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# **FINANCIAL AND BUDGETARY MATTERS**

**Agenda item 5**

***For information\****

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## **WFP INFORMATION NETWORK AND GLOBAL SYSTEM (WINGS) FOR COST ANALYSIS AND COST CONTAINMENT**

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# Note to the Executive Board



**This document is submitted for information to the Executive Board.**

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

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Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact the Supervisor, Meeting Servicing and Distribution Unit (tel.: 066513-2328).



## INTRODUCTION AND PURPOSE

1. Two of the major initiatives of WFP in recent years have been the development and installation of new information systems and implementation of the new Resources and Long-term Financing policy (R&LTF). The ultimate objective of both initiatives is to implement efficient and effective food assistance programmes.
2. The purpose of this Information Note is to explain how the new corporate information system, WINGS (WFP Information Network and Global System), will provide information for cost analysis. This is an essential step towards cost containment and appropriate management and accounting of full cost recovery (FCR) under the R&LTF. The note responds to the Executive Board's request in the Biennial Programme of Work (EB.3/2000/14) for a report on cost containment.

## ELEMENTS OF R&LTF AND FULL COST RECOVERY

3. The R&LTF is characterized by three elements:
  - programme categories that classify WFP activities into development, emergencies, protracted relief and recovery and special operations;
  - funding windows that group contributions based on conditions given by donors (multilateral, directed multilateral or bilateral); and
  - categories of all administrative and executive costs of projects, representing direct operational (DOC), direct support (DSC) and indirect support (ISC) costs.
4. FCR, one of the underlying principles of R&LTF, means that any contribution to WFP should cover all operational costs, direct support costs and indirect support costs. The costs to be met by donor contributions are:
  - direct operational costs, which include:
    - ◇ commodities;
    - ◇ external transport;
    - ◇ landside transport, storage and handling (LTSH); and
    - ◇ other direct operational costs (ODOC).
  - direct support costs (DSC); and
  - indirect support costs
5. The contributions are accounted for as follows.

### Direct Operational and Support Costs

6. Contributions for commodities and external transport from each donor are recorded and directly fund the expenditures for these items. Contributions from each donor for LTSH, ODOC and DSC are pooled, and expenditures are shared among the donors contributing to a project.



## Indirect Support Costs

7. Indirect support costs are contributed on the basis of a percentage rate set by the Executive Board to be applied to the value of contributions for direct costs. Income generated from the application of this rate is utilized to meet the Programme Support and Administrative (PSA) budget, approved by the Executive Board for each biennium.

## AVAILABILITY OF INFORMATION IN WINGS

8. WINGS, developed in line with R&LTF policy, provides for clear and detailed accounting of all cost categories, including allocation of these costs among donors and analysis of financial information at different levels of classification. Comparisons of expenditure actually charged against projects can be made with budget estimates, and facilitates the determination of compliance with FCR.
9. Figure 1 illustrates the project model for all WFP activities.

Figure 1 : Project Cost Comparison

Cost Categories:	Approved Budget	Funded Allotment	Expenditure		
			Obligation	Disbursement	Total
Commodity					
External Transport					
LTSH					
ODOC					
DSC					
Total					

10. The figure shows the levels at which budgets and standard costs are recorded and actual costs are accounted for, which allows for comprehensive and comparative analysis. Expenditures are shown as a total of unliquidated obligations and disbursements. Budgeted and actual contributions received and expenditures incurred can be subdivided or grouped to permit analysis of project information at different levels or categories. Obligations by country, and expenditure by programme category are examples.



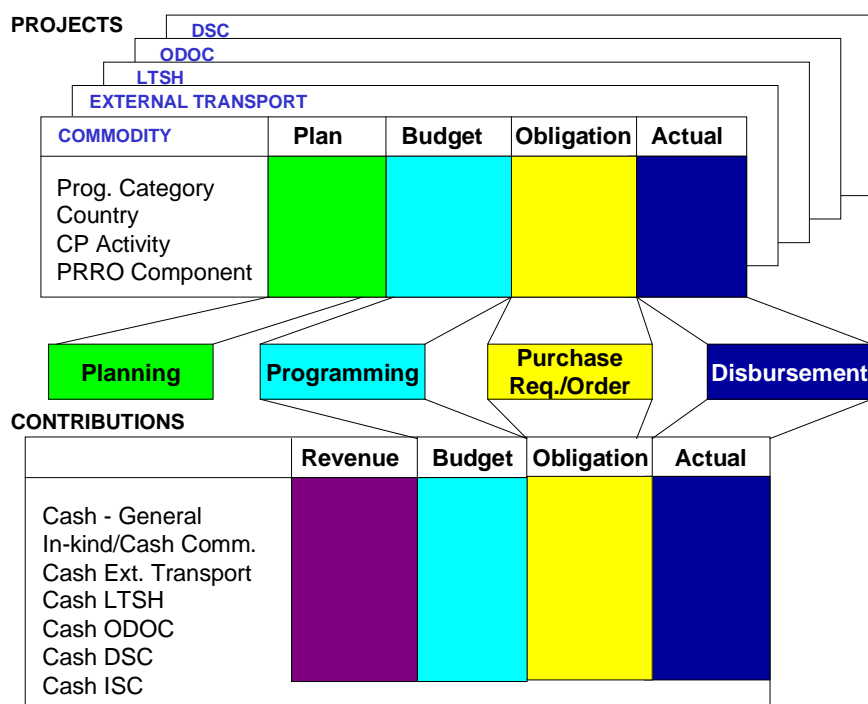
## PROJECT APPROVAL/CONTRIBUTION PROCESS

11. The process begins with preparation of a project plan. After approval, this becomes the basis for seeking or assigning donor contributions to permit commencement of project implementation. The plan and confirmed contributions are entered in the project system by cost category.

## PROGRAMMING/BUDGET ALLOCATION AND ALLOTMENT

12. After approval of a project and confirmation of contributions, taking account of donor conditions, contributions are made available for programming through budget allocation and allotment. Allocation is the process whereby a contribution is earmarked to provide funding to the project. Allotments are financial authorizations issued to managers (spending authorities) to incur expenditures.
13. For commodities and external transport, allocations become allotments and are identifiable in the project system. For LTSH, ODOC and DSC, allocations for each cost category are pooled at the project level as the basis for issuing allotments. These are referred to as cumulative allotments, because they are increased as allocations are made from new contributions.
14. The ISC portion of a contribution is transferred to the General Fund to provide funding for Programme Support and Administration.
15. The flow of contributions as an allocation to the project system is shown in Figure 2.

**Figure 2: Project/Contribution Flow**



16. Actual expenditures shown in Figure 2 refer to disbursements. At the end of each year, unpaid obligations are accrued to ascertain total expenditures.



## OBLIGATIONS, ACTUAL EXPENDITURES AND VARIANCES

17. On the basis of the allotments made available in the project system, obligations and expenditures may be incurred. An obligation is a legally binding commitment, such as a purchase order or any document that commits the Programme to financial disbursement upon delivery of services or goods. Expenditures are the costs recorded when a payment is made, generally on receipt of goods or services contracted.
18. Standard and actual expenditures incurred for staff and goods and services are recorded in the project system under the different cost categories. Controls are installed in WINGS to ensure that expenditures are incurred only within budget allotments and under donor conditions.
19. Information is available online regarding variances between actual expenditure and budget for all cost components, which represent unutilized funds remaining available for new commitments and expenditures. For the LTSH cost component, any positive variance between actual expenditure and budget is either transferred to an equalization account, or utilized in accordance with donor conditions.

## REPORTING

20. Management reports at different levels of detail for contributions and cost categories are available online. The system includes functionality that permits analysis down to specific source documents supporting and making up the total amount. Financial statements and schedules for any period can be readily generated. Standard project reports showing utilization of donor contributions, including ISC, will be available under the new system. Details of allotments to the project system and actual costs will be shown against contributions by cost category. For completed projects, any unspent balances against contributions can be identified by donor and made available immediately for reprogramming or refunding, according to donor preference or conditions.

## COST CONTAINMENT

21. The ultimate objective of the initiative to develop and install the new information systems is to provide managers—at Headquarters and country offices—with real-time, up-to-date information for operations and decision-making, so that WFP-supported programmes can be implemented in an efficient and effective manner. Likewise, the ultimate objective of the new resources policy is to avail WFP with the resources necessary to implement food-assistance programmes in an efficient and effective manner. Efficient and effective programme implementation assumes that costs are contained at a reasonable level.
22. The availability of up-to-date information on costs and unused resources or contributions will make the management of ongoing projects, as well as financial planning of new projects or extensions, more efficient, and will lead to improved cost estimates. Project budgets will be prepared using analytically developed financial projections based on current financial cost experience and trends.
23. Some of the initiatives that WFP has been undertaking, and which will be reinforced with WINGS, are:



- **Project preparation.** In submitting project proposals, managers will be required to explain the cost analysis undertaken, and indicate how cost-minimization was achieved in the development of cost estimates.
  - **Food purchases.** WFP will continue to pursue local purchases whenever feasible. Local purchase of commodities will reduce costs by: (i) eliminating the need of external transport; (ii) making commodities available sooner, in cases of emergencies, thus avoiding borrowing; (iii) avoiding storage and other clearing costs that are associated with importing commodities externally; and (iv) reducing commodity losses.
  - **External transport.** WFP will continue to pursue a reduction in external transport and insurance costs by: (i) improving the programming of deliveries; (ii) consolidating smaller shipments into a larger shipment of grain deliveries; and (iii) maintaining a self-insurance scheme.
  - **LTSH.** The efforts to complete, improve and regularly update the LTSH matrix will be continued. A comprehensive list of active projects and information on LTSH matrixes is now available and has become a useful tool in monitoring progress, reviewing and updating rates, and in conducting field missions when necessary. WINGS will greatly facilitate these processes and enable the gathering of accurate cost information, leading to cost containment.
  - **Direct support costs.** The introduction of a procedure to charge projects with standard rates for staff costs will simplify the financial planning and implementation of projects and ensure an equitable allocation of costs. It will also permit the timely financial closure of projects, as the use of standard costs will take account of those staff entitlements that might remain valid beyond the life of a project.
  - **Project monitoring.** Actual expenditures are tracked and compared against both the project budget and the contribution that provides its funding. This will provide a good basis for financial decisions-making. Management will be able to determine the degree of accuracy of planned estimates for all projects in each country, and take action towards controlling costs. At the corporate level, a project can be compared both with similar projects within a country and with projects in other countries. Reasons for variances in cost levels between projects or between countries can be analysed, and actions taken. The new system will reduce the need for manual reconciliation of project and financial data and manual preparation of reports, which will in turn lead to a more effective use of PSA staff resources and reduced costs in administration and accounting for contributions and projects.
24. Some of the more specific cost-containment measures that are being introduced in the next biennium (2002–2003) are explained in the biennial budget document (WFP/EB.3/2001/5-C/1).

