

برنامج
الأغذية
العالمي



Programme
Alimentaire
Mondial

World
Food
Programme

Programa
Mundial
de Alimentos

**Executive Board
First Regular Session**

Rome, 21 - 23 January 1997

RESOURCE AND FINANCIAL MATTERS

Agenda item 4

UPDATE OF INDIRECT COST RATES

E

Distribution: GENERAL

WFP/EB.1/97/4

05/12/01

ORIGINAL: ENGLISH

This document is produced in a limited number of copies. Delegates and observers are kindly requested to bring it to the meetings and to refrain from asking for additional copies.

NOTE TO THE EXECUTIVE BOARD

This document contains recommendations for review and approval by the Executive Board.

Pursuant to the decisions taken on the methods of work by the Executive Board at its First Regular Session of 1996, the documentation prepared by the Secretariat for the Board has been kept brief and decision-oriented. The meetings of the Executive Board are to be conducted in a business-like manner, with increased dialogue and exchanges between delegations and the Secretariat. Efforts to promote these guiding principles will continue to be pursued by the Secretariat.

The Secretariat therefore invites members of the Board who may have questions of a technical nature with regard to this document, to contact the WFP staff member(s) listed below, preferably well in advance of the Board's meeting. This procedure is designed to facilitate the Board's consideration of the document in the plenary.

The WFP focal points for this document are:

Director, FS:	G. Eidet	tel.: 5228-2700
Financial Analyst:	D. Ducharme	tel.: 5228-2745

Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact the Documentation and Meetings Clerk (tel.: 5228-2641).



-
1. At its Fortieth session, the Committee on Food Aid Policies and Programmes (CFA) endorsed the recommendations of its Formal Working Group on Options for WFP Resource Policies and Long-term Financing (CFA 40/5).
 2. At the time, the CFA decided that all the rates applied to ensure the full recovery of indirect support costs should be updated annually, on the basis of a cost study (and a work measurement survey). 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 categorization of costs as direct and indirect.
 3. To conduct the work measurement survey and cost study as well as an analysis of the three additional issues specified by the CFA, WFP retained the firm David M. Griffith and Associates, Ltd., which had carried out the 1995 cost study. The cost study was completed in November 1996.
 4. The cost study used a methodology consistent with the 1995 cost study, with the scope of analysis expanded to include the requests of the governing body. To determine the indirect support cost rate, therefore, the estimated PSA expenditures for 1996-97 were divided by the estimated operational expenditures for 1996-97, with the efforts for each programme category determined by a work measurement survey.
 5. It should be noted, however, that 1996 is the first year of the implementation of the new Resources and Long-term Financing policies and that the work measurement study began in mid-1996. At the time of the study, some procedures, such as standardized donor reporting, were yet to be fully implemented. Furthermore, carry-over of operations and contributions from 1995 were a significant part of the activities during this transitional phase. In addition, the work effort required to implement the new Resource and Long-term Financing policies, such as changing the accounting system, training staff and meeting with donors on the implications of the new model, has continued throughout the year. As such, the full impact of the new model cannot be observed in this six-month transitional period.



6. The results of the 1996 cost study are shown below, together with those of the 1995 cost study.

COST STUDY RESULTS		
INDIRECT SUPPORT COST RATES BY PROGRAMME CATEGORY (IN PERCENT)		
	1996	1995
Programme category		
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 & Transport	4.3	3.8

7. The cost study attempted to quantify the work effort performed in connection with development projects which would benefit emergency operations in improving the ability of the country offices to respond directly or their ability to assist the government. While the study did not quantify the benefit attributable to WFP's worldwide presence, it did quantify the cost of specific activities related purely to readiness such as disaster preparedness and emergency response planning as well as development of stand-by arrangements and prepositioning. The study determined that PSA expenditures equivalent to 0.5 percent of the operational expenditures of the development programme could be attributed to emergencies. Because of the difference in the volume of operations, these readiness-related expenditures identified are equivalent to only 0.3 percent of the total emergency operation expenditures.
8. The cost study assumed the benefit of multilateral contributions to be equal to the additional cost of directed multilateral contributions. An analysis to quantify the incremental costs incurred in connection with directed multilateral contributions indicated that incremental costs were being incurred by several organizational units at the Secretariat. This analysis concentrated primarily on the development programme category which, prior to the implementation of the new Resource and Long-term Financing policies, had been principally multilateral. In 1996 certain donors began using the directed multilateral funding window to specify the country and/or projects to which their funds should be allocated. The costs associated with this effort -- additional work, including additional negotiation of proposals, the need to adjust allocations and customized donor reporting, for example - were estimated at 1.8 million dollars, representing a 0.3 percent reduction of multilateral contributions. The cost study points out that the calculation for this estimate may not include all of the potential costs, since this is the first year of operation of the Resource and Long-term Financing policies, and that some of the identified costs may be related to the start-up of activities and may decrease over time.



9. WFP has used various approaches for categorizing costs as direct or indirect in country offices. The basic infrastructure in most of the country offices is funded, as PSA, from Indirect Support Costs. Any incremental support required is considered direct support costs of emergency operations. However, some offices, established to respond to emergencies, in countries which would not have been eligible for WFP assistance in normal circumstances, are financed entirely from direct support costs. This approach has created a situation in which the differentiation between direct and indirect support costs are not totally equitable in all countries. To remedy this situation, the cost study has recommended that WFP may consider establishing separate indirect support cost rates for emergency operations on the basis of the eligibility of the country for normal WFP assistance. It is the Secretariat's view, however, that it may be premature to make this distinction on the basis of a few otherwise non-eligible countries being included in the calculation of average costs. Such a distinction, together with the reassessment of the categorization of direct and indirect costs, needs to be carefully considered in the review of the new Resource and Long-term Financing policies.
10. Based on these observations, the results of the cost study and the recommendations of the cost consultant, the Secretariat recommends that:
- a) the new rates for indirect support costs and bilateral services, as indicated in paragraph 6 above, and based on the 1996 cost study, be applied for 1997. Any other bilateral services that may be requested will continue to be provided on a full-cost recovery basis. Likewise, the indirect support cost rate for JPOs will remain at the United Nations system-wide standard rate of 12 percent.
 - b) the 1997 cost study further:
 - i) assess and quantify the impact of multilateral contributions;
 - ii) assess and quantify the benefit of readiness; and
 - iii) reassess the categorization of costs as direct and indirect;
 - c) the Executive Board evaluate other relevant issues, including the benefit of readiness, multilateralism, and that the treatment of direct and indirect support costs be examined in the context of the Secretariat's review of the working of the new model and its associated policies to take effect in the next biennium.



