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**Executive Board
First Regular Session**

Rome, 20 - 22 January 1999

FINANCIAL AND BUDGETARY MATTERS

Agenda item 4

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4 December 1998
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REPORT OF THE FORMAL WORKING GROUP ON THE REVIEW OF WFP'S RESOURCES AND LONG-TERM FINANCING POLICIES

At its Third Regular Session in October 1998, the Board agreed to defer to the First Regular Session of 1999 formal action on the Report of the Formal Working Group on the Review of WFP's Resource and Long-term Financing policies.

Document WFP/EB.3/98/4-D is hereby re-submitted for review and approval by the Board.

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 point for this document is:

Strategic Planner, SPS: J. Bailey tel.: 066513-2398

Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact the Documentation and Meetings Clerk (tel.: 066513-2641).



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INTRODUCTION

1. 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<F) policies (1998/EB.2/1). The Group was to be open to all members of the Programme and the observer of the European Commission, and was to elect its own chairman. The review was to be in the context of United Nations General Assembly resolutions 50/227 and 52/203, and the Secretary-General's note A52/847. In these resolutions the General Assembly decided that the Executive Board should review its resource requirements in accordance with the relevant decisions taken by the General Assembly and the Economic and Social Council (ECOSOC) with the aim of establishing resource and long-term financing policies that would provide WFP funding to achieve its mission.
2. The Working Group held its first meeting on 20 May, and further meetings on 12 and 26 June, 20 and 21 July, and 15 September 1998. Mr Douglas Sheldon, of the United States of America, was elected chairman; Mr Jean Devlin of Canada was acting chairman for the meetings of 20 and 21 July.
3. The Working Group had before it "Review of WFP's Resource and Long-term Financing policies—A Consolidated Report" (Attachment 2). This is a report compiled by the Secretariat based upon its survey of the effectiveness of the current policies introduced in January 1996, and informal consultations held with members of the Programme in late 1997 and early 1998.
4. The Consolidated Report fulfils the requirement set out by the Committee on Food Aid Policies and Programmes (CFA) at its Fortieth Session, for the Secretariat to review and report to WFP's governing body on the Resource and Long-term Financing model and its associated policies at the conclusion of the first biennium of operation. The report assesses the efficiency and effectiveness of the model introduced in 1996 and proposes recommendations for improvements in the areas of:
 - a) Cost re-categorization;
 - b) Indirect support cost recovery;
 - c) Direct support cost advance mechanism;
 - d) Use of interest income;
 - e) Compliance with the full-cost recovery principle;
 - f) In-kind contributions to direct and indirect support cost activities;
 - g) Application of indirect support cost rates on bilateral services;
 - h) Increasing up-front and untied multilateral contributions;
 - i) Flexibility in the use of the immediate response account;
 - j) Flexible use of directed contributions; and
 - k) Reducing conditions set by donors in the field.



5. In summary, the Consolidated Report states that the R<F policies approved by the CFA have: increased transparency and accountability; helped WFP to plan and manage its resources better at the corporate and project levels; improved, to some extent, the predictability of resources; not always been complied with fully by some major donors, despite considerable efforts on their parts; not arrested the trend of directed contributions to increase and of undirected contributions to decrease, and so reduced the flexibility to re-programme; artificially inflated the indirect support cost (ISC) rate for development activities; and required a complex and cumbersome process to set differential ISC rates.
6. The Working Group considered fully each of the Report's proposed recommendations, sought clarification and further information from the Secretariat, discussed the issues, and resolved by consensus to recommend to the Executive Board the following changes to WFP's R<F policies. A glossary of the terms used in this report of the Working Group is given in Attachment 1.

THE WORKING GROUP'S RECOMMENDATIONS

The principle of full-cost recovery from each donor

7. 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<F policies of the Programme.

Cost re-categorization and ISC recovery

8. The R<F 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.
9. 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.
10. 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.
 11. 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.
 12. The DOC category is redefined to encompass all direct operational costs, including some previously categorized as DSC or ISC.
 13. Continuing efforts to harmonize WFP's terms and categories of costs with those of other United Nations Programmes and Funds are encouraged.
 14. 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

15. 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.
16. 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.

Use of interest income and the General Fund

17. 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.
18. 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.
19. 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

20. Having decided to recommend that full-cost recovery from each donor should continue to be fundamental to WFP's R<F 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

21. 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.

22. 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

23. 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

24. 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.
25. 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.

26. 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.

27. 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)

28. 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

29. 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.
30. 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

31. 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.

IMPLEMENTATION OF THESE RECOMMENDATIONS

32. 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.



ATTACHMENT 1: GLOSSARY OF TERMS INTRODUCED BY THE REPORT OF THE WORKING GROUP

Note: These definitions would become effective only upon the Executive Board's deciding to adopt the recommendations of the Formal Working Group on the Review of WFP's Resource and Long-term Financing policies.

Broad-based appeal A call made by WFP or WFP jointly with other agencies that is for a regional operation, or several separate operations.

Country in transition 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.

Directed multilateral contribution A contribution, other than a response to a broad-based appeal made by WFP or 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.

Direct Operational Cost (DOC) 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).

Direct Support Cost (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 nor Direct Operational Cost.

Indirect Support Cost (ISC) Any cost incurred in staffing and operating the WFP headquarters and regional offices, and the standard minimum structure at country offices that cannot be attributed easily to any programme category or activity .

Multilateral contribution 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. In such cases, the donor will accept reports submitted to the Board as sufficient to meet the requirements of the donor.

Non-traditional donor Any contributor to WFP that is not by definition a traditional donor (see definition thereof).

Traditional donor A contributor to WFP that is included in Lists D or E of the United Nations/FAO Member States Listings for Elections for the WFP Executive Board—unless also recognized as a country in transition—the European Community and Saudi Arabia.

Undirected contribution A contribution that is not restricted to a particular WFP activity but which may be restricted by its contributor to use in a programme category.

Untied contribution A contribution that is not restricted to services, goods or commodities from a particular source-country, be it the contributor's or another specified by the contributor.

Up-front contribution A contribution that is announced and confirmed at a biennial pledging conferences convened jointly by the Secretary-General of the United Nations and the



Director-General of FAO, or at any time before the start of a calendar year for draw-down in the next or subsequent calendar years.





ANNEX**R<F/1998/1*
20 April 1998**

Review of WFP's Resource and Long-term Financing Policies

A Consolidated Report

* Re-issued for technical reasons.



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I. KEY FINDINGS AND A LIST OF FINAL RECOMMENDATIONS

Key findings

1. The Resource and Long-term Financing (R<F) policies established a clear linkage between the overall level of resources, disaggregated by programme category, that were likely to be available to WFP and the financing of the associated support costs, both direct and indirect. This clarity has helped WFP to plan and manage its resources both at the corporate and project level.
2. Programme Support and Administration (PSA), transport costs, non-food items, services and other support costs are provided on a more secure basis in relation to the contribution received. The level and receipt time of the overall volume of resources still remain largely unpredictable for WFP in the medium to long term.
3. There is a strong commitment by the donor community to the R<F policies. In implementing the full-cost recovery, some major donors still find it difficult to adhere fully to the policies approved by the governing body.
4. In 1997, the level of upfront and untied multilateral contributions declined to 18 percent of total resources. It should be recognized that the resourcing and financing model developed under the R<F policies does not have an inherent mechanism which would encourage donors to give upfront and untied contributions.
5. Increased directing of contributions has resulted in cost-inefficiency from having to handle downsized shipments, excessive staff time spent on negotiating specific contributions, and inability to flexibly re-programme savings from one operation to another. It limits WFP's capacity to manage the overall level of available resources in an optimal way. WFP's efficiency and effectiveness in using available resources can therefore only be achieved if donor contributions are more flexible.
6. For historical reasons, WFP country offices involved in development activities are more dependent on PSA funding, whereas those engaged in emergencies are funded largely or exclusively from Direct Support Costs (DSC). These practices contribute towards inflating the Indirect Support Cost (ISC) rate for development.
7. The 1998-99 biennial budget process and outcome showed that the governing body could not accept the volatility of ISC rates resulting from the Cost Study. The process for determining ISC rates, and the use of differential rates for programme categories, were considered complicated and cumbersome by some.
8. In UNDP, UNICEF and UNHCR, the management, administration and programme support costs of approved/statutory programmes are financed from the regular (core) contributions and are not based on fees or rates. The WFP system of recovery is unique in that there are no clear distinctions between regular and other resources and the entire cost recovery system is based on rates or direct charges to individual projects and activities. The comparative study stresses that this practice places WFP in an unstable position in funding its management, administration and programme support costs, as actual amounts recovered inevitably differ from projections.
9. WFP's management, administration and programme support costs were found to be lower than those of UNDP, UNICEF and UNHCR when rated against the value of programme delivery. This is true despite the fact that WFP's support cost categories of ISC



and DSC include costs items which are defined by other agencies as part of their programme deliveries. While such comparison should not be taken at face value due to the different nature of operations, the study does raise the question as to whether the comparatively low support costs of WFP represent a sign of efficiency or false economies having a negative impact on WFP's programming and administrative capacity.

10. The United Nations system-wide effort towards greater harmonization of budget presentations and associated matters suggests that decisions taken on WFP's R<F policies need to take those developments into account.

LIST OF FINAL RECOMMENDATIONS

Cost re-categorization

Recommendation 1.1

11. Direct Operational Cost (DOC) would be re-defined to include all project inputs utilized directly in operations/projects by beneficiaries, the government of the recipient country or other implementing partners.

Recommendation 1.2

12. Indirect Support Costs (ISC) would generally fund headquarters, regional office and country office minimal standard structure. Direct Support Cost (DSC) would fund the variable or incremental cost for a country office to support WFP activities in that country, be these of a development or relief nature.

Recommendation 1.3

13. WFP will continue to participate actively in the ongoing budget harmonization exercise of other Funds and Programmes of the United Nations system and work towards using the cost category terminology and definitions that are to be agreed upon. In the process, WFP should identify areas where WFP differs most in the use of support costs as compared to other agencies, and consider areas that may require reinforcement.

ISC recovery

Recommendation 2.1

14. The differential ISC rates by programme categories would be replaced by a single ISC rate determined by the application of the Programme Support and Administration (PSA) budget approved by the Executive Board against the projected value of activities for the biennium.

Recommendation 2.2

15. The single ISC rate would be fixed for a biennium, but may be revised on an annual basis should the situation so warrant.



DSC advance mechanism

Recommendation 3

16. A Working Capital Fund would be established to enable WFP to commit and spend DSC funds and to bridge DSC shortfall gaps in advance of confirmed contributions.

Use of interest income

Recommendation 4

17. Interest income would be used to:
- a) fund and replenish the Working Capital Fund
 - b) fund any possible gap between total ISC recovery and the PSA budget; and
 - c) reduce ISC rate for the subsequent budgetary period or fund strategic activities such as FMIP and gender related initiatives.

Compliance with the full-cost recovery principle

Recommendation 5.1

18. The issue of compliance with the full-cost recovery principle by economically advanced countries/donors should be discussed among membership and donors to arrive at harmonized positions that can best satisfy the requirements of all concerned.

Recommendation 5.2

19. General Regulation XIII.2 should be re-considered to enable the Programme to negotiate contributions from third parties or to use the General Fund to pay the cash requirements of contributions from countries in transition, NGOs or private corporations. Generally, the prescribed rate and related costs would be applicable, except when the Executive Director may consider that it is in the best interest of the Programme to waive them.

In-kind contributions to DSC and ISC activities

Recommendation 6.1

20. The prescribed ISC rate would be applicable to in-kind contributions to the DSC category when there is an overhead cost to WFP for administering such contributions. In other cases the Executive Director may be authorized to reduce or waive the prescribed ISC charges in the best interests of the Programme.

Recommendation 6.2

21. In-kind contributions to the ISC category that meet PSA costs would be exempted from ISC charges, provided that donors do not require any special reporting and that such contributions are untied and do not carry particular conditions.



Application of ISC on bilateral services

Recommendation 7

22. Bilateral services would continue to be provided by WFP on a full-cost recovery basis. Given that WFP has been providing not only purchase and transport services, but also the monitoring of contributions, ISC rates would be established to cover all three services.

Increasing upfront and untied multilateral contributions

Recommendation 8.1

23. WFP would seek to expand the share of contributions provided through the multilateral window by making broader-based appeals.

Recommendation 8.2

24. The standard (project) reports would also show the donors providing multilateral contributions.

Recommendation 8.3

25. WFP would continue a dialogue with Member States and donors on the possibility of finding more effective instruments to promote upfront and untied multilateral contributions.

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

Recommendation 9.1

26. The use of the IRA would be expanded to cover the food requirements, logistics and other non-food costs in ongoing emergency operations (EMOPs) and protracted relief operations (PROs) when there is a sharp change in operational circumstances. For transparency, those uses would be reported annually.

Recommendation 9.2

27. In order to facilitate its expanded use, the IRA would be replenished with unspent balances of contributions to operations that are either terminated or no longer require the unspent resources, with the agreement of the donors concerned.

Flexible use of directed contributions

Recommendation 10.1

28. While the R<F model accommodates the splitting of donations through the directed multilateral funding window, donors are encouraged to keep each contribution to a specific operation at a size that facilitates the cost-efficient management of resources.

Recommendation 10.2

29. Donors are encouraged to allow for a more flexible use of their contributions by giving WFP the authority to decide on the use of their donation with respect to commodities and quantities.



Recommendation 10.3

30. WFP would actively negotiate the re-directing of savings to different operations, and donors are encouraged to accept such re-direction of contributions more flexibly.

Reducing conditions set by donors in the field**Recommendation 11**

31. Conditions set by donors in the field must conform to the basic plans of the WFP project/operation; must not carry adverse cost and efficiency implications; and reporting must confirm to WFP standard reports to donors.

Note: Some of the above recommendations, if adopted, would require amendments to the General Regulations and Rules, and to the Financial Regulations.



II. HISTORICAL BACKGROUND

A brief chronological synopsis on how WFP came to adopt the R<F policies is provided below:

December 1991: CFA/ 32	The Committee on Food Aid Policies and Programmes (CFA) was informed that a cash problem had arisen because donor contributions had not reached the one third aggregate required under WFP's General Regulations for the regular pledge, and thus were insufficient to cover WFP's cash requirements. The Committee approved temporary measures for support cost recovery of four percent on the International Emergency Food Reserve (IEFR) and protracted refugee operation (PRO) contributions and 10 percent on those to complex emergency operations (EMOPs).
November 1992: CFA /34	The Executive Director presented a report on the cash situation and proposals for long-term financing of operations. Two basic principles met with agreement: that each programme should pay for itself and that, in a given year or biennium, the cash outflow should not exceed the cash inflow.
October 1993: CFA /36	Doubt was expressed regarding the availability of resources to fund the 1994-95 PSA. The proposal to increase recovery on PRO and IEFR from four percent to five percent was noted. The Committee requested completion of the cost measurement study to determine the actual costs of different WFP activities and provide background to the discussion on changes in the support cost recovery.
May 1994: CFA /37	A paper on WFP's resources and financing was presented to the CFA (CFA: 37/8-A "WFP Resource Situation"). It demonstrated that the cash component of the regular pledge was not sufficient to meet both operational and PSA costs. No specific modality existed within the current system to allow WFP to obtain required funding for the PSA: the contributions of cash and commodities through a number of "windows" with no specific funding for administrative costs had contributed heavily to WFP's financial uncertainty and to the unpredictability of its funding.
December 1994: CFA/38	The CFA established the Formal Working Group on Options for WFP Resource Policies and Long-term Financing.
November 1995: CFA/40	The final report of the Working Group on Options for WFP's Resource Policies and Long-term Financing was submitted to the CFA. The CFA approved the recommendations of the Working Group.
January 1996	WFP began implementation of the Resource and Long-term Financing policies.



32. The R<F policies were built on the principle of “full-cost recovery”. This principle is applied across the board to fund on a voluntary basis, WFP’s operational activities as well as its management and administrative structure. A new resourcing model was adopted based on a matrix consisting of programme categories (development, protracted relief, emergency and special operations), funding windows (multilateral, directed multilateral and bilateral), and cost categories (direct operational cost (DOC), direct support cost (DSC), and indirect support cost (ISC)). The model requires that donors’ contributions include the actual commodity and transport costs, the pro-rata share of landside transport, storage and handling (LTSH) and DSC of a project, and associated ISC for different programme categories based on a rate established by periodic cost studies to ensure full-cost recovery.

III. FRAMEWORK OF THE REVIEW

33. One of the recommendations of the Formal Working Group regarding R<F policies, adopted by the CFA at its Fortieth Session, stipulated that “...the Secretariat review the working of the new model and its associated policies at the conclusion of the first biennium of operation and submit a report to the governing body on the effectiveness and efficiency of the new model, together with any recommendations for improvement or changes;” (CFA 40/5, paragraph 22 r).
34. The objective of the review is to make recommendations for improving the R<F policies and their management practices, with a view to achieving maximum operational effectiveness based on full-cost recovery and transparency.
35. It was considered important that the review process of the R<F policies give full consideration to the experiences and views of Member States and donors in a manner which is open, transparent and participatory. With this in mind, the Secretariat began the review with an informal consultative meeting on 20 November 1997 to discuss the Scope of Work. Thereafter, a series of consultative meetings took place to seek views of the Member States and donors on the Secretariat’s preliminary findings and recommendations.
36. The Secretariat circulated a questionnaire to Member States and donors to assess their experiences and obtain their respective views. Another set of questionnaires was circulated among WFP’s country offices and regional bureaux to seek a report of their experiences with regard to the impact of R<F policies on operational matters. The results of these questionnaires are reflected, where appropriate, in this consolidated report.
37. A study was commissioned comparing WFP’s resourcing and financing mechanism with those of major Funds and Programmes of the United Nations system, namely UNDP, UNICEF and UNHCR. Key findings of this comparative study and implications to WFP are discussed in this consolidated report. The comparative study is attached as Annex 1.

LIMITATIONS OF THE REVIEW

38. Many aspects of the implementation of the R<F policies were phased in gradually during the 1996-97 biennium. The actions that were necessary for the implementation of the new policies include the changes to the Chart of Accounts, substantial modifications to the financial and information systems, introduction of the LTSH model, development of standardized reporting, and the revision of a number of resourcing and operational



practices. The Executive Board, supported by the Secretariat, went through the long process of revising the General and Financial Regulations. Some changes to systems are still being made; and certain procedures are being modified as experience is gained in implementing the two-year-old policies.

39. It is important to recognize that some of the past constraints faced by WFP in the areas of resourcing and financing cannot be addressed fully by the new R<F policies. There are broader issues influencing these constraints. These include the global trend in food aid and multilateralism; donor policies and legislation governing donors' development and humanitarian assistance; and WFP's choice of where it works, whom it targets, how it prioritizes its activities, and how these are perceived by both recipients and donors.
40. In this respect, the assessment provided below focuses on whether and how the implementation of the R<F policies over the last two years has helped WFP better manage its resources and finances in carrying out its mandate. The recommendations which follow identify those areas where constraints persist or new problems were encountered, and suggest changes to policies or practices within specific R<F policies.

IV. ASSESSMENT OF ISSUES, AND RECOMMENDATIONS

41. The assessment of issues, and recommendations are categorized into three general groupings. They are:

- A) Implementation of full cost-recovery***
- B) Predictability and flexibility of WFP resources***
- C) Management policy, financial controls and systems***

A) IMPLEMENTATION OF FULL-COST RECOVERY

Assessment: Funding of the Programme Support and Administration (PSA)

42. Prior to the implementation of the R<F policies, under the Regular Pledge, resources were provided in commodities, acceptable services and cash, with the aim of providing at least one third in cash in the aggregate to meet transport, other operational support costs and the PSA costs. The one third cash target was not achieved; and this target was not really appropriate to meet the more cash-intensive relief requirements that were becoming an increasingly large proportion of WFP activities. The resources provided under IEF/PRO pledges covered actual costs of commodity, transport and ITSH but not the full support costs.
43. The R<F policies sought to establish a more certain base for providing the PSA budget through the application of the Indirect Support Cost (ISC) rate on all WFP activities. The CFA decided that the rates applied to ensure the full recovery of indirect support costs (ISC) should be updated annually, on the basis of a cost study (and a work measurement survey). A cost study was thus undertaken annually to distribute the cost of services financed from the PSA budget among the different programme categories and



bilateral services. The resulting rates for the 1995-97 period are summarized in Table 1 below.

**TABLE 1: COST STUDY RESULTS
INDIRECT SUPPORT COST RATES BY PROGRAMME CATEGORY (percent)**

	1995	1996	1997
Programme category			
Development	14.5	13.9	16.9
Protracted relief	7.2	7.1	5.9
Emergency	4.8	6.0	7.0
Special operations	15.3	11.9	5.6
Bilateral services			
Commodity procurement	3.1	4.0	6.8
Transport	4.7	4.5	12.8
Procurement/transport	3.8	4.3	9.0

44. The direct linkage between project/operation funding and the PSA has significantly enhanced the planning and predictability of the PSA budget. However, a number of critical and interrelated problems surfaced, affecting the implementation of full-cost recovery.
- In the 1997 Cost Study, it was noted that the treatment of DSC and ISC varies from country to country, with some country offices having a large part of their costs funded through PSA and others with the same types of costs funded through DSC. WFP's Executive Board requested clarification regarding the categorization of costs between DOC, DSC and ISC.
 - Concerns were raised over the high ISC rate for development activities. For historical reasons, WFP country offices traditionally involved in development activities are more dependent on PSA funding, whereas those engaged in emergencies are funded largely or exclusively from DSC. These practices contributed towards inflating the ISC rate for development.
 - The Executive Board also expressed concern over the volatility of ISC rates fluctuating from one year to another. The 1997 rates proposed as a result of the Cost Study were rejected by the Executive Board. The process of determining ISC rates, and the use of differential rates for programme categories, were considered complicated and cumbersome by some.
 - The PSA budget for any particular period may still not be fully recovered. This occurs when the actual turnover of commodities falls below the amount forecast; when there are significant variations in the proportion of resources provided to the different programme categories (because the programme categories have different ISC rates); when there are commodity price fluctuations; and when delays occur in the recovery of costs from donors.



Assessment: Funding non-food items, services and other support costs

45. Prior to the R<F policies, non-food items (NFIs), services and other support costs were usually resourced separately from the project funding. This made prioritization a difficult task when funds were not sufficient to meet the global requirement, and affected the quality of projects.
46. The R<F policies introduced DSC in order to ensure that cash funds were available to provide necessary project and operational support to all WFP's activities. Non-food items, staff costs and services are thus now identified and budgeted at the project design stage, and donors are requested to pay the DSC on a prorata share basis. This arrangement generally improved the availability of cash resources for operational requirements. However, the problems described below began to emerge in a number of situations, particularly in emergency operations where there is a strong dependency on DSC funding for operational support.
47. **DSC deficit caused by slippage in distribution.** Slippage in distribution (not being able to distribute commodities as planned, resulting in a need for an extension in time) can be caused by many factors. It can be due to changing operational exigencies on the ground, such as security situations, climatic causes disrupting transport of commodities, delays in shipment of commodities from origin, or other similar breaks in the commodity pipeline. WFP cannot lay off field staff and dramatically phase down its operational infrastructure each time slippage occurs, and then reconstitute it when the situation normalizes. This results in a situation whereby DSC are expended at a faster rate than that of the distribution of commodities.

***The Great Lakes:** “The current phase of the Rwanda/Burundi operation requires over 23,000 tons of food per month to meet the needs of over 1.4 million refugees and IDPs. The recent heavy flooding in Tanzania and Kenya washed out roads and bridges and interrupted the railways. As a result, only 13,000 tons of food can be delivered per month and the situation may not improve dramatically over the next six months.*

If WFP maintains the current level of presence in the field (staff, sub-offices, infrastructure) despite the above reduced delivery rate, it could over-spend the DSC by 630,000 dollars per month until the situation improves. At the end of the EMOP, WFP may find itself with large carry-over stocks with very little DSC attached, which will lead to an increase in the DSC budget if and when a new EMOP phase is presented.

48. **DSC deficit caused by pledging shortfall.** The DSC budget is prorated on a per-ton basis against the total commodity requirement of an operation. For example, if the commodity requirement is 10,000 tons and the total DSC budget is 500,000 dollars, WFP requests 50 dollars a ton to be paid for DSC. It is common, however, that commodity requirements are not entirely met. When a pledging shortfall occurs, DSC requirements cannot always be adjusted downwards in direct correlation to secured tonnage, as they may seriously affect monitoring and other control functions. The unpredictability of donor pledging patterns is therefore a fundamental problem that WFP faces in resourcing its DSC requirements.
49. **Problem of the “spend as received” practice of DSC.** DSC funding is tied to commodity contributions. The necessary support costs, therefore, are secured only as donor pledges arrive throughout the year. WFP cannot advance DSC funds from the Operational



Reserve to projects and operations prior to receiving confirmation of pledges. This causes a number of problems, as outlined below.

50. For new emergency situations, various operational infrastructure must be put in place before commodities start to arrive (e.g., personnel placed for needs assessment and warehouses leased). While limited IRA funds could be used for this purpose, large sums are required from DSC for capital expenditures at the beginning of an operation. Such start-up costs are difficult to meet unless large contributions are secured immediately following an appeal. To ensure a rapid and effective emergency response, DSC funds to country offices are required upfront.

***Somalia:** “The severe flooding which affected Somalia in early 1998 prompted WFP to launch a new Emergency Operation. Due to the different nature of intervention and new target areas, WFP required substantial additional inputs including support staff for air operations, boats, vehicles and communication equipment to start up the flood-related operation. While WFP Somalia was able to borrow 5,500 tons of commodities from the Great Lakes region, LTSH and DSCs are not provided as part of the loan.”*

51. Contracts of DSC-funded staff are affected by the unpredictable pattern of donor contributions. If contributions are received in a piece-meal fashion, staff contracts can only be extended for a few months at a time. Such a practice not only increases unnecessary administrative costs for WFP, but also creates a serious problem in WFP not being able to retain experienced staff.

***Sudan:** “WFP operations in Sudan have not been able to secure large upfront funding from donors. For this reason, staff funded by DSC suffer a serious contractual continuity problem. At present, over 130 national staff and a number of international staff are extended practically on a month-by-month basis.”*

Assessment: R<F policies in the context of harmonization with other United Nations funds and programmes

52. UNDP, UNFPA and UNICEF are undergoing a process of harmonizing their budget presentation and related matters. Given the widely different mandates and nature of operations, agencies have significant differences in cost recovery mechanisms and in the ways in which they define management, administration, and programme support. WFP is unique in that its programme deliverables are mainly food commodities. Therefore, a comparison with other agencies regarding support cost requirements or their recovery mechanisms may not always be appropriate. Even so, it is important that WFP participates fully in the budget harmonization process of sister agencies as part of the United Nations system-wide initiative. A comparative study of WFP’s resourcing and financing mechanisms with those of UNDP, UNICEF and UNHCR revealed a number of important aspects for WFP to consider in proposing future changes to the R<F policies.
53. In UNDP, UNICEF and UNHCR, management, administration and programme support costs of approved/statutory programmes are financed from the regular (core) contributions and are not based on fees or rates. Only the incremental support costs of special/other



programmes are provided through extra-budgetary sources by means of varying percentage rates, fees or direct charges to projects. The WFP system of recovery is unique in that there are no clear distinctions between regular and other resources and the entire cost recovery system is based on rates or direct charges to individual projects and activities. The comparative study stresses that this practice places WFP in an unstable position in funding its management, administration and programme support costs, as actual amounts recovered inevitably differ from projections.

54. Moreover, WFP's management, administration and programme support costs were found to be lower than those of UNDP, UNICEF and UNHCR when rated against the value of programme delivery. This is true despite the fact that WFP's support cost categories of ISC and DSC include cost items which are defined by other agencies as part of their programme deliveries. While such comparison should not be taken at face value due to the different nature of operations, the study does raise the question as to whether the comparatively low support costs of WFP represent a sign of efficiency or false economies having a negative impact on WFP's programming and administrative capacity.

Recommendation 1.1: Redefinition of Direct Operational Cost (DOC)

55. The current definition of DOC implies a significant understatement of value of what WFP delivers to the projects and operations that it supports; it distorts the overall balance between operational costs and support costs; and means that WFP's cost classification practice is out of line with that of other United Nations agencies.
56. DOC would be redefined to include all project inputs utilized directly in operations/projects by beneficiaries, the government of the recipient country or other implementing partners. The objective of the redefinition is to draw a clear line between project inputs and the support costs required by WFP. The following types of costs would be included in DOC, to be budgeted and recovered at the project level:
- a) Cost of commodities;
 - b) Ocean transportation and related costs;
 - c) LTSH costs; and
 - d) 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 with government registration, computers and audio-visual equipment, and storage facilities;
 - project personnel such as United Nations Volunteers (UNVs) who are 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 other special costs to be identified.

Recommendation 1.2: Recategorization of Direct and Indirect Support Costs (DSC/ISC)

57. The Secretariat presented a set of three proposals on the treatment of DSC and ISC in an “issues and options” paper dated 3 March 1998 (provided as annex 2 to this document as reference) which was discussed in the informal consultation meeting of 11 March 1998. They can be summarized as follows:
- **Option 1:** This option would redistribute the PSA costs among country offices to fund a core staffing and operational structure based on tonnage throughput on a sliding scale. Headquarters and regional office costs would be financed from the PSA funding. The ISC singular rate would remain at around the current average rate.
 - **Option 2:** This option would diminish the PSA costs and could result in a significantly lower single ISC rate. Possibilities within this option are to: a) transfer all CO costs to DSC; b) transfer country and regional office costs to DSC; or c) transfer country and regional office and selective headquarters costs to DSC.
 - **Option 3:** This option would use the ISC to fund a standard minimal CO structure considered essential for a WFP presence, including for management and administration purpose. DSC would fund the *variable or incremental* cost for a WFP country office to support WFP activities in that country, be these of a development or relief nature. ISC would fund the regional office structures and headquarters.
58. The views of the member states and donors in favouring different options were carefully noted. In the meantime, the comparative study of WFP’s resourcing financing mechanisms with those of UNDP, UNICEF and UNHCR became available, shedding new light on the debate on the treatment of DSC and ISC.
59. It is apparent that these agencies have a more secure means of funding the management, administration and programme support costs from regular contributions to core resources: their governing body appropriates the budget. Moreover, their appropriated support cost budgets include a large component of cost items which would only be covered by DSC in the case of WFP.
60. Option 1 would provide the maximum stability of CO support structure and the flexibility in the use of the PSA funds. WFP’s preference for this option would appear to be justifiable considering the reasonably contained support costs of WFP confirmed by the comparative study. The adoption of a cost recovery process similar to those of other agencies (appropriation from core resources) would provide an even more stable funding for WFP’s management, administration and programme support costs; and would support the budget harmonization process among agencies.
61. The Secretariat feels, however, that taking the above cost-categorization option and the support cost recovery mechanism would be retrogressive in the case of WFP. The Secretariat fully recognizes the advantage of associating a significant portion of its support cost expenditures directly to specific operations and projects. This would allow adjustments to support cost expenditures more quickly in relation to the availability of resources as circumstances change. A cost recovery policy and a budgeting process is required which would allow for WFP to expand and contract its capacity as required while not destabilizing its core management, administration and programme support capacity.



62. Option 2 would impair and weaken the existing operational structure and emergency response capacity of WFP to work effectively in emergency and development. Any additional transfer of cost items from ISC to DSC as in proposed option 2 would also have serious financial implications. In an environment of increased directed contributions to specific countries and operations, WFP would need to take a high risk in incurring substantial DSC expenditures when donors may or may not allow their contributions to be used in support of Executive Board approved programmes in that country. A highly complex method and system would need to be developed and applied to charge COs, regional office and headquarters costs to project/operation budgets. Yet, such a cost allocation system may not be a transparent one. For example, the regional office support functions such as co-ordination, resource mobilization, advocacy, technical support, financial and human resource management are not directly related to tonnage or dollar volume of individual projects.
63. The Secretariat, therefore recommends the adoption of a cost categorization model based on Option 3 above. Flexibility would be added to this model by allowing limited support functions at regional offices and headquarters which are clearly attributable to particular projects or operations to be charged to DSC. This would provide a further possibility in containing costs to be funded from ISC.
64. Option 3 would achieve a lower ISC rate while ensuring continuity of a minimal CO structure where WFP considers it strategically important to be present. It would enhance transparency because of its simplicity in defining object of expenditures to be charged to DSC and ISC. It would provide a management tool for managers in both the field and in headquarters to plan and control costs in an effective manner.

Recommendation 1.3: Harmonization of budgeting process

65. WFP will continue to participate actively in the ongoing budget harmonization exercise of other Funds and Programmes of the United Nations system and make future adjustments to R<F policies where appropriate. For example, the current budget harmonization exercise among UNDP, UNFPA and UNICEF uses the terms Management and Administration, and Programme Support (divided by headquarters and field) in categorizing the overall support cost structure, though there are still marked differences among the agencies in the definition of these terms.
66. It is recommended that WFP works towards using the cost category terminology and definitions that are to be agreed upon. In the process, WFP should identify areas where WFP differs most in the use of support costs as compared to other agencies, and consider areas that may require reinforcement.



Recommendation 2.1: Use of a single ISC recovery rate

67. A uniform CO structure funded by ISC in all countries would imply that any other CO support costs specific to WFP activities in the countries would be funded from DSC, be these of a development or relief nature. ISC would be spent on executive management, administration and programme support of a shared nature at headquarters, and regional and country offices. It should be noted that WFP's divisional and staff responsibilities at headquarters or in regional offices, whether in operations, resource management, technical support, evaluation, or finance and administration, are not divided into the categories of development and relief. Furthermore, the 1997 Cost Study revealed that the work efforts at headquarters reasonably reflect the approximate 30/70 share of WFP's work between development and relief.
68. For these reasons, the Secretariat proposes the abolition of differential ISC rates by programme categories under the revised cost categorization approach. A single ISC rate would be calculated by applying the PSA budget to be approved by the Executive Board against the projected value of activities for the biennium, with reconciliation to actual in the subsequent period. This would be in close conformity with the support cost recovery practice used by UNDP, UNICEF and UNHCR. A single rate would decrease the volatility of ISC recovery, as the variations in the proportion of resources provided through the different programme categories would not affect the amount recovered.

Recommendation 2.2

69. It is further recommended that the single ISC rate be fixed for a biennium, but may be revised on an annual basis should the situation so warrant.

Recommendation 3: Working Capital Fund for DSC advance

70. Increased reliance on DSC would introduce a necessity for WFP to make commitments on DSC funds in advance of confirmed contributions from donors. In any given year, a considerable number of WFP international staff are subject to reassignment to different CO posts, often with accompanying families. Such a reassignment plan would be impossible to implement if DSC funds could not be committed prior to confirmation of donor contributions. Neither would it be possible for WFP to suspend international or national staff temporarily each time a DSC funding gap occurs in a particular project or operation.
71. It is proposed that a Working Capital Fund be established to enable WFP to commit and spend DSC funds and to bridge DSC shortfall gaps. DSC funds would be committed to cover essential staffing and associated costs based on approved country programme/project and operations budgets. Funds would be revolved as contributions are secured. The recommended level of this fund would cover approximately six months requirement of the projected DSC requirement for the biennium. It is proposed that interest income and/or unspent programme funds currently available to WFP be utilized to establish the Fund. In the latter case explicit agreement from donors concerned would be sought.



72. Advance commitments made on DSC would be carefully monitored against overall resources likely to be available, so as to avoid a disproportionate level of DSC being expended in relation to project deliveries (DOC).

Recommendation 4: Use of interest income

73. WFP's Financial Regulations 11.2 and 11.3 state that "monies not required immediately may be invested by the Executive Director, bearing in mind the need for safety, liquidity and profitability. Income from investments shall be credited, where applicable, to the relevant special account, and in all other cases to the General Fund as miscellaneous income..."
74. The comparative study reported that the sister agencies utilized the interest income partially, if not fully, to finance programme support and administration (UNDP and UNICEF); or for a Working Capital and Guarantee Fund, adjustment of exchange rate fluctuations, and replenishment of emergency fund (UNHCR).
75. Similar to the practice endorsed by the governing bodies of these sister United Nations agencies, WFP proposes that interest income be utilized for the following purposes:
- a) to fund the Working Capital Fund for DSC, and replenish the Fund in cases where contributions to individual projects and operations did not materialize and where funding gaps occur due to factors such as slippage;
 - b) to fund any possible gap between total ISC recovery and the PSA budget; and
 - c) after balancing the ISC and DSC recovery for a completed financial period, further interest income may be used to reduce the ISC rate for the subsequent period, or fund strategic activities such as FMIP and gender-related initiatives.

Assessment: Compliance with the full-cost recovery principle

76. One of the recommendations of the Formal Working Group approved by the CFA at its Fortieth Session stipulated "that WFP renegotiate with donors those agreements which do not fully conform with the new model in order that the principle of full cost recovery is met by each donor. Recognizing individual donor constraints, the Secretariat should be flexible with donors but fully recover support costs pertaining to the implementation of operations carried out with their contributions;" (CFA 40/15, paragraph 22 n));
77. As agreements with donors expired, WFP negotiated new ones, in line with the new policies. There is a strong commitment by the donor community to the R<F policies. While many donors have invested considerable time and energy to support WFP in the implementation of the policies, some major donors find full compliance difficult. For example:
- One donor contributes from various budgetary sources as legislative constraints prevent "full-cost recovery" from each funding source. Taken together, however, these combined resources made available to WFP fully meet the requirements of full-cost recovery.
 - Some donors are unable to provide the required DSC and ISC components of their contribution at the time of confirmation. This is especially a problem for those additional contributions which are made available at the country office level. WFP has worked with these donors to develop a "pool" of resources, generated from interest from their bilateral contributions or past savings on their contributions. This pool becomes an



“advance” on ISC/DSC which can be allocated to provide the required DSC and ISC for future contributions.

- Other donors have a similar problem in making available the ISC component of their contributions at the same time as the commodity portion. WFP makes an annual estimate of the donors’ ISC costs, and the donors pay this amount in advance. This practice allows these donors to allocate to WFP funds which are not utilized by the end of their budgetary cycle; these funds are then used to cover ISC on contributions as they are made during the course of the following year.
- One donor cannot pay the DSC portion of its pledge as a prorata share because of internal administrative regulations. Nevertheless, that donor is able to pay fixed amounts for certain specific DSC items. WFP identifies and “assigns” these specific DSC items in the operation to that donor up to the value it would otherwise have paid with a flat rate. The donor meets full-cost recovery when there are enough of these kinds of DSC items in the operation being funded. It does, however, cause reporting problems, as special reports are required for DSC, in conflict with the policy on the distribution of DSC.
- The Executive Board considers changes in the ISC rates on an annual basis. One donor has been unable to adapt to this annual change of rates because of the lengthy internal approval process. That donor is thus currently paying the 1996 rates, as it did not make the change-over to the 1997 rates.

Implications for WFP – an example

Tanzania: In the autumn of 1997, WFP appealed for 76,000 tons of food aid, valued at over 32 million dollars. Given the gravity of the situation, the international community’s response was immediate. The two largest donors to this operation, representing 79 percent of the total donor support provided, had very specific requirements regarding how their funds could be allocated to DSC. The first donor could not pay for vehicles and could only provide DSC funds based on actual costs, and thus not upfront. The second donor could only pay for specific DSC items, and only at a fixed rate which did not reflect the true cost to WFP, especially with regard to staff.

WFP was faced with the situation where the tonnage requirements were nearly fully met by two donors that could not provide the specific DSC support required to implement this operation in a timely manner. Food aid monitors had been appointed to implement the operation, yet there were no funds available for the purchase of vehicles to assure the mobility of these monitors, an integral requirement for them to perform their jobs. In order for WFP to meet the operational needs, the DSC component had to be pieced together based upon which specific items donors could fund. This was done, but it created additional work in financial and operational programming.

78. During 1996-97, the Secretariat has followed the recommendation of the Fortieth Session of the CFA to be flexible with donors and recognize individual donor constraints while implementing full-cost recovery. However, the new General Regulations, which came into effect on 1 January 1998, do not provide the Executive Director (or the Executive Board) with the authority to waive full cost recovery other than to accept commodity-only contributions from International Development Association (IDA)-eligible developing countries, provided that the full operational and support costs are provided by



another donor and, in exceptional cases, these costs for commodity-only contributions from IDA-eligible countries are to be met from the WFP Fund (General Regulation XIII.2).

79. There are a number of reasons why this General Regulation might be revisited. The current restriction implies that:
- WFP should not accept contributions from any donor that is unable (or unwilling) to meet full-cost recovery, irrespective of the size of the contribution. This could mean WFP turning away contributions of hundreds of millions of dollars because they were not accompanied by the full DSC and ISC funding;
 - WFP should not accept contributions from countries in transition which may wish to start becoming donors to the Programme but are unable to provide the necessary mix of commodities, operational and support costs, even if the “gap” is small and it is in the interest of the beneficiaries and the Programme to do so; and
 - WFP should not accept contributions from NGOs and private funding sources, which would broaden the base of support for Board-approved activities, even if the “gap” is small and it is in the interest of the beneficiaries and the Programme to do so.

Recommendation 5.1: Compliance with the full-cost recovery principle

80. The issue of compliance with the full-cost recovery principle by economically advanced countries/donors needs to be discussed among Member States and donors to arrive at harmonized positions that can best satisfy the requirements of all concerned.

Recommendation 5.2

81. WFP recommends that General Regulation XIII.2 and the corresponding Financial Regulation be reconsidered to enable the Programme to negotiate contributions from third parties or to use the General Fund to pay the cash requirements of contributions from countries in transition, NGOs or private corporations. Generally, the prescribed rate and related costs would be applicable, except when the Executive Director may consider that it is in the best interest of the Programme to waive them.
82. A schedule showing the list of such contributions, the amount of each contribution and the amount of each waiver would be provided to the Executive Board.

Assessment: In-kind contributions to DSC and ISC activities

83. WFP relief operations have been receiving increasing numbers of in-kind contributions to DSC-type cost items, for example staff and equipment, under the stand-by agreements. These contributions are a critical component of WFP’s rapid response capacity. WFP has also been offered, on an ad hoc basis, contributions of equipment and food from NGOs, other United Nations organizations and private corporations.
84. Such contributions provide WFP with specialized expertise and equipment which would otherwise not be available to the Programme. In many cases, the donors have already met most of the administrative costs associated with their contributions, such as the selection, recruitment and deployment of specialized staff, or in the case of equipment, the tendering and shipment of the required items. It is thus difficult for WFP to justify the systematic charging of ISC on these in-kind contributions.
85. There are also cases where in-kind or cash contributions are provided by donors to the PSA type cost items. It is observed that there is an inherent inconsistency in applying ISC



charges on such contributions which would otherwise have been funded from ISC, and have been included in the PSA budget.

86. In addition, there is the problem that the WFP Information System (WIS) currently has no provision to record contributions of personnel or non-food items provided in kind under the DSC or ISC of any programme category. The Financial Management System (FMS), which is expected to be operational in 2000, is planned to allow the registration of such contributions.

Recommendation 6.1: Application of ISC on in-kind contributions to DSC/ISC

87. The prescribed ISC rate would be applicable to in-kind contributions to the DSC category when there is an overhead cost to WFP for administering such contributions. Otherwise the Executive Director may be authorized to consider that it is in the best interest of the Programme to reduce or waive it. Changes to both the General and Financial Regulations would be required.

Recommendation 6.2

88. In-kind contributions to the ISC category that meet PSA costs would be exempted from ISC charges, provided that donors do not require any special reporting, and that such contributions are untied and do not carry particular conditions.

Assessment: Monitoring of bilateral contributions

89. When the R<F policies were implemented in 1996, WFP assumed that the establishment of the directed multilateral funding window would significantly reduce the demand for bilateral services. Although the demand for these services has decreased, donors are still interested in making use of WFP's bilateral services.

Recommendation 7: Application of ISC on bilateral services

90. WFP will continue to provide bilateral services on a full-cost recovery basis. Given that WFP has been providing not only purchase and transport services, but also monitoring of contributions, ISC rates will be established to cover all three services. The bases for these rates would be as follows:

TABLE 3. BASES FOR CHARGING BILATERAL ISC RATES

Bilateral service provided	Bases
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 commodity procured, transport provided and incremental DSC required**

* The DSC component of bilateral contributions (staffing and temporary office space, for example) would continue to be borne by the donor.



91. In reporting on bilateral services, the current bilateral service financial statements will continue to be provided, with detailed information regarding expenditures of the service. WFP would also provide the following information:

TABLE 4. REPORTING ON BILATERAL SERVICES	
Bilateral services provided	Report content
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

92. Until the cost of this service can be evaluated in the future, the following interim rates would be used:

TABLE 5. 1998 BILATERAL INTERIM RATES	
Bilateral services provided	Rate (percent)*
Purchase	4.0
Transport	4.5
Purchase and transport	4.3
Monitoring	3.0
Transport and monitoring	7.0
Purchase, transport and monitoring	full ISC rate for the programme category concerned

*Combined services to be charged full ISC rate for the programme category concerned or the combined rate of the services provided, whichever is lower.

B) PREDICTABILITY AND FLEXIBILITY OF WFP RESOURCES

Assessment: Coping with unpredictable resources

93. The Secretary-General's report: "Renewing the United Nations: A programme of reform" (A/51/950), points out in paragraph 147 that "the key funds and programmes of the United Nations continue to face stagnation and lack of predictability and reliability in core contributions, accompanied by a significant growth in earmarked resources."
94. The level and receipt time of resources remain largely unpredictable for WFP in the medium to long term. While the four-year Strategic and Financial Plan submitted on a biennial basis to the Board for its guidance and approval provides a better indication of food aid requirements by programme category in the medium term, a large portion of this projection is based on highly unpredictable humanitarian crises and natural disasters. Moreover, the voluntary contributions from donors are announced on an annual basis, or biennial at the most. Also, the existing practice of a pledging target for the International Emergency Food Reserve (IEFR) proved unhelpful in predicting the likely availability of



resources. The decreasing availability of upfront and untied multilateral contributions further compounds the vulnerability of WFP to the overall level and receipt schedule of donor contributions.

95. Some donors have indicated that the R<F policies have encouraged them to continue support to WFP, as a result of enhanced transparency and accountability. However, it would not be possible to isolate R<F policies as a key determining factor for the overall level of resources made available to WFP.
96. Against this background, the R<F policies promoted a more systematic and regular exchange of information between WFP and the donors on resource needs. These included the regular Resources Consultation Meetings, the issuance of the “Yellow Pages” and the “Blue Book”, and the revamped Weekly Emergency Report now distributed electronically. It has been observed that these instruments have improved donors’ awareness of food aid needs and the response times, particularly for relief operations. WFP therefore feels that the R<F policies have had a positive impact on the level and receipt time of resources in the short term.
97. A number of measures were taken to close the large gap between the needs of approved activities and the level of resources that were reasonably likely to be available. For example, WFP has rigorously scaled down the outstanding commitments on ongoing development projects. It has sharpened the methodology for the allocation of available resources in a manner consistent with the Board’s decision to focus on the neediest people. On the emergency front, a new Memorandum of Understanding with UNHCR was negotiated, effective 31 March 1997, with the aim of bringing about more collaborative arrangements for needs assessment and implementation modalities.

Assessment: Impact of R<F policies on untied, upfront contributions and the multilateral resource base of WFP

98. The R<F policies implemented in 1996 introduced the Directed Multilateral funding window, which allows donors to direct their contributions to specific WFP operations or activities. As the directing of contributions occurred also under the previous funding scheme, WFP compared the level of upfront and untied multilateral contributions received in 1995, 1996 and 1997. The statistics by funding window are presented in Table 6. Multilateral contributions which are not upfront and untied are those that are made in response to appeals or are general contributions which have special allocation requirements. Reporting to the Executive Board is sufficient for these contributions. Upfront and untied refers to those contributions that are provided to a programme category or as a general contribution to WFP; and hence are not tied to a particular operation or associated with some other form of conditionality. For upfront and untied contributions, donors accept WFP reporting to the Executive Board and do not require that their contribution be reported separately in the WFP standard (project) report. Directed multilateral contributions are those which are targeted by a donor to a specific WFP operation. Some of these contributions may have been made towards an appeal for funding by WFP. If a donor requires the WFP standard project report to highlight its contribution specifically (in contrast with accepting WFP’s reporting to the Executive Board), such contributions are considered directed multilateral.



TABLE 6. FUNDING RECEIVED BROKEN DOWN BY PROGRAMME CATEGORY AND FUNDING WINDOW (percent)

	1995	1996	1997
Total			
Funding window			
Multilateral	88	36	32
of which upfront and untied	27	26	18
Directed multilateral	NA	62	63
Bilateral	12	2	5
Development			
Funding window			
Multilateral	93	75	65
of which upfront and untied	64	73	50
Directed multilateral	NA	20	31
Bilateral	7	5	4
EMOP/IRA			
Funding window			
Multilateral	79	6	7
of which upfront and untied	6	5	5
Directed multilateral	NA	93	86
Bilateral	21	1	7
PRO			
Funding window			
Multilateral	100	44	44
of which upfront and untied	11	9	5
Directed multilateral	NA	55	56
Bilateral	NA	0.23	1

99. Flexible resources are crucial to WFP's ability to avert pipeline breaks and fund those operations which do not attract special donor attention. Moreover, they enable WFP to transport and deliver the available resources in the most cost-effective way. Maximizing the level of such contributions is therefore very important to the Programme. In 1995 and 1996, the level of upfront and untied contributions remained steady. In 1997, the level of these contributions declined to 18 percent. It is difficult to determine whether the R<F policies, with the introduction of the directed multilateral funding window, have had the effect of reducing the more flexible multilateral resources. At the same time, it should be recognized that the resourcing and financing model developed under the R<F policies does not have an inherent mechanism which would encourage donors to give upfront and untied contributions.
100. Bilateral contributions through the Programme decreased from 12 percent in 1995 to two percent in 1996 and five percent in 1997. It is assumed that most of the former bilateral contributions are now being channeled through the directed multilateral funding window. This shift increased the level of support provided through the combined multilateral and directed multilateral windows from 88 percent of contributions in 1995 to 98 percent in 1996 and 95 percent in 1997.



Recommendations 8.1: Increasing upfront and untied multilateral contributions

101. WFP would seek to expand the share of pledges provided through the multilateral window by making broader-based appeals. Examples include the global requirements outlined in the quarterly donor consultations, and regional operations such as those in the Great Lakes and Liberia. Such appeals could be considered “multilateral” if WFP can programme the resources among that group of operations/countries and “directed multilateral” if the donor wishes to direct its contribution to a specific country/operation.

Recommendations 8.2

102. Directed multilateral contributions are highlighted individually in WFP’s standard project report. In future, the standard reports would also show the donors providing multilateral contributions.

Recommendations 8.3

103. WFP has little influence on whether donors provide upfront and untied multilateral contributions. WFP would continue a dialogue with the Member States and donors on the possibility of finding more effective instruments to promote such contributions.

Assessment: Use of the Immediate Response Account (IRA)

104. The Immediate Response Account (IRA) was modified to serve as both a revolving and replenishable fund and the target level increased to 35 million dollars to include non-food costs, with insurance recoveries and interest earned on bilateral contributions going to the IRA with the agreement of donors concerned. The new target level set under the R<F policies was met for the 1996-97 biennium when taking into consideration the carry-over and revolved funds from the previous year. However, the target of 30 million dollars and later of 35 million dollars, when defined as new contributions in a single year, has never been reached. New contributions, in fact, show a declining trend over the period 1995 to 1997.

TABLE 7: ANNUAL LEVEL OF THE IRA (in million dollars)

	1995	1996	1997
New contributions	19.6	19.3	17.5
Allocations	9.9	19.1	19.3
Revolved funds	0.4	5.6	0.8
Year-end balance	10.1	15.9	14.9

105. Funds utilized from the IRA are to be recycled back into the IRA once the operation is resourced through other contributions. However, the IRA allocation becomes final in case of under-funding of an operation. Given limited new contributions to the IRA, WFP has been cautious to deplete the account, maintaining a conservative (high) balance at any given point.

106. The total multilateral contributions for emergency operations which WFP could use to respond directly to crises (i.e., without recourse to an appeal mechanism) is limited. In 1996 and 1997, it amounted to only six percent and seven percent, respectively, of overall



funds contributed to emergencies. There remains a strong trend among donors to respond directly to emergency appeals associated with specific operations.

107. The use of the IRA is currently limited to the initial three months of any new emergency operation (EMOP). There are situations where donations are not forthcoming as expected or where the number of beneficiaries suddenly increased as a result of a new population displacement, thus causing a break in the supply of food in an ongoing operation, whether a PRO or an EMOP. This can lead to life-threatening situations similar to any new emergency, where the ability of WFP to act quickly is severely limited due to a lack of untied resources.

***Afghanistan:** In 1996 the food supplies to the Bamyán area of Afghanistan were interrupted by the ongoing civil strife. While WFP had the food required to feed the displaced persons it was no longer possible to transport it overland to the area. There were only two options available to avoid a mass starvation among the population, either an airlift or local purchase of potatoes. The Afghanistan PRO did not have either budget or funds that could be used immediately for these purposes. Some donors did respond to a WFP appeal for funds, but WFP could have acted more quickly if IRA funds could have been accessed.*

Recommendation 9.1: Flexibility in the use of IRA

108. It is proposed that the use of the IRA be expanded to cover the food requirements, logistics and other non-food costs in ongoing EMOPs and PROs when there is a sharp change in operational circumstances, until additional donor contributions can be mobilized. For transparency, those uses would be reported annually to the Executive Board.

Recommendation 9.2

109. In order to facilitate the expanded use, it is proposed that the IRA be replenished with unspent balances of contributions to operations that are either terminated or no longer require the resources. The transfers will take place only with the explicit agreement of the donors concerned.

Assessment: Use of directed contributions

110. The multiple direction of contributions by donors results in severe downsizing of shipments, leading to a loss of economies of scale and a corresponding increase in freight costs. For example, one donor contributed 50,000 tons of food commodities which, at the donor's request, was divided among nine projects in different countries. Eight out of the nine shipments were so small that they resulted in higher shipping costs.
111. Many of the directed contributions have very specific conditions regarding their use, e.g., commodities and quantities to be purchased. Or else WFP is required to spend a significant amount of time negotiating how an individual contribution is to be used. Particularly in relief operations, commodity requirements could change rapidly due to changes in beneficiary numbers or as a result of over-resourcing of one commodity type within the prescribed food basket. Owing to the time lag from such negotiations, WFP often faces a situation where the contribution as agreed upon with the donor no longer corresponds to the most urgent operational requirements.



112. WFP strives to run operations as economically as possible, particularly in areas such as shipping and logistics. Savings realized could be substantial due to the sheer quantities of deliveries that WFP handles. However, because of increased directing of contributions, savings cannot be easily reprogrammed for other countries or operations which may be in desperate need of funding. This could result in substantial funds remaining unutilized or excessive staff time spent on negotiating the redirection of funds. Increased WFP efficiency and effectiveness in using available resources can therefore only be achieved if donor contributions are more flexible.

Recommendation 10.1: Flexible use of directed contributions

113. While the model accommodates the splitting of donations through the directed multilateral funding window, donors are encouraged to keep each contribution to a specific operation at a size that facilitates the cost-efficient management of resources.

Recommendation 10.2

114. Donors are encouraged to allow for a more flexible use of their contributions by giving WFP the authority to decide on the use of their donation with respect to commodities and quantities.

Recommendation 10.3

115. WFP should actively negotiate the re-directing of savings to different operations, and donors are encouraged to accept such re-directing of contributions more flexibly.

Assessment: Conditions set by donors in the field

116. Under the R<F policies, it was envisaged that directed multilateral contributions would be treated in the same manner as those provided through the multilateral window once they reached the designated country or operation. However, the country office/bureaux questionnaire conducted by the R<F review revealed that there are often additional donor conditions imposed on country offices from the directed multilateral contributions.

China: “...directed multilateral contributions are restricted for use in specific provinces supported bilaterally by Donor X”.

Angola: “A donor made a contribution to a special operation and decided on the implementing partners, the projects and the amount to be paid to the partners”.

Iraq: “Resources to meet the needs of target beneficiaries in North Iraq (Kurdistan) are either subscribed in full or oversubscribed whilst the centre/south struggles to meet its needs. We are unable to divert resources even on a temporary basis. We are, therefore, perceived as providing assistance on a preferential basis”.

Cambodia: “Donor X wanted all food distribution by a local NGO supported by Donor X”.

Azerbaijan: “Donor Y requested us to distribute the contribution directly (through WFP/sub-office) to 7,500 IDPs in 10 southern districts and six Donor Z-supported settlements”.



117. Seventy percent of the responses to the questionnaire indicated that WFP experienced at least one of the following types of donor conditions or special requirements at the field level (in order of frequency):

- Targeting to special groups of beneficiaries (22)
- Contribution-specific reporting (20)
- Special marking on bags, and other actions related to donor visibility (15)
- Special monitoring/implementing partners imposed (15)

Recommendation 11: Reducing conditions set by donors in the field

118. WFP will continue to accommodate special donor requirements as much as possible. However, such special donor requirements set in the field must conform to the basic plans of the WFP project/operation; must not carry adverse cost and efficiency implications; and reporting must confirm to WFP standard reports to donors. Examples may be:

- the donor-designated beneficiary community should be within WFP's targeted beneficiary group, as generally agreed in the operational plan;
- preferential treatment of any beneficiary community should be avoided;
- the activities to be undertaken using food aid should fall within the technical and monitoring capacity available within the operation;
- the designated partners (e.g., NGOs) should be selected on the basis of their capacity to undertake the required work and their operational modality should comply with WFP's operational modality agreed upon with other partners (i.e., food rations, work norms, payments, etc.); and
- donor requirements should not impose a particular logistical burden to WFP country offices that would affect overall efficiency.

C) MANAGEMENT POLICY, FINANCIAL CONTROLS AND SYSTEMS

Assessment: Changes to programme management practices

119. The R<F policies lie at the hub of WFP's overall management policy. The level of WFP activities worldwide is increasingly determined by the availability of scarce donor resources, forcing WFP to prioritize its work even more. The R<F policies established a clear linkage between the overall level of resources, disaggregated by programme category, that were likely to be available to WFP and the financing of the associated support costs, both direct and indirect. This clarity has helped WFP to plan and manage its resources at both the corporate and project level.

120. Prior to the R<F policies, project budgeting system did not include all direct operational and support costs. A more comprehensive project budgeting system is now in place, requiring project managers to estimate the full requirements of a project in significant detail. A system of project allotments is operational to enable country offices to know how much they are authorized to expend for a particular component (e.g., transport and direct support costs) of each of the projects they administer. The questionnaire issued



to the country offices and regional bureaux revealed that the top two answers on the most positive impact of the R<F policies were:

- project budgeting concept; and
- clearer presentation of cash requirements in project/operations budgets.

121. The establishment of regional offices, which started in 1997, and the decentralized business process which followed are expected to enhance further the authority and accountability of WFP decision-makers in the field.

Assessment: Financial controls on assets, cash flow and expenditures

122. Prior to the shift in the balance of WFP's work towards emergency operations, field expenditures were more limited to PSA costs incurred by the country offices, and relatively limited development project expenditures for non-food items and food procured locally. The expenditures were processed locally by the UNDP field office and recorded in WFP's accounting system using the Inter-Office Voucher (IOV) system.

123. As WFP's involvement in emergency operations grew, the UNDP office was unable—or at times not represented in those countries—to handle the substantial local payments involved in paying short-term staff, transport, communications, equipment and supplies required for a large emergency-oriented operational infrastructure. Ad hoc arrangements had to be implemented, including a system for giving authority to make payments which was dependent on transferring large cash amounts to local bank accounts in these countries. This created difficulties in the control of expenditures, and in the timely and systematic transfer to the WFP central accounting system of information on payments made by country offices. At the same time, there was no adequate system or an existing practice at headquarters to provide country offices with updated financial status reports, timely budgetary authority, information on donor contributions, and other information essential for the execution of emergency operations.

124. Improved practices in this area are already providing more accurate and timely information to both managers and donors. These include:

- processing of country office information has improved with the ability to record it in financial systems usually within 30 days from receipt of the information;
- the handling of cash has been centralized, clear procedures are now in place for opening bank accounts, the use of cash as a budget tool has been discontinued and the use of zero-balance bank accounts has greatly improved the efficiency of getting the necessary cash to the field without the need to hold large cash balances in-country;
- the responsibility for recording contributions and movements of commodities has been streamlined, is now available on a current basis within WIS, and is accessible to headquarters users of various Divisions;
- a standardized reporting on a project basis utilizing current financial information has been introduced in order to reduce the labour-intensive and administratively costly practice of customized reporting for individual donors. The reporting format has been designed in consultation with donor representatives to ensure that it meets their requirements. The reporting covers all projects receiving directed multilateral contributions, and will eventually expand to cover all projects; and



- Asset Inventory Package—a software to provide accurate and timely information covering WFP’s fixed assets worldwide—was developed and installed in 1997, although it requires further modifications.

Assessment: Changes to financial and information systems

125. The implementation of the R<F policies has necessitated a complex undertaking in enhancing and/or changing WFP’s financial and information systems. Modifications to the WFP Information Systems (WIS) became necessary to process information according to the programme categories, funding windows and cost components. Enhancements were further required to handle the improved reporting systems and the introduction of the new LTSH model. WIS will ultimately be replaced by the new Financial Management System (FMS) and other FMIP systems in 2000. Other relevant systems under development by FMIP include the Resource Mobilization System (RMS), Country Office Connectivity Project, Commodity Tracking System, Procurement Management System, Logistics Management System and the Human Resources System. These systems, once fully implemented, would provide timely and accurate information flow between headquarters and the field in the various key business areas of WFP. However, funding required by FMIP to develop all of the above systems has not yet been fully met.



Annex 1

A COMPARATIVE STUDY OF WFP'S RESOURCING AND FINANCING MECHANISMS WITH THOSE OF UNDP, UNICEF AND UNHCR

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3 April 1998**



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I. INTRODUCTION

1. The WFP requested that I undertake a comparison study of WFP's Resource and Long-term Financing mechanisms with those of UNDP, UNICEF and UNHCR.
2. The study refers to the problems of resourcing and financing of the United Nations voluntary funded programmes, analyses the different programme and administrative cost recovery policies, the policies pertaining to interest earned and the different reserves established. The study also highlights the significant progress made in the harmonization of budget presentation. A word of caution about the comparative study. WFP is a fairly unique programme with its work with food aid and how it deals with income and expenditures. Therefore, references to studies of other funds may not be simple or always appropriate.
3. In carrying out this review, I was provided with ample documentation which was supplemented with oral information and views by a number of officials in UNDP, UNICEF and UNHCR. I would like to express my gratitude to all the officials interviewed, for their patience and from whom I invariably received full cooperation.

II. OVERVIEW

4. The subject of the resource and long-term financing has been at the forefront of topics being discussed by all organizations. The Secretary-General in his report "Renewing the United Nations: a Programme of Reform" (A/51/950) emphasizes in paragraph 147 that in spite of growing demand for United Nations development support "*the key funds and programmes of the United Nations continue to face stagnation and lack of predictability and reliability in core contributions, accompanied by a significant growth in earmarked contributions*". This reduction in "core" contributions is having a negative impact on the smooth and effective functioning of the programmes, as well as the financing of the administrative and programme support costs. The financing of administrative and programme support costs is complicated further by the conditions mandated by the legislation of some donors, attached to earmarked contributions, prohibiting the funding of overhead costs.
5. United Nations Funds and Programmes, differing widely in their mandates and nature of operations, have a variety of mechanisms and rates for the recovery of administrative and programme support costs. The recovery of administrative and programme support costs incurred on special/other programmes has been studied in depth by all the agencies over the years, and numerous methods to recover the costs have been considered. However, in spite of all these efforts, the problem still remains and the agencies are experiencing difficulties to recover the costs incurred.
6. All the organizations are experiencing a decline in "core" contributions, as a result, core functions, (which include administrative and programme support) which are essential for effective management are not adequately funded. Administrative and Programme Support costs comprise "fixed" costs which do not vary significantly with the size of the programme and 'variable' costs which bear a direct relationship to the size of the programme. "Fixed" costs, which could be determined with a reasonable degree of accuracy, are presently approved and funded from the approved "core" resources. With



declining “core” resources, these expenses appear out of proportion, if however, “fixed” expenses are compared with “total” resources they would appear reasonable. “Variable” expenses that are incurred because of the programme should be charged to the respective programmes/budgets. Donors, in general, would favour a simple, sound and accountable overhead recovery system, and would have no problem accepting reasonable administrative and support costs that are identified and charged to the programme.

7. The Administrator of UNDP, the Executive Director of UNFPA and the Executive Director of UNICEF are harmonizing their budget presentation in order to provide donors with budget information that is transparent and comparable. They have agreed on a common format for the presentation of their biennial budgets, common terms and definitions relating thereto and on a common methodology for the preparation of budget estimates. They also expressed their determination to ensure that a harmonized approach to their biennial budgets will continue, and have committed themselves to introducing changes only after agreement has been reached among them. WFP has also made effort in this regard in the presentation of its 1998-1999 PSA Budget. UNHCR is also associated with this process.
8. *Harmonization, however, will not solve the problem of funding administrative costs incurred in the implementation of “other” programmes. Organizations need an assured and reliable source of financing to provide for the basic functions which are essential to enable them to fulfill their mandates.*
9. I would like to take this opportunity to mention that the New York University, Center for International Cooperation, prepared a comprehensive paper for the meeting on “Resources for Humanitarian assistance” which was held on September 11-12, 1997 at the Pocantico Conference Center of the Rockefeller Brothers foundation. There was broad attendance from the humanitarian community, several donor governments, NGOs and the United Nations family, including WFP. The paper briefly analyzes the overall financial situation facing the humanitarian enterprise; examines the ways in which patterns of funding, as well as gross amounts, affect the delivery assistance; and identifies several options which could strengthen the capacity and performance of the humanitarian system, including investment in preparedness measures and in staff recruitment and training.
10. As a follow-up to the recommendations that emerged over the course of the meeting, the Center is preparing a work-plan for the next phase of its work. The plan will seek, among other things, to develop strategies to ensure that the core competencies of humanitarian provider agencies are maintained and that the resources are available for an effective response to humanitarian crisis. The Center will work with four designated agencies, including the United Nations High Commissioner for Refugees as case studies, to examine the cost implications of different cash-flow and budgetary scenarios. Since fund raising is extremely important to WFP, and that many of the issues that will be studied by the Center are of interest to WFP, it may wish to get in touch with the Center so that its views may be taken into consideration, when conclusions are being arrived at.



III. RESOURCE FINANCING

11. The subject of resource and long-term financing has been in the forefront of topics being discussed by all organizations. The Secretary-General in his report “Renewing the United Nations: a Programme of Reform” refers to the lack of predictability and reliability in core contributions, which provide the necessary resources to provide programme and headquarters management and administrative costs. He also states that reliance on voluntary contributions alone was no longer feasible and suggested a blend of assessed, negotiated and voluntary contributions. The Secretary-General recommended to Member States; *“that a new system of core resources consisting of voluntary contributions and negotiated pledges, appropriated in multi-year tranches, should be established”*.
12. The report of the UNDG Support group “Funding United Nations Development Operations” states *“Resources for development need to be restored as rapidly as possible and made more predictable to preserve the intensity of their operations. Core resources remain the basis for the mobilization of all other funds and their unpredictability has presented perhaps the most serious challenge to the smooth and effective functioning of development operations. Financing of UN funds and programmes is currently based on voluntary pledges on an annual basis. It would be preferable if core resources could be made available in multi instead of one year tranches. These contributions would be based on programme targets established for the period. Contributions would be based on the principle of burden sharing among Member States. Burden sharing terms will need to be worked out among Member States.”*
13. Under the current funding arrangements, individual donors determine the level of their contributions to the organization’s core resources, therefore donors have an important role to play in announcing their pledges and scheduling payments in such a way as to ensure that their payments are accessible to the organization in a predictable and timely manner. It is essential that the United Nations and the donors take into account the capacity and willingness of donors to contribute in order to be as realistic as possible when resources are being mobilized.
14. It would be pertinent to emphasize to donors that the lack of secure funding will affect in the long run an organization’s capacity to respond to emergencies at short notice. Therefore, not only is there a need for a substantial increase in resources for operational activities, but that these resources must be made on a predictable and assured basis.
15. One of the problems confronting UNDP and to a lesser extent UNHCR and UNICEF is the significant decline in core resources. UNDP core resources declined from \$1,074 in 1992 to \$844 in 1996, when non-core resources increased from \$378 million in 1992 to \$1,295 million in 1996. Nevertheless, the Administrator reaffirmed that the primary objective of UNDP resource mobilization efforts is to ensure a more predictable, continuous and assured basis for core resources.
16. The following table shows the significant regular (core) contributions and increase in other (non-core) contributions for the various organizations during the current and previous biennia. In the case of WFP, there is no clear distinction of core and non-core contributions.



MAJOR UN VOLUNTARY AGENCIES COMPARISON OF REGULAR (CORE) AND OTHER (NON CORE) PROGRAMMES As budgeted in millions of US Dollars						
	1996-97	1996-97	1996-97	1998-99	1998-99	1998-99
	Regular	Other	TOTAL	Regular	Other	TOTAL
UNDP	1 872.2	1 914.1	3 786.3	1 772.4	2 155.8	3 928.2
UNICEF	1 242.2	1 201.2	2 443.4	1 225.0	1 149.0	2 374.0
UNHCR	476.6*	779.4*	1 256.0*	463.0**	611.7**	1 074.7**
	*1997 only			**1998 only		

IV. RESOURCE MOBILIZATION

17. The pledging mechanism was a desirable forum for many governments to state publicly their financial commitment to the voluntary funded United Nations funds and programmes. In recent years the usefulness of this practice has declined. The number of pledges not being honoured is increasing and major donors are not prepared to make public commitments of funds which will be available in the following year. Thus it is becoming very difficult for Organizations to rely on voluntary contributions for the implementation of their programmes. Further, voluntary contributions have a lower priority than compulsory contributions therefore, when national development cooperation budgets are cut, voluntary contributions are reduced.
18. Not only have resources for development declined, but conditions are being increasingly placed on their use. More and more, voluntary contributions are "restricted" and several donors request specific reports as well as the right to audit. These demands increase the administrative workload of the organizations.
19. **WFP** -is funded by contributions in both food and in cash. It does not receive an assessed contribution. Currently, WFP uses a number of different approaches for raising resources, including the Biennial Pledging Conference and the International Emergency Food Reserve (IEFR) contribution process, consolidated appeals under the auspices of the Emergency Relief Coordinator, and individual WFP appeals for particular operations. This collection of various appeals has evolved over time, and moved from a primarily development focus to an emergency focus. This has occasionally resulted in confusion for both donors and WFP.
20. **UNDP** - resource mobilization is a broad term that refers to securing funds for UNDP's administration and programmes either as core budgetary resources or as non-core. Non-core resources may be in the form of cost-sharing, trust funds, or cash counterpart contributions. The primary objective of UNDP resource mobilization efforts (which is the same in other organizations) is to ensure a more predictable, continuous and assured basis for core resources.
21. **UNICEF** - has a relatively distinct and unique approach to resource mobilization. While the bulk of its funding (64%) comes from voluntary contributions of governments and



inter-governmental organizations, it also makes use of a diversity of channels to mobilize resources from a broad base of private supporters. Nearly one third of UNICEF funding currently comes from private sources, largely through the efforts of National Committees in thirty seven industrialized countries. UNICEF's funding falls into three fundamental categories: general resources, regular supplementary funding and emergency supplementary funding.

22. **UNHCR** - activities are divided between General Programmes, Special Programmes, and a small amount (approximately two percent of UNHCR's budget) from the Regular Budget of the United Nations. The activities under General Programmes are made up of the Annual Programme, the Voluntary Repatriation Fund and the Emergency Fund; and are funded through contributions to the General Fund. Special Programmes are funded by range of distinct trust funds, each operating according to its own funding dynamic. In the 1980s, UNHCR's statutory activities (refugee protection, assistance, emergency response and the search for durable solutions) were, by and large, funded under the Office's General Programmes. With the explosion of the refugee crises in the 1980s and the tripling of UNHCR's budget, many statutory activities are now also covered under Special Programmes.

V. HARMONIZATION OF BUDGETS

23. UNDP, UNFPA and UNICEF (the WFP and UNHCR are also committed) are in the process of harmonizing their budgets and have agreed on a common classification of activities among Programmes, Programme Support and Management and Administration (DP/1997/2 and E/ICEF/1997/L.3), with due regard to the differences that exist because of the unique nature and requirements of each organization.
24. The Biennial Support budget approved in the harmonization of budgets, includes the Resource Plan which comprises three sections:
- a) Resources available - The total resources are divided into two major groups: Regular resources and Other resources. Resources required for support activities are appropriated by the Executive Boards following their own reviews and those of ACABQ. The different natures and prevailing circumstances of the organizations necessitate different treatment for those resources, (DP/1997/21 Add 1) It is the treatment of these resources that constitutes the primary focus of the harmonization exercise. With regard to Other resources, the receipt of funds is governed by the respective Financial Regulations and Rules, which are modeled on those of the United Nations. As in the case of the General Assembly, the Executive Boards do not approve the use of these resources, however information is provided, in order to enable them to evaluate the full spectrum of activities undertaken by the organization.
 - b) Use of resources - this section provides a comprehensive picture of the totality of resources and their use for purposes of Programmes, Programme Support and Management and Administration of the organization. Programme support is sub-divided between headquarters and field activities.
 - c) Reconciliation - between estimates included under the use of resources and estimates covered by the Biennial Support budget



25. There are significant differences which still have to be resolved for instance, while the budgets of UNDP and UNFPA can be compared to each other, they can be compared to the UNICEF budget only in respect of headquarters activities, since neither UNDP nor UNFPA have regional offices comparable to those of UNICEF. Further, the definitions of Administrative Support and Programme Delivery Costs used by the various agencies, are significantly different. UNDP includes under “core” activities components that UNICEF classifies as Programme Support. Further, the definitions used by UNHCR and those used by UNICEF, UNDP and WFP of Administrative Support and Programme Delivery costs are not the same. In fact they could be significantly different. At UNHCR, the principal statutory activities of international refugee protection, field monitoring and coordination and public awareness, which are in fact essential operational responsibilities, are covered under what is called “Programme Delivery”. If UNHCR were to adopt definitions similar to other agencies, the bulk of current field delivery costs would become Programme costs. As a result, the percentage of total costs for both Management and Administration, and Programme Support would become lower than that of both Programme Delivery and Administrative support, as currently defined. UNHCR is currently reviewing the definitions for Programme Delivery and Administrative Support, taking into consideration the change in trends of UNHCR activities. This review will take into account moves by other United Nations agencies to harmonize their budget structures.
26. *Therefore, until the criteria used for classifying expenditures as administrative, programme delivery and operational has been resolved, and the definitions used for programme support costs and programme expenditures have been agreed upon by the various organizations, it will be very difficult to make an accurate and sound comparison of costs. UNDP, UNFPA and UNICEF have expressed their determination to ensure that a harmonized approach to their biennial budgets will continue, and have committed themselves to introducing changes only after agreement has been reached among them. It is essential, therefore, that WFP participate in the process to the maximum extent possible, and avoid taking unilateral action to implement definitions of indirect and direct costs without taking into account the approaches used by the other organizations.*
27. Organizations go into great detail defining indirect and direct costs, which is important, and donors are interested in that breakdown. However, a more important issue is the fact that certain expenses are “fixed”, and some expenses are variable. Indirect costs are either "fixed" or "variable" in nature. Fixed costs are defined as those costs which must be incurred *irrespective* of the changes in the category or size of the programme over the budget period. Variable costs are those that vary with increases and decreases in the size of the project/operation. This aspect is not taken into consideration by any of the organizations in computing programme support and administrative costs or in their funding strategy. Since fixed expenses are constant and can be determined with a relatively high degree of accuracy over a given budget period, they could be approved and funded through regular “core” programmes.

VI. ADMINISTRATIVE AND PROGRAMME SUPPORT COSTS - RECOVERY POLICY

28. The activities of the UNDP, UNICEF and UNHCR which are funded through voluntary contributions, comprise a) statutory activities (general/core/regular) and b) other activities (special/emergency/trust fund etc.), With the exception of UNHCR which receives \$23 million (approximately two percent of budget) from the United Nations as a contribution



towards its administrative costs, these organizations rely on the contributions made to their core/regular fund to finance their headquarters' administrative, country office costs etc. The procedures followed by these organizations for the submission and approval of the "core" budget, which includes the administrative costs of the regular/development programmes, are very similar. The administration prepares the budget and submits it to the Executive Committee/Board for approval. UNDP, UNHCR and UNICEF regular programme resources are available to support other programmes. Recovery would take place on the basis of an assessment of additional costs over and above what is provided for through the core budget.

29. In UNDP, UNICEF and UNHCR administrative and programme support costs of approved/statutory programmes are financed from the "core" contributions. Only the incremental administrative and programme support costs of special/other programmes must be provided through other/extra-budgetary sources. The issue of funding the additional administrative and programme support costs incurred on programmes funded through earmarked/directed contributions has been under review and discussion by virtually all governing bodies, since they were authorized to accept contributions other than those required to fund their regular "approved" programmes. With declining core contributions, the ratio between administrative and programme costs has become critical. In spite of all the efforts made, core resources declined and still remain dependent on a limited number of donors.
30. Unlike the other organizations, all of WFP's management and administration and programme support costs are financed through the recovery against programmes through charges to individual project budgets. This arrangements which has served an important purpose in enabling WFP to achieve full cost recovery, nevertheless has inherent problems beyond the control of the administration as actual amounts received inevitably differ from projections. This instability of recovering funds already spent is not conducive to proper management and will result in inefficiencies which could be avoided with proper funding.
31. As a result of the uncertain funding of much of fixed costs of management and administration and programme support, including programme support costs currently classified as direct support costs, WFP has been reduced to the bare minimum which has had an effect on its ability to implement programmes economically, effectively and efficiently. An example would be the high administrative costs of the constant renewal of short term staff contracts which WFP is obliged to implement because of the funding arrangements. This has an effect not only on staff morale but also on the effectiveness of programme implementation and readiness to respond to emergencies.
32. As will be noted from the table below the percentage of regular programme support and management and administrative support costs of WFP are significantly lower than those of UNDP, UNICEF and UNHCR. This should raise questions both for WFP management and members as to whether these are false economies which are having a negative impact on the Programme's ability to deliver its mandated services.



**MAJOR UNITED NATIONS VOLUNTARY ORGANIZATIONS
COMPARISON OF PROGRAMME AND ADMINISTRATIVE SUPPORT
BASED UPON 1998-1999 TOTAL BUDGETED COSTS**

	UNDP (note 3)	%	UNICEF (note 4)	%	UNHCR (note 5)	%	WFP (note 6)	%
Management and Administration (note 8)	127.5	3.3%	164.0	8.5%	104.7	9.7%	96.7	3.9%
Programme support at Headquarters (note 1)	290.6	7.4%	71.7	3.7%	40.0	3.7%	42.0	1.7%
Programme support in the Field (note 7)	<u>269.8</u>	<u>6.9%</u>	<u>267.6</u>	<u>13.9%</u>	<u>203.7</u>	<u>19.0%</u>	<u>258.1</u>	<u>10.4%</u>
Total Management and Support	687.9	17.5%	503.3	26.1%	348.4 (note 7)	32.4% (note 7)	396.8	15.9%
Programme Delivery (note 2)	<u>3240.3</u>	<u>82.5%</u>	<u>1425.6</u>	<u>73.9%</u>	<u>726.3</u>	<u>67.6%</u>	<u>2094.2</u>	<u>84.1%</u>
Total Budget	3928.2	100%	1928.9	100%	1074.7	100%	2491.0	100%

NOTE 1 - UNDP PROGRAMME SUPPORT AT HEADQUARTERS INCLUDES SERVICES PROVIDED BY OTHER UN AGENCIES TOTALING \$199.9 MILLION

NOTE 2 - UNDP PROGRAMME DELIVERY INCLUDES SUPPORT TO OUNS, RESIDENT COORDINATORS, UNV AND IAPSO

NOTE 3 - UNDP INFORMATION FROM BUDGET ESTIMATES FOR THE BIENNIUM 1998-1999 (DP/1997/23 PAGE 18)

NOTE 4 - UNICEF INFORMATION FROM BIENNIAL SUPPORT BUDGET FOR 1998-1999 (E/ICEF/1998/AB/L.1 TABLE 3, PAGE 17)

NOTE 5 - (FIGURES ARE FOR 1998 ONLY) - UNHCR INFORMATION FROM OVERVIEW OF UNHCR ACTIVITIES 1996-1998 A/AC.96/884 TABLES II.1, PAGE 28 AND II.19, PAGE 52

NOTE 6 - WFP INFORMATION FROM WFP BUDGET 1998-99 WFP/EB.3/97/4-A, TABLE 14, PAGE 23; TABLE 7, PAGE 17, AND TABLE 1, PAGE 3

NOTE 7 - UNHCR PROGRAMME SUPPORT IS ENTITLED PROGRAMME DELIVERY AND COVERS STATUTORY, OPERATIONAL COSTS OF INTERNATIONAL REFUGEE PROTECTION, FIELD MONITORING AND CO-ORDINATION AND SUCH ACTIVITIES AS RAISING PUBLIC AWARENESS ON REFUGEE AND ASYLUM ISSUES.

NOTE 8 - WFP MANAGEMENT AND ADMINISTRATION INCLUDES FMIP DIRECT SUPPORT COSTS OF 17.2 MILLION

33. This major difference in the total resources devoted to programme support and management is also impacted by fundamental differences in the way in which costs are recovered from non core activities. All UN organizations must provide administrative and programme support services to implement the special/other "non-core" operations. However since the Organizations cannot use regular funds, various mechanisms and rates, depending on the Organization's mandate and nature of operations, were developed to



recover in full the additional administrative and programme support costs. It should be noted that UNDP, UNICEF and UNHCR can use their regular “core” management capacity to support other “non-core” activities, therefore their cost recovery is based on an assessment of additional costs over and above what is provided for through the core budget. WFP system of recovery is unique in that it provides total recovery based on percentages from all operational activities and does not have a clear distinction between regular and other resources. This arrangement, as mentioned, invariably results in variances between projected and actual resources available to finance management and programme support.

34. Any recovery arrangement must a) be acceptable to donors, b) should not reduce fund raising capacity, c) ensure that all costs are recovered, and d) take into consideration the rules/legislation of certain donors that prohibit the payment of a general overhead charge intended, even in part, to pay for headquarters costs.

VII. RECOVERY OF SUPPORT COSTS FROM OTHER “NON CORE” ACTIVITIES

WFP Cost Recovery

35. The Committee on Food Aid Policies and Programmes (CFA) established procedures for financing direct and indirect support costs incurred by WFP in connection with the operation of its various programmes (CFA 40/5). These procedures were based upon the principle of full-cost recovery and apply to all programme categories undertaken by WFP. Presently each project and operation has a budgetary provision for the direct support costs required for the implementation of the project/operation, and the indirect cost incurred by WFP. It is important that the distinction between direct and indirect support costs be as clear as possible. The easiest way to ensure that a consistent approach is used for financing costs as direct and indirect would be to define all services which are not related exclusively to one project as indirect and provide PSA funding.
36. WFP currently includes in its PSA indirect costs a number of functions which could be charged as direct support services to projects and certain non food items are financed from direct support cost charges. Therefore it should follow that the WFP indirect costs would be higher than those of Agencies which charge those same expenses to programme. However, as noted in Table 2 above this is not the case. This obviously suggests that further study is necessary and that harmonization with other UN organizations may clarify this anomaly.
37. The rates of recovery for indirect support services provided by WFP were computed on the same basis as the previous cost measurement study. They were developed by dividing the total actual current year’s expenditure and the following year’s budgeted cost of indirect support services financed by the Programme Support and Administration Budget by the actual direct operational and direct support cost expenditures in the current year plus the projected operational expenditures for the following year.

UNDP - Cost Recovery

38. UNDP provides a wide range of programme support and/or management support to activities that are not financed from UNDP’s Regular Resources. Arrangements are in place to ensure that UNDP is reimbursed for the costs associated with providing such support. Specific approaches and arrangements vary depending on the nature of the support



and the programme to which it relates. With regard to the financing of support cost relating to cost-sharing and trust fund activities, a general distinction is made between:

- a) administrative and operational costs that are directly associated with the implementation of the projects and programmes themselves (Agency Support Costs);
 - b) Government Counterpart Costs, also in connection with National Execution, which are borne by the programme countries themselves; and
 - c) the additional costs to UNDP associated with the general administration of contributions and related programme activities (country offices, regional bureaux and headquarters' central services).
39. The Administrator establishes the appropriate methodology for determining additional requirements and for setting and negotiating fees. The methodology must be fair, equitable and have an element of stability and predictability. Any approach must be flexible enough to take into consideration the variety of UNDP operations. Since UNDP core intellectual and management capacity can be made available to support other "non-core" activities, cost recovery would take place on the basis of an assessment of additional costs over and above what is provided for through the core budget

UNICEF - Cost recovery

40. UNICEF recognizes that some of the costs associated with the implementation and delivery of supplementary-funded programmes, both at headquarters and the field, are covered by the overall administrative and programme support budget funded from General Resources. The 6% recovery on certain supplementary funds was not adequate, even if extended to donors exempted from the charge, to cover all associated overhead costs both at headquarters and the field.
41. A detailed analysis (E/ICEF/1994/AB/L2) of possible alternatives concluded that a single administrative and programme support budget, taking into account all UNICEF headquarters costs would reflect current reality and be consistent with the principle of average cost allocation. In arriving at that decision, UNICEF was guided by the need for simplicity, transparency and full accountability in accordance with the criteria of fairness, equity and the maximization of UNICEF resources. The Executive Director recommended to and the Executive Board decided that:
- a) beginning with 1996-1997 administrative and programme support budget - the 6% recovery fee be discontinued and that all headquarters posts previously charged to recovery funds shall be converted to core posts and incorporated into the general resources-funded administrative and programme support budget;
 - b) all supplementary-funded programmes signed after 31 December 1995 shall include a separate budget line for "incremental field office and programme support costs" equivalent to 3% of the total programme budget. This line shall be applied to the general operating costs in the field office and shall be additional to the general operating costs in the field and shall be additional to direct field operating costs such as staff costs, travel, computer equipment, etc., which will continue to be included in the specific programme budgets;
 - c) that the 3% rate shall not be changed without the prior approval of the Executive Board;



- d) the 3% shall apply to all donors previously exempted of the recovery charge and that the 3% be built into programme proposals receiving supplementary funding from National Committees, NGO's, host Governments, the European Union, the World Bank and jointly administered local currency counterpart funds.

UNHCR - Cost recovery

42. All administrative and programme support costs should be identified on a line basis and included in the specific budgets, not calculated as a percentage, (UNHCR manual Chapter 4 Section 5.1).
43. *The variety of rates applied to the different programmes and the different methodologies is evidence of the substantial effort made by the organizations to recover and to justify to donors the programme support and administrative costs incurred. Organizations cannot implement the programmes entrusted to them without the proper administrative resources which in the final analysis must be provided by the donors. Donors are well aware of this fact, therefore every effort must be made to address the reluctance of certain donors to finance these costs.. Donors need a recovery system that is simple, transparent and accountable and organizations need core resources that are predictable, continuous and assured.*

VIII. RESERVES

44. A number of reserves have been established to provide funds to implement operations pending receipt of contributions by WFP, UNDP and UNHCR according to their Financial Regulations and Rules with a ceiling for each reserve specified by their Executive Boards:
45. WFP has an Operational Reserve of 57 million dollars which is used to make advances against *confirmed contributions* for required cash expenditures until monies are received from donors. Advances for this purpose are usually for a short duration. This Reserve is also used to advance funds to pay for PSA expenditure incurred on the basis of approved allotments. These advances are recovered when the contributions are received.
46. UNDP has two reserves:
- i. an Operational Reserve determined at 20% of the estimated contributions or expenditures, whichever is higher. The reserve was set at \$170 million for 1996 and \$200 million for 1997, and ;
 - ii. a Reserve for Field Accommodation whose balance was \$17.5 million as at 31 December 1996. (DP/1997/24).
47. UNHCR 1997 General Programmes Budget has one reserve and two funds (Financial Rules for Voluntary Funds Administered by the High Commissioner):
- i. Programme Reserve \$37.1 million (A/AC/96/878), representing 10-15 per cent of programmed activities.
 - ii. Emergency Fund: \$25 million (A/AC/96/878) is maintained at not less than \$8m and is replenished from the Working capital and Guarantee Fund and voluntary contributions. The High Commissioner may allocate from the Emergency Fund up to \$25 million annually, provided that a single emergency does not exceed \$8m.



- iii. Voluntary Repatriation Fund: \$20million (A/AC/96/878) the Fund was introduced in 1996 to provide financial assistance, under General or Special Programmes, for voluntary repatriation operations for refugees. The fund was established with a base level of \$20million and may extend to an amount equivalent to 10% of the total budgetary estimates for voluntary repatriation for the preceding year.
 - iv. Other Funds; include Medical Insurance Plan, Staff Housing Revolving Fund and resources from income generating activities
48. UNICEF: In addition to the Medical Insurance Plan, UNICEF Financial Report and Statements for the biennium ended 31 December 1995 only states the following three reserves:
- i. A capital asset reserve fund with a balance of \$26.6m as at 31/12/96 (E/ICEF/1997/AB/L.11), which was created in 1990 to better control the future purchase of UNICEF capital assets, to be replenished, as necessary, by additional authorized appropriations.
 - ii. A \$0.2m reserve for self-insurance for programme supplies and a \$0.1m reserve for third-party liability. Up to 1992, the two reserves were restored to their original amounts by transfer from income, but the practice was discontinued in 1993.

IX. INTEREST INCOME

49. All the organizations have similar provisions in their Financial Regulations and Rules on interest income. Basically interest income earned on General Fund resources is credited to the General Fund - Miscellaneous Income. Interest earned on "other" funds is credited to the respective fund, unless the donors agree to some other arrangement.

WFP

50. Miscellaneous income and the accumulated General Fund surplus are the only funding mechanisms available to WFP to use as an equalization mechanism. Interest earnings, as miscellaneous income, should be used as an equalization mechanism for any imbalances between ISC recoveries and **approved PSA budgets**. The use of interest for this purpose directly helps relieve the burden for financing support costs

UNICEF (E/ICEF/1994/AB/L2, para.3 page 15)

51. The Executive Board decided in 1968 that interest income earned on unexpended supplementary funds would be credited to general resources as an offset for that portion of administrative services and programme support costs which was attributable to the implementation of supplementary-funded programmes but difficult to identify. According to UNICEF's Medium-Term Plan Forecast interest income projection on unexpended supplementary fund balances declined from \$8 million for 1994 to \$4 million for 1997.

UNDP

52. Income from investments is to be recorded as miscellaneous income in the UNDP account or the account of the Programme, trust fund or development activity (UNDP/FIN REG & RULES/1 104.14 (a)). Interest income earned in 1996 amounted to \$51 million compared to \$60 million in 1995. This amount does not include \$17 million interest



income earned on cost-sharing resources, which is accounted for under extra-budgetary income. Interest income earned by funds and trust funds amounted to \$25 million in 1996 compared to \$18 million in 1995.

53. Interest earned on cost-sharing cash balances can be used to recover the additional cost incurred administering cost sharing contributions. The interest can be apportioned to UNDP extra-budgetary resources, or may revert to the programme cost-sharing account, after UNDP's support costs relating to the cost sharing activities have been met.

UNHCR

54. Interest income includes all interest and related investment income earned on invested funds and bank accounts. Financial Rule 9.3 specifies the conditions for recording of investment income which is to be credited to the General Fund. Interest income earned during 1996 credited to the Working Capital and Guarantee Fund, which is maintained by interest income, (Financial Rule 6.2) amounted to \$13.2 million. This amount was used to cover part of the shortfall of income over expenditure in General Programmes.
55. The Financial Regulations and Rules forbid any borrowing. Further, under fund accounting, funds received for a specific purpose cannot be used to fund other activities.
56. Article VIII of the Financial Rules. Article 8.2 states: The High Commissioner may incur obligations for the implementation of projects to the extent that moneys and unconditional governmental pledges are available in the appropriate fund or account. The High Commissioner may also, pending the receipt of the contributions, enter into obligations up to one half of the total amount of conditional governmental pledges, and of firm pledges from organizations of established repute. Furthermore the High Commissioner may enter into obligations under the Annual Programme, and the Emergency Fund and the Voluntary Repatriation Fund up to the amount funded from the Working Capital and Guarantee Fund as provided for in Article 6.3 (e) and (f) of these financial rules.

X. CONCLUSION

57. As shown in the above report, there are many initiatives being presently undertaken by various organizations with a view to harmonizing budgets and defining various categories of expenditures. It is, therefore, suggested that WFP continue with their present arrangements addressing the pertinent funding problems, some of which are within the control of WFP whereas others depend on donors. Regarding the funding of its Management and Administration and Programme Support costs, WFP should consider the accepted practice followed by the other organizations that regular funds are used to finance the organization's management, administrative support, and programme support costs, and that only incremental management, administrative and programme support costs are provided through extra-budgetary resources.
58. We need to remember that WFP has some peculiar problems, and that is why it has special policy. However, as stated above, WFP's unstable mechanism for recovering funds for support costs already spent is not conducive to proper management and will result in inefficiencies which could be avoided with proper funding. WFP's system of recovery is unique in that it provides total recovery based on percentages from all operational activities and does not have a clear distinction between regular and other resources. This arrangement as mentioned invariably results in variances between



projected and actual resources available to finance management and programme support.

59. WFP programme and support has already been reduced to the bare minimum which is having an impact on its ability to implement programmes economically, effectively and efficiently. It has also had an effect not only on staff morale but also on the effectiveness of programme implementation and readiness to respond to emergencies. This should raise questions both for Members of the Executive Board and WFP management as to whether these are false economies which are having a negative impact on the Programme's ability to deliver its mandated services.
60. I would like to take this opportunity to emphasize in no uncertain terms the damage which is being done to WFP by not having the necessary resources to support its management and programme support programmes, and the potential detrimental consequences of the numerous conditions attached to contributions which result in significant cash balances being available which cannot be used to address the current problems.







Annex 2

Review of WFP's Resource and Long-term Financing Policies:

Issues and Options

Treatment of Direct Operational, Direct Support and Indirect Support Costs

3 March 1998



INTRODUCTION

1. During the Informal Consultation on the Review of the Resource and Long-term Financing (R<F) policies, held on 4 February 1998, the Member States and donors requested the Secretariat to elaborate further on paragraph 14 of its paper "Treatment of Direct Operational, Direct Support and Indirect Support Costs" dated 28 January 1998.
2. This paper summarizes the three options which the Secretariat has considered in finding an alternative approach to reclassifying items of cost between the categories of Direct Operational Costs (DOC), Direct Support Cost (DSC) and Indirect Support Cost (ISC).
3. All three options share a common approach to the redefinition of the DOC category as already proposed in the Secretariat's paper of 28 January 1998. The redefinition of the DOC category would entail the inclusion of all project inputs utilized directly in operations/projects by beneficiaries, the government of the recipient country or other implementing partners, in addition to the cost of commodities, ocean transportation and related costs, and landside transport, storage and handling (LTSH) costs.
4. The three options presented below focus on a different approach to the treatment of the remaining two cost categories - DSC and ISC. Options 1 and 2 represent those briefly mentioned in paragraph 14 of the aforementioned paper. Option 3 reflects the approach recommended by the Secretariat in the same paper.

OPTION 1

Summary

5. This option would maintain the present average ISC rate at around 9.6 percent. In terms of the current biennial budget, this would imply a Programme Support and Administration (PSA) budget of around 203 million dollars.¹ This option would redistribute the PSA costs among country offices (COs) to fund a core staffing and operational structure based on tonnage throughput. Headquarters and regional office costs would be financed from the PSA funding.

Key considerations

6. WFP COs traditionally involved in development activities are more dependent on PSA funding, whereas those engaged in emergencies are funded largely or exclusively from DSC. These practices have contributed towards inflating the ISC rate for development. Under this option, there would be four categories of CO core structure to be funded by PSA, based on tonnage throughput. A provisional formula is proposed in Table 1 below.

¹ All monetary values are expressed in United States dollars.



TABLE 1. COUNTRY OFFICE CORE STRUCTURE TO BE FUNDED BY PSA

Country office core structure	No.	Above 40 000 tons per annum	No.	Above 20 000 tons per annum	No.	Above 6 000 tons per annum	No.	Below 6 000 tons per annum
Int. Prof. staff	4	480 000	3	390 000	2	290 000	1	155 000
Nat. officers	4	140 000	3	105 000	2	70 000	1	35 000
GS staff	12	220 000	9	165 000	6	110 000	3	55 000
Non-staff costs	-	185 000	-	145 000	-	105 000	-	55 000
Total		1 025 000		805 000		575 000		300 000
Estimated number of COs with PSA funding		10		6		34		24

7. WFP will have to exercise some flexibility to adjust the actual PSA allocation to COs based on criteria such as whether they are located in a least developed country (LDC), they are stand-alone without the supervision of a regional office, in a disaster-prone region, or other special factors. Moreover, CO support requirements will differ significantly depending on the types of activities implemented and geographical coverage of projects/operations in a country. Any additional requirements to the above core structure would be funded from the DSC.

Advantages

8. Possible advantages of this option are:
- it would minimize the risk of jeopardizing the continuity of essential support functions in COs. PSA would fund the necessary core CO structure in relation to the level of commodity throughput and activities;
 - WFP would maintain the flexibility to use PSA funding to strategically reinforce COs where necessary;
 - the redistribution of PSA funds to COs engaged in relief operations would have an effect on decreasing ISC rates for the Development category. A similar approach to the existing Cost Measurement Study could be applied to verify changes in rates over the next several years;
 - stable contractual conditions can be provided for key international and national staff in relief operations working under difficult conditions; and
 - minimum adjustment would be required to the current budgeting, accounting and information systems.



Disadvantages

9. The possible disadvantages of Option 1 are:
- there would be no decrease to the overall average ISC rate. It is unlikely that EMOP/PRO donors would accept a single average ISC rate of 9.6 percent, in which case the continued use of a differential rate system (at least between Development and Relief) would be more realistic;
 - the cost classification of direct and indirect support cost in COs would not be as clear as that for the other two options. Within the different CO structure, there would be ambiguity regarding categorization of staff functions as direct or indirect support; and
 - there would be less pressure to quickly adjust CO staffing and support cost level when resource levels decrease.

OPTION 2

Summary

10. This option would diminish the PSA costs and could propose a significantly lower single ISC rate. Possibilities within this option are to: a) transfer all CO costs to DSC; b) transfer country and regional office costs to DSC; or c) transfer country and regional office and selective headquarters costs to DSC.

Key considerations

11. Hypothetically removing PSA costs from country and regional office and selected headquarters functions would have the following effects on the ISC rate:

TABLE 2. POSSIBLE EFFECTS OF REMOVING PSA COSTS FROM COUNTRY AND REGIONAL OFFICE AND SELECTED HEADQUARTERS FUNCTIONS

Option	Transfer of PSA costs to DSC	Estimated PSA budget (biennium) (in million dollar)	Estimated average ISC rate (percent)
2a	Transferring all country office costs to DSC	128.2	5.7
2b	Transferring country and regional office costs to DSC	108.3	4.7
2c	Transferring country and regional office and HQ costs (OD programme coordinators, OTI, OTL and OTS and part of OEDE) to DSC	87.5	3.8



12. WFP may deem it necessary to work in certain countries, though the volume of business may be too low to generate sufficient DSC to run the country office. They may be LDCs with implementation capacity problem or they may have strategic importance for disaster preparedness. In these cases, reserve funds from PSA would be required to supplement or fund a small office.

Advantages

13. The possible advantages of Option 2 are:
 - a) it is more “forward-oriented”. It adapts to the trend in cost recovery by linking costs to operations as much as possible, thereby ensuring a structure more flexible to expand and contract according to the level of resources;
 - b) support functions remaining under the PSA would be more clearly of an indirect nature. Programme categories would become a non-issue in considering ISC rates under this option. This would allow for a genuine single ISC rate; and
 - c) this option would establish a drastically lower ISC rate which would appear “competitive” by most standards.

Disadvantages

14. The possible disadvantages are:
 - a) in an environment of increased directed contributions to specific countries and operations by donors, WFP would have to take a high risk of incurring DSC expenditures when donors may or may not direct their contributions;
 - b) a system would have to be in place to enable charging DSC much before actual DSC contributions from donors are confirmed. The risk involved in committing DSC funds in the range of 100 to 140 million dollars in this manner would be significantly higher compared to the other two options;
 - c) a methodology needs to be developed to anticipate and charge a wide range of COs, regional office and headquarters costs to numerous project/operation budgets, based on the indicative work effort provided to each project/operation. The methodology would require a more sophisticated system for accounting, cost allocation and project budgeting than is now in place in WFP. Such a system would have to automatically distribute, for example, the monthly (or quarterly) costs of the entire Transport Division among all current projects, based upon an agreed driver such as tonnage of commodities moved; and
 - d) without a well tested methodology and a supporting system, there is a danger that managers in the field would have to monitor closely DSC expenditures incurred in regional offices and at headquarters that are charged to their projects in order for them to control the project budgets. Such an administrative necessity could affect operations adversely.



OPTION 3

Summary

15. This option would lower the ISC rate to an average of around 7.8 percent by transferring approximately 25 percent of country office PSA costs to DSC. This option would use the ISC to fund all headquarters support costs, regional office support costs, and a standard minimal CO structure considered essential for a WFP presence, including management and administration purposes.

Key considerations

16. The following basic ISC-funded CO structure is propose under this option:

TABLE 3. PROPOSED ISC-FUNDED COUNTRY OFFICE STRUCTURE		
Minimal CO structure to be funded from ISC	No	Dollars
WFP Representative	1	155 000
National officers	2	85 000
GS staff	3	65 000
Non-staff costs	-	55 000
Total		360 000

It should be noted that:

- The actual cost would vary depending on factors such as the level of WFP Country Directors, salaries of local staff, cost of living, etc.
 - There would be minor deviations in the base structure, depending on factors such as overall level of activities and whether the CO is a “stand-alone” or regionally supported one.
 - In case of a “new” country facing an emergency, the costs of running the CO and other support functions would be funded entirely from DSC for the remaining period of the biennium.
17. DSC would fund the *variable or incremental* cost for a WFP country office to support WFP activities in that country, be these of a development or relief nature. The level of DSC funding for additional CO requirements would be determined by type and level of activities, tonnage turnover, and special circumstances in the country. DSC would cover international and national staff costs, office vehicles, equipment and other CO support cost requirements falling outside the ISC-funded minimal CO structure.

Advantages

18. The possible advantages of Options 3 are:
- a) The costs to be charged to DSC and ISC are more consistent in this option. The use of DSC would be limited to the variable portion of the country office support costs. This would help managers in the field to plan and monitor the CO support costs in an accountable manner;
 - b) while achieving a lower ISC rate, this option would ensure continuity of a minimal CO structure where WFP considers it strategically important to be present; and



- c) the remaining costs under ISC would constitute primarily management and administration costs of a general nature. This would leave a possibility of establishing a single ISC rate.

Disadvantages

19. Although to a lesser degree, this option would face risks similar to those encountered in Option 2:
 - a) WFP would have to take a risk of incurring DSC expenditures where donors may or may not direct their contributions; and
 - b) a system would have to be in place to enable charging of DSC before actual DSC contributions from donors are confirmed.

Implications of the options on the treatment of DSC

20. Options 2 and 3 would reduce the PSA budget and increase the Programme's reliance on DSC. This shift would increase transparency and improve cost management for the following reasons:
 - a) future country programmes, development projects, protracted relief operations and emergency operations would contain a clearer presentation of the DSC budget;
 - b) cost performance would become clearer by associating a significantly larger portion of WFP's support cost expenditures directly to specific operations and projects; and
 - c) by necessity, adjustments to DSC requirements would be effected more quickly in relation to the availability of resources than currently practised under the PSA funding.
21. At the same time, they would introduce a necessity for WFP to make commitments on DSC funds and advance a portion of DSC funds prior to confirmed contributions from donors. For example, under Option 3, all WFP international posts in the field, other than that of Country Director, would become DSC-funded. In any given year, a considerable number of WFP international staff are subject to reassignment to different CO posts, often with accompanying families. Such a reassignment plan would be impossible to implement if DSC funds could not be committed prior to confirmation of donor contributions. Neither would it be possible for the Programme to suspend international or national staff temporarily each time a DSC funding gap occurs to a particular project or operation.
22. Depending on the options to be adopted by WFP in the future, appropriate mechanisms would have to be worked out to accommodate requirements such as those discussed above. A very preliminary thinking on such mechanisms includes the following:
 - a) increasing the current IRA target level of 35 million dollars to an amount sufficient to cover DSC requirements for emergency operations (covering start-up costs, funding gaps and commitment for core staffing and associated costs). Funds would be replenished upon receipt of confirmed contributions;
 - b) extending access to the increased IRA to protracted relief operations; and
 - c) creating a revolving fund similar to the Operational Reserve to commit DSC funds to development projects in advance. DSC-funds would be committed to cover core staffing and associated costs based on approved country programme/project budgets. Funds would be replenished as contributions for development are secured.



23. These DSC funding mechanisms will need to be defined in conjunction with the cost recovery mechanism to be applied. By making advance commitments, WFP may face a shortfall in recovering its DSC expenditure when anticipated contributions to individual projects and operations do not materialize. Advance commitments made on DSC will need to be monitored against overall resources likely to be available, so as to avoid a disproportionate level of DSC being expended in relation to project deliveries (DOC).
24. The Secretariat will require further time to study these options and come forward with more detailed proposals to address the issues described above.



**MAJOR UNITED NATIONS VOLUNTARY FUNDED AGENCIES'
COMPARISON OF POLICIES FOR FINANCING PROGRAMME SUPPORT AND ADMINISTRATION**

POLICY	UNDP	UNICEF	UNHCR	WFP
USE OF INTEREST	Interest on core resources used to finance core services including programme support and administration; interest on cost sharing used first to finance UNDP support costs and any balance may be credited to non core resources (UNDP Financial Rule 104.14)	Interest earned on unexpended supplementary funds is credited to general resources as an offset for the portion of administrative services and programme support costs attributable to supplementary funded programmes; all interest on regular resources treated as miscellaneous income to finance programme support and administration	Interest earned on all invested funds is credited to the Working Capital and Guarantee Fund which is used to make payments prior to the receipt of contributions pledged, to guarantee budgetary increases caused by exchange rate fluctuations and to replenish the emergency fund (Financial Rules A/AC/96/503/Rev.6 paragraphs 6.2 [c] and 9.3)	Interest credited, where applicable to the related special account, in all other cases to the General Fund as miscellaneous income; interest on bilateral contributions unless otherwise specified by the donor to the IRA (Financial Regulations XI)
SUPPORT COSTS TO REGULAR (CORE) RESOURCES	Financed from contributions to core resources based upon budget adopted by Governing Body - no fee or rate	Financed from contributions to core resources based upon budget adopted by Governing Body - no fee or rate	Financed from contributions to core resources based upon budget adopted by Governing Body - no fee or rate	Financed through differential percentage rates by programme category plus direct charges to project budgets
SUPPORT COSTS TO OTHER (NON CORE) RESOURCES	Financed from interest earnings and a combination of percentage rates and fees ranging from 3% to 18% established by the Administrator	Financed from interest earnings and a 3% charge on all supplementary funds (E/ICEF/1994.AB/L.2)	Financed from direct charges to projects.	Financed from differential rates by type of service provided plus direct charges to project budgets

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POLICY	UNDP	UNICEF	UNHCR	WFP
SUPPORT COST RATES	<p>UNDP pays a support cost to UN agencies varying from 5%-18%</p> <p>Trust Funds -Agency Support costs 10%</p> <p>UNDP administrative fee3%-5%</p> <p><u>Special Funds:</u></p> <p>Global Environment Facility And Montreal Protocol reimbursed on actual cost basis of workload</p> <p>Mozambique 5%</p> <p>Programme for Assistance to Palestinian People 8%</p> <p>Management Service Agreements 14%</p> <p>Third Party Cost sharing 3%-5%</p>	<p>All supplementary (non core) programmes 3%</p>	<p>Actual expenses recovered charged to the budget, identified on a line basis.</p>	<p>The rate of recovery for indirect support services provided by WFP, were computed on the basis of a cost measurement study, and were developed by dividing total budgeted cost of indirect support services financed by the Programme Support and administration budget by the estimated direct operational and direct support costs The rates currently in effect are as follows:</p> <p>Development/Rehabilitation/ Disaster Preparedness 13.9%</p> <p>Protracted Relief 7.1%</p> <p>Emergency Operations 6.0%</p> <p>Special Operations 11.9%</p> <p>JPO 12.0%</p> <p>Bilateral Transport 4.5%</p> <p>Bilateral Procurement 4%</p>

