



Informational Note on Issues Related to Core Resources

Resource Management Seminar

29th January, 2014

Purpose

The purpose of this Information Note is to provide additional information on the topic of core resources in the context of the ongoing review of the method for the calculation of the Indirect Support Cost Rate. Additional related issues involving WFP's response to the mandates of the Quadrennial Comprehensive Policy Review (QCPR) are also discussed in brief.

What is meant by 'core resources'?

1. In some cases, specialized agencies have colloquially referred to assessed contributions as 'core resources'¹. For a number of funds and programmes in the UN system, however, the term 'core resources' (or in some cases referred to as 'regular resources') represents a specific classification of voluntary funds that form part of a core financing model. In the context of the present review of WFP's method for establishing the Indirect Support Cost rate, it is this latter usage of the term that is most relevant.
2. Most funds and programmes have a financial model which divides funds into 'core' resources and 'non-core' resources. Though there is no universal definition of 'core resources', these are funds can be used for both supporting country-level programmes as well as 'non-programme' costs such as administrative overhead and institutional investments. Core resource needs (both programme and non-programme costs, including administration) are approximated and proposed in a budget document and for approval by governing bodies.² These core resources are

¹ Within the United Nations system, the UN Secretariat entities and Specialized Agencies have the ability to charge assessed contributions based on the participation of member-states in governing bodies.

² For example, in its 2014-2017 Integrated Resource Plan, UNICEF planned on receiving \$5,633 million USD in regular resources, and \$10,648 million USD in non-core resources. Thus, from the total donor resources of \$16,281 million USD, roughly 34% are core resources.

unrestricted in nature and give the agencies substantial flexibility in appropriation, as they can be ‘commingled’ as necessary between programme and non-programme costs.

3. Non-core resources, in contrast, are those directed or earmarked for a specific purpose and supplementary to core resources. Typically, a cost-recovery rate structure is applied to these funds in order to offset (at least in part) the administrative costs related to the projects being supported. It is important to note that both core and non-core resources for funds and programmes are voluntarily funded by donors.

Does WFP have core resources?

4. WFP’s financing model divides contributions into Multilateral Contributions³ and Directed Multilateral Contributions⁴. While Multilateral Contributions are flexible, a critical distinction is that they cannot be commingled with funds set aside for PSA-related expenditure. From this perspective, the Secretariat does not consider that WFP has core resources.
5. WFP applies a fixed ISC rate to both multilateral and directed multilateral contributions, which then can be used for PSA. In other words, it is not possible to use more than 7 percent of multilateral funds for the purposes of supporting PSA expenditures.

Table 1, UNICEF Integrated Budget 2014-2017, United Nations Children’s Fund Executive Board, 2-6 September 2013; E/ICEF/2013/AB/L.4.

³ Multilateral Contributions are defined as ‘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 for which WFP determines, within the scope of the broad-based appeal, the Country Programme or WFP activities in which the contribution will be used and how it will be used, and for which the donor will accept reports submitted to the Board as sufficient to meet the requirements of the donor’. Financial Regulations, World Food Programme, 2008 Edition.

⁴ Directed Multilateral Contributions are defined as ‘a contribution, other than a response to an appeal made by WFP for a specific emergency operation, 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’. Ibid. As of 3 November 2013, WFP Multilateral Contributions equalled roughly 370 million USD.



Why are core resources being discussed in this review?

6. As a voluntarily funded organization, WFP must annually adjust its overhead costs in relation to the resource forecasts and contributions. One major challenge is that such a model does not allow for expenditures to be easily scaled to changing operational levels. The creation of the PSA Equalization Account in 2003 was a response to this limitation. This account allows for a reserve of funds which can be used to soften the impact of financial shocks that may lead to a shortfall between ISC income and PSA expenditure. It is important to assess whether WFP's current financing model is as effective and efficient as possible to address the operational volatility that the organization faces, and whether a core resources model would increase stability.

7. It is also important to consider the issue of core resources in the context of WFP's response to the Quadrennial Comprehensive Policy Review (QCPR), which calls on funds and programmes to identify ways to increase predictability, harmonization, and comparability (Paragraph 24, 28, 31, 39, 40, and 53 in Annex I). The QCPR also specifically mandates funds and programmes to develop principles on the 'critical mass of core resources' and identify a harmonized approach to cost classifications. Compliance with this mandate necessarily touches on WFP's funding model, and requires reflection by both the Secretariat and the Executive Board.

Quadrennial Comprehensive Policy Review (QCPR)

8. The QCPR (2013-2017) adopted by the General Assembly (UNGA) guides the development agenda for the United Nations system, and requests funds and programmes to fulfill multiple mandates to increase harmonization, comparability, and predictability. The resolution is binding for funds and programmes, including WFP. The QCPR calls for a number of deliverables directly related to the core resources issues such as enhancing overall funding (in particular core resources), improving the predictability and quality of resources, and ensuring full cost recovery.

9. Many of the mandates relating to financial issues in the QCPR were adopted as a result of broader discussions on the state of core resources, and the growing

imbalance between non-earmarked (core) and earmarked (non-core) contributions. Concerns have been raised about whether this trend will undermine programme country development agendas. In addition, issues related to cost recovery policies and frameworks have been highlighted.

Critical Mass of Core Resources

10. The ‘critical mass of core resources’ mandate is meant to enhance overall funding framed in a core resources model, and requires a response from all funds and programmes.⁵ The concept touches on the issue of core resources, and WFP’s distinct funding model makes it challenging to comply with presenting specific proposals on how its critical mass of core resources could be defined (paragraphs 38- 39 in Annex I).

11. As a response to the QCPR, funds and programmes have drafted a concept paper on ‘Principles of Critical Mass of Core Resources’, to further guide the development of the concept. While WFP participated in the formulation of the principles, the Programme’s distinct business model makes direct comparisons difficult. The Secretariat has thus far maintained the position that the difference in WFP’s funding model prevents us from carrying out an exercise to operationalize the ‘critical mass of core resources’. A position from the Executive Board on the applicability of core resources could allow the Secretariat to tailor its engagement with other funds and programmes.

Harmonized cost classification and full cost recovery.

12. The QCPR welcomed the ongoing work of UNICEF, UNFPA, UNDP, and UN-Women towards harmonizing cost classifications (paragraph 45-47 in Annex I). The UNGA

⁵ The concept of critical mass of core resources first appeared in the 2010 UNGA discussions on ensuring adequate funding and system-wide coherence. UNGA Resolution on System Wide Coherence (2010) [A/RES/64/289*] defined critical mass of core funding as: “the level of resources adequate to respond to the needs of programme countries to produce the results expected in strategic plans, including administrative, management and program costs”. The concept of Critical Mass of Core Resources – and the push to define it – is a response to the growing imbalance within many agencies between earmarked and non-earmarked contributions. Greater earmarking is seen by some entities as undermining programme country development agendas, as well as the Strategic Plans of funds and programmes.

requested the Executive Boards of funds and programmes to adopt a cost recovery framework by 2013, with a view to full implementation in 2014. This mandate comes from the acknowledgement that the guiding principle governing financing of all non-programme costs should be based on full cost recovery, proportionally from core and non-core resources (paragraph 48 in Annex I). The QCPR mandate (paragraph 53 in Annex I) outlines multiple markers which should be included within such a cost recovery framework, including:

- Proportionality from core and non-core resources
- Simple, transparent and harmonized methodology
- Incentives, including through differentiated cost recovery rates
- Accountability for different volumes and nature of funds to increase core funding
- More predictable, flexible and less earmarked non-core contributions that are aligned with the strategic plans

Much of the framework is driven by the core resources model, which does not currently apply to WFP. However, several of the markers mentioned above will be examined during the course of the present ISC rate review, taking into due consideration guidance from the Executive Board.

13. The difference in WFP's financing model makes it particularly challenging to engage in inter-agency initiatives on harmonized cost classifications, which are guiding the cost recovery methodology of other funds and programmes. Though WFP will participate in the Working Group on Common Cost Classifications under the HLCM, the cost recovery rate model agreed on by other funds and programmes is based on a core/non-core financial model. Due to their core resources, such entities only apply cost recovery to particular subsections of non-core funds. WFP by contrast does not have such a classification system, which makes fulfilling this QCPR mandate particularly challenging. This distinction will likely create difficulties in reaching consensus at the inter-agency level on common cost classifications, and will place WFP in a difficult position.

Financing Strategic Plans

14. Lastly, the QCPR requested the Executive Boards of funds and programmes to organize structured dialogues during 2014 on how to finance the development results agreed upon in the new strategic plan cycle of their respective entities, with a view to making non-core resources more predictable and less restricted/earmarked, broadening the donor base and improving the adequacy and predictability of resources flows (paragraph 46 in Annex I).
15. Given that essentially all of WFP's resources would fall under the definition of 'non-core', this QCPR mandate is directly relevant.

Issue for Guidance from the Executive Board

16. In moving forward, the Secretariat is asking for guidance from the Executive Board on which parameters should be covered by the ISC Rate Review, as well as how to approach other topics pertinent to WFP's financial model and the ISC rate.
17. A number of funds and programmes have a financing model based on core resources. These are voluntary funds that can be utilized for country level operations, as well as administrative overhead. Such a recovery model does not exist in WFP, whose multilateral contributions remain a relatively small proportion of overall funds and cannot be commingled with funds set aside for the PSA budget.
18. In the context of the present paper, the Secretariat looks to the Executive Board to provide its views on whether WFP should explore options related to adopting a financing model which features core resources.
19. Based on the Executive Board's guidance on the above, the Secretariat will proceed to address a number of the key QCPR related mandates, particularly critical mass of core resources, harmonized cost classifications, and harmonized cost recovery rates.

Annex I: QCPR Text

A. Funding of Operational Activities of the United Nations for development

24. Stresses the need for adequate quantity and quality of funding for operational activities as well as the need to make funding more predictable, effective and efficient;

25. Emphasizes that increasing financial contributions to the United Nations development system, in particular core resources, is key to achieving the internationally agreed development goals, including the Millennium Development Goals, and in this regard recognizes the mutually reinforcing links between increased effectiveness, efficiency and coherence of the United Nations development system, achieving concrete results in assisting developing countries to eradicate poverty and achieving sustained economic growth and sustainable development through its operational activities for development and the overall resourcing of the United Nations development system;

26. Stresses that core resources, because of their untied nature, continue to be the bedrock of the operational activities for development of the United Nations system, in this regard notes with concern that the share of core contributions to United Nations funds and programmes has declined in recent years, and recognizes the need for organizations to address, on a continuous basis, the imbalance between core and non-core resources;

27. Notes that non-core resources represent an important contribution to the overall resource base of the United Nations development system and complement core resources to support operational activities for development, thus contributing to an increase in total resources, while noting the need to make non-core resources more flexible and aligned with strategic plans and national priorities and recognizing that non-core resources are not a substitute for core resources;

28. Recognizes that non-core resources pose challenges, in particular restricted earmarked funding such as single-donor project-specific funding, through potentially increasing transaction costs, fragmentation, competition and overlap among entities and providing disincentives for pursuing a United Nations-wide focus, strategic positioning and coherence, and may also potentially distort programme priorities regulated by intergovernmental bodies and processes;

29. Also recognizes the overall positive trends of funding for United Nations operational activities in the period from 1995 to 2010, and notes with concern the decline in official development assistance in 2011 as well as the imbalance between core and non-core resources;

30. Acknowledges the efforts by developed countries to increase resources for development, including commitments by some developed countries to increase official

development assistance, calls for the fulfillment of all official development assistance commitments, including the commitments by many developed countries to achieve the target of 0.7 per cent of gross national income for official development assistance by 2015, as well as the target of 0.15 per cent to 0.20 per cent for least developed countries, and urges those developed countries that have not yet done so to make concrete efforts in this regard in accordance with their commitments;

31. Affirms the importance of accountability, transparency and improved results-based management and further harmonized results-based reporting on the work of the United Nations funds, programmes and specialized agencies, and in nationally owned outcomes, for increased quantity and quality of funding for operational activities;

32. Encourages the funds, programmes and specialized agencies of the United Nations development system to intensify collaboration to achieve more effective use of development resources, as well as their expertise and actions towards strengthening national capacities in accordance with national priorities and development plans;

B. Enhancing overall funding, in particular core resources:

33. *Urges* donor countries and other countries in a position to do so to maintain and substantially increase their voluntary contributions, in a manner consistent with their capacities, to the core/regular budgets of the United Nations development system, in particular its funds, programmes and specialized agencies, and to contribute on a multi-year basis, in a sustained and predictable manner;

34. *Stresses* that funding for operational activities should be aligned with the national priorities and plans of the programme countries as well as the strategic plans, mandates, resource frameworks and priorities of the United Nations funds, programmes and specialized agencies, and underscores in that regard the need to further strengthen the delivery of results and the results-based frameworks of the funds, programmes and specialized agencies of the United Nations development system and to improve their reporting on outputs and nationally owned outcomes;

35. *Requests* the United Nations funds and programmes, and encourages the specialized agencies, to report to their governing bodies at the first regular session of 2014 on concrete measures taken to emphasize the importance of broadening the donor base and increasing the number of countries and other partners making financial contributions to the United Nations development system in order to reduce the reliance of the system on a limited number of donors, as well as on progress made in increasing the donor base;

36. *Encourages* the United Nations funds, programmes and specialized agencies to further improve their communication to the general public on their mandates and development results, recognizing the important contribution made by those Governments in providing significant core contributions to regular resources of those organizations, and invites the United Nations funds and programmes and specialized

agencies to provide information on efforts made in communicating to the general public in their annual reports to the Economic and Social Council from 2013 onwards;

37. *Encourages* the United Nations funds and programmes to continue to actively engage with the Bretton Woods institutions, the regional development banks, civil society, the private sector and foundations with a view to diversifying potential sources of funding, especially core funding, for their operational activities for development, in alignment with the core principles of the United Nations development.

38. Expressed concern over the lack of progress by governing bodies in the development and operationalization of the concept of the 'critical mass' of core resources

39. Reiterated the positive potential impact of determining the level of critical mass of core resources for United Nations development agencies, and requests the funds and programmes to define common principles for the concept of critical mass of core resources, which may include the level of resources adequate to respond to the needs of the programme countries and to produce the results expected in strategic plans, including administrative, management and programme costs, and to present specific proposals to their respective governing bodies by the end of 2013 with a view to a decision in 2014.

C. Improving the predictability and quality of resources

40. *Recognizes* that Member States and the United Nations development system should prioritize the allocation of core/regular resources and non-core resources that are more predictable, flexible, less earmarked and better aligned with the priorities of programme countries, including those included in the United Nations Development Assistance Framework, and with the strategic plans and mandates of United Nations funds, programmes and specialized agencies;

41. *Encourages* the governing bodies of the United Nations funds, programmes and specialized agencies, as appropriate, to ensure that all available and projected core and non-core resources are consolidated within an integrated budgetary framework, based on the priorities of their respective strategic plans;

42. *Requests* that, as a practice, all available and projected financial contributions for operational activities for development of the United Nations system at the country level be consolidated within a common budgetary framework, which would not constitute a legal constraint on the spending authority of resources, and that the framework be used to strengthen the quality of system-wide resource planning in support of the United Nations Development Assistance Framework, and also requests the funds and programmes, and encourages the specialized agencies, to provide the necessary information on contributions to the resident coordinators upon agreement with programme countries;

43. *Stresses* the need to avoid the use of core/regular resources to subsidize non-core/extra budgetary financed activities, including the use of core/regular resources to

cover costs related to the management and support of non-core/extra budgetary funds and their programme activities;

44. *Encourages* Member States making non-core contributions to reduce transaction costs, assign resources, as much as possible, at the beginning of the annual planning period, while encouraging multi-year duration of implementation of development-related activities, streamline and harmonize requirements related to reporting, monitoring and evaluation and give priority to pooled, thematic and joint funding mechanisms applied at the global, regional and country levels;

45. *Acknowledges* the on-going work by the United Nations Development Programme, the United Nations Population Fund, the United Nations Children's Fund and the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) towards agency-specific integrated budgets, including harmonization of cost classification, and looks forward to the completion of this work to allow a better alignment of programming and resources in the next generation of strategic plans;

46. *Requests*, in this regard, the executive boards of the funds and programmes and the governing bodies of the specialized agencies, as appropriate, to organize structured dialogues during 2014 on how to finance the development results agreed in the new strategic planning cycle of their respective entities, with a view to making non-core resources more predictable and less restricted/earmarked, broadening the donor base and improving the adequacy and predictability of resource flows;

D. Ensuring full cost recovery

47. *Welcomes* the decisions of the Executive Boards of the United Nations Development Programme, the United Nations Population Fund, the United Nations Children's Fund and UN-Women on a harmonized cost classification methodology, in particular with regard to the classification of costs relating to programme activities and to non-programme activities, takes note of the current work being undertaken by the four organizations on a harmonized conceptual framework and calculation methodology for cost recovery rates, and in this regard looks forward to its completion by early 2013;

48. *Reaffirms*, in this regard, that the guiding principle governing the financing of all non-programme costs should be based on full cost recovery, proportionally, from core and non-core funding sources;

49. *Acknowledges* the principle of full cost recovery;

50. *Also acknowledges* that United Nations organizations have different business models and mandates and that this implies that their funding structures differ;

51. *Notes with concern* that the non-programme costs relating to non-core programme activities continue to draw resources from core resources for programme activities;

52. *Urges* Member States making non-core contributions to reduce transaction costs and to streamline reporting requirements, where possible;



53. *Requests* the executive boards of the United Nations funds and programmes, and encourages the governing bodies of the specialized agencies, to adopt cost recovery frameworks by 2013, with a view to their full implementation in 2014, based on the guiding principle of full cost recovery, proportionally, from core and non-core resources, and a simple, transparent and harmonized methodology, providing incentives, including through differentiated cost recovery rates, and taking into account different volumes and nature of funds to increase core funding and more predictable, flexible and less earmarked non-core contributions that are aligned with the strategic plans adopted by the respective governing bodies;

54. *Requests* the United Nations funds and programmes, and urges the specialized agencies, to include estimated amounts to be recovered in their budgets and to report on actual cost recovery amounts as part of their regular financial reporting;

55. *Requests* the Secretary-General to report on the progress made in the context of his annual report on the funding of operational activities for development, including options for incentive mechanisms for increasing core resources, to be applied at a system-wide level;

56. *Requests* the United Nations funds and programmes to further pursue reductions in management costs in the effort to minimize the necessary cost recovery rate within the existing budget.