
Financing of administration and management costs

Report by the Secretariat

1. The findings of a detailed external review of WHO's administration and management costs and their financing were reported to the Executive Board in May 2013.¹
2. The report contained recommendations on:
 - (1) improved definition of administration and management costs;
 - (2) improved budgeting and monitoring;
 - (3) proposed options for future financing.
3. This paper contains the Director-General's proposals for carrying out those recommendations. The proposals take into consideration the suggestions made by participants at the Financing Dialogue meeting on 25–26 November 2013, as well as observations of the Independent Expert Oversight Advisory Committee.

DEFINITION OF ADMINISTRATION AND MANAGEMENT

4. As recommended in the report, the starting point for effective management and financing of administration and management is having a clear definition of what constitutes administration and management in WHO.
5. It is suggested that, in future, administration and management costs should be categorized as follows:

INFRASTRUCTURE AND ADMINISTRATIVE SUPPORT

6. This covers the following:
 - (1) **Infrastructure costs:** upkeep of premises, running costs (heating, lighting and other basic services) and maintenance costs. Adequate provision for capital investment also needs to be included.
 - (2) **Administrative support services:** required to run WHO's programmes, including services at country, regional and headquarters level in support of programme implementation. Such services include: financial, information technology, human resources, security, procurement and transportation.

¹ See documents EBPBAC18/3 and EB133/2.

7. The majority of the costs currently come under strategic objective 13, with some also falling under strategic objectives 1 to 11, for example, finance and other administration costs directly attributable to voluntary funded projects and charged to those contributions.

8. Infrastructure and administrative support costs for the biennium are estimated to be US\$ 580 million.

STEWARDSHIP AND GOVERNANCE

9. This covers the following:

(1) **Strategic management:** staff and activity costs supporting the Organization's leadership role for all three levels and including the Director-General, the Deputy Director-General, regional directors, assistant directors-general and heads of WHO country offices, as well as the associated activity costs.

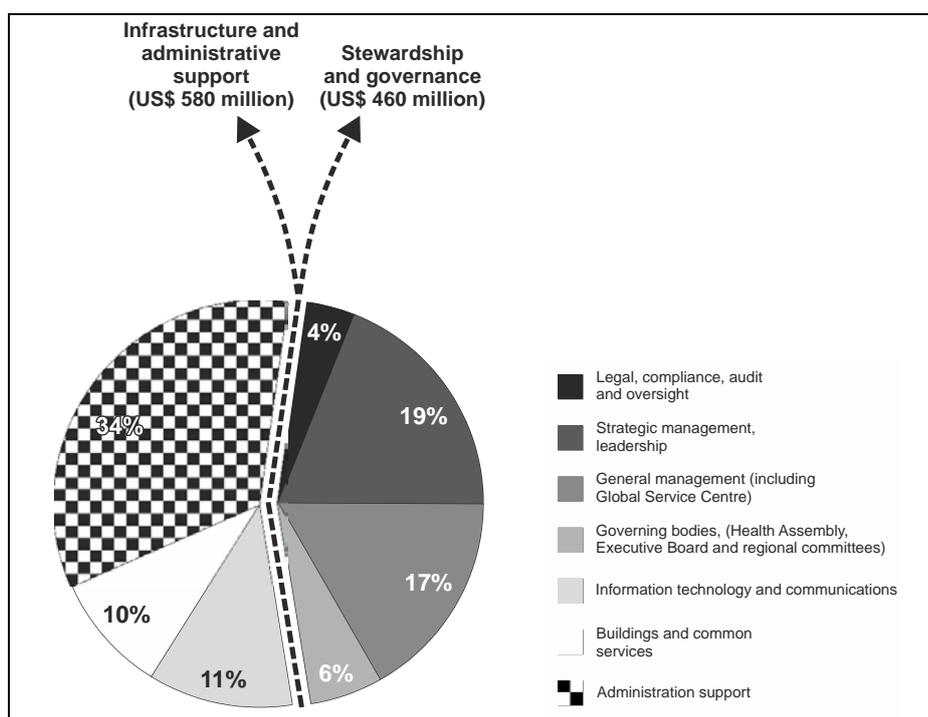
(2) **General management:** Organization-wide planning; financial, procurement and human resources management. Such services are based primarily at headquarters, for example, preparation of Organization-wide financial statements and setting global human resources policies, and at the Global Service Centre.

(3) **Governing bodies:** organization of regional committees, Executive Board sessions, Health Assemblies and Programme, Budget and Administration Committee meetings, including language and other support requirements (both staff and activities), as well as other intergovernmental meetings, for example, open-ended working groups. Such services are based in headquarters and regional offices.

(4) **Legal, oversight and compliance:** services are based in headquarters and regional offices.

10. Stewardship and governance costs currently comprise an estimated US\$ 460 million for the biennium, budgeted and expensed in 2012–2013 in both strategic objective 12 and strategic objective 13.

11. A detailed breakdown of stewardship, governance, infrastructure and administrative support costs is provided in the chart below:



BUDGETING FOR ADMINISTRATION AND MANAGEMENT COSTS

12. The majority of administration and management costs have been budgeted as a separate category (2014–2015). The external review highlighted shortcomings in this approach:

- (1) establishing a clear linkage between the achievement of expected results and the associated costs is difficult because budgeting for category 6 is separate;
- (2) where administration and management is included in categories 1 to 5 rather than category 6, for example, programme management and administration costs of project implementation, the full cost of administration and management is not clear. This reduces transparency and could hinder the setting of efficiency and cost reduction targets;
- (3) in category 6, not all costs are visible because the segment that is financed by the post occupancy charge¹ is recorded under salary costs across all six categories.

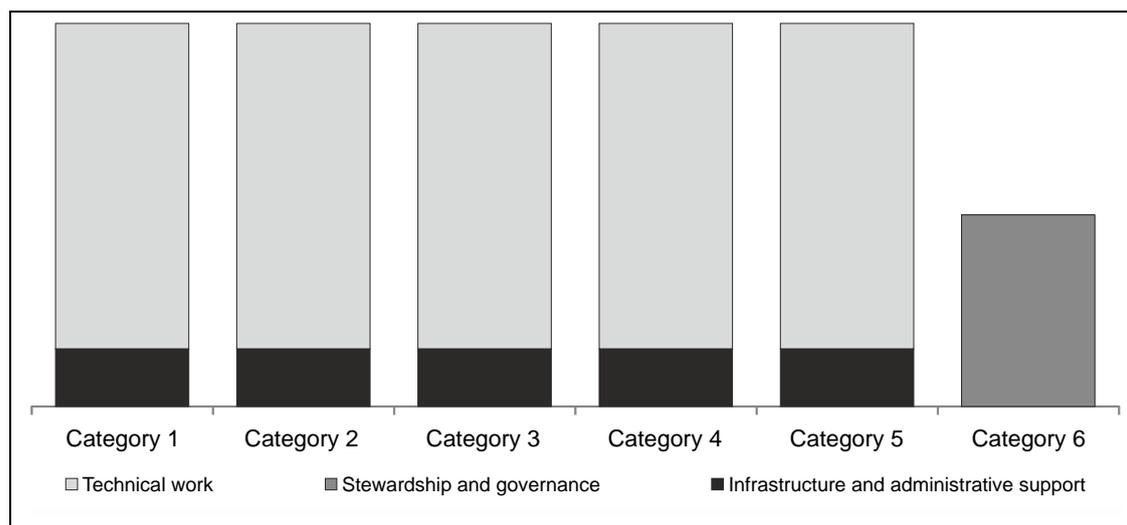
13. **In future it is proposed that:**

- (1) stewardship and governance costs should be a separate category to clearly demonstrate that they are critical to the functioning of the Organization and represent fixed and “indirect” costs. (Such costs are indirect because they cannot easily be attributed to programmes.) Transparent descriptions of services will be provided and costs clearly established in future budgets;

¹ Post occupancy charge is a fixed percentage that is added to salary costs and is used to finance some administrative support and infrastructure costs.

(2) infrastructure and administration should be budgeted for under each of the five technical categories, but, in the interests of transparency and setting efficiency targets, their total cost should be identified separately. Some infrastructure and administration costs would be allocated to support stewardship and governance functions.

14. This budgeting structure is shown below:



FINANCING OF ADMINISTRATION AND MANAGEMENT COSTS

15. For the first 34 years of WHO's existence, all administration and management costs were financed out of assessed contributions. Following the gradual introduction of "extrabudgetary" funds (non-assessed contributions), the Health Assembly, in 1981, endorsed the introduction of a 13% charge on all voluntary contributions to cover the incremental administration and management costs associated with the implementation of projects funded out of voluntary contributions (resolution WHA34.17).

16. Over the past 15 years, voluntary contributions have increased and now finance 77% of the Organizations' work; for some programmes they are the only source of funding.

17. During the same period, numerous exceptions were made to the 13% programme support cost rate, which applied across the United Nations system, usually as a result of negotiations with donors.

18. Because of the erosion of programme support cost earnings, and, in order to ensure that administration and management costs were adequately funded, a new cost recovery mechanism known as the "post occupancy charge" was introduced in 2010. It is a fixed percentage charge on all salary costs (currently 8.5%), which finances infrastructure costs arising from staff presence in WHO offices.

19. The Real Estate Fund was created in May 1970¹ initially to support all major capital investment needs related to real estate. It has been funded through periodic transfers from assessed contributions, and, more recently, through the post occupancy charge. However, the level of financing has fallen far short of total real estate financing needs and the Fund has become one of several financing "pools" for administration and management.

¹ World Health Assembly resolution WHA23.14.

20. Service fees are charged to hosted entities, which partly compensates for the incremental cost of administration and management in supporting such partnerships. The actual cost of hosted partnerships still needs to be established in order to ensure full cost recovery.

21. The multiple sources of financing of administration and management create real and potential difficulties for the effective and transparent management of the Organization:

- (1) sustainability of stewardship and governance functions is dependent in part on voluntary contributions, and, therefore, such functions may be arbitrarily cut if funding is not forthcoming;
- (2) perceived cross subsidization: services funded through assessed contributions are supporting activities funded through voluntary contributions;
- (3) perceived lack of transparency: multiple financing sources make it difficult to clearly identify the “total” administration and management costs incurred in supporting programmes;
- (4) fragmented financing means there is no mechanism for establishing cost efficiency targets;
- (5) lack of sustainable financing for real estate and other capital investment needs.

22. The external report included four possible options for future financing of administration and management costs, ranging from one to a combination of the following:

- (1) direct financing from assessed contributions: this has the advantage of simplicity, but limits the use of assessed contributions;
- (2) direct financing from voluntary contributions: recommended for “direct” administrative and management costs (specific to the project being financed). This option is transparent and fair, but many administration and management costs cannot be charged directly, limiting the extent to which it can be applied;
- (3) allocation of costs to all programmes regardless of funding source based on a “cost-driver”, such as the number of staff assigned to a programme, the number of transactions generated or amount of office space occupied. The cost driver would then be used to assign a percentage of administration and management costs to each programme. This has the advantage of scalability: the level of administration and management involved would increase in proportion to how much a programme was used and be matched by an increase in funding. However, many contributors would have difficulty in accepting a high allocation percentage – probably much higher than WHO’s existing 13% programme support cost rate. Furthermore, the selection of a single rate for all contributors might not be fair for all WHO programmes because of significant differences in the type of work involved, and, therefore, in the support needed;
- (4) an allocation method restricted to programmes funded from voluntary contributions similar to the existing programme support cost mechanism has the advantages of simplicity and continuity. However, contributors might still perceive a lack of transparency in the way services were financed by the programme support costs they paid.

23. Ultimately, with an integrated budget, it should not matter which funding source is used. However, until WHO has introduced more flexibility in the way the budget is financed, the actual financing realities continue to require a programmatic approach.

24. Considering such financing realities and the advantages and disadvantages of each option, the suggested approach for 2016–2017 is as follows:

- (1) stewardship and governance to be financed from assessed contributions;
- (2) infrastructure and administrative support to be financed from:
 - (a) direct charges to programmes regardless of the source of funding (voluntary contributions or assessed contributions). Budgeting for contributors' proposals would be improved to ensure all such direct costs were included;
 - (b) indirect charges would include provision for long-term capital financing and be allocated to voluntary contributions via cost allocations in a way that resembles the programme support cost mechanism, but which is more transparent:
 - (i) the Organization would prepare a "programme support cost budget" outlining the services that are expected to be financed from programme support costs; this would include provision for transfers to the Real Estate Fund to ensure adequacy of long-term capital financing;
 - (ii) consideration would be given to differential programme support cost rates, reflecting the level of both the complexity of the work and the earmarking of funds. Funds that are not earmarked could be exempt from programme support costs.

NEXT STEPS

25. With the Programme budget 2014–2015 having already been approved and agreements signed with numerous donors, it is not practicable to consider implementing changes until the biennium 2016–2017. However, given that planning for the biennium will soon begin and discussions are already taking place with donors, a gradual implementation of the changes needs to begin relatively soon.

26. The definition, budgeting, recording and financing of administration and management services should also support and encourage the pursuit of efficiencies. Clarity in budgeting and improved consistency in recording will help in the setting and monitoring of efficiency targets and in identifying further possible savings. In 2012–2013, the Organization has made progress in reducing administration and management costs, notably by cutting the number of staff in headquarters, with some functions being re-located to the Global Service Centre and others being outsourced to external contractors. Further opportunities for cost savings in administration and management are being explored. Improvements in coordinated resource mobilization and streamlined donor reporting should reduce management time spent in raising contributions, and encouraging contributors to accept standard reporting rather than specific reports would also generate efficiencies.

27. A further update will be provided to the twentieth meeting of the Programme, Budget and Administration Committee in May 2014.

ACTION BY THE EXECUTIVE BOARD

28. The Board is invited to consider the report and provide guidance on the proposed approaches for future administration and management budgeting and financing, with a view to their being incorporated in the proposed programme budget for 2016–2017.

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