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RESOURCE AND FINANCIAL MATTERS: UPDATE OF INDIRECT COST RATES



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INFORMATION NOTE

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1. At its Fortieth Session, the Committee on Food Aid Policies and Programmes (CFA) endorsed the concept that the principle of full cost recovery apply to all programme categories undertaken by WFP, with the Governing Body approving the indirect support cost rates which are to be based on periodic cost measurement studies. The 1996 cost study was distributed to the Board for its First Session of 1997 along with a Secretariat document that summarized the findings and recommended actions to be taken. This information note provides clarification on the method and calculations used to determine the rates in the 1996 cost study, specifically with respect to the development and emergency programme categories.
2. The results of the cost study are shown below, together with those of the 1995 cost study.

COST STUDY RESULTS INDIRECT SUPPORT COST RATES BY PROGRAMME CATEGORY <i>(in percent)</i>
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Programme category	1997 Rates (Based on 1996 Cost Study)	1996 Rates (Based on 1995 Cost Study)
Development/Rehabilitation/Disaster Preparedness	13.9	14.5
Protracted Relief Operations	7.1	7.2
Emergency Operations	6.0	4.8
Special Operations	11.9	15.3
Bilateral Services		
Commodity Procurement	4.0	3.1
Transport	4.5	4.7
Commodity Procurement and Transport	4.3	3.8

3. The aim of the cost study was to determine the rate that should be applied to the total direct operational costs of a project (comprised of commodity value, transport, land transport, storage and handling (LTSH), and direct support costs) by programme category in order to recover the projected costs of supporting all WFP activities; in other words, to determine the rates which will generate the resources to meet the PSA requirements as approved by the Governing Body.
4. In general, the indirect support cost rates are equal to the amount of the PSA by programme category divided by the turnover (or operational expenses) by programme category. They are calculated as follows:

$$\frac{\text{PSA attributable to Programme Category}}{\text{Programme Category Turnover}} = \text{Indirect Support Cost Rate for the Programme Category}$$



5. In comparison to the prior year's cost study results, therefore, the rates would increase if the PSA for that programme category increases or the turnover decreases. Likewise, the rates would drop if the PSA for a programme category decreases or the turnover increases. Hence, to calculate the rates, two pieces of information are needed: a) an estimation of the portion of the approved 1996-97 PSA attributed to different programmes; and b) an estimation of the expected turnover of each programme category.
6. The level of the PSA by programme category depends on two factors: a) the overall PSA approved for the period; and b) the level of staff work effort for each programme category. The approved PSA (for 1996-97) totals 233.6 million dollars¹, including direct technical services and other costs. Excluding direct technical services and other costs (totalling 8.5 million dollars), which should be part of direct support costs, the amount to be distributed among programme categories on the basis of the work effort spent on each programme category equals 225 million dollars.
7. Two methods were used to attribute the PSA to the programme categories. The majority of the costs were distributed on the basis of a work measurement survey for which WFP staff indicated the percentage of time spent on each programme category in 1995. These percentages were then used to distribute the associated PSA costs. Some functions, such as financial services, human resources and computer support, do not provide services to operational projects. In these cases, the costs were attributed on the basis a statistical distribution (described in paragraphs 29 and 30 of the cost study.)
8. The results of the PSA distribution by programme category is shown in the table below, along with the calculation of the indirect support cost rates. The turnover by programme category, shown in the column (b), is based on projections, allocating the projected bilateral services to the appropriate programme category. Dividing the attributed PSA for each programme category (a) by the turnover for the programme category (b) yields the indirect support cost rate, as shown in column (c).

CALCULATION OF INDIRECT SUPPORT COST RATES

Programme	(a) PSA Attributed by programme Category	(b) Projected turnover (in million dollars)	(c) (a)/(b)=(c) Indirect Support Cost (percent)
Development	102.7	736.4	13.9
Emergency Operations	70.5	1 165.8	7.1
Protracted Relief	46.2	652.3	6.0
Special Operations	3.8	32.1	11.9
JPO Scheme	.6		
Bilateral Services	1.2		
Total	225.0		

¹ All monetary values are expressed in United States dollars.



9. In some cases these rates represent a significant change from those derived in the previous cost study. The development rate, for example, dropped from 14.5 to 13.9 percent. This is due to an increase in the projected turnover compared to only a slight increase in support costs. Likewise, the indirect support cost rate changed significantly for the emergency programme category, from 4.8 to six percent. Although the attributable PSA dropped, the turnover declined by a larger amount in percentage terms, resulting in a higher rate. The drop of turnover was due in part to reduced projected contributions and in part to a one-time accounting adjustment recommended by WFP's External Auditors.

