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de Alimentos

**Executive Board
First Regular Session**

Rome, 5–7 February 2003

POLICY ISSUES

Agenda item 4

For consideration

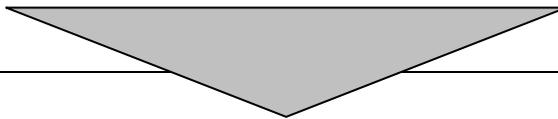
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Distribution: GENERAL
WFP/EB.1/2003/4-D
7 January 2003
ORIGINAL: ENGLISH

COMPARISON STUDY OF WFP AND NON-GOVERNMENTAL ORGANIZATIONS

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Note to the Executive Board



This document is submitted for consideration to the Executive Board.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

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Executive Summary

The Executive Board, while studying WFP's budget and related operating costs, decided that a comparison of WFP with international non-governmental organizations (NGOs) that carry out significant food aid activities might be helpful to the Board's deliberations on future financial and policy issues. The Secretariat therefore engaged a consultant to prepare a report on the subject for the Board's consideration. This document reflects the conclusions of that study.

The study found that most donor decisions that were related to the apportionment of food aid resources between WFP and NGOs, and among NGOs, were made on programmatic and policy grounds rather than being based on a comparison of support costs. One reason for this is that WFP and NGOs are very different types of institutions—they are structured differently and therefore operate in different ways. This study attempts to link the issues of comparative costs to the institutional differences that affect the operating costs of WFP and the international NGOs. Interviews were held with WFP, NGO and donor representatives. Most persons interviewed suggested that, based on their experience, the differences in institutional mandate, size, scope of global presence, and sources and nature of funding were the most important factors influencing the operational costs of WFP and NGOs. They also emphasized that, in their opinion, these differences made true cost comparisons difficult, if not impossible. Taking this into account, the study focuses on how and why WFP and NGOs differ and the effects of these differences on the costs incurred by each in their distinct but complementary roles in food aid delivery.

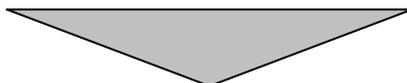
The study found that factors that tended to lower WFP costs in comparison to NGO costs were the economies of scale in commodity purchases, transport contracts, storage facility rental and commodity handling from which the Programme benefited as a result of dealing with a large portion of its food aid in bulk quantities. The largest NGOs involved in food aid were occasionally able to take advantage of such economies of scale, but most handled a relatively small amount of bulk food aid and therefore benefited less from such cost reductions.

Factors that tended to make WFP costs higher than those of NGOs were: (i) WFP's "full-cost recovery" system, which required government donors to cover all associated costs, unlike NGOs, which also had access to private funds to defray some support costs; (ii) WFP's global mandate, which led it to cover a broader range of emergency situations, both high cost and low cost, versus the greater selectivity of NGOs; (iii) WFP's costs in providing food assessment and planning services that were used by the entire food aid community, including NGOs; and (iv) the greater costs of WFP's engagement in the United Nations inter-agency system and multinational governance process.



The significant differences between WFP and NGOs render cost comparisons difficult, but it is precisely these differences that provide the increasingly effective global food aid relief system made up of Governments, WFP, NGOs and donors.

Draft Decision*



The Board takes note of the study on WFP and NGO cost comparisons (WFP/EB.1/2003/4-D) and encourages WFP to work closely with NGOs to achieve a division of labour that maximizes the cost effectiveness of international food aid programmes.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.



INTRODUCTION

1. This study was prepared to help respond to concerns expressed by the Executive Board regarding the costs and cost effectiveness of WFP's interventions relative to those of NGOs. The Board asked for a description of what makes WFP different from international NGOs that deliver food aid, and how these differences affect costs. The study was a complicated undertaking, in part because it is virtually impossible to compare costs in a meaningful way of a public United Nations organization with a group of not-for-profit, private NGOs. The analysis was further complicated by the fact that the NGOs were generally unwilling to open their books to a WFP-sponsored study and provide information beyond what is in their fairly aggregated and general public Annual Reports. They were reluctant to permit the kind of data analysis that would have been required to look at specific cases of food aid deliveries by NGOs and compare certain cost factors such as procurement, transport, handling, storage, and delivery costs with those of WFP. On the other hand, several NGOs did collaborate in identifying the institutional differences that affect costs, and this study therefore provides the Board with much to contemplate regarding factors that tend to increase the costs to donors of WFP's operations and those that tend to reduce costs.

METHODOLOGY

2. The report was prepared by carrying out the following steps of analysis:
 - a review of the Executive Board's deliberations on cost concerns;
 - discussions with Board members who had expressed interest in this cost comparison study;
 - a review of WFP and NGO documents related to operations and budgets;
 - interviews with WFP Headquarters and field staff;
 - preparation and distribution of questions for data gathering from NGOs. Twenty NGOs were contacted by the Executive Director regarding the study, and subsequently provided with a questionnaire for data gathering. Seven NGOs provided written responses to the questionnaire; and
 - discussions with NGO representatives. In addition to the written responses, meetings and discussions were held with representatives of six of the major NGOs with significant food aid activities.
3. The request for this study originated during an Executive Board discussion focusing on WFP's indirect support costs. The record of these discussions reveals that the main concerns of the Board were that WFP might not be as efficient as it could be and that WFP's support costs for delivering donated food were increasing. Some members of the Board seemed to think that they might discover ways to increase WFP's efficiency, or reverse the support-cost increase trend, by looking at how WFP operated compared with other United Nations organizations and NGOs. The analysis prepared by WFP comparing it with other United Nations organizations was submitted to the Board at its Third Regular



Session of 2002 (held in October). This comparison study is thus limited to WFP and not-for-profit NGOs.¹

4. Preliminary discussions with Board members, WFP staff and NGO representatives led to a comparison at the outset of the mandates and operating procedures of the Programme and NGOs, especially as related to food aid. Almost all the individuals met expressed the firm opinion that quantitative cost comparisons between WFP and NGOs could not be made because of totally distinct mandates. Moreover, almost all held the view that such comparisons, if attempted, would probably lead to more misunderstandings about the way food aid was handled and viewed in the “food aid community”, and possibly create irrelevant (or even misleading) comparisons leading to unhelpful decisions by donor agencies and by WFP’s Board.
5. Further discussions with WFP Officers and NGO representatives were therefore held before the questionnaires were sent to NGOs to gather data additional to that available in their public documents. The study and the questions sent to NGOs put emphasis on identifying the significant differences in the way WFP and NGOs operate in the food aid business. However, the study does identify the effects on costs of these institutional differences.

FINDINGS

6. The companion study comparing WFP with other United Nations organizations found that the main factors affecting the costs of the respective operations were: (i) the mandate of the organization, (ii) the size of the organization and its degree of global coverage, and (iii) the source and nature of funding. These same factors also provide the greatest degree of differentiation when trying to compare WFP with the NGOs. An organization’s mandate determines what the organization does, with whom, with what inputs and with what purpose. The size and degree of global coverage are often outcomes of the organization’s mandate, and in turn determine what type of staffing, presence and organizational structure is needed. The source of funding influences the mandate, the governance structure and the budgetary flexibility with which the organization must operate. This seems quite obvious and straightforward. However, in attempting to make comparisons between a public institution such as WFP and a group of private organizations such as the NGOs with significant food aid programmes, these institutional factors, when analysed, seriously complicate and limit the cost comparisons the Board may have wished to study. Therefore, while this study was carried out with cost comparisons as the underlying motivation, the findings and related conclusions focus on comparisons of certain characteristics of the organizations studied that affect costs, rather than on a comparison of the costs themselves.
7. To identify the effects on operational costs of the three main factors listed above, they are discussed in terms of how they may **increase** or **reduce** operational costs. This may prove helpful when WFP’s management, the Board, or donors are contemplating decisions that add to or reduce WFP’s mandate, size and global coverage, or change the nature and amount of its funding. These decisions will inevitably increase or decrease unit operational costs.

¹ Final Report on the Analysis of the Indirect Support Cost (ISC) Rate, Section 9. Comparative Study of the United Nations and Non-Governmental Organizations. WFP/EB.3/2002/5-C/1.



Mandate of the Organization

8. The study compared WFP with NGOs that have food aid programmes. The single most important difference between WFP and the NGOs, in terms of mandate, is that WFP derives its mandate within the context of the United Nations, while the NGOs are private, not-for-profit entities deriving their mandates from their individual legal statutes and Boards of Directors. WFP follows certain norms established by the United Nations system for all its member organizations, although WFP's Board determines its rules and regulations within that framework. The Programme's organizational and management structure, staffing profiles, grade classification, and salary and benefit packages conform to United Nations common system staff rules and regulations. WFP must support and participate in United Nations conferences, working groups and committees, and coordination mechanisms. WFP is required to harmonize its country programming and project cycle with other United Nations agencies, which entails rigorous and elaborate project identification, assessments, planning, design and approval processes. All these institutional requirements, which flow from WFP's United Nations responsibilities, tend to increase costs, since new responsibilities seem to be added over time, but required internal United Nations activities are rarely scaled back. While NGOs participate in many fora and working groups, formal and informal, it is mostly on a voluntary and much more limited basis than WFP. This component of WFP's support cost budget tends to grow when compared with that of NGOs' support cost budgets.
9. WFP officers and staff are often asked by United Nations authorities to assume overall advisory, coordination and information functions in matters of food aid and food security, such as leading a Thematic Group in the United Nations Development Assistance Framework (UNDAF) process or coordinating food aid in humanitarian interventions. The role for WFP sets it apart from the NGOs, but also adds costs to its overhead budget.
10. There are costs related to maintenance of the WFP governance system, as is also the case for all NGOs. However, to the extent that this governing mechanism requires a highly participatory process of meetings and reporting, simultaneous interpretation of meetings, translation of documents into several languages and representation from around the globe, the costs of governance will tend to increase. This is the case with WFP.
11. To the extent that NGOs' governance structures and requirements tend to be simpler than those of WFP, their costs will be relatively lower. Maintenance of WFP's governing system, therefore, tends to make that component of WFP's indirect support cost budget higher than for NGOs.
12. Additionally, aspects of the institutions' mandates that proved important and were highlighted in most of the discussions with WFP and NGO staff included:
 - the degree to which food is a primary or secondary input in the overseas programme;
 - whether or not food is delivered in emergency relief and/or development programmes;
 - whether the food aid is delivered directly to beneficiaries or through implementation partner institutions;
 - the ratio of food provided from donations of food surplus countries versus locally purchased food;
 - whether donated food is delivered to beneficiaries, or is sold to produce cash for purchase of other programme inputs and needs; and
 - the institution's role in the provision of services to the donor or recipient community.



⇒ *The Degree to Which Food Is a Primary or Secondary Input in the Overseas Programme*

13. For WFP, food is by far the primary programme input. In fact, WFP's mandate specifically states that the organization will implement food aid programmes, projects and activities by procuring, transporting and distributing food contributions to projects. Even the secondary objective of promoting world food security is essentially pursued through food aid projects and programmes. While it is true that through the delivery of food WFP assists a broad range of sectors, including health, nutrition, agriculture and education, the Programme focuses principally on the delivery of food to feed hungry people. Historically, it has measured its operation in terms of tons of food delivered, and more recently also in terms of numbers of beneficiaries of the food aid WFP delivers.
14. For the NGOs, even those that are active in the procurement and distribution of food aid, food is a secondary input. All NGOs of a significant size that deal with food aid have much broader mandates than WFP and essentially support other, broader development activities with food aid inputs together with other equally, but often more, important inputs. For example, some focus on children's development in all its dimensions, including health, education and nutrition. Another NGO directs its resources and expertise to bring about improvements in the broad area of health, including nutrition. Most other NGOs, while using food as an input, concentrate on the broad range of development issues such as the HIV/AIDS pandemic, education, health, agriculture, small businesses and rural enterprise.
15. This difference between WFP and the NGOs has resulted in the build-up in these organizations of very different analytical and operational skills, institutional partnering and business partners. This difference also results in an absence of comparable budgeting and cost tracking, and reporting as related to food aid. Most NGOs do not collect or report operational costs in a disaggregated way to allow meaningful comparison with WFP's costs of delivering food aid.

⇒ *Proportion of Food Delivered in Emergency Relief Versus Development Situations*

16. In 2001 half of the food aid delivered across the world was directed at feeding people in emergency situations, with about 70 percent of that delivered by WFP and 27 percent by NGOs. However, project (sometimes referred to as "development") food aid amounted to 25 percent of all food aid flows, with about 63 percent delivered by NGOs and 27 percent by WFP.² (The remaining percentages of emergency and project food aid are delivered through other channels.) WFP has increasingly built institutional capabilities to respond more effectively in emergency situations. Over the same period WFP has tried to provide more programmatic focus and more precise targeting of project food aid. At the same time, NGOs have built institutional capabilities to use food aid as part of broader development programmes that include significant non-food inputs. NGO staff interviewed believed these differences with WFP might affect costs, although the precise effect of these differences is not easily determined.

² WFP, 2002. International Food Aid Information System (INTERFAIS), Annual issue of the Food Aid Monitor, providing the international community with detailed analysis of worldwide food aid flows in 2001, and statistics covering the 1992–2001 decade.



⇒ *Delivery of Food Directly to Beneficiaries or Through Implementation Partners*

17. Simply put, WFP, as a United Nations agency, is “owned” by national Governments. Therefore, in many cases WFP’s immediate partner is the Government of the country in which the food aid is distributed. For project food aid generally, WFP will deliver food to a government implementing partner, which in turn may pass the food on to international or local NGOs for final distribution to beneficiaries. WFP seldom becomes involved in direct feeding when it undertakes development projects.
18. NGOs, on the other hand, while maintaining minimal relations with host Governments, sufficient to enable operations in that country, tend to partner directly with local NGOs, or other civil or community-based organizations to deliver food aid. In these cases, the local organizations, communities and families also contribute time and resources to the development operation, often significantly reducing the support costs required from donors.
19. In emergency situations, WFP concerns itself in the first instance with overall food needs and pipelines within the framework of the food crisis, delivering the food resources it has to government relief agencies, NGOs and other implementing partners for final distribution to beneficiaries, and contributing other services to facilitate food aid delivery from other organizations.

⇒ *Amount of Food Delivered from Donations from Food Surplus Countries Versus Local Purchasing of Food*

20. About 25 percent of the food aid WFP delivers is procured through local purchases or purchases in third countries (i.e. neither in the donor country, nor in the recipient country). For NGOs, 9 percent of their food aid deliveries are local or triangular purchases (INTERFAIS, The Food Aid Monitor, May 2002).
21. One important distinction between WFP and an important number of mostly European NGOs is the Programme’s focus on transporting and delivering donor-provided food to hungry people in other countries, usually on other continents. Many NGOs are increasingly less interested in this type of food aid, and while the largest United States-based NGOs are still heavily involved in distributing food produced in the United States overseas (although they sell much of this food on the market in the recipient country—see monetization discussion below), most European NGOs are no longer involved in this type of food aid. European NGOs are increasingly committed to purchasing locally produced food for their food aid programmes. Although few studies have been undertaken to verify the costs, most NGO managers believe local purchases provide a much more appropriate food aid basket than imported donor food and greatly reduce the cost per ton of food aid, since it does not include what are often high overseas freight rates and loading and unloading costs along the way. But local purchases may incur large per unit transport costs to reach the intended beneficiaries. Local purchases are usually in very small quantities and involve a large number of products, thus the unit cost of each transaction will not benefit from the economies of scale that often apply to much larger purchases. The transaction costs may prove to be relatively high. Hence, there are cost-increasing and cost-reducing aspects of local purchases versus imported donor food. The net effects of these influences on costs will vary from one case to another.



⇒ *Use of Monetization of Donated Food*

22. The sale of donated food, termed “monetization”, provides the NGOs with additional value by giving them cash resources for the non-food activities of integrated food security and nutrition programmes. However, monetization is essentially a practice undertaken by United States NGOs, because the European NGOs no longer receive much bulk European food for delivery to recipient countries except through WFP. The Programme’s policy on monetization, approved at the Annual Session of the Executive Board, 1997 (document WFP/EB.A/97/5-A + Corr.1) permits monetization only in very restricted circumstances, with the practical effect that WFP rarely monetizes food. However, WFP does “trade” donated food for locally produced food, either because the costs of transporting food aid can be reduced in this way, or because the food needs and habits of the beneficiary community cannot be satisfied with imported, donated food. This practice can, therefore, be cost reducing.
23. Monetization, as undertaken by the United States NGOs, represents about 30 percent of project food aid delivered by NGOs. This is significant, and has important implications for any analysis of food aid costs. In many cases, the NGOs use the proceeds of the monetized food aid to offset administrative and other support costs and provide complementary inputs for their development programmes. At least one NGO has developed expertise in monetization, a skill other NGOs take advantage of to avoid the costs of each NGO developing such expertise, and to lower the transaction costs of multiple sales in the same country by several NGOs.

⇒ *Provision of Food Aid–Related Services*

24. WFP, since its inception, has been assigned a global mandate in food aid. First, WFP works in association with national Governments to monitor the nutritional situation worldwide (in collaboration with FAO and other United Nations organizations). WFP undertakes in-depth assessments and analyses of global, regional, country and local-area events that affect food needs across the globe. Using the assessment data, WFP prepares contingency plans and shares food aid information with all stakeholders. It publishes information on global food needs on a regular basis, disseminates information on country-specific food emergencies in weekly emergency reports and shares information on the status of global food aid through the INTERFAIS Food Monitor. WFP also provides vulnerability and early warning information to global information networks.³
25. While some NGOs contribute to global food aid data gathering and reporting exercises managed by WFP, their role is generally minor compared with the responsibility WFP carries in this area. This is a cost-increasing exercise for WFP and provides a valuable service to the food aid community, reducing the data collection and analysis costs to that community and its other members, including donors and NGOs.
26. Also at the global level, WFP must retain the capability to operate virtually everywhere in the developing world. To sustain this readiness, WFP maintains stand-by procurement arrangements including air, road and shipping contracts, maintains warehouses and retains specialists in procurement, ocean-liner and airline chartering, and road transport contracting. Since WFP must, by mandate, operate even in the most remote and insecure locations during emergencies, it often makes the initial human and capital investments in security assessments, field communication equipment (VHF radios, VSAT) and air

³ FAO’s Global Information and Early Warning System (GIEWS), USAID’s Famine Early Warning System (FEWS), and FAO’s Food Insecurity and Vulnerability Information and Mapping Systems (FIVIMS).



services for evacuation of staff. In addition, WFP often provides escort services to food and non-food aid convoys, security information to partners, and negotiates access and safety corridors. All these services, which are critical for the effectiveness of food aid deliveries by WFP and the NGOs, result in cost increases for WFP.

27. WFP holds and manages strategic stockpiles of relief commodities (food and non-food) in warehouses and depots (Brindisi, Italy, Dubai, United Arab Emirates and Nairobi, Kenya) to ensure rapid deployment in sudden emergencies. Donors, other United Nations agencies and NGOs depend on these stocks and related support services to expedite dispatch of relief goods at short notice to specific destinations, but maintaining such stocks and providing related services entails considerable overhead costs that need to be fully recovered, and tend to increase WFP's costs.

Size of the Organization and Degree of Global Coverage

28. The main size-related factors that affect programme costs are: the amount of food aid delivered, the percentage of overall programme that is food aid, the number of countries where food aid programmes are operational, and the size of country programmes and number of related staff. In terms of food aid delivered and the percentage of the overall programme that is food aid, WFP is several times larger than even the largest food aid-providing NGO. In 2001, the largest food aid-providing NGO managed a total programme of US\$380 million in 58 countries, benefiting 43 million people. The food aid value in this programme was US\$160.8 million, for a quantity of 491,741 metric tons, of which 40 percent by tonnage (50 percent by value) was distributed and the remainder monetized. Direct distribution of food aid was part of the NGO's programme in less than a third of the countries where it is present. In the same period, WFP distributed almost 4.2 million tons of food to 77 million people in 82 countries, through a US\$1.7 billion programme entirely directed at food aid. Another way to appreciate the relative size of the food aid operations of WFP and the largest NGOs is to compare the results of the first round of grants from the United States Department of Agriculture (USDA) for the new Global Food for Education Initiative. The largest food aid NGO received two grants, another smaller NGO received four, several other NGOs received two and some, one. WFP received grants for school feeding programmes in 23 countries. A consequence of this is that WFP can take advantage of certain economies of scale in commodity purchasing, transport contracting, storage, and customs clearing. This produces cost-reducing effects on per ton costs of delivering food aid. However, WFP's size is in part a result of its mandate to deliver food aid anywhere a donor or a needy recipient requires. A consequence of this can be increases in costs, especially if those places are in land-locked countries, destination points are difficult to reach, and if the delivery is made necessary by civil strife, war, and refugee populations in difficult security circumstances.
29. NGOs have great flexibility to decide where to deliver food aid. While representatives of the NGO community are present almost everywhere in the developing world where people need help meeting their basic nutritional requirements, no single NGO delivers food aid in anywhere near as many countries or locations as WFP. However, the NGO community, taken as a whole, does have broad coverage through its local partnerships with community groups and local NGOs, and the Programme often relies on these local distribution capacities for final delivery of food aid entrusted to WFP. The value of this NGO distribution network to the food aid community and WFP in particular cannot be measured, but it is certainly crucial to effective food aid distribution. Maintenance of these local-level distribution capabilities is a cost borne by NGOs and taken advantage of by WFP and Governments. When WFP delivers food aid to NGOs for final distribution, it also provides some funding to offset the NGOs' distribution costs. While there is an established protocol



to guide this transaction, there is some difference of opinion as to whether WFP provides NGOs with a fair, sufficient, or appropriate amount of funding to cover their support costs. This is an issue that the NGOs and WFP need to settle, because it would ensure a smoother partnership.

30. When NGOs join forces to implement a food aid operation, they may increase their ability to take advantage of the kind of economies of scale that WFP enjoys. One European example is EuronAid, serving donors and NGOs alike to lower the transaction costs of many multiple food aid grants, mostly from one donor but to many NGOs. Another recent example is the informal consortium of United States NGOs, formed to deliver emergency food aid to victims of the southern Africa drought. Some of the advantages of size particular to WFP may accrue to the NGOs in these cases, and a second or third channel for food delivery into an emergency situation may prevent breaks in the pipeline that would occur if one channel were to encounter political or operational blockages.

Source and Nature of Funding

31. How food aid delivery organizations receive donations is very important to budget flexibility and hence to overall costing of operations in the field and at headquarters. For this study, the key factors analysed were: public versus private contributions, the organization's approach to indirect cost coverage, and percentage of core, unrestricted funding.
32. WFP, as a voluntarily funded United Nations organization, receives almost all of its cash and food contributions from Governments. Cash sufficient to cover the full support costs necessary to deliver the food aid either donated or purchased through the cash contribution must accompany donations to WFP in food or cash. This full-cost recovery scheme includes a charge for indirect support costs (ISC), which was recently lowered from 7.8 percent to 7.0 percent, a charge for direct support costs, and total coverage of direct operating costs, including commodities, transport, landside transport, storage and handling (LTSH), and other direct operating costs (such as vehicles and computers). In sum, WFP charges all costs of delivering a ton of food to the donor of that food (or cash that bought the food). It has no other source of funds to cover these costs.
33. The NGOs, on the other hand, apparently have greater flexibility because the portion of contributions they receive from private sources is significant. While some of this private contribution is tied to specific programmes, much is unrestricted and can be used to cover some operational support costs and ISC. Donors of food aid often cover all costs, including ISC, to NGOs for specific food aid grants, but donors also frequently expect NGOs to fund their food aid programmes and projects, in part, with matching, leveraged, or contributed funds from private or other donor sources. The European NGOs often receive only a fixed, partial payment of ISC from their food aid donors, and all parties involved understand and accept that private funds must cover the rest. The cost to the donor for distribution of food aid through the NGO is apt to be less than what the donor would have to pay WFP to deliver the same amount of food to the same location. This does not necessarily mean that the operation per ton is cheaper through the NGO, just that the donor pays a smaller proportion of the full costs. United States NGOs can cover some of their administrative costs through the monetization of food aid received from their Government, providing them with a certain amount of budget flexibility WFP does not have.



34. WFP's indirect support cost rate of 7.0 percent compares with NGO rates that, according to Charity Navigator and Charitable Choices,⁴ range from a low of 5.4 percent to a high of 21.9 percent. Most important NGOs that deliver significant quantities of food aid are in the middle of this range, with rates of 10–17 percent. It is difficult to draw any conclusions from these rate comparisons, since the budget items that make up the indirect cost pools and the base over which they are calculated in each case are different from one institution to another, and indeed from one project (or grant) to another. In addition, the direct operational cost budgets of any operation can justifiably include some of the costs other organizations may include in their indirect cost pool, making ISC comparisons more difficult and potentially misleading. Items that can justifiably be included in ISC pools or covered under direct cost charges are some field-based support staff salaries, staff training, some equipment used for specific project activities but that also serves a broader programme use (e.g. vehicles), and facilities rental. The only way to compare the costs of two or more institutions accurately is to ask them to price the same activity for the same period of time, in the same country (or countries) and at the same level. This exercise requires all costs to be reported, allowing comparison of total costs, not only ISC rates or other components of total costs. WFP and NGOs are seldom, if ever, asked or required to cost out the same activity in this way.

CONCLUSIONS

Comparison of Costs: A Questionable Tool for Determining Appropriate Support Cost Levels for WFP

35. Throughout the discussions held to collect information and data for this study, many of those interviewed from donor institutions, NGOs and WFP seriously questioned the validity of quantitative cost comparisons as a way to determine the appropriate level of support costing for WFP's operations. The decision a donor takes to provide food aid to WFP or an NGO for any one programme, project or emergency operation will probably not be made for cost reasons alone. However, in a specific case where WFP and NGOs are appealing for the same food aid contribution for the same operation, it falls to the donor and its cost accountants to evaluate the cost proposals, which often contain proprietary information that only the donor has a right to see. NGOs and donors will negotiate the final terms of an NGO proposal, and that is appropriate. NGOs have a right to privacy regarding their finances and their negotiations with donors.
36. Comparison of indirect support costs of WFP and NGOs, by itself, provides little helpful information or insight. Each institution formulates its support cost "pools" differently, making one-to-one comparisons invalid. A better approach, if quantitative comparison is desired, would be to calculate the aggregate support costs of food aid activities, and compare support costs per ton of food delivered, per beneficiary, or per some development outcome such as improved nutritional intake, increased attendance at school, or mile of farm-to-market roads built. Neither NGOs nor WFP formulate their budgets nor collect expenditure data in a way that would allow such comparisons to be made. This kind of cost-benefit analysis can be conducted on specific WFP or NGO food aid activities or projects, although in cases of NGO projects where food aid is a secondary input to a

⁴ Charity Navigator is a not-for-profit organization that provides analysis of the financial health of 1,100 private voluntary organizations based in the United States. Charitable Choices helps charities promote themselves in workplace fund-raising campaigns and is associated with the Combined Federal Campaign in the United States.



broad-based development project, even this type of calculation is difficult. But comparisons would be of “apples and oranges”, or even “apples and lettuce”, and would be unlikely to help the Board determine the appropriate ISC level for WFP.

37. Rather, the zero-based budgeting exercise due to be carried out by WFP can analyse the pressures on the Programme that tend to increase indirect and direct support costs, and can determine appropriate levels for the activities that create these pressures. The support cost levels can be adjusted accordingly.
38. An important issue raised by this study is that an overall functioning food aid system that benefits the hungry poor is the ultimate objective, and that a healthy WFP and food aid NGO network is crucial to that objective. The support costs provided to WFP and NGOs in part cover the same things (commodity purchases, transport, storage, monitoring, evaluation, etc.), but a good portion of the support costs is directed at maintaining and improving the unique capabilities of each. Cost containment should be exercised in all cases, to make the entire system more efficient and the scarce resources stretch further towards satisfying needs. But this can be accomplished through rigorous financial management by the appropriate internal mechanisms of each organization, rather than through comparisons between them.

Pressures That Tend to Increase WFP's Costs

39. For WFP, pressures that tend to increase costs come from its mandate, which is shaped by decisions of the Executive Board, the United Nations, Member States and donor organizations. Mandatory participation by WFP in United Nations formal committees, working groups, ad hoc committees, summits, and other formal and informal fora is growing and, if it continues, WFP's indirect support costs will continue to increase accordingly.
40. As WFP has gained in reputation and stature within the relief community, senior managers of the organization are increasingly asked to take leadership roles as committee chairs, special envoys and coordinators of special operations. While this is an important indicator of WFP's effectiveness, if the trend continues, it too will result in increases in indirect support costs.
41. WFP's governance model is extremely participatory and expansive. The preparation of documentation, studies, reviews and special reports in several languages is costly, as is the simultaneous interpretation services provided for Board members at headquarters.
42. Probably the largest impact on costs for WFP that stems from its mandate comes from the requirement that WFP be ready to provide food aid and support services in any corner of the globe. The costs of readiness are significant. Some of these costs are being covered now by investments in WFP's development project food aid, such as maintaining staff in the field, undertaking vulnerability mapping, providing access to large amounts of food *en route* to ongoing projects or already in storage in-country, and having transport and logistics contracts in place. Analyses are constantly being prepared on port, rail, air and road facilities that can be used in emergencies, and equipment that might be needed at very short notice is pre-positioned. These investments in readiness by WFP serve the entire food aid community in times of emergency food aid delivery, and they are growing. If these investments are not made either directly or by maintaining a sufficient level of food aid flow through WFP, all parties in the emergency response community will pay the price in increased costs when the system is not prepared to respond effectively to a future crisis.



Pressures That Tend to Reduce WFP's Costs

43. Pressures that tend to reduce WFP's costs stem from its size and global presence. WFP staff have been selected and trained over the past few years in large part to provide highly skilled emergency food aid delivery. This skilled staff capacity has been accompanied by institutional reforms that have placed more of WFP's best staff in the field and have provided them with more and better communications and logistics tools to do their job. This capacity is built into WFP's operating structure. WFP's built-in flexibility to redeploy staff and equipment, and its ability to redirect large amounts of food (mostly grains needed in massive emergency feeding programmes) it can use for its operations at any point in time tends to reduce the costs of any one emergency operation. Over time, these investments not only pay off in effective response, but also in lowered per unit costs to specific operations and to other participant organizations in the food aid delivery system.
44. An important factor that tends to reduce WFP's per unit costs is the sheer size of its operation. Not only would it be impossible for NGOs to absorb all the food WFP delivers if it were to cease to operate, but also the economies of scale obtained by WFP result in lower costs for the entire food aid delivery system. This is especially true for commodity purchasing, transport, and storage in bulk. These economies of scale should be maintained.

WFP and NGOs: Complementary Members of the International Food Aid Delivery System

45. WFP and NGOs have been given very different mandates by their respective owners and governing bodies. WFP, by virtue of its public United Nations character, is essentially "owned" by Governments who exercise this ownership through participation in the United Nations governing bodies, the FAO governing bodies and WFP's own governing body. These bodies have crafted an explicit global mandate for WFP, which is significantly different from those of NGOs, but which is meant to co-exist comfortably with NGOs who are pursuing the same food aid goals as WFP.
46. WFP surveys and monitors the nutritional situation worldwide, in collaboration with other United Nations organizations and with the help of Governments and NGOs. To carry out this responsibility, WFP must work closely with all Governments. In situations where food deficits are apt to lead to malnutrition and starvation, WFP prepares food aid interventions and makes appeals to donors for the resources required to deal with the situation. Before the emergencies evolve to their most critical stage, or immediately upon the onset of a natural disaster, WFP prepares contingency plans for the logistics, transport and delivery of necessary food aid to the potential target groups. WFP will normally deliver the food received from donors to government relief agencies or NGOs for final distribution. In general, WFP works with global food pipelines within the framework of food crises and helps remove the political and physical impediments to food movement in critical emergency situations. In addition, WFP maintains a project food aid portfolio, addressing the food requirements of needy populations in transition from crisis and poverty to stability, and in poor pockets of countries where chronic malnutrition exists.
47. NGOs are much more selective and targeted regarding where they work. They work where they have experience, partners and access. They tend to partner with elements of civil society, rather than Governments, and concern themselves with promoting local solutions in a more "micro-oriented" context than WFP. In many cases, especially in emergency feeding, international NGOs and their local partners provide the distribution mechanisms that enable WFP-delivered food to reach the beneficiaries.



48. To the extent that WFP and NGOs require donor contributions to carry out their respective mandates, there may be instances where WFP and NGOs appear to be competing for the same ton of food aid or the same donor cash contribution. But the overall global food aid delivery system needs the WFP operation and the NGO networks to be healthy, prepared and effective. In a world where resources are insufficient to provide all food aid requested throughout the world, there will be some difficult decisions to take regarding the balance of donor food aid resources going to the NGOs and to WFP. For the most part, the information obtained from donor representatives for this study suggests that those decisions will not be made principally on cost criteria, because the roles of the NGOs and WFP are essentially different. If a donor prefers to provide food directly to an NGO for delivery in an emergency situation, rather than through WFP, that decision is likely to be based on an evaluation of who has access to the beneficiaries, who has the logistical capacity to deliver the food, the advisability of using a single or multiple channels for food delivery, and other more operational or even political criteria than comparative costs.
49. This leads to the recognition that what exists now, and what is probably healthy for the global food aid delivery system, is a “pluralistic” approach to food aid delivery, taking advantage of the very different mandates of WFP and the NGO community. This approach almost certainly provides a safeguard for people in need, especially in situations where one channel is cut off or seriously limited because of political, funding, or security reasons. Having alternatives is a sound approach, but it probably implies different cost structures and levels. Making funding decisions on pure cost comparison grounds in the short term would ultimately be self-defeating and would undercut the effectiveness of the global food aid system in the long term.



ANNEX I**INSTITUTIONS CONTACTED DURING THE STUDY**

CARE (Cooperative for Assistance and Relief Everywhere)/Australia

CARE/US

Catholic Relief Services

Canada/CIDA (Canadian International Development Agency)

EuronAid

European Commission

German AgroAction

MSF (*Médecins sans frontières*)/France

Government of the Netherlands

Save The Children/UK

Government of the United States of America

World Food Programme



ANNEX II**DOCUMENTS USED IN THE STUDY**

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