP currently has other sources of upfront DSC, the Immediate Response Account (IRA) and the Operational Reserve. The use of these various facilities is as follows:

- the DSC advance facility provides resources to activities for which there are not yet confirmed contributions.
- the Operational Reserve is used when an operation has confirmed contributions but funds are not yet received.
- the Immediate Response Account (see page 29) is utilized to provide food and the attendant DSC for operations that do not yet have confirmed contributions, but for which they can be reasonably expected.

The amounts authorized from the facility are repaid as contributions received to finance the activities concerned. However, if no subsequent contributions are received, the guarantee mechanism under the General Fund covers unfunded advanced DSC. WFP will be very conservative in using this mechanism, limiting the amount of unfunded DSC to be covered.

The Executive Board will review, on a biennial basis, the effectiveness of the advance facility and the amounts covered through the guarantee mechanism. Further, the Executive Board will set the guarantee amount and WFP's possible exposure level during the biennial budgetary exercise.

### CONTRIBUTIONS TO THE PROGRAMME

For WFP to successfully implement activities, not only commodities, but also trucks, planes, staff, computers and many other items are required. WFP accepts both cash to purchase the required items and contributions in-kind.

#### Cash contributions

If a donor makes a contribution in cash, WFP will use the resources provided to cover all the required costs of implementing the contribution, including DOC, DSC and ISC. The exception to this is cash contributions to the PSA budget or PSA-like activities that are classified as ISC, where WFP does need to cover any further costs from the contribution.

The provision of cash resources is particularly valuable as it allows WFP to purchase food commodities in developing countries. This has a number of advantages, including:

- it allows WFP to deliver the type of commodity most needed by the beneficiaries
- it is easier to procure commodities that correspond to the local habits of beneficiaries
- purchasing commodities close to the operations allows food to be provided faster to beneficiaries
- it provides significant support to the economies of developing countries

#### Contributions in-kind

WFP also accepts contributions in-kind, including contributions of food commodities and other items. How such contributions are treated under R&LTF policies depends on whether the items are classified under DOC, DSC or ISC.

##### *In-kind DOC*

If a donor provides in-kind commodities, transport services or non-food items classified as DOC, additional resources in cash or acceptable services are required to meet full-cost recovery. However, the need for additional resources in the case of the in-kind provision of aircraft will be evaluated on a case-by-case basis.

WFP has a policy of providing basic food commodities, such as cereals, pulses and oil. Below are some examples of the types of commodities that WFP generally receives in-kind.

<i>Cereals</i>	<i>Pulses</i>	<i>Oils</i>	<i>Other</i>
Wheat	Beans	Butter Oil	Dried Milk
Wheat Flour	Lentils	Edible Fat	Salt
Maize	Soya	Vegetable Oil	Sugar
Maize Meal	Peas	Rapeseed Oil	High Energy Biscuits
Millet		Soya Oil	Blended Food
Rice			Humanitarian Daily Rations (HDR)
Sorghum			Canned Fish

This list is not exhaustive and in-kind contributions of other commodities will be reviewed on a case-by-case basis to ascertain their acceptability.

#### *In-kind DSC*

WFP often receives in-kind contributions of personnel and equipment, especially for relief operations under pre-negotiated standby agreements, which are classified as DSC. Contributions in-kind to WFP's DSC generally require additional cash resources to meet the ISC. However, the Executive Director may reduce or waive the ISC charges if:

- there is no additional reporting or administrative burden associated with the contribution; or
- the total amount of the respective ISC cost is not significant and it is in the interest of WFP's beneficiaries to waive the ISC.

In-kind contributions of DSC on which the ISC is waived will be reported annually to the WFP Executive Board.

#### *In-kind ISC*

As with cash contributions to support activities classified as ISC, it is not necessary to charge ISC on an in-kind contribution.

### Other types of contributions

In addition to contributions that can easily be classified under DOC, DSC or ISC, several other types of contribution are made to WFP.

#### *Special contributions*

A number of donors provide support to specific WFP activities. These range from support of gender initiatives and the provision of port captains, to the funding of initiatives that improve the quality of WFP interventions. Under R&LTF policies, PSA-like activities are exempt from ISC. However, each of these special grants will be evaluated by the Director of the Resources and External Relations Division in order to assure that full-cost recovery is met.

#### *Junior Professional Officers*

Under the Junior Professional Officers (JPO) programme, donor governments provide funding for entry-level professional staff. This programme provides important human resources for WFP and gives young professionals the opportunity to gain experience working with the United Nations.

Under a United Nations-wide arrangement, contributions of JPOs must include a special ISC charge, which differs from the rate charged to other contributions to WFP. While not linked to R&LTF policies per se, full-cost recovery on JPOs is met in this way.

## STANDARDIZED PROJECT REPORTING

The purpose of the Standard Project Report is to provide donors with information on the use of the resources provided to WFP and the results obtained. The document lays out the objectives of the project/operation, its mode of implementation, resources used for implementation and results obtained. In addition, it shows the breakdown and use of financial resources, by donor, for Directed Multilateral contributions. The format and content of the reports is based on discussions with donors and a review of a sample report by an informal working group of the List D members. The standardization of reporting relieves WFP of the burden of producing a variety of reports for different donors, and reduces the overall cost of reporting.

The Standard Project Reports are prepared on an annual basis, and provide information on the activities of the project/operation during the previous calendar year. Reports are generally made available by WFP in the third quarter of the year following the activity period. Thus, WFP reports in the third quarter of 1999 on activities that took place from 1 January 1998 to 31 December 1998. Since many WFP projects/operations continue for several years, donors receive the annual report or reports for the years during which their contribution was implemented. A final report includes a synopsis of all financial activities under the project/operation once WFP activities have ceased.

Further information on WFP reporting is available in the “Guide to Understanding the 1997 Standard Project Reports”, available on the WFP web site <http://www.wfp.org>, under the heading “Member States and Donors”.

### *Operational information*

The report provides very detailed quantitative and narrative information on WFP activities under each project/operation, including the following:

- resources approved for the project/operation
- amount and types of commodities received (both in cash or in-kind)
- information on commodity and non-food items purchases implemented by WFP internationally, regionally and locally
- information on commodities, from the moment of purchase until delivery to beneficiaries
- amount of WFP commodity stocks and losses
- the number of beneficiaries, and any subsequent changes to this figure

- information on the project/operation performance, highlighting any problems and constraints faced by WFP during the reporting period

### *Financial information*

The financial section provides information on both the overall project/operation and individual donors' Directed Multilateral Contributions.

For the project/operation as a whole, the following information is provided:

- overall amount budgeted
- total amount contributed by donors
- disbursements during the reporting period
- cumulative disbursements for the project/operation including previous reporting periods
- outstanding WFP financial obligations related to the project/operation
- resources available for the subsequent period (if the project/operation is scheduled to continue beyond the reporting period)

For each Directed Multilateral contribution, WFP provides the following information:

- the donor and WFP identification numbers
- the total amount contributed by the donor
- disbursements of DOC and DSC, plus the amount of ISC for the contribution during the reporting period
- cumulative disbursements against the contribution, as appropriate
- amount of unliquidated obligations related to the contribution
- amount of funds provided by the donor still available at the end of the reporting period

For Multilateral contributions, the report shows all expenditures related to such contributions in one column. Donors contributing multilateral resources are identified in a note in the financial section.

WFP is able to provide final financial reports to donors when the project/operation supported by their contribution is completed. The duration of WFP activities ranges from one month to one year for emergency operations to several years for development projects. During the life of a project/operation, the donor will receive annual reports on activities undertaken during the reporting period and the financial status of its contribution.

Take the example of a Directed Multilateral contribution made by a donor in September 1996 to a project/operation that commenced in June 1996 and was completed in July 1997: the donor will receive the annual report for 1996 activities (which covers the period 1 June 1996 to 31 December 1996) in the third quarter of 1997; in the third quarter of 1998, the donor will receive the final report that covers both the activities from 1 January 1997 to 31 July 1997 and provides cumulative financial information for the life of the project/operation (June 1996 to July 1997).

#### *Contribution-specific reporting*

The Standard Project Reports provide a significant amount of very detailed information. However, some donors may require a report that provides information specifically on their contribution. The WFP governing body has mandated that the donor must cover the additional costs to WFP (including country office and headquarters staff time) of preparing such a report.

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## PROMOTING MULTILATERALISM

Multilateral contributions are a critical resource for WFP. They are crucial to WFP's ability to avert pipeline breaks and fund those projects/operations that do not attract immediate donor attention. In addition, they enable WFP to transport and deliver available resources in the most cost-effective way. Maximizing the level of multilateral resources is therefore very important to the Programme.

### *The appeal process*

WFP frequently issues appeals to the donor community, providing both information on projects/operations and highlighting funding requirements. An appeal can generally be defined as a request for resources for a specific WFP activity, designed to address a general audience and sent to more than one donor for consideration.

#### *Broad-based appeals*

In order to increase the share of contributions provided through the multilateral funding window, WFP has expanded the use of broad-based appeals. Such appeals are a call made by WFP or WFP jointly with other agencies, for a regional operation, or several separate operations. Examples include the global requirements outlined in the quarterly donor consultations and regional operations.

Contributions provided to a broad-based appeal are considered Multilateral if WFP is able to allocate the contributions as it sees fit to the countries covered by the broad-based appeal and the donor accepts WFP reporting to the Executive Board as sufficient. However, if the donor allocates its resources to a particular country or activity covered by the broad-based appeal, or requires the WFP Standard Project Report, then such a contribution is considered Directed Multilateral. Contributions made in response to an appeal for a single operation are Directed Multilateral.

#### *The Consolidated Appeal Process*

The Consolidated Appeal Process (CAP) allows all United Nations agencies involved in a given complex humanitarian emergency to assess their needs in a holistic manner and present their operational requirements in a cohesive way to the international community. The process is managed by the Office for Coordination of Humanitarian Affairs (OCHA). Consolidated appeals are generally presented on an annual basis at the beginning of the calendar year. Examples of recent consolidated appeals include those for DPR Korea, the Great Lakes and former Yugoslavia.

The CAP is used by United Nations humanitarian agencies as both a programming and appeal instrument. It provides donors with comprehensive information on the United Nations response to a given crisis situation.

Depending on whether the CAP includes one WFP operation or presents several in a given region, it can be considered an appeal for a single operation or a broad-based appeal.

### The Immediate Response Account (IRA)

The IRA is one of WFP's most important multilateral tools, enabling WFP to respond quickly in an emergency situation, even before donor countries have provided resources. In the past, support from the IRA could be provided only to emergency operations (EMOPs). The Executive Board has approved an expansion of the IRA to cover PRROs and ongoing EMOPs whose operational circumstances change.

The IRA has an overall funding target of US\$35 million to cover both US\$30 million for food requirements and US\$5 million for non-food requirements. This target is met through specific contributions to the IRA and, with the agreement of the donor concerned, the allocation of insurance recoveries, interest on bilateral services and unspent cash balances of PRROs and EMOPs. As both a revolving and replenishable fund, this target is also met by revolving resources back to the IRA from operations that have received IRA funding.

### Contribution flexibility

The R&LTF policies fulfil the desire of donors to direct their resources to particular WFP activities. However, donors should be conscious of the loss of cost-efficiency and operational effectiveness that can result.

Donor flexibility is especially important in WFP relief operations, which are often implemented in a constantly changing operational environment. Lack of flexible contributions can sometimes hamper an effective WFP response.

#### *Contribution splitting*

WFP strives to implement operations as cost-effectively as possible, particularly in areas such as shipping and logistics. The savings realized can be substantial due to the volume of WFP deliveries. However, splitting of the multiple direction of contributions by donors often results in severe downsizing of shipments, leading to a loss of economy of scale and a corresponding increase in freight costs. Donors should ensure that if they split their donations among several WFP operations, each allocation is of a cost-efficient size.

#### *Contribution restrictions*

Many of the contributions provided through the Directed Multilateral funding window have specific conditions regarding their use, including limitations on the commodity type, or where purchases can take place. Thus, significant time is spent negotiating the use of an individual contribution to ensure that both WFP operational requirements and donor conditions are met. As commodity requirements can change rapidly, due to changes in the number of beneficiaries or over-supply of a commodity, WFP often faces the situation where the contribution no longer corresponds to the operational requirements. As a result, time-consuming negotiations must recommence. Therefore, donors are encouraged to allow WFP to decide on the use of their donations with respect to commodities and quantities.

An additional problem resulting from the restrictions placed on contributions is that savings on such contributions cannot easily be reprogrammed for other countries or operations that may be in desperate need of resources. This may lead to funds remaining unutilized and large amounts of staff time spent in trying to negotiate the redirection of the unspent funds. Donors are encouraged to accept the re-direction of savings from their contributions as proposed by WFP in as flexible a manner as possible.

A further problem relates to restrictions placed by donors on the actual operational implementation of their contribution. These include:

- targeting to specific countries within a regional operation
- targeting assistance to particular beneficiary groups within WFP operations
- requesting special reporting on contributions
- requesting special bag-marking or other actions related to donor visibility
- insisting upon particular implementing partners.

The conditions set by donors at the operational level:

- should not conflict with WFP's mandate as a multilateral organization
- should not conflict with basic project/operation plans
- should not carry adverse cost and efficiency implications
- should accept WFP's standardized project reporting.

When the conditions set by a donor at the operational level carry additional costs, these will be charged to the donor concerned.







**PART III:  
ANNEXE  
S**

## ANNEX 1: BILATERAL SERVICES

For a contribution to be considered bilateral, the food aid purchased, transported or monitored by WFP must be directed to countries or beneficiary groups that are not being assisted under an existing WFP operation and the service provided must be consistent with the WFP mandate. ***WFP will not implement bilateral services for resources intended for WFP activities.*** Given this, bilateral services are often provided by WFP in areas where WFP has a limited or no presence. Since WFP provides such bilateral services on a full-cost recovery basis, the cost of providing the service is likely to include local office and operating expenses. All such costs related to carrying out the bilateral contribution must be borne by the donor.

Payment for bilateral services must be made in advance; WFP is unable to initiate a bilateral service until the donor has provided funds to cover all the related costs.

Tonnage handled by WFP on a bilateral basis on behalf of a donor is not included in statistics regarding tonnage handled by WFP.

In order to meet full-cost recovery on bilateral contributions, the incremental Direct Support Cost (DSC) component of bilateral services (such as additional staffing and temporary office space, for example) must be borne by the donor. WFP also charges an Indirect Support Cost (ISC) rate, but the basis on which this rate is levied depends on the service provided. These are found below:

<b>Bilateral services provided</b>	<b>Bases</b>
Purchase	Value of commodity procured
Transport	Value of transport provided
Purchase and transport	Value of commodity procured and transport provided
Monitoring	Value of donated commodity and incremental DSC required
Transport and monitoring	Value of donated commodity, transport provided and incremental DSC required
Purchase, transport and monitoring	Value of donated commodity, transport provided and incremental DSC required

**Reporting:** Contribution-specific operational and financial reports will continue to be provided for bilateral services. Financial reports will contain the bilateral service financial statements, with detailed information regarding expenditures of the service. The operational reports will contain the following information, depending on the service provided.

<b>Bilateral services provided</b>	<b>Report content</b>
Purchase	Information regarding commodities purchased, the time period and the country of origin
Transport	Information regarding the mode of transport, the origin of the transporter and certification of arrival of commodities
Monitoring	Certification that commodities were provided to the beneficiary group desired by the donor

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**Interest:** Interest accrued on bilateral services remains at the disposal of the donor for whom WFP implemented the bilateral service. However, WFP encourages donors to use interest accrued on bilateral services to support the Immediate Response Account (IRA).

**Balances:** Since bilateral services are implemented on a donor's behalf, the funds received are held in trust for the donor concerned. Any funds remaining after all activities are completed can either be returned to the donor or reprogrammed for WFP activities with the approval of the donor.

## ANNEX 2: RECOMMENDATIONS OF THE FORMAL WORKING GROUP ON THE REVIEW OF WFP'S RESOURCE AND LONG-TERM FINANCING POLICIES

On 20 January 1999, the Board adopted the Report of the Formal Working Group on the Review of WFP's Resource and Long-term Financing policies (WFP/EB.1/99/4-A) and approved the following recommendations

### **The principle of full-cost recovery from each donor**

The Working Group discussed a number of aspects of the full-cost recovery principle that underlies the current resource and financing model of WFP. While recognizing the need for WFP and its General and Financial Regulations and Rules to be responsive to trends in the funding of United Nations organizations, and thereby, to position WFP to maximize its receipt of appropriate contributions, the Working Group is firmly of the view that each donor should continue to be required to meet its contribution's share of all associated costs. In this regard, the Working Group noted the need for WFP to identify the cost of processing directed contributions and to ensure that this cost is recovered fully.

### **Recommendation 1.0**

That the Executive Board note the Working Group's affirmation of the principle of full-cost recovery from each donor in the resourcing of WFP and that this principle continue to be fundamental to the R&LTF policies of the Programme.

### **Cost re-categorization and ISC recovery**

The R&LTF model introduced the categorization of WFP costs into Direct Operational Costs (DOC), Direct Support Costs (DSC) and Indirect Support Costs (ISC). DOC are the costs of commodities, ocean transportation and related costs, and landside transportation, storage and handling (LTSH). DSC are any costs incurred by WFP that can be directly linked with the provision of support to an operation and which would not be incurred should that activity cease. Donors are required to pay the DSC pro-rata for each activity to which they contribute. ISC are costs incurred in maintaining the headquarters, regional offices and country office functions. ISC costs are recovered from donors by the application of a rate approved by the Executive Board for each programme category (Development, Protracted Relief and Recovery Operation, Emergency Operation, Special Operation). Each donor bears responsibility for providing cash for ISC, at the agreed rates and in proportion to the size of its contribution.

The Review noted several difficulties with the application of the cost categories and their rates. These included:

- The definition of categories is not always consistent with that of other United Nations agencies, causing unnecessary complexity for donors because the budgets cannot be compared in a straightforward manner.
- The WFP ISC rate for development activities is disproportionately high because some DSC costs are included.
- The different rates of ISC for each programme category are administratively expensive to set, and cause confusion.
- Recovery of the PSA budget is vulnerable to fluctuations in the distribution of contributions across programme categories because of their different ISC rates.

The Working Group considered several options for the re-categorization of costs as DOC, DSC and ISC. The recommended approach reduces the ISC funding to staff positions and their associated costs at headquarters and in the regional offices, and a standard minimum structure in country offices. These costs cannot be attributed easily to any programme category or activity, and would be distributed equally across all categories by application of a single ISC rate, to be approved by the Executive Board.

DSC are redefined to include the country office costs incurred directly in support of activities and incremental to an ISC-funded standard, minimum structure at country offices. In some cases, additional staff will be needed at regional offices and headquarters for direct support of the activities; these will also be categorized as DSC.

The DOC category is redefined to encompass all direct operational costs, including some previously categorized as DSC or ISC.

Continuing efforts to harmonize WFP's terms and categories of costs with those of other United Nations Programmes and Funds are encouraged.

The Working Group believes that these changes will address the problems currently experienced with cost categorization and the differential rates.

### **Recommendation 2.1**

That direct operational costs (DOC) be re-defined to include all activity inputs provided by WFP and utilized directly in activities by beneficiaries, the government of the recipient country or other implementing partners.

### **Recommendation 2.2**

That indirect support costs (ISC) be those incurred in staffing and operating the WFP headquarters and regional offices, and a standard minimum structure at country offices that cannot be attributed easily to any programme category or activity. Direct support costs (DSC) be all those costs incurred by WFP that can be directly linked with the provision of support to an activity and which are not ISC or DOC.

### **Recommendation 2.3**

That, bearing in mind the unique characteristics of the Programme, WFP should continue to participate actively in ongoing budget harmonization exercises of Funds and Programmes of the United Nations system and work towards using the cost category terms and definitions that are agreed upon. In the process, WFP should identify areas where it differs most from other agencies in the use of support costs, and adopt the same practices where appropriate.

### **Recommendation 2.4**

That the ISC rate be the same for each programme category. The single rate be determined by applying the approved Programme Support and Administration (PSA) budget to the projected DOC and DSC of the activities for the biennium. The single rate principle will be subject to review through the normal budget setting process and be able to be discontinued by decision of the Executive Board. The single ISC rate will be fixed for a biennium, but may be revised on an annual basis should the situation so warrant.

### **Direct Support Cost (DSC) advance mechanism**

The re-categorization of costs will exacerbate an existing difficulty in meeting the start-up, bridging and early-phase requirement for DSC cash prior to the receipt of any or sufficient confirmed contributions for an activity. Existing pre-funding facilities, such as the Operational Reserve and Immediate Response Account, are either restricted to a particular programme category or cannot be used in anticipation of confirmed contributions. An additional difficulty is the lack of a means by which to make good any DSC shortfall arising from under-funding of activities. The creation of a Working Capital Fund to pre-fund DSC and provide for shortfalls was discussed and alternative approaches reviewed in outline.

The Working Group recognizes that WFP needs a facility to pre-fund DSC and asked the Secretariat to provide the Executive Board with details of three options, i.e. creating a new fund; modifying an existing fund or account; establishing a guarantee mechanism.

### **Recommendation 3.0**

That the Executive Board recognize the need for a DSC pre-funding facility to enable WFP to commit and spend direct support monies in advance of confirmed contributions. The Board requests the Secretariat to provide, at the First Regular Session of the Executive Board in 1999, details of three options, i.e. creating a new fund; modifying an existing fund or account; and establishing a guarantee mechanism for a facility. The advice of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and FAO Finance Committee would be presented at the same time.

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### **Subsequent decision: DSC advance mechanism**

- a) Approve the use of the General Fund to advance direct support costs (DSC), as the need arises, up to the limit established by the Board, and that such use be referred to as the “guarantee mechanism”;
  - b) Approve that the guarantee mechanism be used to enable the Executive Director to ensure continued financing of DSC pending the confirmation of contributions;
  - c) Set the maximum level of the guarantee mechanism and the amount of the provision to cover unfunded DSC advanced under the guarantee mechanism during the biennial budgetary process; and
  - d) Unless otherwise decided, upon recommendation of the Executive Director, the Board agrees to review biennially the level and operation of the guarantee mechanism in all its aspects.
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### **Use of interest income and the General Fund**

WFP Financial Regulations 11.2 and 11.3 authorize the Executive Director to invest monies not immediately required and for the income earned to be credited, where applicable, to the relevant special account or the General Fund as miscellaneous income. The Working Group discussed how the General Fund might be used.

The Working Group took note of the inability of some donors to allow unspent balances and interest earned on their contributions to be retained or re-programmed by WFP.

The Working Group does not consider it appropriate for the General Fund to be used for recurring budget items. It favours the use of the General Fund to meet the cost of one-off items, such as the Financial Management Improvement Programme, and to fund gaps arising from marginal imbalances between total ISC recovery and the PSA budget. The Working Group foresaw the Secretariat making regular proposals to the Executive Board for the use of the General Fund.

### **Recommendation 4.0**

That the use of the General Fund be the subject of recommendations from the Secretariat to the Executive Board. These recommendations be for specific one-off purposes rather than recurrent items, and may include the funding of gaps arising from marginal imbalances between total ISC recovery and the PSA budget.

### **Compliance with the full-cost recovery principle**

Having decided to recommend that full-cost recovery from each donor should continue to be fundamental to WFP's R&LTF policies, the Working Group gave consideration to circumstances in which it might be appropriate for WFP, in maximizing its access to appropriate resources, to take special steps to ensure full-cost recovery. It considered various categories of existing and potential donors, and their particular needs in making different types of contributions. It decided to recommend a degree of flexibility to encourage contributions while safeguarding the full-cost recovery principle.

### **Recommendation 5.0**

That where (1) WFP is offered contributions of appropriate commodities or services from non-traditional donors; and (2) the donor is unable to provide cash to cover the associated Indirect Support, Direct Support and Direct Operational costs, WFP will ensure the full recovery of costs by:

- inviting traditional donors to provide the cash to meet such costs; or
- for commodity contributions, where appropriate and cost-effective, monetizing part of the contribution.

In all such cases WFP must be satisfied (1) that accepting the contribution is in the interests of the Programme and the beneficiary group(s); and (2) that no disproportionate reporting or administrative burden will fall upon WFP.

Exceptionally the Executive Director may waive the requirement to identify matching cash resources as mentioned above and have recourse to the WFP General Fund where she/he is satisfied that such a decision is in the interests of the Programme.

Brief details of all such contributions and the circumstances of their acceptance will be reported regularly to the Executive Board at its Annual Session.

### **In-kind contributions to DSC and ISC activities**

The Working Group recognized that in-kind contributions to DSC may reduce the related ISC and that it would be possible to reduce or waive the prescribed ISC charges without contravening the full-cost recovery principle.

### **Recommendation 6.1**

That contributions in kind to WFP's DSC would require the prescribed rate of ISC to be applied. However, the Executive Director is authorized to reduce or waive the prescribed ISC charges under the following conditions:

- a) that there is no additional reporting or administrative burden associated with the contribution; or
- b) that the ISC cost is not significant and it is in the interests of WFP's beneficiaries to waive the ISC.

The details of such contributions shall be reported regularly to the Executive Board at its Annual Session.

The Working Group considered as unnecessary the recovery of ISC from donors contributing to PSA or PSA-type activities, given that ISC recovery is to fund the PSA.

## **Recommendation 6.2**

That contributions to the ISC category that meet PSA and PSA-type costs be exempt from ISC charges, provided that the donors do not require any special reporting and that such contributions are untied and carry no special conditions.

## **Application of ISC to bilateral services**

Some donors have requested WFP to provide monitoring services for their bilateral activities. The Executive Board has not set an ISC recovery rate for monitoring services.

## **Recommendation 7.0**

That bilateral services, including monitoring, continue to be provided by WFP on a full-cost recovery basis.

## **Increasing contributions that are up-front, undirected, untied and multilateral**

The Working Group considered funding sources and the funding windows of WFP (Multilateral, Directed-Multilateral and Bilateral). It noted the reduced flexibility WFP has to re-programme contributions that are directed, and the trend of directed contributions to increase and undirected contributions to decrease. It was recognized that WFP's efficiency and effectiveness would be enhanced, to some degree, by most or all contributions being made up-front, undirected, untied and multilateral.

The broadening of appeals and resource consultations to cover several emergency or relief operations or development activities with flexible use of the contributions within the areas covered by the appeal/consultation, was accepted as a means of increasing the flexibility of resources. Such flexible contributions to broad-based appeals will be counted as multilateral contributions. Contributions which are directed by the donor to particular activities within the broad-based appeals or which require special reporting will be counted as directed multilateral contributions.

## **Recommendation 8.1**

That WFP make broader-based appeals and resource consultations. Contributions to such appeals, for which WFP determines the appeal activity in which the contribution will be used and how it will be used, will be regarded as Multilateral contributions. Contributions made in response to appeals for single operations will be regarded as Directed-Multilateral contributions.

The provision of WFP Standardized Project Reports to donors for multilateral as well as directed multilateral contributions will provide equal information to donors using the multilateral window and acknowledge their contributions in a way that will encourage future multilateral contributions.

### **Recommendation 8.2**

That the WFP Standardized Project Reports should indicate those donors that have provided multilateral contributions to the project being reported upon.

The Working Group considered United Nations General Assembly resolutions 50/227, 52/203, and the Secretary-General's note A52/847. These resolutions and Secretary-General's note address future funding sources for development throughout the United Nations system. They look at new sources of funding, including the private sector. The Working Group agreed that WFP should continue to explore opportunities for diverse sources of funding. It also decided to recommend that the Board undertake, in the near future, a substantive discussion of a future funding strategy for WFP as agreed by Member States in General Assembly resolution 50/227.

### **Recommendation 8.3**

That WFP should continue to dialogue with Member States and other donors to find more effective instruments to promote up-front and untied multilateral contributions. It shall, consistent with General Assembly Resolution 50/227, explore opportunities and means to diversify its sources of funding. Further, the Executive Board should hold, as soon as possible, a substantive discussion of a future funding strategy for WFP.

### **Flexibility in the use of the Immediate Response Account (IRA)**

The Working Group considered how WFP might be able to respond quickly to changed circumstances in protracted relief and recovery operations (PRROs) and ongoing emergency operations (EMOPs). A quick response mechanism is needed to enable the Programme to react to PRROs and ongoing EMOPs that become like new emergency operations. It was concluded that the Immediate Response Account (IRA), subject to the availability of adequate funds, should be expanded in use to cover PRROs and EMOPs, with the funds being revolved to the IRA from contributions received for these new emergency operations. The IRA being both a revolving and replenishable account, it is not considered necessary to increase replenishment contributions, but it is necessary to maintain an adequate reserve. To this end, unspent balances of PRROs and EMOPs could be used to replenish the IRA with the agreement of the donors concerned.

### **Recommendation 9.1**

That, in exceptional cases when ongoing EMOPs and PRROs become like new emergency operations, the IRA may be used to meet their immediate increased food requirements logistics and other non-food costs. Such uses of the IRA will be reported to the Executive Board annually.

### **Recommendation 9.2**

That, with the agreement of the donors concerned, the IRA be replenished with unspent balances of contributions to EMOPs and PRROs that are either terminated or no longer require the unspent resources.

### **Flexible use of directed contributions**

Some donors have been asking for their directed multilateral contributions to be spread across a number of WFP activities. This sometimes results in the contribution to individual activities being so small that they are not cost-efficient.

The Working Group considered other means by which contributions could be used more flexibly and therefore more effectively and efficiently. It agreed that greater donor flexibility over the quantities and commodities to be supplied/purchased and the re-direction of any savings from contributions would assist WFP.

### **Recommendation 10.1**

That the Executive Board encourage donors to ensure that contributions made through the Directed-Multilateral funding window and dispersed across several projects or operations remain cost-efficient for each supported activity and that dispersed contributions which increase costs be accepted on the condition of recovery in-full of the resulting increased costs.

### **Recommendation 10.2**

That the Executive Board encourage donors to be as flexible as possible in regard to conditions they might set for their contributions. Conditions on the use of contributions, such as the types and quantities of commodities to be purchased, need to recognize that changing operational circumstances may make the contribution inappropriate and re-negotiation can reduce efficiency.

### **Recommendation 10.3**

That the Executive Board encourage donors to accept WFP's re-direction of any unspent balances of their contributions to other operations, and that WFP be requested to actively negotiate such re-directions.

### **Reducing conditions set by donors in the field**

Conditions set by some donors in the field have added significantly to the complexities and difficulties of managing resources and activities and resulted in increased costs to WFP. The Working Group agreed that any donor specified conditions should be kept to a minimum, be consistent with the WFP basic project/operation plan and, where they cause additional costs, should be charged to the donor concerned.

### **Recommendation 11.0**

That conditions set by donors at the field level should not conflict with WFP's basic project/operation plans, not carry adverse cost and efficiency implications, and reporting be within WFP Standardized Project Reports to donors. When a donor's field conditions carry additional costs, these will be charged to the donor concerned.

If the Board accepts the Working Group's recommendations made above, it will be necessary to prepare the exact wording for any changes required to the General Regulations and Rules, and the Financial Regulations and Rules. Subject to legal advice, the Working Group assesses that the only General Regulation that will require alteration is Article XIII.2, on Contributions. The parent bodies of WFP will need to consider any changes to the General Regulations; and the FAO Finance Committee and the ACABQ to provide advice to the Board on any changes to the Financial Regulations. The Executive Director would submit appropriately revised Financial Rules to the Board for information. The Working Group considers it appropriate for the revised policies to take effect from the start of the 2000–2001 biennium.

### **Recommendation 12.0**

That the Executive Board request the Secretariat to prepare any changes in WFP's General and Financial Regulations, and the General Rules required as a result of its decisions on Resource and Long-term Financing policies and submit them to the appropriate bodies for consideration and approval with a view to having all of the changes come into effect from 1 January 2000.

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### **Subsequent decision: Revisions of WFP's General Regulations, General Rules and Financial Regulations**

The Board approved the following revisions of Article XIII.2 of the General Regulations, General Rule XIII.4 and Financial Regulations 1.1 and 4.5.

#### **General Regulation XIII.2**

Donors may contribute appropriate commodities, cash and acceptable services in accordance with the general rules made pursuant to these General Regulations. Except as otherwise provided in such general rules in respect of developing countries, countries with economies in transition and other non-traditional donors, or in respect of other exceptional situations, each donor shall provide cash contributions sufficient to cover the full operational and support costs of its contributions

#### **General Rule XIII.4**

Types of contributions

In accordance with General Regulation XIII.2, the following shall apply to the various types of contributions to WFP:

- a) Donors contributing food commodities or designated cash, such as cash in lieu of food commodities shall provide sufficient cash, acceptable services, or acceptable non-food items to cover the full operational and support costs related to their commodity contribution, using the following criteria for the calculation of operational and support costs:
  - i) commodities: to be valued in accordance with General Rule XIII.6;
  - ii) external transport: estimated actual cost;
  - iii) landside transportation, storage and handling (LTSH): average per ton rate for the project;
  - iv) other direct costs: pro-rata share of the budgeted amount for the project as in force at the time the contribution is made, based on tonnage;
  - v) indirect support costs: percentage of direct costs as determined by the Board.
  
- b) Donors contributing acceptable non-food items not directly associated with other contributions shall provide sufficient cash or acceptable services to cover the full operational and support costs related to their contribution.
  
- c) Donors contributing acceptable services not directly associated with other contributions shall provide sufficient cash or other acceptable resources to cover the full operational and support costs related to their contribution.
  
- d) Donors providing cash contributions which are not designated in any way or are designated to the Immediate Response Account (IRA) or to Programme Support and Administration (PSA) or related activities shall not be required to provide additional cash or services to cover the full operational and support costs related to their contribution, provided that such contributions do not result in any additional reporting burden to the Programme.
  
- e) Governments of developing countries, countries with economies in transition, and other non-traditional donors as determined by the Board, may make contributions of commodities or services only, provided that:
  - i) the full operational and support costs are covered by another donor or donors, by the monetization of part of the contribution and/or resort to the WFP Fund;
  - ii) such contributions are in the interest of the Programme and do not result in any disproportionate administrative or reporting burden to the Programme; and
  - iii) the Executive Director considers that accepting the contribution is in the interests of the beneficiaries of the Programme.

- f) Exceptionally, the Executive Director may reduce or waive indirect support costs in respect of the contribution in kind to cover direct support costs of an activity or activities where the Executive Director determines that such reduction or waiver is in the best interests of the beneficiaries of the Programme, provided that:
  - i) such contributions do not result in any additional administrative or reporting burden on the Programme; and
  - ii) in the case of a waiver, the indirect support costs otherwise applicable have been determined by the Executive Director to be insignificant.
  
- g) Contributions under paragraph (e) and reductions or waivers under paragraph (f) above shall be reported to the Executive Board at its Annual Session.

### **Financial Regulation 1.1**

(New definitions)

“Broad-based appeal” shall mean an appeal made by WFP or by WFP jointly with other programmes, funds or agencies for a regional project or for a number of separate country programmes, projects, or activities.

“Multilateral contribution” shall mean a contribution, for which WFP determines the Country Programme or WFP activities in which the contribution will be used and how it will be used, or a contribution made in response to a broad-based appeal for which WFP determines, within the scope of the broad-based appeal, the Country Programme or WFP activities in which the contribution will be used and how it will be used, and for which the donor will accept reports submitted to Board as sufficient to meet the requirements of the donor.

“Operational costs” shall mean the costs of commodities, ocean transportation and related costs, landside transportation, storage and handling (LTSH), and any other input provided by WFP to beneficiaries, the government of the recipient country or other implementing partners.

### **Financial Regulation 4.5**

Except as otherwise specified in paragraph 4 of General Rule XIII, each donor contributing commodities or non-food items shall be responsible for related transportation costs as well as all associated operational and support costs. The donor shall also be responsible for the costs of unloading and internal transport and any necessary technical and administrative supervision, and all associated operational and support costs, where the responsibility of the government of the recipient country for these costs is waived by the Executive Director in accordance with General Regulation XII.3.

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### ANNEX 3: BACKGROUND ON WFP'S RESOURCE AND LONG-TERM FINANCING POLICIES

During the early 1990s it became increasingly clear that WFP had a serious funding problem since donor contributions, on the whole, were no longer reaching the required breakdown of one third in cash and two thirds in commodities or services. Some donors were giving 100% of their contributions in cash, some 33% in cash and some 100% in commodities.

Cash resources were required to meet indirect support costs (overheads) and direct support and operational costs. This arrangement had worked satisfactorily for many years, but as the WFP emergency portfolio expanded, the cash requirements to implement operations increased dramatically from an estimated 33% to 50%. The situation had become so serious that WFP was facing a financial crisis: the cash received was insufficient to meet the approved Programme Support and Administration (PSA) budget, and reserves from earlier years had been exhausted.

Interim solutions were implemented, including separate levies on contributions to the International Emergency Food Reserve (IEFR), Protracted Refugee Operations (PRO) and Special Emergency Operations (SEO). However, the problem persisted and thus in December 1994, the Committee of Food Aid Policies and Programmes (CFA) established the Formal Working Group on Options for WFP Resource Policies and Long-term Financing to review the situation and make proposals for change.

In November 1995, the CFA approved the recommendations of the Formal Working Group on Options for WFP's Resource and Long-term Financing Policies. These recommendations led to a profound change in the financing of WFP's management and administrative costs. With the introduction of these policies in January 1996, contributions to the Programme were implemented under the concept of full-cost recovery, with each contribution covering all operational costs and a pro-rata share of the PSA budget and support costs. WFP's PSA budget was funded by the application of a different indirect support cost levy according to the programme category to which the contribution was made.

In approving these policies, the CFA required that the Secretariat undertake a review of the implementation of the new model at the end of the first biennium of operation and submit a report to the Executive Board. This report, entitled "Review of WFP's Resource and Long-term Financing policies--A Consolidated Report", was submitted by the Secretariat in April 1998. It was compiled by the Secretariat based on its survey of the effectiveness of the policies introduced in January 1996 and informal consultations held with members of the Programme in late 1997 and early 1998.

At its Second Regular Session in May 1998, the Executive Board decided to establish a Formal Working Group on the Review of WFP's Resource and Long-term Financing (R&LTF) Policies,

with the aim of establishing policies that would provide WFP with funding to achieve its mission. The Formal Working Group held a number of meetings between May and September 1998 to consider the Secretariat's report and to work towards a consensus on recommendations for change to the original policies.

At its First Regular Session in January 1999, the Executive Board approved the report of the Formal Working Group. It recommended a number of changes to improve the predictability, efficiency and flexibility of the 1996 policies, while retaining the principle of full-cost recovery by donor by contribution (see Annex 2). The Formal Working Group's recommendations will come into effect on 1 January 2000, subject to approval by the United Nations General Assembly and the FAO Conference of the necessary changes to the General Regulations.

## ANNEX 4: TERMS AND DEFINITIONS

<b>Broad-based appeal:</b>	An appeal made by WFP or by WFP jointly with other programmes, funds or agencies for a regional project or for a number of separate country programmes, projects, or activities.
<b>Cash-in-lieu of Commodities (CLC):</b>	Cash provided by a donor for the purchase of commodities.
<b>Country in transition:</b>	Those countries referred to in ECOSOC's document E/1998/50 (section 8), 17 June 1998, as "economies in transition", comprising Albania, Bulgaria, the Czech Republic, Hungary, Poland, Romania, Slovakia, the successor states of the Socialist Federal Republic of Yugoslavia, members of the Commonwealth of Independent States and the Baltic States.
<b>Development Programme Category:</b>	Programme category for food aid programmes and projects to support economic and social development, rehabilitation, disaster preparedness and technical assistance to help developing countries establish or improve their own food assistance programmes.
<b>Directed Multilateral Contribution:</b>	A contribution, other than a response to an appeal made by WFP for a specific emergency operation, which a donor requests WFP to direct to a specific activity or activities initiated by WFP or to a specific Country Programme or Country Programmes.
<b>Direct Operational Cost (DOC):</b>	Any cost incurred by WFP in providing activity inputs that are utilized directly in activities by beneficiaries, the government of the recipient country or other implementing partners, including the cost of commodities, ocean transportation and related costs, and landside transportation, storage and handling (LTSH).
<b>Direct Support Cost (DSC):</b>	A cost which can be directly linked with the provision of support to an operation and which would not be incurred should that activity cease.

<b>Emergency Operation (EMOP):</b>	Programme category for food assistance to meet emergency needs stemming from natural or man-made disasters.
<b>Food Aid Convention (FAC):</b>	A new convention came into force on 1 July 1999. Under this Convention, donors make a commitment to provide annually a specified minimum amount of food aid either in the form of tonnage, value, or both to developing countries. Donor countries are encouraged to target least developed countries, and to use cash resources to purchase food in developing countries. The objective of the Convention is to contribute to world food security and to improve the ability of the international community to respond to emergency food situations and other food needs of developing countries. Particular attention is attached to ensuring that food aid is directed to the alleviation of poverty and hunger of the most vulnerable groups.
<b>Full-cost recovery:</b>	The recovery of operational costs, direct support costs and indirect support costs in full.
<b>Immediate Response Account</b>	The Immediate Response Account of the IEFR is a tool allowing WFP to provide a limited amount of immediate assistance to EMOPs and PRROs pending receipt of donor contributions.
<b>International Emergency Food Reserve (IEFR):</b>	Part of the EMOP programme category.
<b>Indirect Support Cost (ISC):</b>	A cost which supports the execution of projects and activities but cannot be directly linked with their implementation.
<b>Multilateral contribution:</b>	A contribution for which WFP determines the Country Programme or WFP activities in which the contribution will be used and how it will be used, or a contribution made in response to a broad-based appeal made by WFP or to the IRA. In such cases, the donor will accept reports submitted to the Board as sufficient to meet the requirements of the donor.
<b>Non-traditional donor:</b>	Any contributor to WFP that is not by definition a traditional donor (see definition below) as determined by the WFP Executive Board.

<b>Operational Costs:</b>	The costs of commodities, ocean transportation, and related costs, landside transportation, storage and handling (LTSH), and any other input provided by WFP to beneficiaries, the government of a recipient country or other implementing partners .
<b>Programme Category:</b>	A classification of WFP activities as established in accordance with the General Rules.
<b>Project:</b>	A separately identified undertaking within a programme category (see WFP Financial Regulation I).
<b>Protracted Relief and Recovery Operation (PRRO)</b>	Programme category for food assistance to meet protracted relief needs.
<b>Traditional donor:</b>	A contributor to WFP that is included in the World Bank list of High-income economies and Upper-middle-income economies, including the European Commission.
<b>Undirected contribution*:</b>	A contribution that is not restricted to a particular WFP activity but may be restricted by its contributor to use in a programme category.
<b>Untied contribution*:</b>	A contribution that is not specified by the contributor to be restricted to services, goods or commodities from a particular source country, be it the contributor's or another.
<b>Up-front contribution*:</b>	A contribution that is announced and confirmed at a biennial pledging conference convened jointly by the Secretary-General of the United Nations and the Director-General of FAO, or at any time before the start of the calendar year for draw-down in the next or subsequent calendar years.

\* These definitions have not been endorsed by the WFP governing body, but are intended to clarify these concepts for readers of the Guide.





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