

Matters emanating from the Agile Member States Task Group on Strengthening WHO's Budgetary, Programmatic and Financing Governance

Cost recovery mechanisms for voluntary contributions – an update

Report by the Director-General

SUMMARY POINTS

1. The following summary provides the Executive Board with a quick overview of the main points covered in this report.
2. Since the PricewaterhouseCoopers report in 2012 on the Secretariat's cost recovery mechanisms¹ and pursuant to the Board's request in decision EB152(15) (2023), the Secretariat has made good progress in improving the classification of its management and administration costs.
3. Funding collected through those mechanisms still does not meet the total cost of enabling functions,² mainly because of increased earmarked voluntary funding, increased volumes of voluntary contributions with low rates of cost recovery, and difficulties in financing enabling costs directly from programmes financed by voluntary contributions.
4. Measures to fill this structural gap need: better adherence to current cost recovery methods; improved financing methods for enabling services costs, through a combination of assessed contributions and indirect cost recovery methods; and more durable financing, through the agreed increases in the levels of assessed contributions, improvements in the flexibility of voluntary contributions and more timely receipt of contributions.

INTRODUCTION

5. In decision EB152(15) (2023), the Executive Board requested the Director-General "to review the 2012 analysis on cost recovery for voluntary contributions ... to assess whether the recommendations from that analysis still hold and propose feasible actions for further implementing the recommendations and the suggestions to address the new challenges emerging from the review, as well as provide guidance

¹ Document EBPBAC 18/3.

² WHO's enabling functions ensure a more effective and efficient WHO that provides better support to countries and collectively enable the organization to deliver its programme and normative agenda. The following activities are concerned: leadership; governance; advocacy for health; innovation; accountability and oversight; infrastructure; and financial, human and administrative services.

for conducting further analysis”. This report updates the key findings of the analysis in 2012 by an external consultant on cost recovery (the “2012 Report”)¹ and the Secretariat’s proposals which were noted by the Executive Board at its 134th session in January 2014.²

6. Annual averages for the period 2020–2022 are compared to those for the periods covered by the 2012 Report. The cost categories of enabling services are those currently in use: stewardship and governance, and infrastructure and administrative costs (see Annex 1 for the evolution of categories, definitions and related outcome codes since the 2012 Report).

UPDATE TO THE KEY FINDINGS AND RECOMMENDATIONS IN THE 2012 REPORT

Enabling services costs

7. The average annual enabling services costs in 2010–2011 were US\$ 406 million (17% of total expenditures) and in 2020–2022 US\$ 479 million (13% of total expenditures) (Table 1).

Table 1. Enabling services costs at various periods

	2010–2011 (2012 Report)			2012–2013 ^a			Update (2020–2022)		
	US\$ million	Percentage of total enabling costs	Percentage of total expenses	US\$ million	Percentage of total enabling costs	Percentage of total expenses	US\$ million	Percentage of total enabling costs	Percentage of total expenses
Stewardship and governance costs (earlier Core management costs)	136	33%	6%	230	44%	11%	221	46%	6%
Infrastructure and administration costs (earlier Administration costs)	270	67%	11%	290	56%	13%	258	54%	7%
Total annual average enabling services cost	406	100%	17%	520	100%	24%	479	100%	13%

^a Document EB134/11.

8. Enabling services costs have not grown at the same pace as those for the rest of the Organization: in the period 2016 to 2022, they rose 29.9% compared with 55.7% growth in total expenses. Although this trend is positive, the risk of a return to pre-pandemic financing levels may affect the ability to sustain this relatively lower proportion of total expenses while financing the infrastructure necessary to support accountability and efficiency of activities across WHO (Table 2).

¹ Document EBPBAC 18/3.

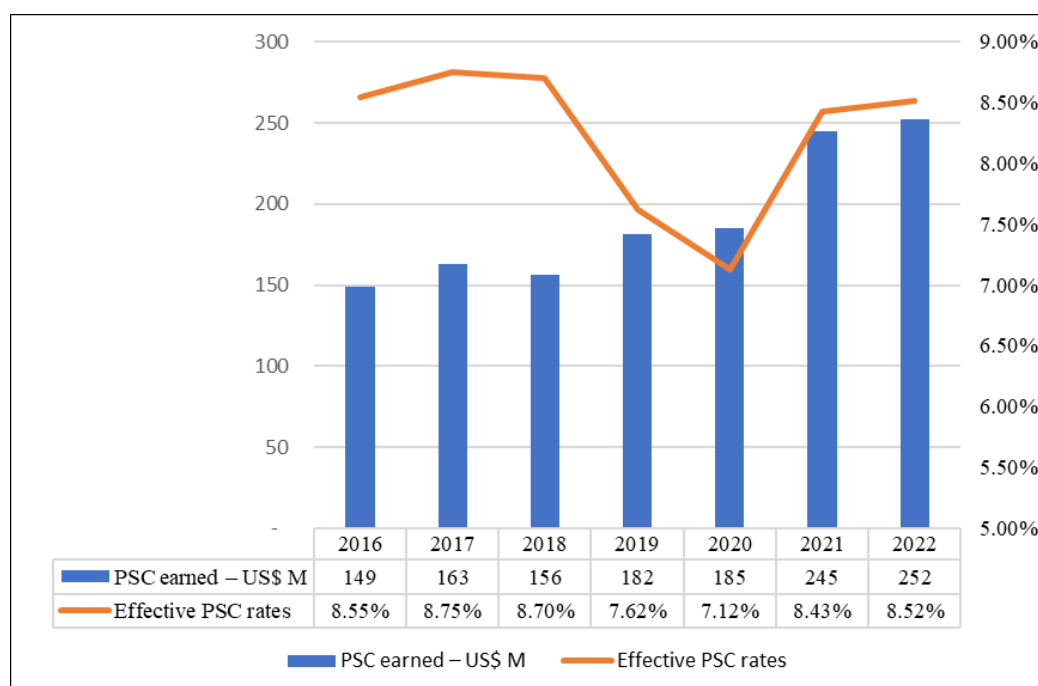
² Documents EB134/11 and EB134/2014/REC/2, summary records of the Executive Board at its 134th session, sixth meeting.

Table 2. Enabling services cost as a percentage of total expenses (2016–2022)

Costs/expenses	Year							Average of three-year period (2020–2022)
	2016	2017	2018	2019	2020	2021	2022	
Total expenses (US\$ million)	2 471	2 680	2 500	3 088	3 561	3 718	3 848	3 709
Total cost of enabling services (US\$ million)	385	432	401	454	432	505	500	479
Enabling services: cost as percentage of total expenses	16%	16%	16%	15%	12%	14%	13%	13%

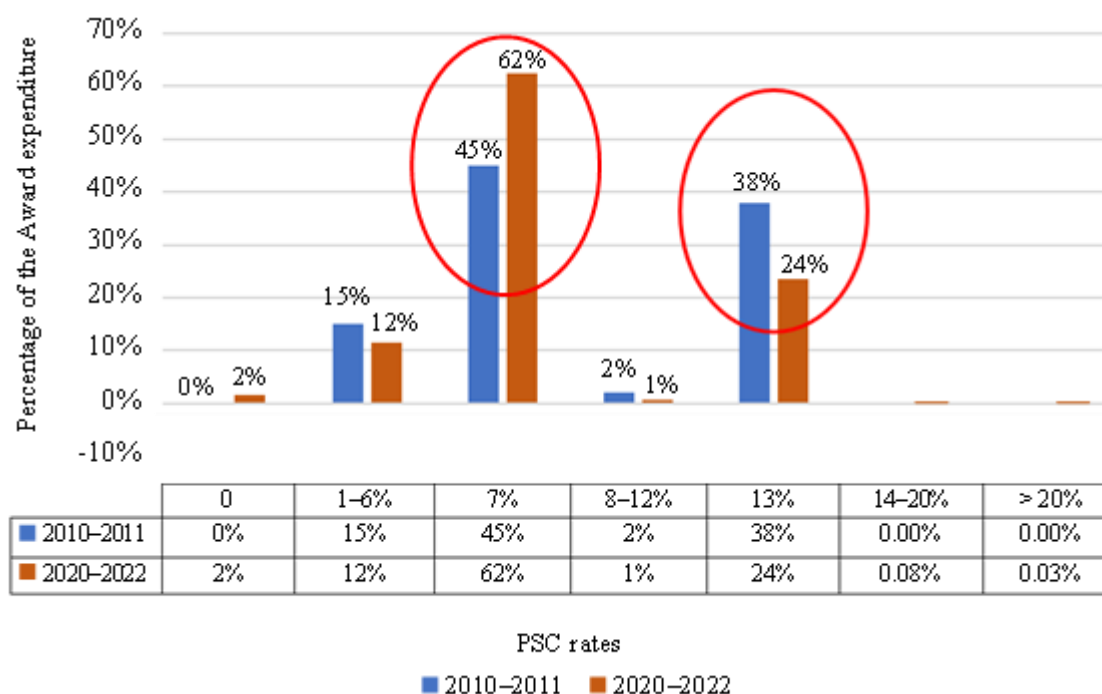
Rate of collection of programme support costs

9. The 2012 Report found that the effective rate of programme support costs collected on voluntary funds was 6.7% for 2010–2011 and 7.1% for the period January–October 2012. Figure 1 below sets out the trend in annual effective programme support costs rates earned.

Fig. 1. Trends in effective programme support costs (PSC) rates earned

10. For the period 2020–2022, the annual average effective rate rose to 8.06%. This is lower than the 8.52% rate achieved in 2022 (Fig. 1) owing to higher levels of emergency activities (with lower programme support costs rates) and reduced rates for certain funding (for example, funding from international financial institutions and that for polio eradication). Although the upward trend in rates since the 2012 Report is welcome, the expenditure volumes that generate the 7% rate have also increased and those that generate 13% standard rate have decreased (Fig. 2).

Fig. 2. Award expenditure (as a percentage) compared with programme support costs rates for 2010–2011 and 2020–2022



11. Compared with the 2012 figure, the proportion of the voluntary funds by volume in 2020–2022 applying a rate of 7% or less had risen, from 60% to 76%, reflecting the competitive landscape for development funding. This concerning trend demonstrates the continued demands faced for reduced and exceptional rates of programme support costs, which results in the shortfall of indirect cost recovery to adequately finance enabling services costs.

Financing enabling services costs

12. Currently 51% of the total enabling services costs is funded through indirect cost recovery (34% funded by programme support costs, 15% by the position occupancy charge and 2% by the capital management plan charge), compared to the figure of 57% recommended in the 2012 Report, a 6% gap. The remaining 49% of enabling services costs is covered by direct financing through assessed contributions (40%) and voluntary contributions funds of technical programmes (9%) (Table 3).

13. Furthermore, Table 3 illustrates that the position occupancy charge and the capital management plan charge¹ also recover indirect costs. At present the former is not collected on non-staff personnel costs; and the latter currently does not cover the depreciation costs of capital assets as the 2012 Report recommended. Collecting these elements could contribute towards closing the indirect cost recovery gap (see paragraphs 9 and 22).

¹ Position occupancy charge was introduced in 2010 as a levy on gross salaries of staff members and holders of special service agreements, presently 9.5%: 8.5% for position occupancy charge and 1% for the capital management plan. The latter component finances real estate investments.

Table 3. Financing of enabling services costs (annual average 2020–2022) in US\$ million

Cost recovery elements	Findings of the 2012 Report	Recommended by the 2012 Report	2020–2022 (Enabling costs and proportion of total expenses by funding sources)					Difference compared with recommendations
			AC	VC	Total	Percentage of WHO expenses	Percentage of total enabling costs	
PSC	22%	43%		161	161	4.4%	34%	-9%
POC	12%	12%	26	47	73	2.0%	15%	3%
CMP charge		2%	4	8	12	0.3%	2%	0%
Direct by AC	61%	43%	190		190	5.1%	40%	-3%
Direct by VC	5%			43	43	1.2%	9%	9%
Total	100%	100%	220	259	479	13%	100	0%
% of total			46%	54%	100%			

AC: assessed contribution; VC: voluntary contributions; PSC: programme support costs; POC: position occupancy charge; CMP: capital management plan

14. The 2012 Report forecasted that implementation of the recommendations would enable 43% of enabling services costs to be funded directly by assessed contributions (as against 61% at the time), thereby releasing 18% of those contributions to fund strategically important programmes. It also recommended that the remaining 57% of enabling services costs be funded through indirect cost recovery mechanisms (Table 3). Member States noted the recommendation to fund stewardship and governance activities directly by assessed contributions; with infrastructure and administration to be funded by indirect cost recovery.¹

15. Between 2020 and 2022, the average percentage of enabling services costs funded by assessed contributions declined from 61% to 46% (compared to the recommended 43%). Although the trend is in the right direction, this drop can largely be attributed to the significant growth in voluntary contributions, the static levels of assessed contributions and a relatively slower growth in indirect cost recovery to finance enabling services costs (indirect cost recoveries financed 51% of enabling services costs, compared with the recommended 57%) since the 2012 Report.

Financing enabling services costs by cost categories

16. The average of stewardship and governance costs accounts for 46% of the total enabling costs, 32% of which was funded by assessed contributions (Table 4), as opposed to the target of full financing by assessed contributions. Furthermore, looking ahead WHO seeks to strengthen its capacity at the country level to achieve its objectives, the costs of which would be categorized as stewardship and governance and thus further strain the financing of enabling services costs by assessed contributions.

¹ Documents EB134/11 and EB134/2014/REC/2, summary records of the Executive Board at its 134th session, sixth meeting.

Table 4. Cost categories of enabling services and funding sources (annual averages 2020–2022) in US\$ million

Cost recovery elements/funding sources	Stewardship and governance costs		Infrastructure and administrative costs		Total		Grand total
	AC	VC	AC	VC	AC	VC	
PSC		28		133		161	161
POC	3	6	23	41	26	47	73
CPM charge			4	8	4	8	12
Directly financed	152	32	38	11	190	43	233
Total	155	66	65	193	220	259	479
Percentage of total enabling costs, by contribution type	32%	14%	14%	40%	46%	54%	100%
Percentage of total enabling costs, all contributions	46%		54%		46%	54%	100%
Findings of the 2012 Report	41%		59%		61%	39%	100%

AC: assessed contribution; VC: voluntary contributions; PSC: programme support costs; POC: position occupancy charge; CMP: capital management plan

17. Table 4 also illustrates that assessed contributions funded an average of US\$ 38 million per year of infrastructure and administrative costs in 2020–2022, which the 2012 Report recommended should have been funded by indirect cost recovery. Similarly, voluntary contributions funded on average US\$ 66 million of stewardship and governance costs, which had been recommended to be funded by assessed contributions. The challenge is to mobilize voluntary contributions effectively for financing directly infrastructure and administrative costs and to recover appropriate levels of those costs through voluntary contribution agreements¹ – mainly driven by the lack of attractiveness to donors – which explains the continuing reliance on assessed contributions.

18. The 2012 Report recommended harmonization and consistent application of cost recovery and funding principles at headquarters, regional offices, country offices and shared service locations. Analysis of the costs incurred indicates that country offices, regional offices and headquarters receive 25%, 28% and 47% of the funding for covering their respective enabling services costs of which, 14%, 11% and 15% is funded from assessed contributions (see Annex 2).

19. Analysis of the expenditure incurred by the country offices across the two categories of enabling services costs vis-à-vis the funding sources used indicates that, with more flexible funding, there would be some scope to better align allocations and expenses. For example, some programmatic expenses for transfer and grants could have been financed using enabling services cost allocations (see Annex 3).

Cross-subsidization

20. A recurring theme in discussions with Member States is cross-subsidization, meaning in this context the use of assessed contributions to finance part of the cost incurred in implementing programmes funded by voluntary contributions, whether direct or indirect.

21. One practical approach to measuring cross-subsidization is to assume the recovery of all enabling services costs through a single charge rate for programme support costs of 13% on all programmes, whether funded by assessed or voluntary contributions. Table 5 shows that the former may be funding up to US\$ 155 million in enabling service costs that otherwise would have been recovered from voluntary contributions.

¹ In line with Financial Regulation VIII, paragraph 8.2, as amended by resolution WHA76.9 (2023).

Table 5. Amount of cross subsidization between assessed contributions and voluntary contributions (annual average for the period 2020–2022 in US\$ million)

Details/funding source	Assessed contributions	Voluntary contributions	Total
WHO expenditure	508	3 201	3 709
Single charge of cost recovery (%)	13%	13%	13%
Financing based in single recovery rate	65	414	479
Current funding	220	259	479
Deemed excess/(under) funded	155	(155)	0

22. The estimate of cross-subsidization does not consider whether certain key activities should be funded solely or to a higher proportion by assessed contributions instead of voluntary contributions; these activities include executive management and governance activities, and corporate accountability functions, as well as oversight activities who require professional independence from the providers of financing. Given the recommendation to finance stewardship and governance costs from assessed contributions and infrastructure and administration costs from indirect cost recovery, as illustrated in Table 6, section C, an additional US\$ 31 million in assessed contributions and US\$ 12 million of indirect cost recovery¹ would need to be collected to fill the gaps and implement fully the recommendations.

Table 6. Effect of implementing the recommendations of the 2012 Report on financing enabling costs (US\$ million)

Funding source	Stewardship and governance costs	Infrastructure and administration costs	Total
<i>A. Current financing mechanism (annual average 2020–2022)</i>			
AC – directly financed	152	38	190
VC – directly financed	32	11	43
Indirect cost recovery	37	209	246
Total	221	258	479
<i>B. Financing mechanism if the 2012 Report recommendations had been implemented</i>			
AC – directly financed	221	0	221
VC – directly financed	0	0	0
Indirect cost recovery	0	258	258
Total	221	258	479
<i>C. Effect of implementing full financing of stewardship and governance costs by assessed contributions (US\$ million)</i>			
AC – directly financed	(69)	38	(31)
VC – directly financed	32	11	43
Indirect cost recovery	37	(49)	(12)
Total	0	0	0

AC: assessed contributions; VC: voluntary contributions

¹ This gap is driven by the fact that the Secretariat aligns its infrastructure and administrative budgets and costs to the available funds rather than investment needs. This has led to an underinvestment in capital expenditure to replace existing capital assets, by not recovering the depreciation costs through indirect cost recovery.

PROPOSED WAY FORWARD

23. Good progress has been made to improve WHO's recovery of costs, resulting in a more simplified, scalable and transparent approach. To build upon this progress, further increasing the proportion of infrastructure and administration activities financed by indirect cost recovery, and reducing cross-subsidization, the Secretariat proposes further actions, as follows:

- (a) to increase the rate of collection of programme support costs, by reviewing and updating the pertaining policy, including exploring opportunities to sunset past exceptions (for example, coronavirus disease (COVID-19) and goods donated in kind), reducing exceptions, and aligning programme support cost rates recovered from United Nations agencies from 7% to 8%, where this better reflects their own practice;
- (b) to extend the application of the position occupancy charge to non-staff personnel costs (who largely support programmatic activities), reduce exceptional costs funded by the position occupancy charge collected, and extend the capital management plan charge to include depreciation as recommended by the 2012 Report;
- (c) to review the principles of allocation of categories of funding to finance enabling services costs;
- (d) to review and monitor relevant costs and funding sources, including:
 - (i) the nature of costs at headquarters and regional offices, to identify the core activities (including identification of "global" corporate activities) that in the context of increasing assessed contributions should best be financed more fully from that source; and ensure that other costs are consistently financed by the appropriate funding source (namely, assessed contributions, voluntary contributions or indirect cost recovery);
 - (ii) expenditure types and/or categories of costs in country offices, to formulate global standards and practices to better allocate direct variable costs to programmes funded by voluntary contributions, and to ensure their appropriate inclusion in voluntary contribution agreements, thus reducing cross-subsidization and releasing assessed contributions for the financing of priority country-level technical programmes;
- (e) to raise the awareness of funding partners and staff members, through communication and outreach activities, of the importance of full cost recovery of voluntary contributions, for both indirect and direct costs, and the importance of accurate cost categorization of expenses and the use of appropriate funding streams to finance enabling services costs.

ACTION BY THE EXECUTIVE BOARD

24. The Board is invited to note the report and consider the following draft decision:

The Executive Board,

Having considered the report on Matters emanating from the Agile Member States Task Group on Strengthening WHO's Budgetary, Programmatic and Financing Governance: cost recovery mechanisms for voluntary contributions – an update;¹

Noting the importance of sufficient, predictable and flexible resources to ensure that enabling services costs are adequately funded;

Recalling the need for voluntary contributions to include sufficient amounts to cover the full cost of implementation,²

Decided:

- (1) to urge Member States and donors to minimize demands for reduced rates of indirect cost recovery, while also ensuring that appropriate levels of direct costs are funded to enable the achievement of quality results;
- (2) to encourage all donors to continue their dialogue with WHO on shifting from highly-earmarked to more flexible and timely voluntary resources, with appropriate cost recovery;
- (3) to request the Director-General to report on the implementation of this decision to the 158th session of the Executive Board in January 2026.

¹ Document EB154/33 Add.3.

² In line with Financial Regulation VIII, paragraph 8.2.

ANNEX 1

EVOLUTION OF COST CATEGORIES SINCE THE 2012 COST RECOVERY REPORT

Until 2012		2012–2020		2020–2022 (Indirect fixed costs)	
Strategic objective	Group	Categories	Description (Corporate services/enabling functions)	Global outcome codes	Description
12	Core management	6.001	Leadership and governance	4.001	Country capacity in data and innovation
		6.002	Transparency, accountability and risk management	4.002	Leadership, governance and advocacy
		6.003	Strategic planning, resource coordination and reporting	96.042	Internally financed leadership, governance and advocacy
		6.005	Strategic communications		
13	Administration	6.004	Management and administration	4.003	Financial, human and administrative resources
				96.043	Internally financed financial, human and administrative resources

CURRENT VIEW OF THE ADMINISTRATIVE AND MANAGEMENT COSTS AND THE GLOBAL OUTCOME CODES

Cost category of enabling services	Global outcome codes
Stewardship and governance	4.002 + 6.001 + 6.002 + 6.003 + 6.005 + 96.042
Infrastructure and administrative costs	4.003 + 6.004 + 96.043

ANNEX 2

ANALYSIS OF ENABLING SERVICES COSTS AND FUNDING SOURCES ACROSS THE ORGANIZATION

Total cost of enabling services - annual average 2020–2022 (US\$ million)				
Funding source	Stewardship and governance	Infrastructure and administration support	Total	Percentage of total enabling service costs
AC – directly financed	152	38	190	40%
PSC	28	133	161	34%
POC	9	64	73	15%
CMP charge		12	12	3%
VC – directly financed	32	11	43	9%
Total	221	258	479	100%

Country offices				
Funding source	Stewardship and governance	Infrastructure and administration support	Total	Percentage of total enabling service costs
AC – directly financed	40	29	69	14%
PSC	4	32	36	7%
POC			0	
CMP charge			0	
VC – directly financed	11	5	16	3%
Total	55	66	121	25%

Regional offices				
Funding source	Stewardship and governance	Infrastructure and administration support	Total	Percentage of total enabling service costs
AC – directly financed	43	8	51	11%
PSC	8	33	41	9%
POC	0	29	29	6%
CMP			0	
VC – directly financed	10	1	11	2%
Total	61	71	132	28%

Headquarters				
Funding source	Stewardship and governance	Infrastructure and administration support	Total	Percentage of total enabling service costs
AC – directly financed	69	1	70	15%
PSC	16	68	84	18%
POC	9	35	44	9%
CMP		12	12	3%
VC – directly financed	11	5	16	3%
Total	105	121	226	47%

AC: assessed contribution; VC: voluntary contributions; PSC: programme support costs; POC: position occupancy charge; CMP: capital management plan

ANNEX 3

**EXPENSES AT COUNTRY OFFICES FROM THE ENABLING SERVICES BUDGET
(ANNUAL AVERAGE 2020–2022)**

Funding source	Stewardship and governance (code 4.002)	Infrastructure and administration support (code 4.003)	Grand total
	(US\$ million)		
Contractual services	3.26	7.81	11.07
512 – Consulting, research services	0.00	0.00	0.00
513 – Contractual services, general	2.31	3.90	6.21
517 – Training	0.14	0.07	0.21
524 – Security expenses	0.05	2.49	2.54
525 – Special services agreements expenses	0.34	1.22	1.56
527 – Direct implementations	0.42	0.12	0.55
Equipment, vehicles and furniture	0.07	2.07	2.14
515 – Equipment, vehicles and furniture	0.07	2.07	2.14
General operating expenses	0.97	15.17	16.14
519 – General operating costs	0.88	12.81	13.69
520 – Telecommunications	0.09	2.35	2.44
521 – Hospitality	0.01	0.00	0.01
Medical supplies and materials	0.04	0.30	0.34
514 – Medical supplies, literature	0.04	0.30	0.33
Staff and other personnel costs	48.31	39.81	88.12
501 – Staff costs: long-term	47.42	37.84	85.26
502 – Staff costs: short-term	0.65	1.51	2.16
503 – Staff costs: supplementary	0.24	0.46	0.70
Transfers and grants to counterparts	0.52	0.32	0.84
511 – Direct Financing Cooperation	0.33	0.10	0.44
516 – Fellowships	–	0.01	0.01
526 – Agreements with United Nations entities and nongovernmental organizations	0.00	0.02	0.02
555 – Equipment for third parties	0.18	0.19	0.38
Travel	1.46	0.90	2.36
518 – Travel	1.46	0.90	2.36
Grand total	54.63	66.38	121.01

Funding sources	Stewardship and governance (code 4.002)	Infrastructure ad administration support (code 4.003)	Grand total
AC – directly financed	40	29	69
PSC	4	32	36
POC	0	0	0
CMP charge	0	0	0
VC– directly financed	11	5	16
Grand total	55	66	121

AC: assessed contribution; VC: voluntary contributions; PSC: programme support costs; POC: position occupancy charge; CMP: capital management plan

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