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UPDATE OF INDIRECT COST RATES

Agenda item 4 a)



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INFORMATION NOTE ON WORK MEASUREMENT SURVEY AND COST STUDY

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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 donors paying actual commodity and transport costs, the pro-rata share of LTSH and direct support costs of the project, and associated indirect support costs of a project based on a rate established by periodic cost measurement studies to ensure full cost recovery of these costs.
2. At the time, the CFA indicated that all the rates applied to ensure the full recovery of indirect support costs and extra services should be updated annually, on the basis of a cost study (and a work measurement survey). Noting the importance of the next cost study, “particularly in more clearly demonstrating the cost benefits of multilateral contributions and in accurately assessing the benefits of readiness for proper attribution to emergency relief activities,” the CFA indicated further that the 1996 cost study should:
 - a) assess and quantify the impact of multilateral contributions;
 - b) assess and quantify the benefit of readiness; and
 - c) reassess the recategorization of costs as direct and indirect.
3. To conduct the work measurement survey and cost study, WFP retained the firm David M. Griffith and Associates, LTD, which conducted the 1995 cost study. The firm was instructed to conduct the cost study using the same methodology it used to derive the rates in the 1995 cost study and also an analysis of the three additional issues specified by the CFA.
4. At this time, the work on the 1996 cost study is proceeding as scheduled, with its completion due by 1 November 1996. The work measurement survey is complete.
5. Although the calculations regarding the rates are not final, it should be noted that the rates will be affected by both the actual values of the operations and the actual PSA expenditures.
6. The attempt to quantify the reduced cost of handling multilateral contributions included measuring the incremental effort required for directed multilateral contributions using the work measurement survey. The surveys indicated that some units within WFP headquarters have a substantially increased workload to handle directed multilateral contributions. However, costs in the country offices do not seem to be significantly affected by the type of funding window. The cost study will quantify this increased workload in relation to the total workload for all contributions within a programme category to determine if it has a significant impact on indirect support costs.
7. With respect to the cost of readiness, the work associated with anticipating and preparing for possible disasters has been identified, and includes such areas as preparation of disaster mitigation plans, vulnerability mapping and strategies for commodity allocation. The cost study will assess the extent to which this work benefits emergency operations, and the associated costs which should therefore be attributed to the indirect support cost rate for emergencies.



8. There is some difficulty in reassessing the categorization of direct and indirect costs, primarily because of the way PSA-budgeted funds are used in the different country offices. Several approaches are being considered. One approach to handling this may be to develop a single rate which would include all the costs of certain functions including monitoring and logistics, and then have the direct support costs used solely for equipment, non-food items and project-specific non-staff/non-food costs. Implementing such an approach, however, would require a major difference in the way country office costs are budgeted and controlled, which may not be cost-efficient. This concept is still under discussion.
9. In this cost study, an attempt will be made to delineate the additional work and costs associated with the management of locally generated funds for recipient governments.

