World Health Organization

PROGRAMME, BUDGET AND ADMINISTRATION COMMITTEE OF THE EXECUTIVE BOARD
Eighteenth meeting
Provisional agenda item 4.2

EBPBAC18/3
12 April 2013

Administration and management cost study

Report by the Director-General

1. In January 2012 the Programme, Budget and Administration Committee of the Executive Board reviewed the preliminary recommendations of the study on the costs of administration and management at WHO[1] and requested that the final report be submitted to it well in advance of the next meeting in May 2013.[2] The terms of reference for the study were approved by the Committee at its sixteenth meeting.[3]

2. The Director-General has the honour to transmit the report (see Annex), prepared by an external consultant.

[1] Document EBPBAC17/INF./2.

[2] See document EB132/43.

[3] See document EB131/2.

ANNEX

Administration & Management Cost Study

World Health Organization

Report

31 January 2013

pwc

World Health Organization
Nicholas R Jeffreys
Comptroller
Avenue Appia 20
1211 Geneva 27
Switzerland

Geneva, 31 January 2013

Reference: 2012/GMG/FNM/0001

Subject: report – Administration and Management cost study

Dear Nick,

We are pleased to provide you with our preliminary report on the Administration and Management cost study. We developed this report in accordance with our contract dated 21 September 2012. Our services are subject to the terms and conditions included herein.

Our services were performed in accordance with the Standards for Consulting Services established by the American Institute of Certified Public Accountants (AICPA). Accordingly, we are not providing an opinion, attestation or other form of assurance with respect to our work and we did not verify or audit any information provided to us.

This information has been prepared solely for the use and benefit of, and pursuant to a client-relationship exclusively with WHO. PwC disclaims any contractual or other responsibility to others based on its use and, accordingly, this information may not be relied upon by anyone other than WHO.

We appreciate the opportunity to assist you with this matter.

Yours sincerely,

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Executive Summary

The WHO Executive Board at its special session on reform in November 2011 requested that the Programme Budget and Administration Committee (PBAC) commission a detailed analysis of the actual costs of Administration and Management (A&M) to the WHO and make recommendations on how these should be financed[1]. Following a competitive bidding process, PwC was selected to analyse WHO's A&M costs, identify new financing options for the recovery of those costs and define a workable road map for the potential implementation of the selected option. This executive summary highlights the key findings arising from the study.

The terms of reference for the study, approved by the PBAC at its sixteenth meeting,[2] were further refined at the onset of the engagement. The overarching objective of the study was to **determine the costs of A&M and assess the various options available for financing these costs through sustainable mechanisms in the next budget cycle, while improving the budgeting, control and reporting of costs**.

To this end, the study also aimed to:

- define A&M activities at WHO and their total cost throughout the Organization;
- identify cost drivers for A&M and the structure of A&M costs;
- analyse current A&M funding mechanisms and their ability to recover A&M costs;
- assess the net result of hosted partnerships and entities (i.e. whether WHO is subsidizing them);
- elaborate criteria for assessing and selecting the best approach to adopt;
- consider possible cost-recovery approaches to adopt, and perform simulations against specific scenarios;
- support transparent communication and reporting on cost allocation;
- assess the implications of the proposed recovery mechanisms for budgeting;
- examine improvements required in accountabilities, processes, data and technology; and
- elaborate a road map for implementation.

In order to deliver on the above mentioned objectives, **a structured and systematic approach was adopted**. First, a current state assessment was undertaken, covering both the A&M costs and the financing of these costs. This assessment was based on a detailed analysis of data for the period running from January 2010 to October 2012. The data required to perform this analysis was obtained from the 'Global Management System' (GSM) accounting system, demonstrating the importance of establishing systems that can bring transparency and support informed decision-making. Second, four potential financing options for A&M were assessed. This assessment was based on a review of trends and practices observed at other United Nations System and international organizations and followed predefined guiding principles. Third, recommendations and a high-level implementation road map were developed.

A WHO Steering Committee comprising representatives from headquarters and the regions reviewed the progress and provided guidance throughout the performance of the study. Specific meetings were organized with the regions and with headquarters' departments in order to validate findings, collect feedback and present results. A summary of the study's main findings is presented below.

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[1] See document EBSS/2/2, paragraph 136; the summary record of the fourth meeting in document EBSS/2011/REC/1; and the decision on managerial reforms of the Executive Board at its special session on reform, EBSS2(3), 1(b) financing of the Organization.
[2] See document EB131/2.

CURRENT STATE ASSESSMENT

Analysis of A&M costs

The study provided a cost categorization framework for the analysis of expenditures for the financial period 2010-2011. The framework distinguishes between core management activities and administrative support activities. The study analysed the total costs for A&M across the Organization and then focused on Strategic Objectives 12 and 13. Indirect WHO's A&M costs are indeed grouped under Strategic Objectives 12 and 13, the so-called "enabling Strategic Objectives", while the technical programmes are funded under Strategic Objectives 1 to 11.

The study estimates that in the financial period 2010-2011 **direct and indirect A&M costs represented between 31% and 33% of overall WHO expenditures**, of which 17% were related to Strategic Objectives 12 and 13. An important proportion of A&M costs relate to **travel and travel management, which make up 6.5% of total WHO expenditure and 20% of A&M expenditure.** About half this amount relates to travel of Member State representatives and external experts as part of the Organization's technical work and could therefore be considered as not administrative, reducing the total administrative and management cost to about 30% of overall WHO expenditure.

Other cost-segmentation analyses, cutting across all Strategic Objectives, were performed in order to determine Organization-wide spending in 2010-2011 for the following:

- information and communication technology: US$ 116 million;
- facilities: US$ 95 million; and
- security: US$ 33 million.

In 2010-2011, WHO's expenditures under Strategic Objectives 12 and 13 amounted to about US$ 812 million, including expenditures under the post occupancy charge. The expenditures are categorized as follows:

- 41% (US$ 331 million) related to core management, covering offices of WHO's senior management, country offices, governing bodies, legal and oversight functions;
- 12% (US$ 94 million) related to information and communication technology expenditures;
- 10% (US$ 82 million) related to planning, budgeting and finance expenditures; and
- the remaining 37% (US$ 304 million) related to facilities (10%), human resources (7%), procurement and travel (7%), communication and knowledge management (5%), general services (4%) and expenditure for the Regional Office for the Americas (6%), which could not be analysed as the Regional Office is not part of the Global Management System.

The study also revealed the following breakdown between WHO locations for expenditures under Strategic Objectives 12 and 13:

- 42% (US$ 344 million) for headquarters, although it is not easy to distinguish which headquarters expenditures relate to activities performed in Geneva and which concern global activities;
- 20% (US$ 166 million) for the Regional Office for Africa;
- 8% (US$ 68 million) for the Regional Office for Europe;
- 8% (US$ 64 million) for the Regional Office for the Eastern Mediterranean;
- 6% (US$ 51 million) for the Regional Office for South-East Asia;
- 6% (US$ 51 million) for the Regional Office for the Western Pacific;
- 5% (US$ 45 million) for the Regional Office for the Americas; and
- 3% (US$ 23 million) for the Kuala Lumpur Global Service Centre campus, including the staff of the Centre and off-shored staff working in the area of information technology and telecommunications.

Cost drivers for A&M

The study identified the following elements that influence the scale and composition of WHO's A&M costs:

- WHO's wide **geographical presence** has an impact on the payroll costs at headquarters and on security and telecommunication costs in high security risk countries;
- The **number of staff** members influences overhead costs relating to facilities, equipment for information and communication technology and human resource management. Salary levels are driven by WHO's Staff Regulations and policies, with United Nations-wide salary scales and entitlements over which WHO's management has limited influence.
- The **nature of the work** - such as the publication of global or regional policies, the development of health statistics or the strengthening of national capacity to coordinate, monitor and evaluate - has an impact on the type and extent of the A&M support that is required.
- WHO's global and regional **governance arrangements** and the six official languages in which the Organization operates have an impact on costs related to translation, interpretation, conference and event organization. They also have implications for travel costs since WHO covers the costs of some Member States participating in governance and other meetings.
- WHO's dual **financing model** and types of donors have an impact on A&M costs. This is described further below.

The impact of WHO's Voluntary Contributions on A&M

WHO is financed through a combination of Assessed Contributions and Voluntary Contributions. Assessed Contributions are received from Member States and are not earmarked. Voluntary Contributions are received from various donors and are typically earmarked for specific technical programmes. An analysis of the budget composition between 1980 and 2013 shows a significant increase in Voluntary Contributions over this period. The share of Voluntary Contributions represented approximately 50% of the total funding in the 1980s and increased to 78% for the biennium 2012-2013.

The increasing share of voluntary funding, together with the increased funding coming from other United Nations agencies and multilateral organizations, has far-reaching implications for A&M costs. This **has led to a structural gap in A&M financing**, which is currently financed with Assessed Contributions. The following implications of this trend were identified:

- WHO has to provide A&M support to an increasing number of programmes funded by Voluntary Contributions.
- Those responsible for A&M need to justify support costs to donors.
- The management of voluntary funded activities and hosted entities has added specific overhead costs, for example in respect of additional staff for resource mobilization and the implementation of the grants accounting software module within the Global Management System.
- Programme support charge rates negotiated by WHO with other United Nations agencies and other multilateral organizations (e.g. the European Commission) are typically lower than the standard 13%.

Funding mechanisms for A&M

Currently, WHO's A&M costs are either covered directly by technical units, funded via Assessed Contributions or core Voluntary Contributions or are recovered indirectly from technical programmes. There are three mechanisms in place for this indirect cost recovery:

- A **programme support charge (PSC)** is applied as a percentage levied on programmes that are financed through contributions and some hosted entities. The programme support charge received is kept in a separate fund used only to finance A&M. In 2010-2011, 22% of the A&M costs under Strategic Objectives 12 and 13 were funded through this charge. The rising weight of funds provided by other United Nations agencies and international organizations such as the European Commission has resulted in a progressive erosion of the actual programme support charge rate collected by WHO. One third of

programmes, representing 60% of voluntary funds have a rate of 7% or less. As a consequence, the effective rate collected on voluntary funds was 6.7% for 2010-2011 and 7.1% for the period January-October 2012.

- A **post occupancy charge (POC)** is applied from January 2010 onwards as an 8.5% mark-up on payroll costs. The post occupancy charge is applied to all staff salaries, irrespective of whether a staff member's programme is funded by Assessed Contributions or Voluntary Contributions. The amount collected through the charge represents 12% of Strategic Objectives 12 and 13, about half the amount funded through the programme support charge. The post occupancy charge mechanism is based on salary, which is a key cost driver for the Organization. As such it has limited cross-subsidisation. The study identified that whilst the principle of recovering costs based on a headcount as a cost driver is sound and fair for all parties, the mechanism needs further refinement to ensure that it is sustainable and transparent and that it remains fair.
- A fee may be negotiated with hosted partnerships through an **administrative service agreement (ASA)**, or **other specific agreements**, when no programme support charge is charged to these partnerships. In the financial period 2010-2011, WHO received US$ 12.8 million through such agreements. A review of existing administrative service agreements and additional agreements highlighted a lack of consistency in the application of these agreements, a lack of clarity in respect of the expectations and accountabilities created by the agreements, and a lack of understanding as to which support services are covered through the programme support charge, the post occupancy charge and administrative service agreements.

The issue of cross-subsidisation

Member States continue to seek clarification on the existence and the scale of cross-subsidisation. Cross-subsidisation involves the use of Assessed Contributions to finance part of the cost incurred by programmes that are funded by Voluntary Contributions, or by hosted partnerships. This measure is aimed at offsetting a low recovery rate for A&M costs.

The study compared the relative weight of Assessed Contributions against Voluntary Contributions in technical and enabling Strategic Objectives. It was found that **Assessed Contributions fund 13% of technical programmes whereas they fund 61% of enabling Strategic Objectives** - either directly or indirectly, through the post occupancy charge collected on headcounts for activities funded by Assessed Contributions.. This split is comparable to that indicated by the analysis of cost recovery practices at UNDP undertaken in 2007 by the UK's Department for International Development (DFID). Even assuming that most of the management costs under Strategic Objective 12 do not relate to support provided to voluntary funded activities, and focusing on Strategic Objective 13 alone, 54% of the funding for administration costs still comes from Assessed Contributions, as opposed to 17% of the aggregate funding for technical Strategic Objectives 1-11 and Strategic Objective 12. The study therefore concluded that **the level of cross-subsidisation is currently high.**

RECOMMENDATIONS ON A&M FINANCING OPTIONS

In order to explore relevant and realistic financing mechanisms, the following guiding principles were defined:

- A&M costs should be moved to direct cost to the extent that this is justifiable, fair and realistic;
- the financing of A&M from Assessed Contributions, Voluntary Contributions and hosted entities and partnerships should be harmonized and mainstreamed;
- operational simplicity should be balanced with transparency;
- incentives for donors and for the Organization should be built in, for instance by adapting rates; and mechanisms should include depreciation of capital expenditure.

The study then identified and assessed four financing options for A&M:

Option A would consist in recovering all A&M costs through a single mechanism, the programme support charge. The programme support charge would be charged on programmes funded by Assessed Contributions and Voluntary Contributions and on hosted partnerships. This option would be simple, consistent with WHO's business model in which Voluntary Contributions represent more than 75% of funding, and it would effectively eliminate cross-subsidisation. However, based on data for the financial period 2010-2011, this option would require WHO to reach an effective average programme support charge rate of 21%. Therefore, **the study does not recommend this option because it would result in an unrealistic increase in the PSC rate that could seriously impair WHO's ability to attract voluntary funding.** Applying the programme support charge as a sole mechanism would also be unfair to programmes with a low number of staff and high funding.

Option B would build on the mechanism in Option A and add an overhead charge to salaries. Based on data for the financial period 2010-2011, this option would require WHO to reach an effective programme support charge rate of 17% on average, complemented by an 11% charge on all salary costs. This option would have the same advantages as option A and would be fairer to WHO and donors. However, the increase in the programme support charge would still be substantial and may not be acceptable to donors. This option would also require making a clear distinction between the A&M costs that should be funded by the programme support charge on the one hand, and those that should be funded by the overhead charge on the other. **The study considers this option as viable only if and to the extent that Member States/donors would be able and willing to support it.**

Option C would build on the mechanism in Option A and define a service catalogue with cost units. Costs would then be recovered based on consumption. Using data for the financial period 2010-2011, this option would require WHO to reach an effective average programme support charge rate of 17%, while cost unit chargeback would represent 4% of technical programme expenditures. This option would be fair, transparent and could provide incentives for efficiency. **However the study does not recommend this option as: 1) it would be complex to implement and sustain, and 2) it would applicable only to a relatively small range of costs.**

Option D would consist in funding activities that qualify as core management through direct Assessed Contributions. Other administrative costs would then be recovered through the programme support charge and an overhead charge, similar to Option B. Based on data for the financial period 2010-2011, this option would enable 43% of funding for Strategic Objectives 12 and 13 to come from direct Assessed Contributions, while applying an effective programme support charge rate of 7% on average, complemented by an 11% overhead charge on salary. This option would be sustainable and scalable as it would reflect WHO's key cost drivers. It would also allow WHO to maintain a competitive programme support charge and takes advantage of mechanisms that are already in place. In addition, this option would be consistent with the cost classification defined by the United Nations High-Level Committee on Management, and with practices observed at UNDP. **The study therefore recommends the implementation of Option D.** This option, however, has certain drawbacks that need to be taken into account, notably its complexity and the change management effort required in order to secure acceptance.

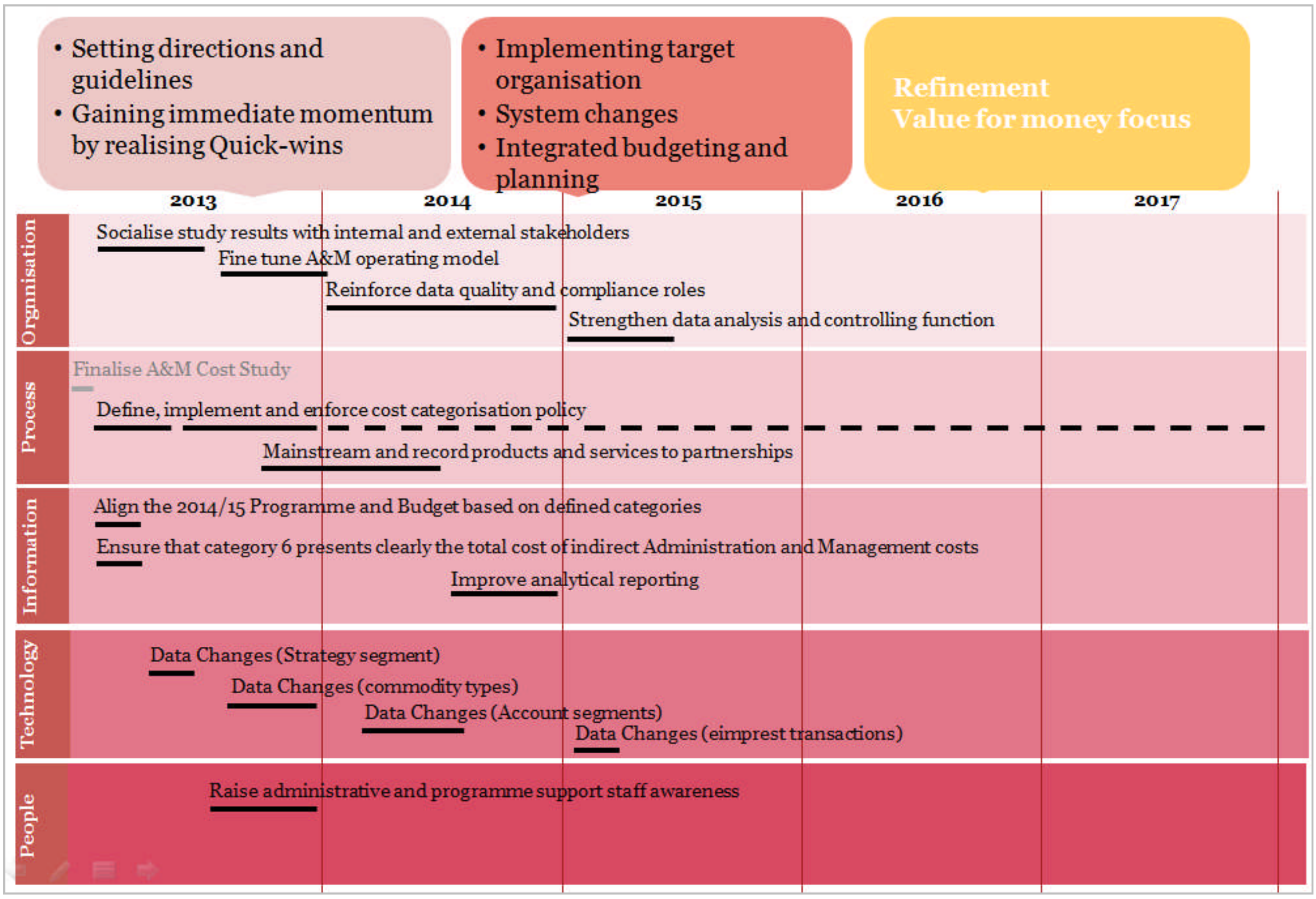
Recommendations

Key recommendations from the study relate to the need to:

- Define, implement and enforce a cost categorisation policy;
- Align the 2014/15 Programme and Budget to the defined categories;
- Ensure that category 6 – Corporate Services and Enabling Functions clearly presents the total of indirect A&M costs;
- Reinforce data quality and compliance roles;
- Socialise study results with internal and external stakeholders;
- Mainstream and record products and services to partnerships;
- Update data structures;
- Strengthen data analysis and controlling function;
- Raise the awareness of administrative and programme support staff on how to properly categorise expenditure and why it is important to do so; and
- Fine tune the A&M operating model in order to ensure alignment to business needs and cost-effectiveness.

Developing a detailed implementation roadmap for the above recommendations and the preferred financing option cannot be undertaken in isolation from the broader implementation of WHO reform plans. The chart below outlines a possible sequence of actions for the implementation of our recommendations. It assumes the WHA takes a decision on the future financing model for A&M in May 2013.

Rather than seeing this implementation plan as a straight jacket, we encourage WHO to adapt and merge this roadmap with the broader reform roadmap.



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1. Introduction

1.1. Background

The debate on cost recovery for extra-budgetary programmes within UN organisations has been ongoing at least since 1973 when a cost measurement study by UNDP created the foundation for cost recovery practices within UN organisations. We have identified no less than five cost recovery studies commissioned in recent years by donors, UN agencies or the UN Joint Inspection Unit (JIU).

Over time donors have increasingly earmarked their funding and contributed to voluntary programmes that fall outside the regular or "assessed" budget. This has resulted in a relative stagnation of Assessed Contributions (AC) and an important increase in voluntary funding.

This phenomenon (sometimes referred to as the "bilateralisation of multilateralism") has had far reaching impacts on A&M costs and how these are funded:

- UN Programmes and specialised agencies such as WHO support an increased number of programmes that generate additional A&M overhead (e.g. investment in grants management systems to meet donors' increasingly stringent reporting requirements or resource mobilisation staff).
- In a context of increasing pressures worldwide on cost-effectiveness in the public and not-for-profit sectors, donors have been pressuring for lower cost recovery rates to ensure that UN Programmes and specialised agencies become more cost-effective. Additionally, donors tend to benchmark the programme support charges (PSC) applied by the various organisations competing for their funds as a means to assess the value for money they may provide..
- In order to ensure they remain competitive, UN Programmes and specialised agencies have tended to adopt converging programme support charge rates (typically converging towards 7%) despite the fact that the cost drivers of their activities may vary substantially.

In a number of cases this has resulted in programme support charges not covering the full cost of providing support to voluntary funded programmes. This may negatively impact the organisation's ability to support the delivery of its services. Also the delineation of these costs often becomes blurred. Core funds are often used to cover the shortfall in Administration and Management (A&M) funding, and a growing share of non-earmarked funds has therefore tended to be used to fund administrative costs. These dynamics have resulted in unclear and sometimes unsound cost accounting practices among UN Programmes and agencies.

WHO is no exception to this.

In the context of the on-going WHO Reform, the WHO Member States, through the Programme, Budget and Administration Committee (PBAC) of the WHO Executive Board, decided that an independent external review of WHO's A&M costs and of available options for financing these costs through sustainable mechanisms in the next budget cycle was required.

Following a competitive bidding process, WHO selected PwC to confirm and analyse the scope, amount and nature of A&M costs, identify and assess new financing options for the recovery of A&M costs, and define a workable roadmap for the implementation of a new approach. The present report is the main deliverable of this study. It is complemented by a summary PowerPoint presentation that was presented to the PBAC on 18 January 2013.

1.2. Objective of the study

The objective of the study is to identify WHO's A&M costs and how they can be financed through sustainable recovery mechanisms in the next budget cycle, while improving the budgeting, control and reporting of costs.

The above objective has been broken down into a set of specific questions, relate primarily to the necessary **transparency** on A&M costs:

- What is the definition of A&M activities at WHO?
- What is the total cost of A&M throughout the organisation?
- What makes up these A&M costs?
- How are those costs split between the enabling Strategic Objectives 12/13 and the technical/substantive Strategic Objectives (a description of WHO's Strategic Objectives is included in section 3.1.1)?
- What are WHO's specific cost drivers?
- Does the current A&M funding cover these costs?
- Are current A&M funding mechanisms fit for purpose?
- What is the net result of hosted partnerships and entities (i.e. is WHO subsidising the A&M costs of hosted entities)?

A second set of questions was defined, relating to the **sustainable financing** of A&M:

- What could be the different possible cost recovery approaches going forward?
- What criteria should be used to assess these approaches and select the best one?
- What would be the results of implementing each option in "stressed" conditions (e.g. based on various scenarios)?
- How could costs be best recovered from Member States, donors and hosted partnerships?
- How could WHO communicate and report transparently on cost allocation?
- How could WHO best report for countries where "costs to serve" are high?
- What would be the implications of the proposed recovery mechanisms on budgeting?
- What improvements would be required in accountabilities, processes, data and technology?
- What would an implementation roadmap look like?

Answers to these questions will provide WHO with the initial requisite transparency and conceptual framework for:

- **Making decisions regarding the future financing model for A&M;**
- **Continuously optimising its A&M cost base and efficiency, as is expected by the organisation and donors.**

1.3. Structure of the document

Our analysis has been regularly shared and discussed with WHO's Steering Committee throughout the study. This has allowed us to validate findings, refine observations and gain endorsement on the resulting recommended option for future A&M financing.

This document consolidates the results of this analysis.

It is structured as follows:

- **Section 2 Methodology** presents an outline of the work performed, in terms of approach, assumptions and limitations. It provides useful information to grasp the nature of the study.
- **Section 3 Current State Assessment** provides an outline of the current A&M funding model and detailed cost analysis based on actual expenditures. This section also identifies the strengths and weaknesses of the current model, which will need to be taken into account when designing any future financing model.
- **Section 4 Financing Options Analysis** looks into the possible alternatives to finance WHO's A&M costs, with a focus on four specific options that are discussed in detail. This assessment serves as a basis for the recommendation of a financing model.
- **Section 5 Roadmap** outlines the changes required at a strategic, structural, process, people, technology and data level to improve planning, budgeting, cost control and reporting of A&M costs, as well as to implement the recommended model in a timely manner.

Additional appendices, spreadsheets and databases have been made available to WHO separately.

A separate summary PowerPoint presentation has also been produced for the attention of Member States.

2. Methodology

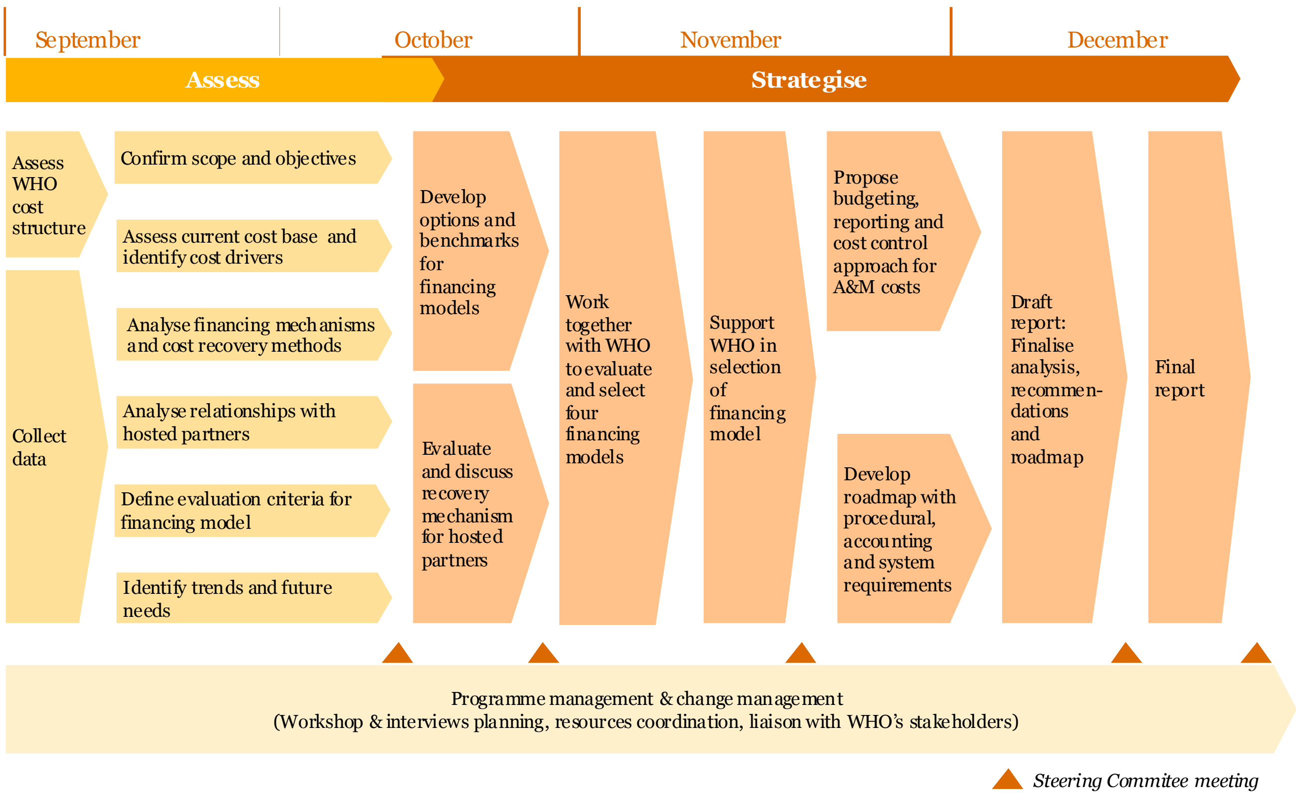
This chapter describes the methodology used for the study.

2.1. Overall approach

We developed a tailored approach based on the requirements for the study:

- An "Assess" phase in which we focused on collecting, understanding and analysing WHO's A&M spend and funding based on historical data extracted from the 'Global Management System' (GSM) accounting system.
- A "Strategise" phase in which we developed options for the financing model and the hosting arrangements. This phase also addressed required improvements in budgeting, cost control and reporting, as well as the high-level implementation roadmap.

The following diagram outlines this approach in greater detail, as well as the timeline of the study that was performed between September and December 2012.



Due to challenges encountered in data quality (refer section 2.2.2 below) the assessment and validation of the analysis of the current cost base continued throughout November and December 2012.

2.2. Approach to current state assessment

During the “Assess” phase, we analysed WHO's current cost structure, financing model and cost recovery mechanisms. The sections below describe the most salient elements of this approach.

2.2.1. Assessment of WHO structure, collection of data and confirmation of scope and objectives

We started assessing the WHO structure through interviews and desk review of WHO governing body documents, including budgets, annual reports and assessments of WHO by donors (e.g. the UK's DFID). This led to the formulation and validation by the WHO project Steering Committee of the objectives and key questions to be addressed by the study as outlined in section 1.2 above.

2.2.2. Analysis of WHO’s A&M cost structure

A&M costs can be found foremost in Strategic Objectives 12/13 (please refer to section 3.1.1 for a description of WHO’s Strategic Objectives). However, there are also some direct A&M costs in the technical units. In order to discuss recovery mechanisms for A&M costs recovery and to assess the full picture when conducting detailed cost analysis, it was necessary to identify the A&M costs throughout Strategic Objectives 1 to 13.

The cost analysis focused on:

- quantifying the overall A&M spend throughout the organisation;
- categorising the A&M spend in Strategic Objectives 12/13 by functional category;
- understanding and quantifying the total spend for costs that are traditionally difficult to assess: Information and Communication Technology (ICT), facilities and security; and
- clarifying costs recovered from partnerships and hosted entities and assessing if they meet the principle of full cost recovery.

In doing so, we relied on a number of outputs from the GSM Oracle system provided by WHO:

- extracts from actual expenditures for the period January 2010-October 2012;
- payroll data for the period January 2010-October 2012;
- purchase order data for the period January 2010-October 2012;
- budget figures provided for 2012-2015; and
- ad-hoc reports to cross check or validate the above data.

The data was uploaded to a database from which specific queries were run. We encountered a number of challenges and limitations. They notably related to:

- *Lack of detail in cost categories: 37%* of the non payroll A&M expenditure analysed in Strategic Objectives 12-13 are booked under the “General Operating” cost category, which does not provide adequate granularity for detailed cost analysis.
- *Inconsistencies:* We noted inconsistencies in how costs are booked between cost categories and Strategic Objectives, which meant that we could not rely on the expenditure types defined in WHO’s chart of accounts.
- *Material volume of manual expenditure batches shifting costs between Strategic Objectives and budget centres:* Out of 1.8 million accounting lines that were analysed, 200,000 showed a negative value for a total of USD -2.0 billion across all Strategic Objectives. As far as A&M costs are concerned, most of these transactions represent internal billing (e.g. telecommunication costs). These costs are not consistently

transferred within expenditure types and do not have a consistent description that would allow for reconstructing journal entries in an automated way. Whilst the overall expenditure amounts appear to be correct, the precision of the allocation we were able to perform within Strategic Objectives and budget centres was constrained by the sheer amount of the "hard to categorise" transactions.

- *Lack of unequivocal definition of what constitutes an administrative or management activity*: A&M entails various types of activities which are not tracked or booked according to their nature. This results in a lack of transparency on the total cost of A&M throughout Strategic Objectives. Section 3.2.1 details how we went about providing a framework for categorising costs by functional area.
- *Lack of transparency as to HQ expenditures that relate to activities performed in Geneva and those that represent global spend*: There is a conception that the HQ Major Office expenditures mean spend originated in Geneva, thereby creating a perception that a large portion of costs are Geneva related. However an important amount of expenditure considered part of the HQ major office does not relate to activities taking place in Geneva. The Kuala Lumpur Global Service Centre (GSC), for instance, is a global expenditure which falls under the HQ Major Office. To mitigate this, we separated the spend relating to the GSC budget centre and ITT staff located in Kuala Lumpur. Even though the ITT staff in Kuala Lumpur is not part of the GSC, they are off-shored resources.
- *Size of the total database:* The total number of expenditure lines for January 2010-October 2012 amounts to 1.8 million. To conduct the analysis, we needed to categorize costs beyond the existing Chart of Account classification and other predefined categorisation. The volume of transactions to categorise required automated pre-defined rules to be applied throughout the data set, and only allowed manual re-categorisation of costs on an exceptional basis.
- *Absence of detailed transactional information in GSM for the Americas Regional Office (AMRO) and for 2010 for the Africa Regional Office (AFRO)*: AMRO does not use GSM and AFRO used a legacy system until 2011. Since our analysis relied exclusively on GSM data, we excluded AMRO from the analysis and extrapolated the available categorised data for AFRO.
- *Availability of data extract and adequate fields for analysis:* A material amount of time was spent gathering the correct outputs from GSM to serve as a base for the analysis. Available data used for cost control objectives are scattered and do not provide a consistent or comprehensive basis for the broad analysis we needed to perform. The lead time to finalise the data extract shortened the time available to engage with internal stakeholders and validate our analysis.

The above limitations required us to combine alternative means to categorise costs in a more granular and reliable way. We believe the resulting "product" is reusable by WHO, until more fundamental data structure and governance limitations are resolved.

Our analysis was possible because of the existence of the GSM centralised accounting system. This clearly illustrates the importance of investments in systems that can bring transparency and facilitate decision making.

2.2.3. Analysis of funding and cost recovery mechanisms

For the A&M funding, we examined the awards and the cost recovery conditions attached to these awards. We relied on spreadsheets provided by the Programme, Resources and Planning (PRP) department.

2.2.4. Analysis of hosted partnerships

We performed a limited analysis of A&M costs and funding related to support of hosted partnerships. This was achieved using the same data set mentioned above, complemented by a desk review of available documents and meetings with the Office of the Legal Councel (LEG) and the Department for governing bodies and external relations (GBS).

Whilst we could identify the fees collected from hosted partnerships based on actual data, we could only make rough estimates of the costs incurred to support these entities based on a set of assumptions discussed and agreed with WHO.

2.3. Approach to options assessment and strategise phase

The approach for the "Strategise" phase consisted in first defining a set of criteria against which each option could be assessed. Defining these assessment criteria prior to framing the options ensured that the selected criteria were independent from any subjective preference for a specific option.

In order to avoid focusing unnecessarily on a potentially large list of options, we formalised a set of assumptions and guiding principles. They allowed us to narrow down the list of options to be assessed and to ensure that all options matched agreed principles. Given that these assumptions were rather stringent, only a few options emerged. In order to expand the number of options, we decided to challenge some of these assumptions.

In Chapter 4 we describe the four options and assess them against the defined criteria.

A recommendation was made to the Steering Committee, leading to the definition of a high-level implementation roadmap for this suggested option.

2.4. Limitations

The methodology for this study took into account the following limitations:

- The degree of precision of our allocation of A&M cost to defined functional cost categories relies on the quality of the data that was provided to us; whilst we made every effort to validate our analysis with WHO stakeholders, PwC is not responsible for limitations in the accuracy of the analysis presented.
- Some expenditures could not be categorised, and were allocated based on the relative weight of each category.
- AMRO is excluded from the detailed analysis as detailed AMRO data was not available.
- A detailed analysis of A&M costs within technical clusters was not required.
- The level of detail of the study was commensurate to what is necessary for sound decision making on the future cost recovery options and roadmap and reasonably achievable in the time and budget allocated.
- An implementation roadmap was only defined for the one recommended option.
- The design of target processes and systems was not included in the scope of this study.

WHO management recognises its responsibility for any decision it may make in the exercise of its own judgment, based on our advice.

3. Current State Assessment

The current state assessment describes the overall WHO business model, cost drivers and the way in which it is being financed. It shows the cost structure that is used to manage the organisation's expenditure, the definitions of A&M costs and their overall level throughout WHO.

In the detailed analysis, we analysed several A&M cost categories and the way they are currently accounted for. We also sought evidence of cost reduction efforts in the past years to understand the full picture of A&M expenditure and its evolution throughout the organisation.

3.1. Understanding WHO's business model

In order to understand the nature and scale of A&M costs it is important to understand the mandate of WHO and the characteristics of its activities. This helps in identifying specific attributes of WHO's business model that have a material impact on its A&M cost structure.

3.1.1. General description of WHO's role and organisation

WHO is the directing and coordinating authority for health within the UN System. Its objective is the attainment of the highest possible level of health by all people.

The six core functions of the organisation relate to:

- Providing leadership on matters critical to health and engaging in partnerships where joint action is needed;
- Shaping the research agenda and stimulating the generation, translation and dissemination of valuable knowledge;
- Setting norms and standards and promoting and monitoring of their implementation;
- Articulating ethical and evidence-based policy options;
- Providing technical support, catalysing change, and building sustainable institutional capacity; and
- Monitoring the global health situation and assessing health trends.

WHO's key strengths lie in its neutral status, broad membership (194 countries) and formal and informal networks. This provides the organisation with a strong convening power and the ability to monitor global health and facilitate evidence-based debate. Today the organisation is more than just a policy agency. Over time the organisation has extended its focus from global normative work and standards to a direct engagement in supporting countries with the implementation of health systems. This has corresponded with a sharp increase in voluntary or bilateral funding. In its coordinating capacity, WHO came to host a range of partner organisations, some of which are supported by service agreements.

WHO's regionalised structure provides it with multiple opportunities for engaging with member countries. The organisation has 147 country or representative offices, six regional offices, headquarters in Geneva, Switzerland and a Global Service Centre in Kuala Lumpur, Malaysia. Distinct governance arrangements are in place for regional offices and for the organisation as a whole.

WHO's priorities, as captured in the Medium Term Strategic Plan (MTSP) and outlined in the Programme and Budget, are currently organised along 13 Strategic Objectives (SOs). SO 1 to 11 are technical / substantive health objectives, whilst SO 12 and 13 relate to A&M, as follows:

- Strategic Objective 12: *"provide leadership, strengthen governance and foster partnership and collaboration with countries, the United Nations System, and other stakeholders in order to fulfil the mandate of WHO in advancing the global health agenda as set out in the Eleventh General Programme of Work".*
- Strategic Objective 13: *"develop and sustain WHO as a flexible, learning organisation, enabling it to carry out its mandate more efficiently and effectively".*

The thirteen Strategic Objectives are then divided into 85 organisation-wide expected results and over 7,000 office-specific results that form the foundation against which operational activities are planned, budgeted and reported.

3.1.2. Key WHO A&M cost drivers

From the above description, we can identify a series of key cost drivers for the organisation that have an impact on A&M:

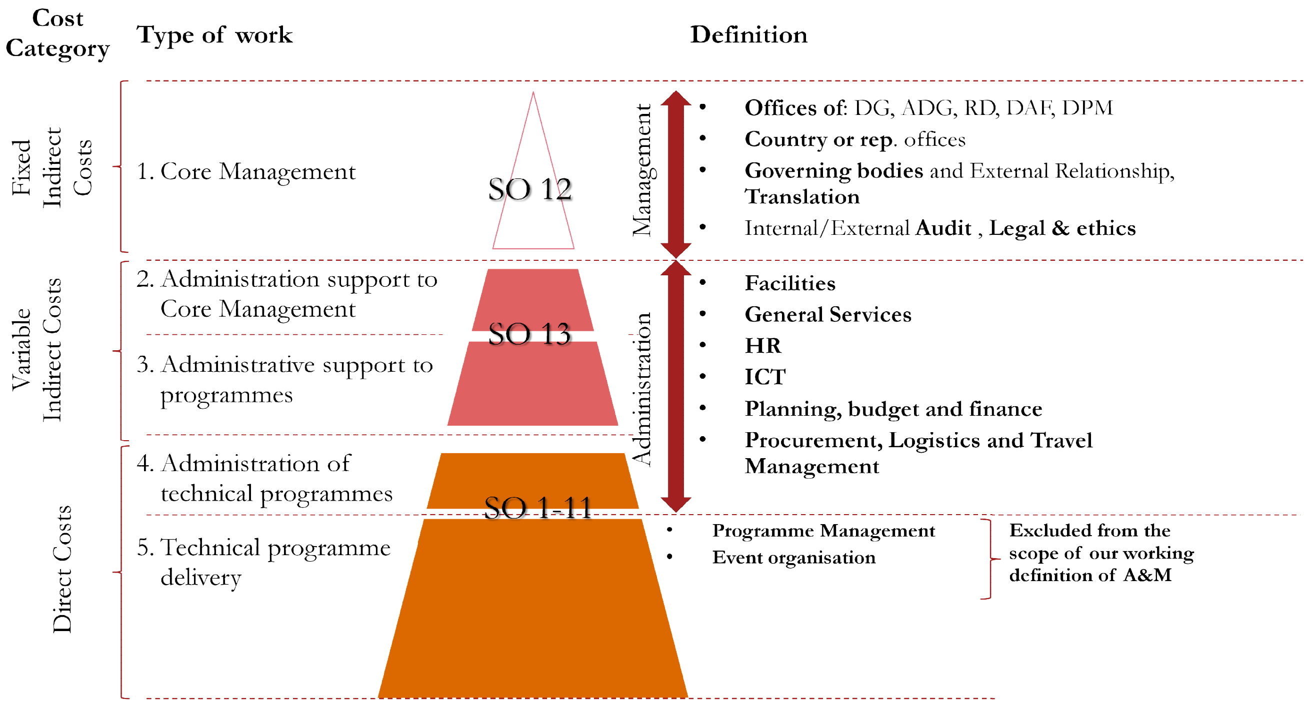
- *Geographical footprint and countries of operations*: WHO is one of the UN agencies with the broadest footprint. This notably includes presence in security compromised areas and locations with poor infrastructure, which typically drives security and telecommunication costs up. In addition, WHO has a strong presence in Geneva, a city where the cost of living is high, which has an impact on payroll costs.
- *Staffing*: In 2010-2011 45% of WHO's expenditures were salary related. This generates material overhead relating to facilities, IT equipment and Human Resource management. A key cost driver also relates to the adherence to WHO's staff regulations and policies with UN-wide salary scales and entitlements over which WHO management has limited influence.
- *Nature of work*: The nature of work performed has an impact on the nature and extent of A&M support required. WHO has identified a typology of 18 different outcome types relating to each of the core functions of WHO, e.g. publication of global and regional reports and strengthening of national capacity to monitor and evaluate. This typology is the foundation for work currently underway on standard costing of activities.
- *Funding model*: WHO's dual financing model (Assessed and Voluntary Contributions) and the types of donors have an impact on A&M costs. This is described in detail in section 3.3 below.
- *Governance*: WHO has a complex governance model. A World Health Assembly (WHA) composed of delegates representing the 194 member countries meets yearly, or more for special sessions. An Executive Board comprised of representatives from 34 Member States meets twice a year and acts as the executive organ of the WHA. Each regional organisation consists of a regional committee composed of representatives of the Member States and Associate Members in the region concerned, and is supported by a regional office. Six official languages are supported: Arabic, Chinese, English, French, Russian and Spanish. This governance model has a specific impact on costs related to translation, interpretation, conference and event organisation, and on travel costs since WHO covers the cost of some Member States' participation in governance and other meetings.

3.2. Analysis of A&M cost

3.2.1. Working definition of A&M costs

A requisite for performing a detailed analysis of A&M costs is the availability of a cost categorisation framework. In the absence of such a framework at WHO, we distinguished five categories of activities (type of work in the chart below).

Figure 9: cost categorisation framework



1. *Core management:* Activities that support WHO's core mandate, and that would be incurred irrespective of whether any programme is carried out. They constitute the critical infrastructure of WHO and can be considered as fixed indirect costs that can be funded by Assessed Contributions. They are mostly, but not solely, found in Strategic Objectives 12 .
2. *Administrative support to Core Management*: Portion of administration costs that are incurred by Core Management, e.g. office space or IT provision in support of core activities. These costs can be considered as indirect variable costs that can be funded by Assessed Contributions. They are mostly, but not solely found in SO 13 .
3. *Administrative support to programmes*: Portion of administration costs that are incurred by programmes, whether they are funded by voluntary or assessed contributions. These costs can be considered as indirect variable costs or direct costs, depending on whether they are budgeted and paid directly by a programme or recovered through an indirect charge. They are mostly found in SO 13 or in SO 1-11.
4. *Administration of technical programmes:* The administration costs incurred to directly organise the technical programmes. This includes costs such as secretarial support for a specific programme or organisation of meetings. They are budgeted and paid for directly by programmes. Due to the different nature of WHO programmes, the level of administration to directly administer the programmes may vary. They are mostly found in SO 1-11. There is however a blurred line between administrative support to a programme and the nature of some programmes, which can be seen as "administrative", e.g. for some normative or data management work.
5. *Delivery of technical programmes:* The actual substantive delivery of the technical programmes, including event organisation and programme management, which we did not consider to be administrative and which

can vary in nature, e.g. some programmes focus on policy formulation, others on capacity building and health system strengthening. These costs are identified in SO 1-11.

Although the above categorisation was created for the purpose of this study, it could be used as a starting point for refining a WHO framework for cost analysis and recovery.

The next sections quantify various types of A&M costs. First, in section 3.2.2 we explore the A&M costs throughout the overall organisation. Second, in section 3.2.3 we analyse the A&M costs within SO 12-13 in further detail and in correspondence with the above cost categorisation framework.

3.2.2. Analysis of A&M costs throughout WHO

The total A&M spend throughout WHO can be defined as the sum of costs related to category 1 to 4 of the above framework. Note that these categories should not be confused with the six categories used by WHO for the 2014-15 Programme and Budget.

We have further analysed A&M costs for some categories of costs that are typically harder to understand given that they are pervasive (e.g. Information and Communication Technology and Security) or harder to track in GSM (e.g. specific costs relating to hosted partnerships). The results of this analysis are summarised in sections 3.2.2.2 , 3.2.2.3 and 3.2.2.4 below.

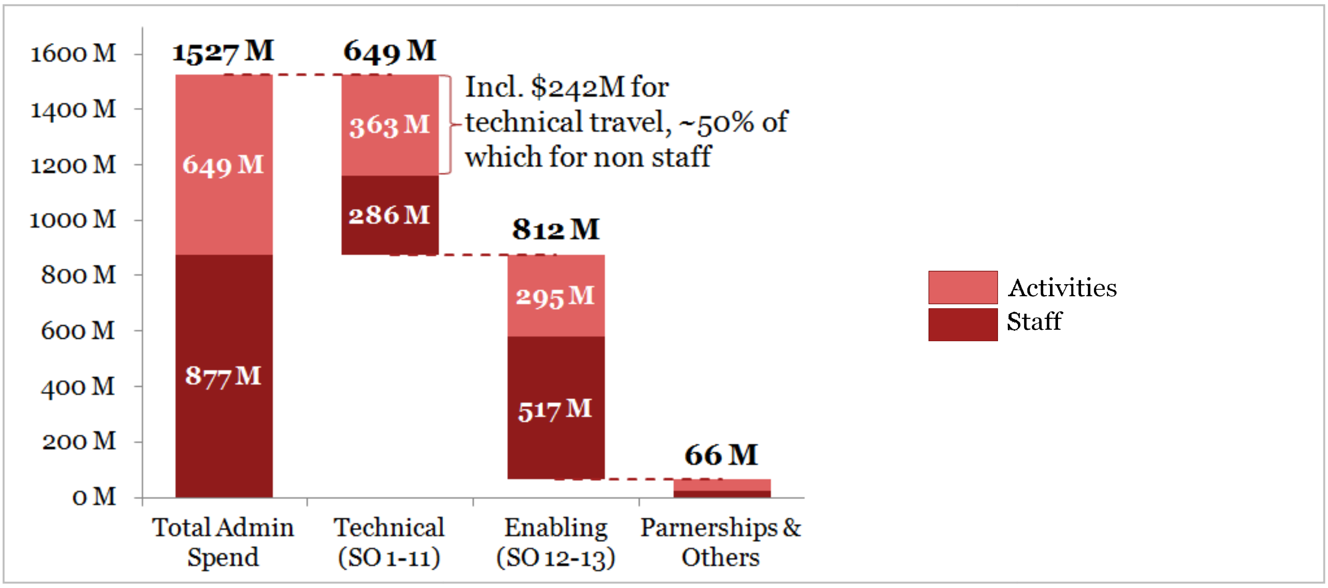
3.2.2.1. Total A&M spend

We sized the total A&M spend as follows:

- All expenditures in SO 12-13, represented by the “Enabling” category in the chart below;
- Staff costs for positions that contain administrative titles or are part of staff category G (general staff), T (translation) and I (interpreters) in SO 1-11, as well as expenditures on suppliers that have been categorised as A&M. These costs are grouped under the “Technical” category in the chart below; and
- Same as above for the “Partnerships & Others” category in the chart below.

The figure below shows the resulting total A&M spend.

Figure 1: total A&M spend (2010-2011)



We estimate that the overall share of WHO's expenditure that corresponds to A&M is between 31-33% ($1.5B), including 17% ($812M) for SO 12-13 alone.

The above chart shows that 53% of the A&M spend falls under SO 12-13, of which 64% corresponds to A&M staff-related costs. The A&M spend in technical units is 42% of total A&M spend, out of which 37% is related to travel. The remaining 5% A&M costs are spent on partnerships and other costs.

3.2.2.2. Information and Communication Technology

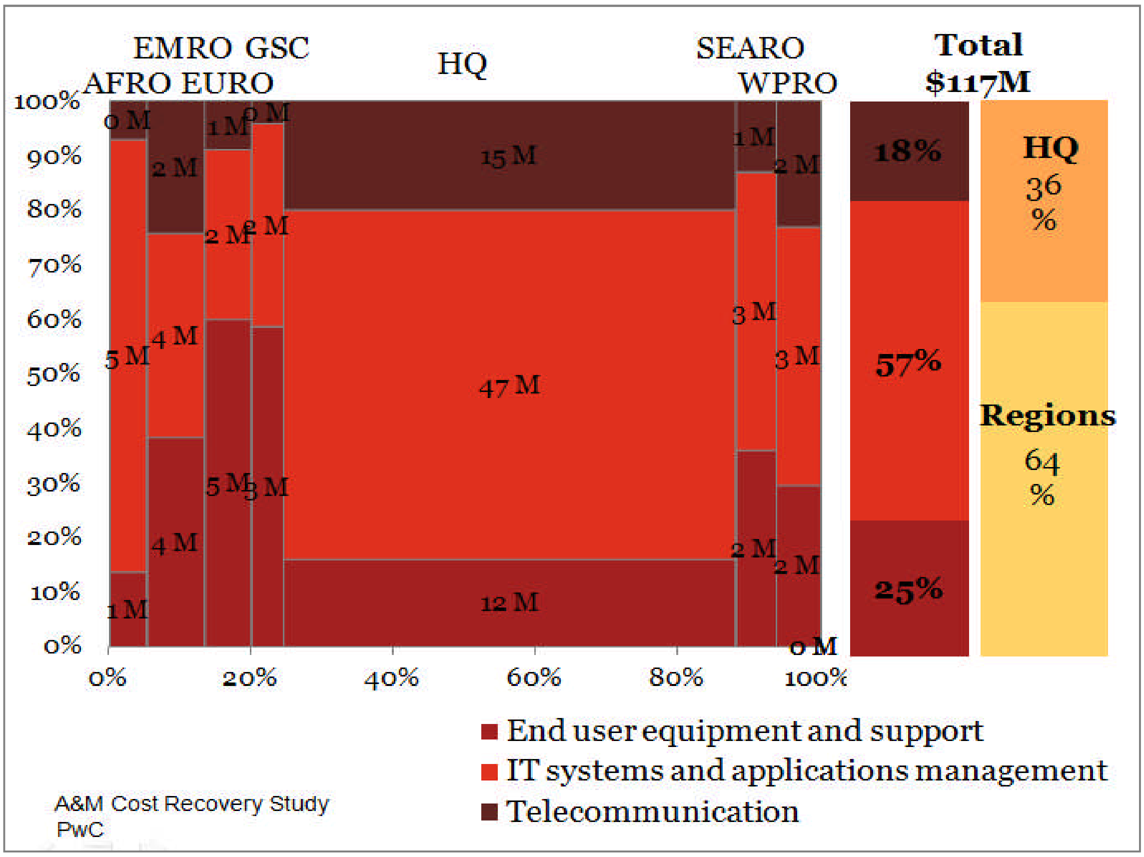
ICT costs are found in all SOs and all locations. In most organisations, the majority of ICT expenditures were initially centralised in the IT department. As ICT became more pervasive, ICT expenditure has however tended to be incurred in other units. Whilst this allows specific ICT needs to be met, it may in some cases have adverse impact in terms of transparency of the overall ICT spend, funding of shared ICT capability, synergies and efficiency, enforcement of ICT policies and procedures, and overall ICT governance.

We have sought to identify the total ICT spend on:

- end-user devices and support;
- systems and applications management; and
- network and telecommunications.

The chart below shows the structure of the total WHO ICT spend.

Figure 2: Total ICT spend (2010-2011)



We observe that:

- The overall spend on ICT in 2010-2011 is $116 million. This represents 2.5% of WHO's overall expenditure, which is on the low end of available benchmark data and in comparison to what we have noticed at some other UN agencies.
- Although 77% of the ICT spend corresponds to SO 12-13, only 54% of the ICT spend is centralised in the IT budget centre. This is an indication of a relatively low degree of centralisation, reflecting the devolved nature of WHO's organisation.

3.2.2.3. Facilities

Facilities costs relate to:

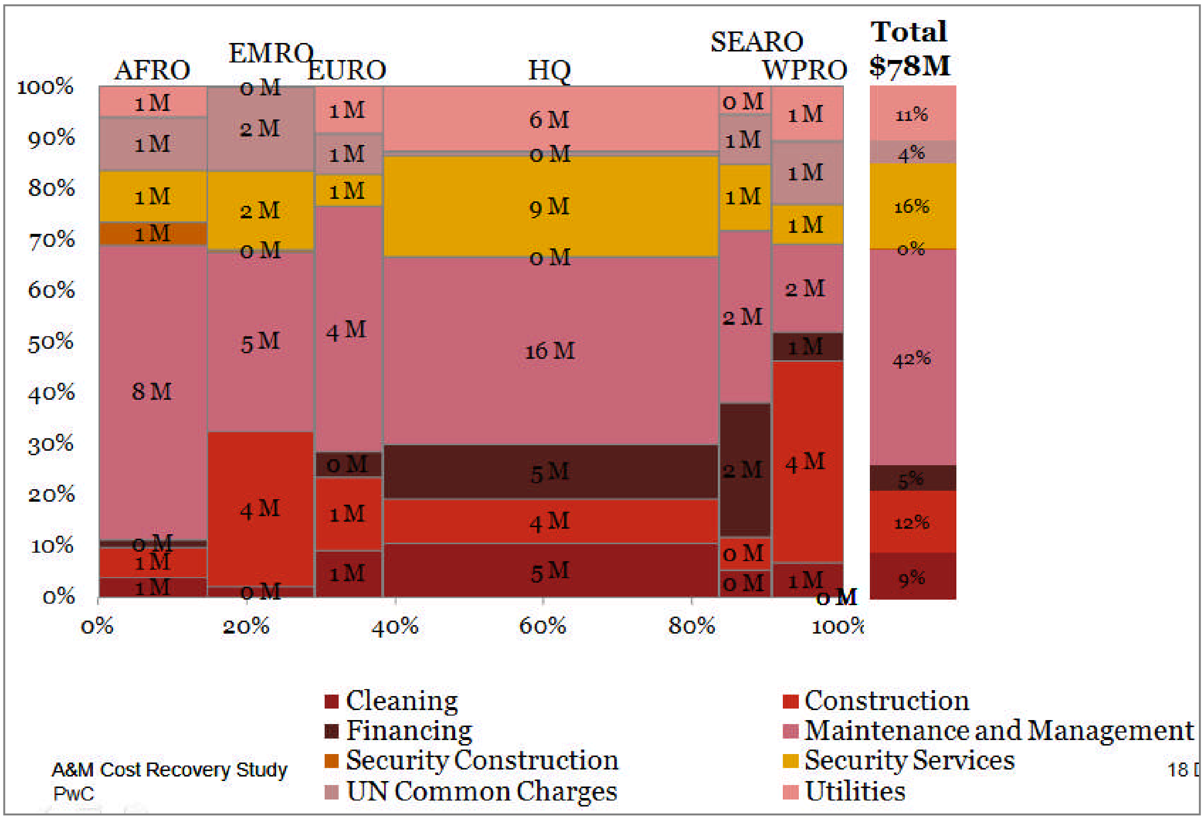
- utilities: electricity, heating and cooling, water supply;
- UN common charges, when WHO is hosted on a UN campus;
- security services relating to facilities, e.g. retrofitting of premises to meet the UN Minimum Operating Security Standard (MOSS);
- building maintenance and management;
- financing, i.e. rental of office space; and
- building insurance.

Facilities expenditures are not tracked in specific accounts. We have sought to measure this expenditure based on staff categorisation and the identification of suppliers providing the above services or goods.

We were able to identify $95 million of facilities-related expenditure in 2010-2011, including a one off offset of $2.7M of insurance reimbursement in Europe Regional Office (EURO) following a flood incurred during that biennium:

- $17M of facilities costs are charged to technical programmes, the rest to SO 12-13 and specific funds.
- Facilities-related costs represent 9% of SO 12-13 expenditures.
- 40% of facilities costs represent building maintenance and management

Figure 3: structure of facilities expenditures by major office

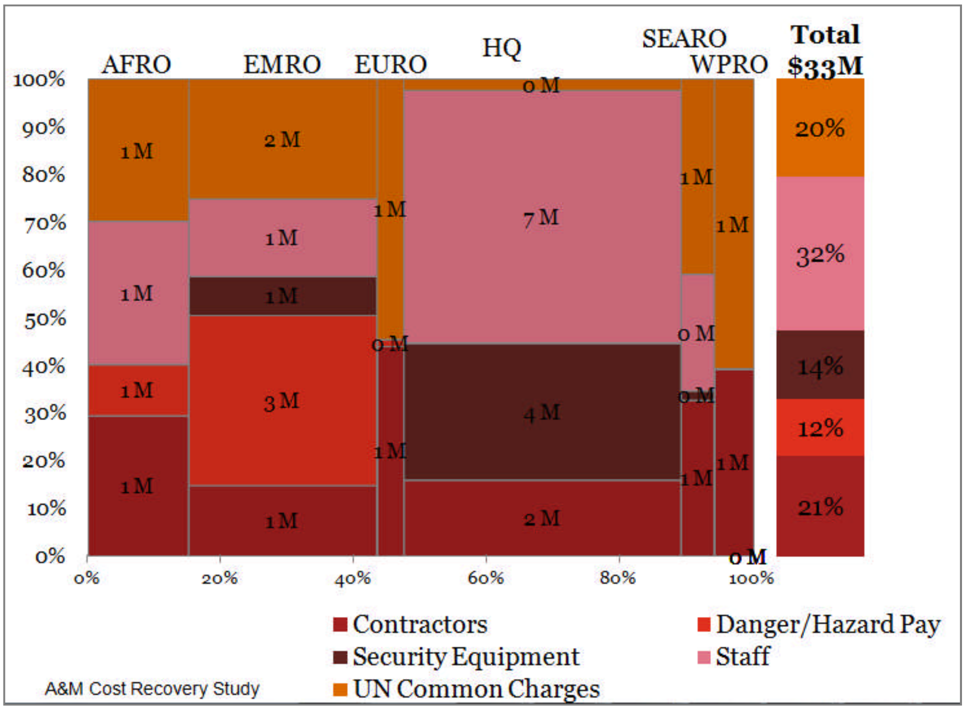


3.2.2.4. Security

We also quantified the overall expenditure on security. In scoping security expenditure, we sought to identify:

- fees paid to other UN organisations for security services (UN common charges);
- cost of internal WHO security staff;
- cost of security contractors;
- cost of security equipment such as bulletproof jackets;
- cost of security construction, e.g. retrofitting of premises to meet the UN Minimum Operating Security Standard (MOSS); and
- danger/hazard pay, which is a benefit for WHO staff working in dangerous locations.

Figure 4: Total security spend (2010-2011). Note: GSC is not represented as not material



Overall for 2010-2011 we were able to identify $33M of security expenditure.

The above graph shows that the structure and weight of security expenditures vary widely between regions:

- They represent 3% of overall Eastern Mediterranean Regional Office (EMRO) expenditure, 6% of EMRO SO 12-13 expenditure.
- They represent only 1% of overall EURO expenditure, 2% of EURO SO 12-13 expenditure.

Whilst the funding of security in high risk countries is usually addressed by charging security directly to technical programmes (e.g. 70% of identified EMRO security costs are funded by technical SOs), we noted that WHO's A&M recovery mechanisms do not take this important variable into account.

For HQ, we noted the relatively high cost of security staff in 2010-2011, which has since been reduced through the outsourcing of security for premises.

3.2.3. Structure of A&M costs in SO 12-13

We further refined the categorisation of costs as follows:

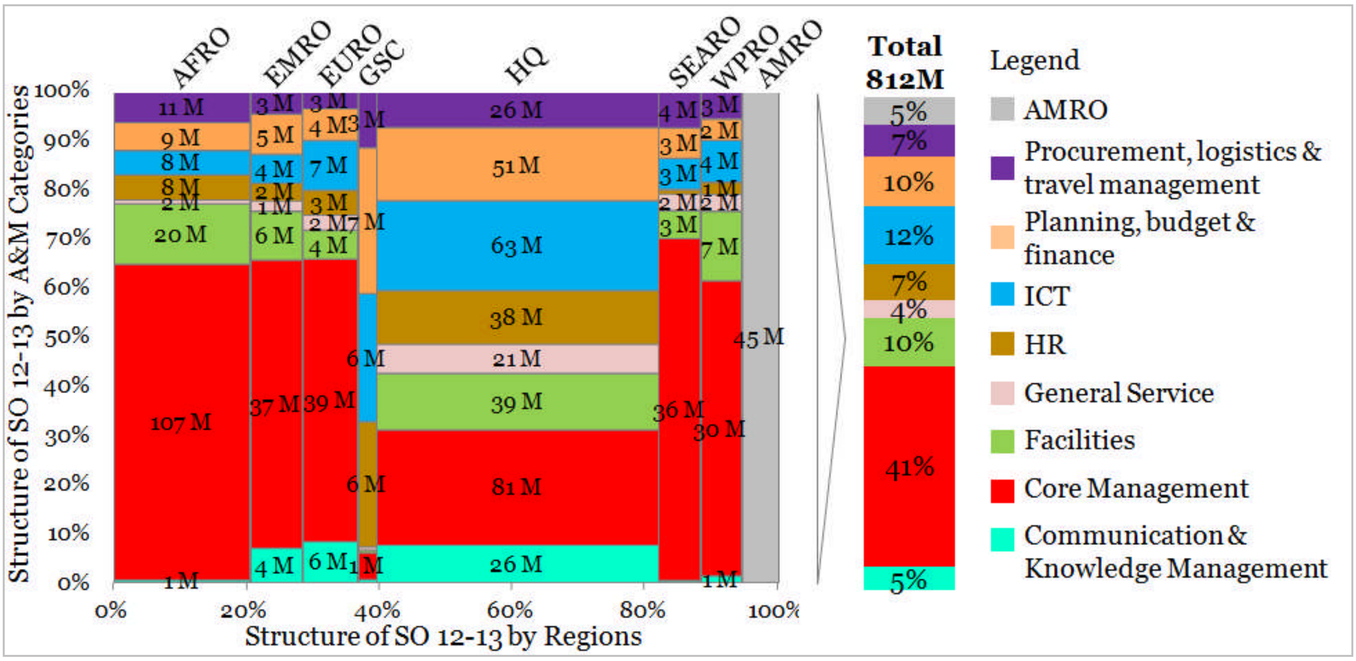
Core Management	Administrative functions
• Offices of: Director General, Assistant Director General, Regional Director, Assistant Regional Directors, Director of Administration and Finance, Director of Programme Office • Policy and norm setting • Country or representative offices • Governing bodies and external relationships • Translation • Internal/external audit • Legal & ethics.	• Facility management (cleaning, construction, financing, insurance, maintenance & management, security construction, security services, utilities) • General services (catering, mail, moving, printing, supplies) • Human Resources (Central HR management, regional and local HR management) • Information and Communication Technology (end user equipment and support, IT systems and applications management, telecommunication) • Planning, budget and finance (programme planning, budgeting, monitoring and evaluation resource mobilisation finance and accounting) • Procurement, logistics and travel management (logistics and shipping, procurement management, travel equipment, travel management) • Other

3.2.3.1. Structure of A&M spend in SO 12-13

Based on the above categories, we classified the spending in SO 12-13 to understand the relative weight of each functional category. We were able to classify 95% of the actual expenditure into one of the above categories. Where this was not possible, we performed an allocation of the remaining costs based on the weight of each category. In doing so we also sought to determine which region generated these costs.

The chart below summarises the relative weight of each category for the period 2010-2011.

Figure 5: structure of SO 12-13 expenditure (2010- 2011)



The following comments can be made:

- The weight of Core management in regions is due to the fact that all SO 12-13 country office expenditures have been categorised as core management. Classifying all SO 12-13 country office expenditure as core is however a matter of definition which is debatable. In AFRO the size of Core is due to the number of country offices and to the size of operations.
- The structure of A&M spend between regions is relatively homogeneous.
- ICT is a material element. See further details in section 3.2.2.2 above.
- The GSC is of a relatively small size compared to HQ or to the overall weight of each function across regions. This may indicate that there is further untapped potential in moving additional resources to the GSC.

Based on the categorisation of 95% of the expenditure in SO 12-13, Core management, Planning, budget and finance, and ICT are the major functional costs.

3.2.3.2. Evolution of staffing in SO 12-13

Since 2010 WHO has undertaken a number of initiatives to reduce and control costs, to ensure that expenditures are sustainable within the available resources and to ensure that Member States and other donors get the best possible value for their contributions. A separate report on cost containment measures taken during recent years has been prepared to the attention of the December 2012 Programme, Budget and Administration Committee meeting[3].

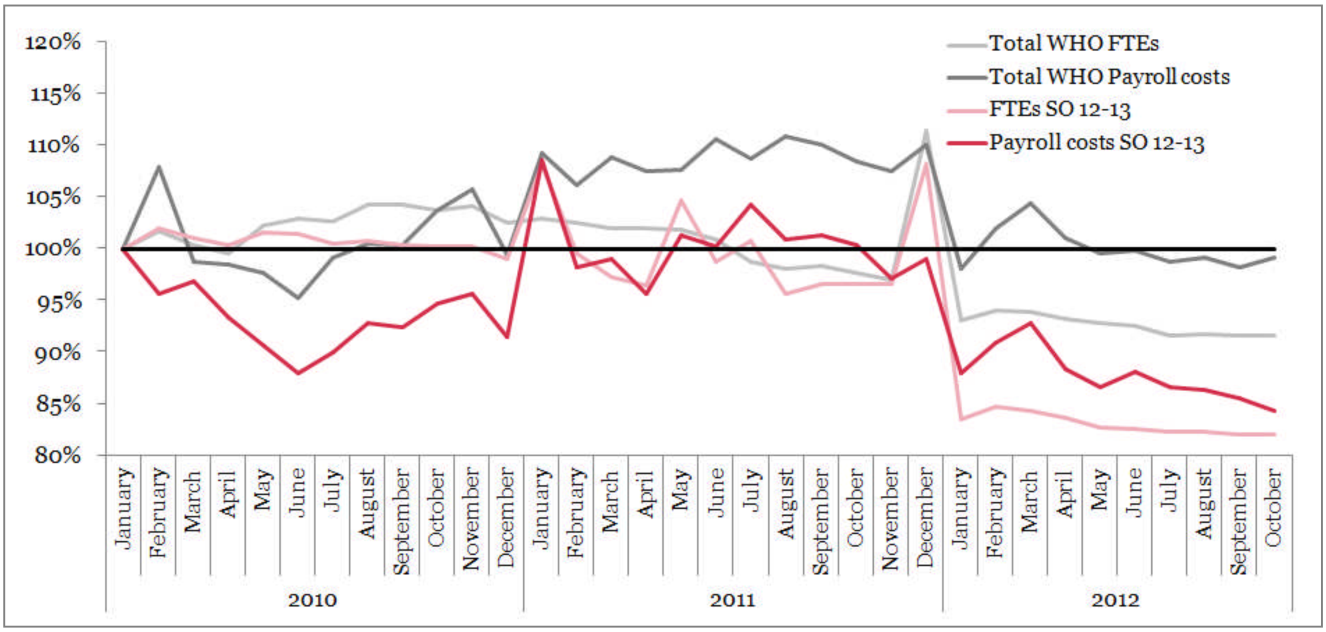
Whilst a detailed review of cost savings is outside the scope of this study, we have sought to corroborate the findings of the above mentioned report that relate to reduction in staffing and offshoring, with a focus on SO 12-13.

As far as staffing is concerned, our analysis confirms the trend towards cost reduction.

Reduction in SO 12-13 staffing

The figure below shows the evolution of the number of Full Time Equivalent (FTE) positions and payroll costs since 2010 for the whole of WHO and for SO 12-13.

Figure 6: Evolution of SO 12-13 FTEs and payroll costs (base: 100 in January 2010)



In the above comparison to January 2010, we note the following:

- In October 2012 overall WHO payroll costs are at the same level as in January 2010, whereas the number of FTEs has decreased by 8%. This means that WHO has been able to keep payroll costs stable despite the strong Swiss franc, which appreciated by circa 12%[4] during this period.
- For SO 12-13, since January 2010 payroll costs have decreased by 15% while the number of FTEs decreased by 14%. This is due to a shift of resources to SO 1-11 (notably in AFRO and SEARO), a shift to contractors and actual cost reduction.

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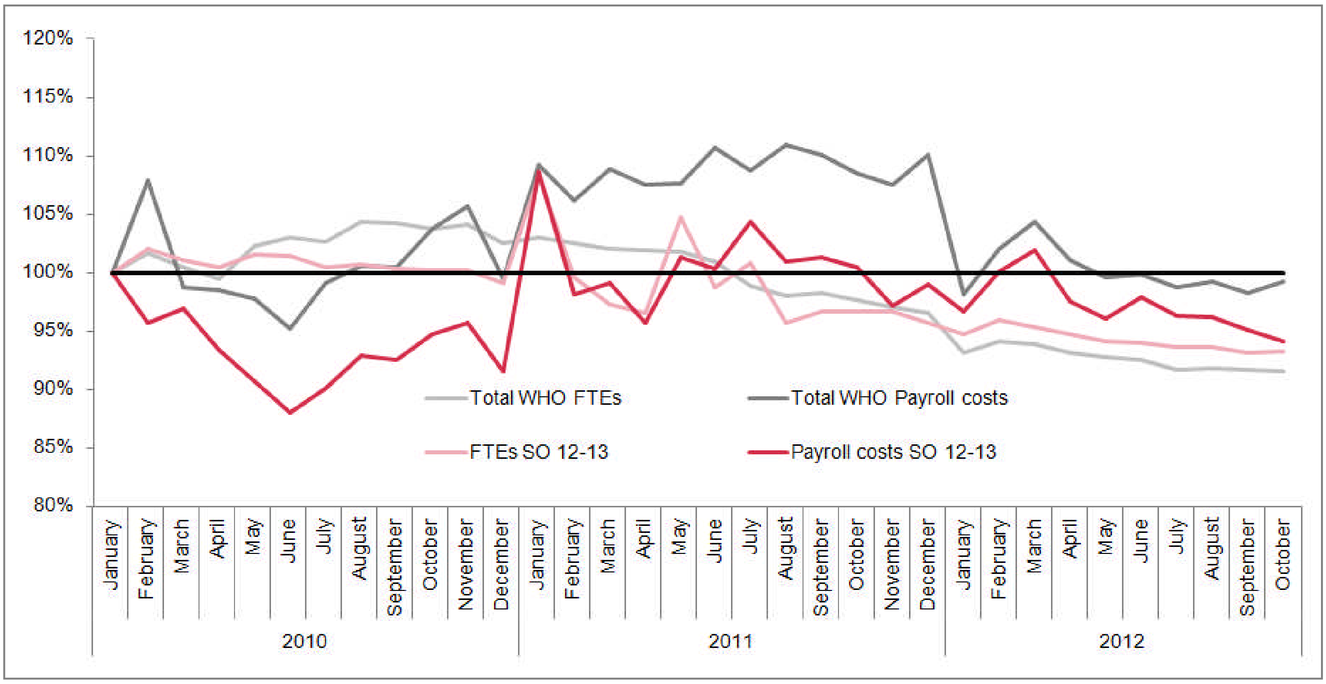
[3] WHO Secretariat (2012) *Efficiency savings and cost reductions in WHO: cost containment measures taken in recent years*, EBPBAC17/INF./1, November 30, 2012
[4] Source: Oanda Currency Exchange: January 1, 2010 to October 31, 2012 showed an increase from 0.97 Dollar to the Swiss Franc to 1.0887.

Transfers to SO 1-11

In January 2012, 320 FTEs, of which 168 FTEs in AFRO and 90 FTEs in SEARO, were transferred from SO 12-13 to SO 1-11. We took these transfers into account to recalculate the actual net evolution in headcount in SO 12-13.

This recalculation shows a net FTE decrease of 7% (6% in payroll costs) compared to January 2010, vs. 14% if the transfers to SO 1-11 are not taken into account.

Figure 7: Net evolution of FTEs in SO 12.13, taking into account transfers to SO 1-11 (base: 100 in January 2010)

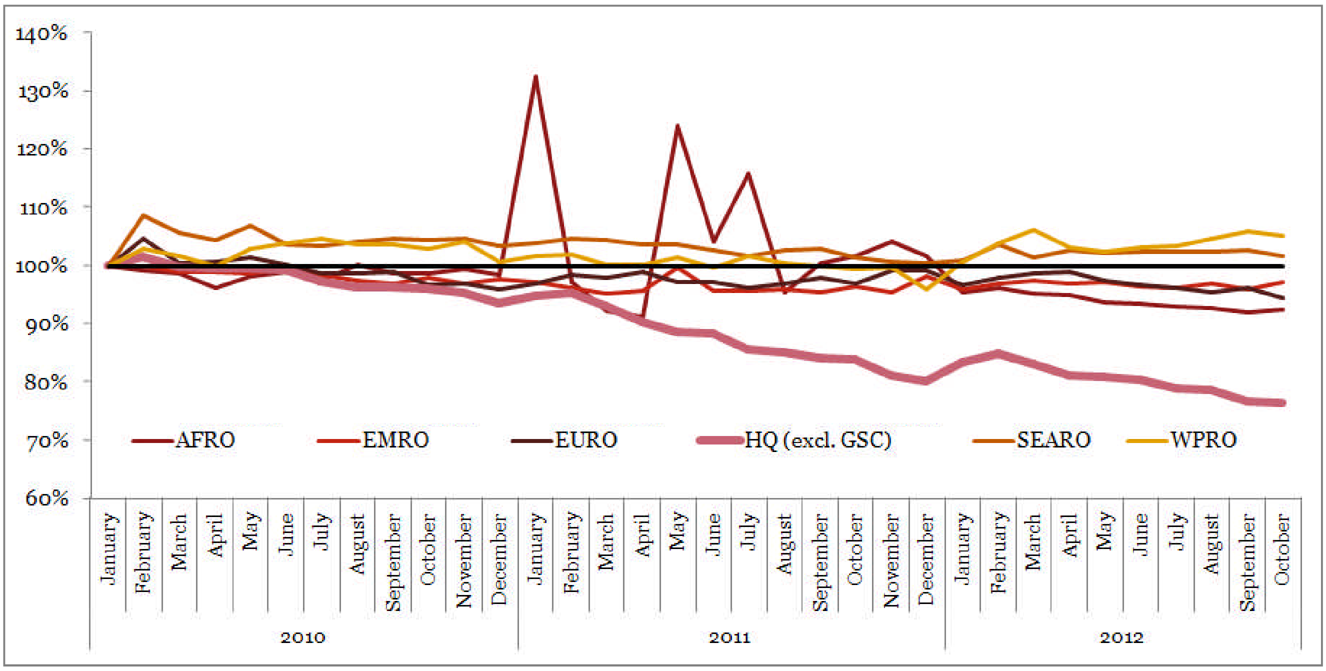


This illustrates that SO 12-13 contributed to cost reduction measures, albeit less than suggested in figure 6.

Evolution of SO 12-13 regional spend

In SO 12-13 the evolution of FTEs varies between regions. The chart shows the evolution of SO 12-13 FTEs by major office. The chart below takes into account the above mentioned transfers to SO 1-11. For the sake of clarity we did not represent the evolution of costs.

Figure 8: Net evolution of SO 12-13 FTEs by major office (base: 100 in January 2010)



Based on the above, we observe the following:

- WPRO and SEARO have had a net increase in staffing (2 to 5%);
- EURO, EMRO and AFRO have had slight net decreases (3 to 7%);
- HQ (excluding GSC) has had the most dramatic reduction, with a 24% decrease. This has been achieved notably via the transfer of staff to the GSC (see paragraph below).

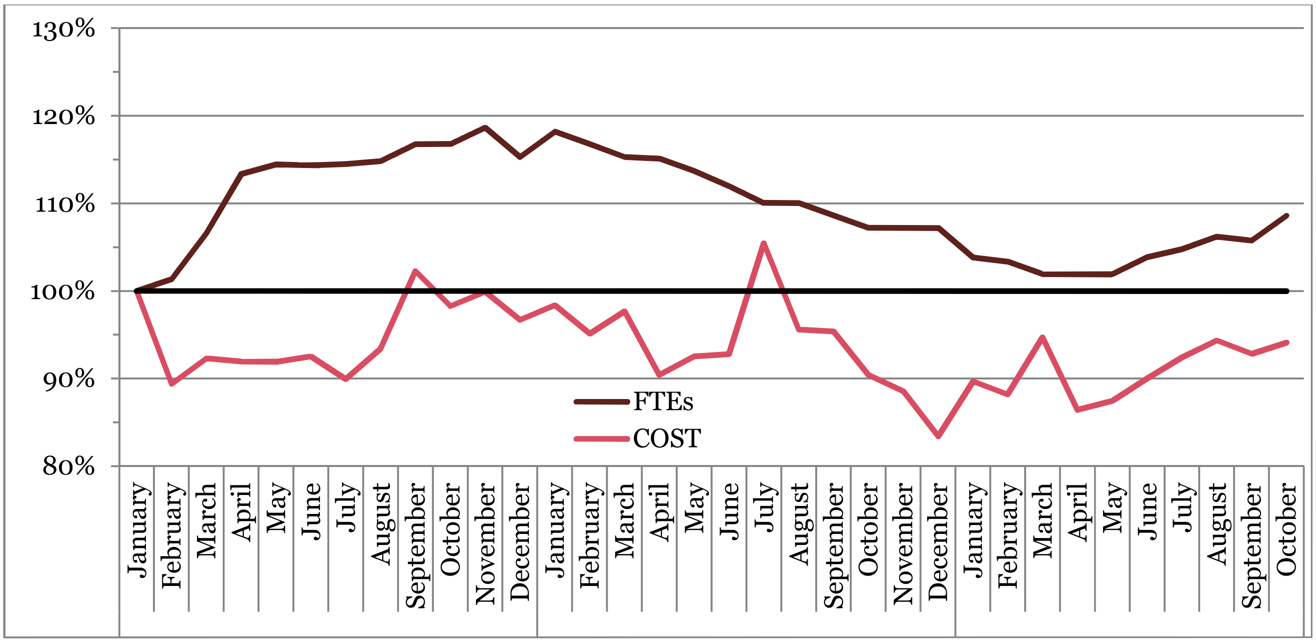
FTE reduction may have been compensated by an increase in activity costs, e.g. internal staff members have been replaced by outsourcing contractors as has been the case in HQ.

Overall this evolution shows that an important transformation has been taking place in the provision of A&M services.

Offshoring

The following chart represents the progressive ramp up of the Kuala Lumpur Global Service Centre (GSC) campus, which comprises teams under the oversight of the GSC director and IT specialists under the direction of the Geneva-based ITT Director. It confirms the transfer of capability to this location.

Figure 9: Evolution of FTEs and payroll costs at the GSC, including ITT offshored staff (base: 100 in January 2010)



The chart shows that staffing at the GSC campus (including off-shored ITT staff) has gone up 9% between January 2010 and October 2012, however GSC related payroll has actually gone down 6% during the same period. This confirms the gradual transfer of staff to the GSC and the cost containment resulting from that transfer.

We however note that the GSC currently represents only 4% of payroll costs for SO 12-13. This suggests that the GSC could be further scaled up.

3.2.4. Hosted partnerships

We sought to understand whether the cost to support partnerships was covered by the fees recovered through PSC, POC, ASAs and specific agreements (section 3.3.4.3 details the fees collected from partnerships, which amount to USD 15.6 million).

Whilst we know how much is paid by partnerships, there is no tracking of specific costs incurred by WHO to support partnerships in the GSM accounting system. A detailed analysis of the cost of service provision to partnerships would have to rely on activity-based costing, which is outside the scope of this study.

We tried to address the question of cost versus income from partnerships based on the following assumptions discussed with the Office of Governing Body and External Relations and the Office of the Legal Councel (LEG):

- Overall, partnerships share the same administrative cost drivers as WHO technical programmes and present the same variety of work as is found in WHO programmes;
- Specific demand is placed on certain core mandate activities, most notably Governing Body and External Relationship, Office of the Legal Councel (LEG) and to a lesser extent Internal Audit;
- Partnerships with administrative service agreements (ASAs) and additional agreements have a different demand and cost drivers than partnerships that pay programme support charge (PSC) and post occupancy charge (POC).

We conclude that for those partnerships and hosted entities that pay POC and PSC, the conclusions of the overall A&M analysis on cross-subsidisation discussed in section 3.3.5 above apply, albeit to a lesser extent than for WHO Voluntary Contributions programmes, given that the average effective PSC rate applied to partnerships is higher (13%, except the Stop Tuberculosis programme at 7%).

The answer for those partnerships which use ASAs and additional agreements requires a different approach:

- Map the services provided to these entities by WHO as described in ASAs and additional agreements against the A&M functional cost categories used in this study;
- Estimate the resulting amount of A&M expenditures that are applicable to partnerships under ASAs; and
- Compare the resulting amount with the actual fees collected via ASAs and additional agreements and actual percentage of WHO SO 12-13 expenditures represented by those partnerships.

We mapped the services contained in existing ASAs with the A&M functional cost categories. Overall we consider that 54% of the WHO A&M indirect costs are relevant to partnerships. This means that partnerships that have an ASA in place consume about half of the costs of a typical WHO technical programme.

If these costs were recovered in full we estimate that around 13% of the SO 12-13 budget should be recovered from partnerships. This is consistent with other simulation we did based on partnership budget size. In comparison, the income WHO generates to support these partnerships represents 4.4% of the SO 12-13 budget. This tends to indicate that partnerships are not covering their full costs, although the lack of accurate cost information on partnerships makes such estimation difficult and the resulting conclusion needs to be assessed with caution.

3.3. WHO's current funding model

In this section, we first discuss the overall funding model for WHO. We then analyse the financing of A&M costs throughout the organisation, including the cost recovery mechanisms currently in place.

3.3.1. WHO funding model

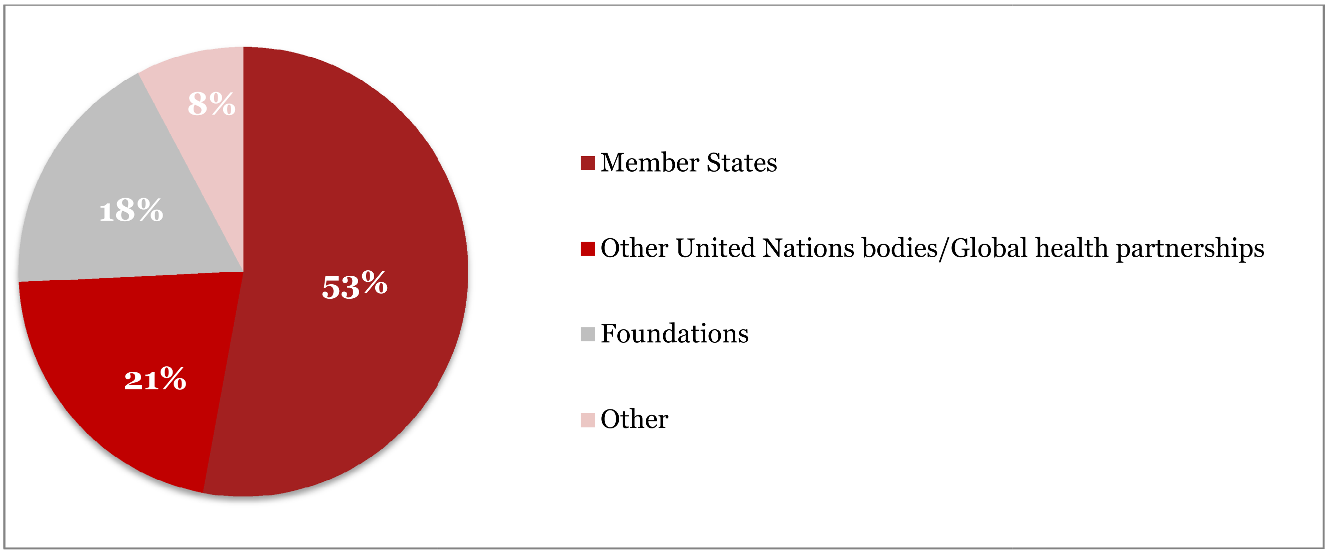
WHO is financed through three major sources of funding:

- *Assessed Contributions (AC):* AC is non-earmarked funding received from Member States. Its purpose is to fund activities relating to WHO's core mandate.
- *Voluntary Contributions (VC):* The majority of VC funding is earmarked by donors for specific programmes, whereas a small portion (8% of VC funds) is funding core activities without earmarking. In 2010-2011, more than 1,900 such contributions were granted to WHO.
- *Fees from hosted partnerships and entities*: the WHA, in its resolution WHA63.10, endorsed a partnership policy which states that "*WHO will seek to be reimbursed for all administrative and technical support costs incurred in providing hosting functions for partnerships and implementing or supporting their activities*." These costs are currently recovered through the same mechanisms used for recovery of A&M costs from VC programmes or through specific administrative service agreements.

Funds can be donated by Members States (who contribute both Assessed and Voluntary Contributions), by other UN bodies (e.g. UNDP), multilateral organisations (e.g. the European Commission) or by private donors (e.g. foundations).

The chart below describes the composition of VC in 2010-2011.

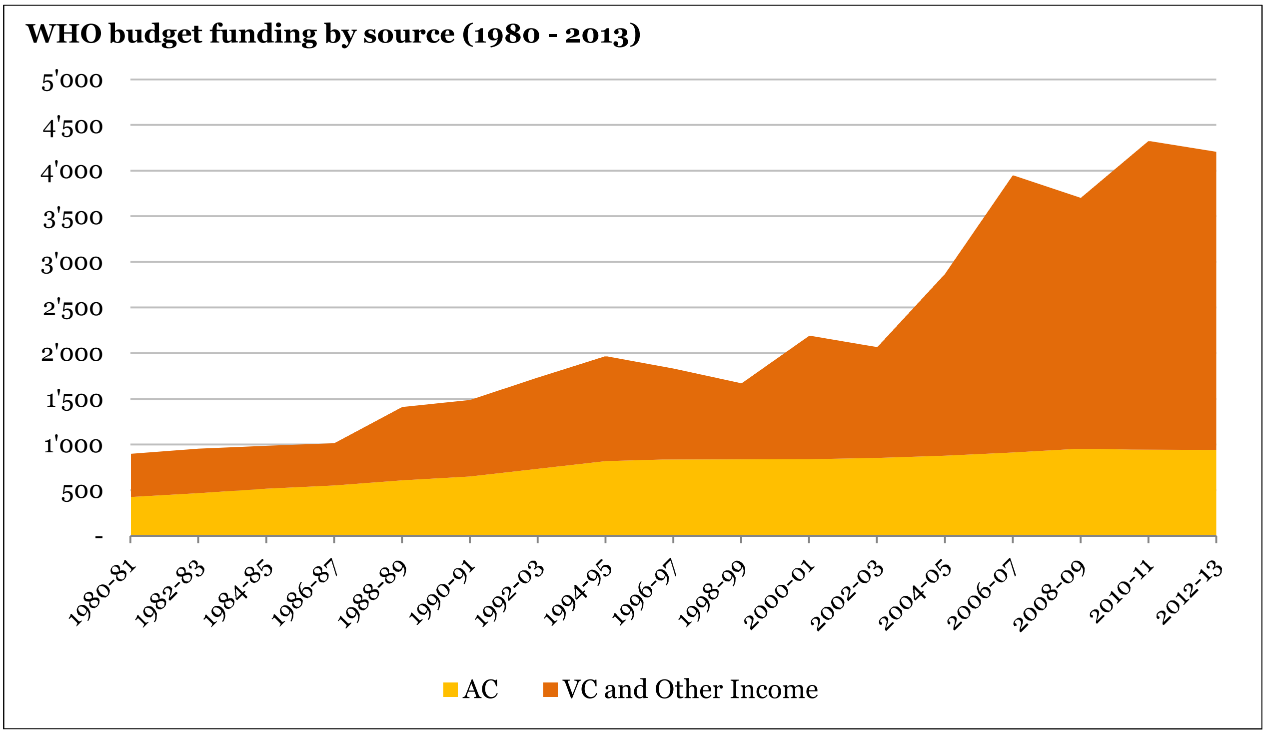
Figure 10: Source of Voluntary Contributions (2010-2011)



3.3.2. Evolution and impact of WHO's funding model on A&M

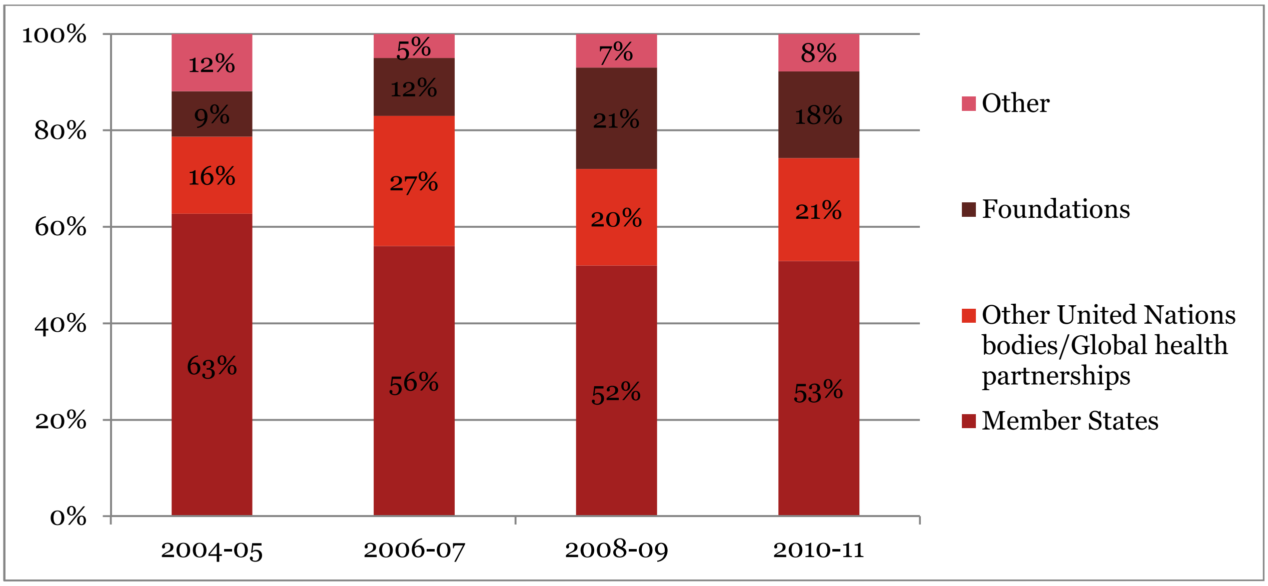
The following figure presents the WHO budget composition between 1980 and 2013, showing a significant increase in Voluntary Contributions in the last decade. As a result, whilst the percentage of VC represented approximately 50% of the organisation's total funding in the 1980s, this share has now increased to 78%.

Figure 11: WHO funding by source (1980-2013)



As illustrated in the chart below, over time, the relative weight of other UN bodies and international organisations in voluntary funding has increased (21% in 2010-2011 versus 16% in 2004-2005) whilst the weight of Member States has declined (53% in 2010-2011 versus 63% in 2004-2005).

Figure 12: Evolution of the respective share of WHO's voluntary funding by type of donor



As a principle, WHO should be able to fully recover the costs of A&M from VC funded programmes and hosted entities.

The increasing weight of voluntary funding, and funding through other UN agencies and multilateral organisations, has far reaching implications on A&M activities and costs:

- WHO has to provide A&M support to an increased number of voluntary funded programmes. Whilst any shortfall could in the past be absorbed, the sheer size of voluntary funded programmes requires carefully balancing the support cost with the actual funding for the incremental A&M workload generated. Failing to do so would result in a de facto situation where AC contribution subsidises costs generated by voluntary funded activities. This would not be acceptable to Member States and would go against the UN General Assembly's resolution A/RES/62/208, reaffirmed in the 2010 resolution A/RES/64/289, which "*urges the specialised agencies to avoid using core/regular resources to cover costs related to the management of extra-budgetary funds and their programme activities*".
- The paradox for WHO is to have to support an increasing volume of programmes while at the same time being put under pressure to justify A&M support costs to donors who typically:
    - do not see value add in support activities, or consider that support costs should already be covered by WHO, and therefore resist funding such activities unless proven otherwise; and
    - tend to use program support cost rates as a parameter to arbitrate between the funding they allocate to various agencies. Whilst this puts a positive incentive for an agency to improve A&M cost effectiveness to remain competitive, there are indications that in practice this has often resulted in a misrepresentation of the true cost of A&M support.
- Some specific overhead has been introduced to manage voluntary funded activities and hosted entities. In paragraph 58 of its 2007 report on the Impact on programme delivery and resource mobilisation strategies on Voluntary Contributions in the UN, the UN joint Inspection Unit noted that "*The management of many different donor cycles and procedures can involve high transactions costs. Among these, onerous reporting requirements of specific donors were frequently seen as a problem by the organizations. Small earmarked contributions also carry relatively high administrative costs, but discouraging such donations risks creating a disincentive effect.*" Such transaction costs include notably:
    - a specific need to reinforce/professionalise management activities such as resource mobilisation for partnerships and external relationship management;
    - investment in specific technology (e.g. GSM Oracle grants accounting) or added complexity in data structure and accounting procedures in order to support varying reporting requirements imposed by donors;
    - increased demand on A&M staff to support ad hoc requests for reporting; and
    - increased demand on Legal, contracting, and top management to support governing activities.
- Programme support charge rates negotiated with other UN agencies and multilateral organisations (e.g. European Commission) are typically lower than the standard 13% (refer to section 3.3.4.1 below), leading to a structural gap in A&M financing.

3.3.3. Funding mechanisms used for A&M

WHO's A&M costs are currently funded through the following mechanisms:

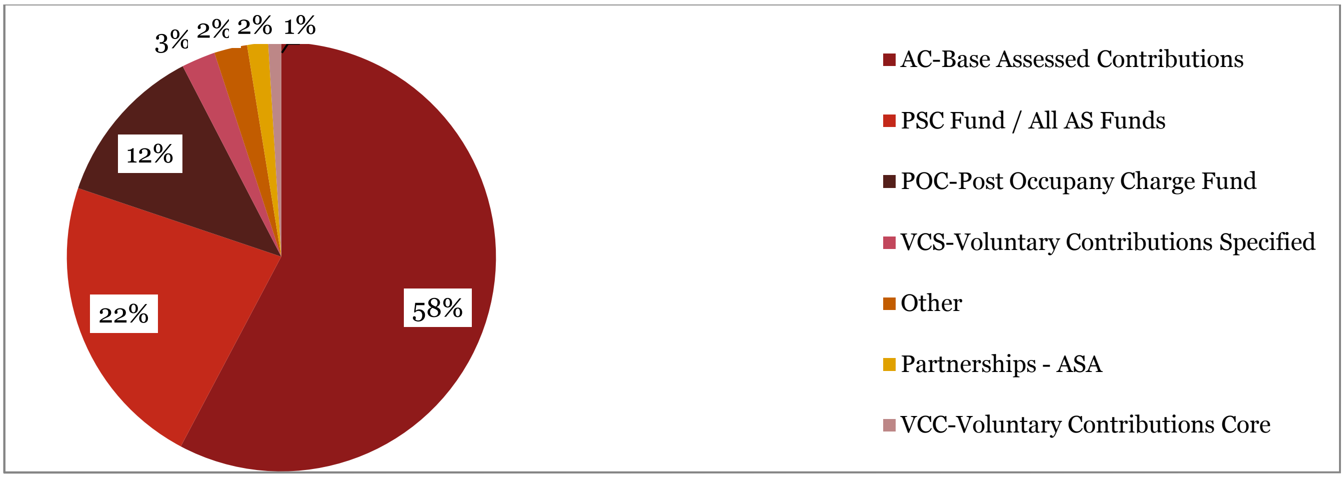
- *Directly charged or covered by technical units:* Some A&M costs, e.g. phone, travel or support staff dedicated to specific programmes are directly paid from programmes and negotiated with donors. This gives transparency to donors, makes the cost manageable by the programme manager and is a fair way to cover these costs. However this approach complicates the consolidation and reduces the visibility of the total A&M spend, which is not conducive to transparency on the overall weight of A&M in the organisation.
- *Directly Funded through AC or Core VC*: This is notably the case for A&M costs incurred in support of WHO's core mandate. A challenge is in coming up with a clear definition that differentiates between activities which are fundamental to the existence of WHO and activities that, albeit important, are not absolutely required for the WHO to exist and operate. Another challenge is to ensure that AC funds do not end up being the default mechanism to cover the shortfall of A&M activities that cannot be recovered from voluntary funded programmes.
- *Recovered* from technical programmes or hosted entities: This is the case for A&M costs that cannot be specifically traced back to a programme or entity. Three mechanisms are currently in place to recover these indirect costs, which we describe further in the next section:
  - A program support charge (PSC), applied as a percentage levied on voluntary funded programmes and some hosted entities only;
  - A post occupancy charge (POC), which is an overhead charge recovered as a mark-up percentage on the payroll cost for each staff, irrespective of whether the staff is working on AC or VC funded programmes. This mechanism can therefore capture AC funding in an indirect way; and
  - A fee, negotiated with hosted entities through an Administrative Service Agreement (ASA) and other additional agreements when no PSC is charged to these entities.

Each of these sources of funding for A&M is tracked through a specific fund.

Whilst the initial focus of this study was on cost recovery, the analysis of options for future financing of A&M cannot be performed in isolation of the A&M costs that are directly covered by programmes.

The chart below shows the financing sources for SO12/13 for 2010-2011.

Figure 13: SO 12-13 financing by source (2010- 2011)



The sheer size of AC resources in funding A&M raises the question of cross-subsidisation, which is discussed further in section 3.3.5 below.

3.3.4. Specific focus on WHO's indirect cost recovery mechanisms

In this section, we analyse the A&M indirect cost recovery mechanisms in further detail.

3.3.4.1. Program Support Charge (PSC)

Definition

The PSC is a long established cost recovery mechanism in WHO and in the wider UN system. A 13% PSC rate was established by the World Health Assembly in 1973 (resolution WHA 34.17) and by the UN Secretariat in 1980 (UNGA 35.217) as reimbursement for extra-budgetary activities, such as programmes funded through VC or some hosted partnerships.

Over the past decade, the PSC rate has been heavily debated within UN agencies and with donors. Donors have been questioning the organisational efficiency of UN agencies and whether donors should contribute to financing an administrative infrastructure that in their eyes pre-exists their donation. As a consequence there has been mounting pressure for lower PSC rates.

The PSC rate is applied on the award accounting value, and kept in a separate fund that is used to finance administrative activities. In 2010-2011, 22% of the A&M costs in SO 12/13 was funded through PSC, as shown in figure 13 above.

Actual PSC rates applied

Not all programmes are charged the standard 13% PSC rate. The table below summarises the various PSC rates that are currently being applied.

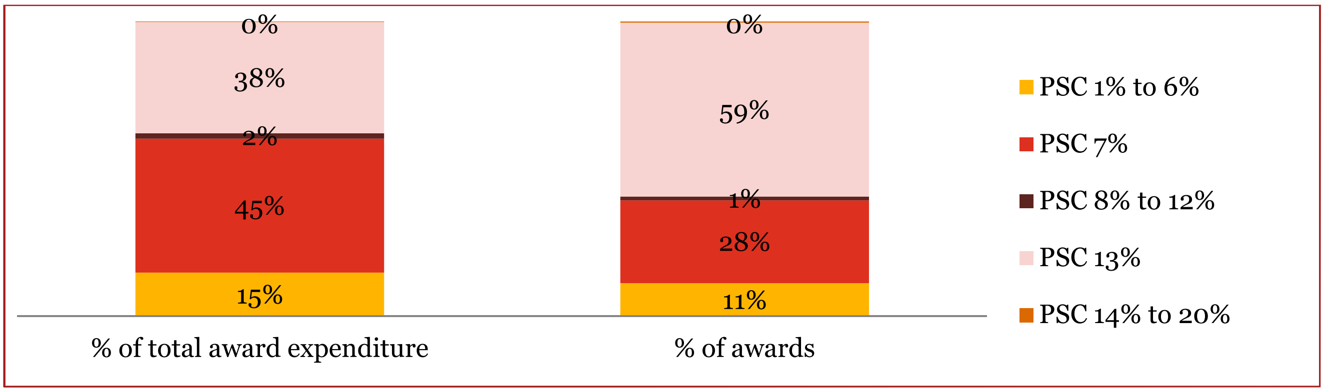
Table 1: PSC rates table

Rate	Donor or program and scope/authority
20%	European Commission -DG Research (FP7 only)
Up to 15%	Bill & Melinda Gates Foundation donations
13%	**Standard PSC as per Resolution WHA34.17**
12%	Interagency agreements for Associate Professional Officers
7%	European Commission (Financial & Administrative Framework Agreement)
	Specific Emergencies (except preparedness)
	Programme where bulk purchases make up more than 80% of the total contribution
	Partnership Trust Funds in which donors bear a significant portion of funding administrative costs of the Partnership (e.g. Stop TB).
	Funding for activities exclusively at the WHO Centre for Health Development/Kobe and WHO Lyon Office for National Epidemic Preparedness and Response.
	Polio eradication agreements (except Rotary)
	UN Agencies (e.g. UNDP, UNEP, UNICEF, UNDCP, UNFPA, UN Foundation). Applies for all funding from UN Agencies in which WHO is the implementer, except UNAIDS and Pass-through funds
6.5%	Rotary Foundation contributions for polio eradication.
6%	UNAIDS
3%	Non-emergency supply services to Member States under Resolution EB33.R44
	TB control drugs procured by Global Drug Facility
	UNICEF procurement
1%	Pass-through funds for UN Joint Programmes when WHO acts as the Administrative Agent channelling funds to implementing partners
0%	UNEP, UNHCR, UNFPA procurement, where there is a reciprocal agreement with UN agencies
	Emergency supply services to Member States under Resolution EB33.R44

The rising weight of funds provided by other UN agencies and international organisations such as the EU has resulted in a progressive erosion of the actual PSC rate effectively collected by WHO.

Figure 5 below summarises the distribution of overall funds and number of awards by PSC rate. It shows that although the standard 13% PSC rate is applied to 59% of programmes, those programmes represent only 38% of the overall amount of voluntary funded programmes. Conversely one third of programmes, representing 60% of voluntary funds, have a PSC rate of 7% or less.

Figure 14: Repartition of PSC rates applied to programmes (2010-2011)



The effective average PSC rate applied to voluntary funds was 6.7% for 2010-2011 and 7.1% for January-October 2012.

Debate on the harmonisation of PSC rates across agencies and UN programmes.

The movement towards harmonisation of PSC rates is a recurring theme among UN agencies.

A fundamental distinction exists between a harmonised cost recovery methodology and a harmonised, or same, cost recovery rate:

- *Harmonised cost recovery rate*: So far the notion of harmonisation has led specialised agencies and UN programmes to converge towards the de facto benchmark set by the 7% PSC rate applied by UNDP. However because the various organisations continue to have very different operations, cost structures and financing models, this convergence toward the same PSC rate has meant in practice that the rate is pegged as opposed to the result of a robust methodology and cost categorisation applied consistently by each agency. In that sense the drive to apply a similar cost recovery rate irrespective of the specific cost drivers of each organisation goes against the goal of harmonisation of frameworks and methodologies to categorise costs and calculate cost recovery rates. Put differently, harmonisation of cost recovery rates **does not allow for transparent comparisons between organisations**.
- *Harmonised cost recovery framework and methodology*: A harmonised conceptual framework, or consistent methodology for classifying and allocating costs in support of a consistent methodology for the preparation of a cost recovery rate, would undoubtedly result in different rates across agencies since each organisation differs in many ways including size, mandate, scope and presence. This has been consistently confirmed by prior studies mandated by agencies or by donors on cost recovery in the UN.

Although a detailed discussion on the convergence of PSC rates across the UN is outside the scope of this study, it is important to note that work is underway at other UN agencies on a harmonised framework and methodology and that continued communication by agencies is needed to educate donors on the above distinction between harmonised rates and harmonised methodologies.

A similar/unique PSC rate: 1) would not be a true reflection of an agency's specific cost drivers and effectiveness; and 2) would go against the interest of transparency.

3.3.4.2. Post Occupancy Charge (POC)

Definition

From January 2010 onwards, WHO introduced the POC as an additional source of financing to cover the gap caused by the progressive erosion of the effective PSC rate.

A fixed percentage of gross salary costs (8.5%) is currently being charged to all programmes and partnerships, with the exception of the hosted entities which have specific Administrative Service Agreements in place. This charge is made irrespective of the nature of funding, i.e. it applies similarly to assessed and voluntary funded programmes.

The money raised finances those parts of Strategic Objective 13 that most closely relate to occupancy of a post by a staff member: office space, building maintenance, IT provision, staff security and training needs.

Actual POC rate applied

The rate currently applied is 8.5% of gross salary. During the biennium 2010-2011, this resulted in $148.2 million of funding collected, representing 12% of SO 12-13 funding.

Whilst limited in scale – the amount collected represents only about half the amount funded via PSC – this mechanism is proving important in limiting cross-subsidisation and actually addresses a key cost driver of the organisation, namely headcount.

The way that the POC is applied, via payroll, ensures that the POC is consistent across programmes and avoids the risk that donors may seek to negotiate overhead costs.

Challenges

After more than two years in operation, and despite its advantages, the use of the POC as a sustainable funding mechanism for A&M still faces a number of challenges:

- *Inflationary impact on the perceived cost of WHO's Human Resources*: Applying the POC on top of gross salary mechanically resulted in payroll costs to increase by 8.5%. This has been interpreted by some external stakeholders as a sign that staff costs at WHO were higher than at comparable organisations.
- *Visibility and clarity for Member States, donors, partnerships and programmes*: The POC does not show up explicitly in the SO 12-13 budget and reporting. Since it is collected via payroll, these costs are reflected in the staff costs of SO 1-11. The funds collected have been allocated to SO 93, a mirror of SO 13, from which POC-related expenditures are expensed. This results in the true cost of providing A&M not being fully reflected if only SO 12 and SO 13 are taken into account. This creates challenges in simplifying the dialogue with Member States on A&M costs.
- *Lack of controllability*: The initial concept of the POC was consistent in how it linked the headcount cost driver to specific cost categories. However, looking back at how funds collected through the POC have been used, we observed some inconsistencies with the original intent. In practice the POC funds are used to fund various administration costs in SO 13. Given the above point on lack of visibility, there is a risk that over time using the POC does not create the right accountability and transparency on how funds are used.

Whilst the principle of recovering costs based on headcount as the cost driver (with salary as the proxy) is sound and fair, this practice requires further fine tuning to ensure a sustainable, transparent and fair mechanism.

3.3.4.3. Fees collected through Administrative Service Agreements and additional agreements with Partnerships

Definition

WHO hosts a range of entities and health partnerships, of which the oldest dates back to 1971. These can take a number of forms:

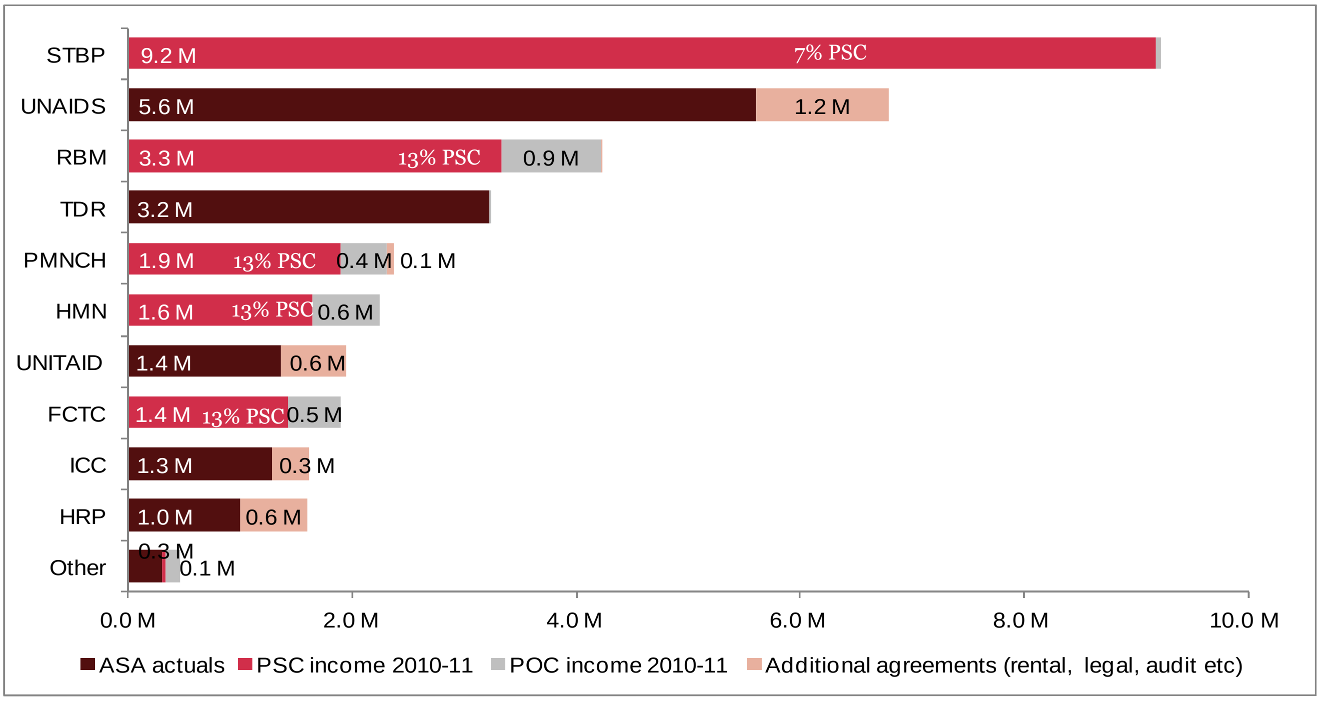
- UN joint inter-agency programmes (e.g. UNAIDS);
- Inter-organisational facilities (e.g. UNICC);
- Unincorporated partnerships (called "hosted partnerships") hosted within WHO with their own governance (e.g. STBP, RBM, PMNCH, UNITAID, HMN, GWHA, AHPSR, OBS);
- Secretariats hosted in WHO (e.g. FCTC); and
- WHO co-sponsored programmes: integral to core WHO activities and part of the WHO programmatic accountability framework, but sponsored by a number of other agencies (e.g. TDR, HRP, APOC, GPEI).

WHO provides partnerships with different services and has organisation-specific Memoranda of Understanding with most. For some entities WHO recovers the support costs through PSC and POC. Four partnerships however, due to their size and the specific scope of services that WHO provides to them, have agreed upon individual Administrative Service Agreements (ASAs). These ASAs specify a cost per service and provide a detailed cost-based calculation. They are complemented by additional agreements to recover additional costs for specific services requested by the partnerships, such as legal, internal audit and rental.

Actual fees collected from hosted entities and partnerships

The figure below presents an overview of the fees collected from partnerships for 2010/2011. In 2010/2011, WHO received US$ 12.8 million in ASA fees and an estimated $2.8 million from additional agreements. This represents 36% of the overall amount collected from partnerships and other hosted entities. The total income from partnerships is US$35.6 million. The highest income received is from the Stop TB Partnership, which has a PSC rate of 7%. Most other hosted partnerships pay a 13% PSC.

Figure 15. Fees collected from partnerships (2010-2011)



Challenges

A review of the existing ASAs and additional agreements highlights the following challenges:

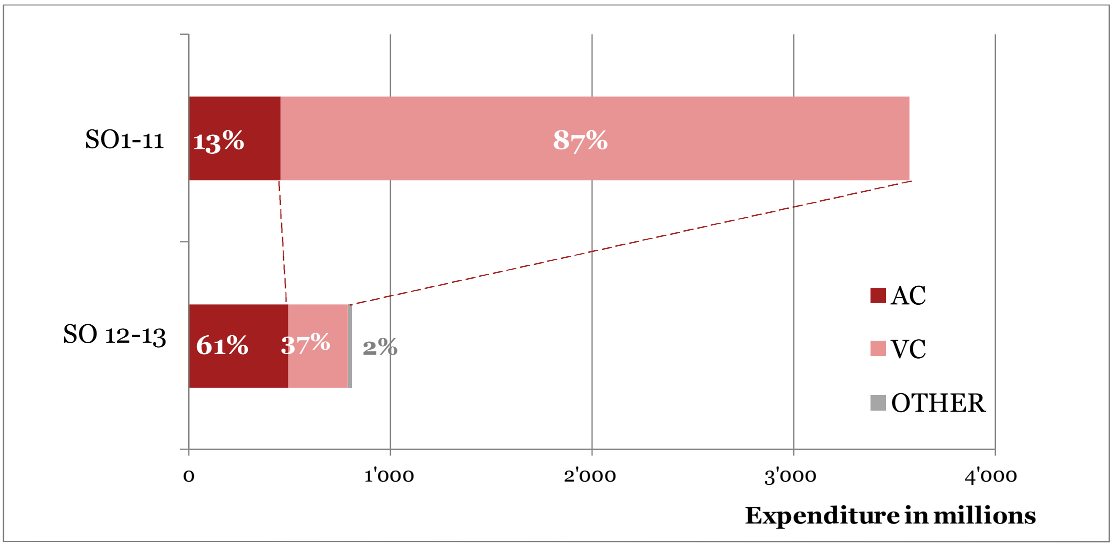
- *Lack of consistency in the application of ASAs:* Not all partnerships have ASAs in place. The difference in coverage and details make these arrangements time- consuming to understand and administer.
- *Expectation management on the accountabilities created by the ASAs*: Whilst WHO sees these arrangements as merely a form of agreement to recover costs and provide services on a best effort basis, we understand that partnerships may perceive the signature of an ASA as an agreement to provide services at guaranteed service levels and expect WHO to demonstrate value for money.
- *Definition of coverage of the recovery mechanisms:* There is a lack of understanding as to what services are covered through PSC, POC and ASAs. At WHO departmental level, side-agreements are also negotiated to cover services that are considered additional requests from partnerships. This patchwork approach makes it difficult to understand which services the partnerships are getting for which fee, and subsequently to assess whether the fees collected properly offset the costs to WHO.

3.3.5. The issue of cross-subsidisation

A recurring question from Member States relates to the existence and scale of cross-subsidisation. Cross subsidisation refers to the financing of parts of the cost incurred by voluntary programmes or hosted entities by assessed contributions.

This can be approximated in the first place through comparing the relative weight of assessed versus voluntary contribution in technical and enabling Strategic Objectives, as illustrated in the chart below:

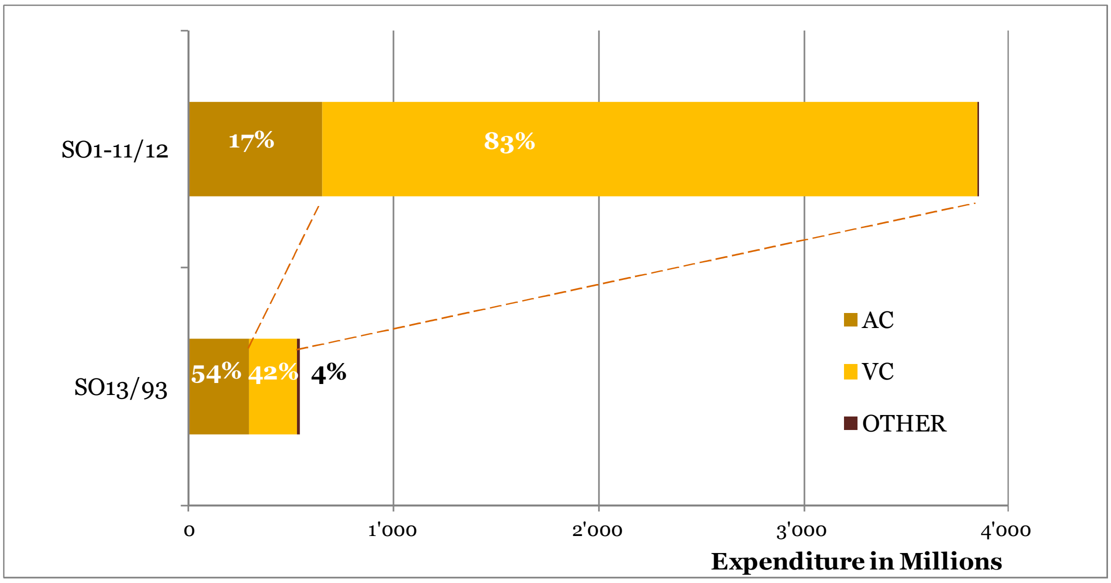
Figure 16: Weight of AC in technical Strategic Objectives versus Enabling Strategic Objectives



The chart shows that whilst AC funds 13% of technical programmes, AC directly or indirectly (through the POC collected on AC funded headcount) funds 61% of enabling strategic goals. *Note that this split is very similar to the result of similar analysis performed at other UN agencies (refer to 2007 DFID study on UNDP financing).*

Even assuming that most of SO 12 "Management" does not relate to support provided to voluntary funded activities and only focusing on SO 13 and the SO 93 mirror alone, 54% of "Administration" funding is still AC related, as opposed to 17% of the aggregate of technical SO 1-11 and SO 12, as shown in Figure 8.

Figure 17: Weight of AC in Administrative SO 13 versus Other SOs



This illustrates that the level of cross-subsidisation is currently material.

3.4. Conclusions

The current situation can be summarised in terms of key strengths, weaknesses, opportunities and threats. This then allows us to identify focus areas for a future financing model at WHO.

3.4.1. Summary SWOT analysis

This section summarises the most salient elements of the current situation.

Strengths

The following key strengths were identified:

- A *centralised ERP backbone* is in place and its grant management module provides a number of segments to track expenditures which could be reengineered to improve traceability and overall cost control.
- WHO has been able to *mitigate the impact of the continuous progression of voluntary funding on A&M and erosion of effective PSC rate,* with the Post Occupancy Charge, which is in principle fair and scalable.
- In the current and last biennium WHO has *demonstrated its ability to generate efficiencies* and to control costs.

Weaknesses

The following key weaknesses can be identified:

- Although a central ERP is in place, *data structure and data quality issues* limit cost transparency and effective reporting of costs.
- There is an *inherent conflict between avoiding cross-subsidisation* to meet Member States requirements, and the imperative to *remain competitive* with donors to attract voluntary funding. The situation where AC funds 61% of SO 12-13, although similar to the pattern observed at other agencies has not been achieved by design or through explicit consent of Member States.
- The *operationalisation of the Post Occupancy Charge* (POC) results in staff cost appearing higher than at similar organisations and does not appear clearly in the regular programme and budget, requiring WHO to present the total cost of A&M in a way that is hard for Member States to grasp.
- The recovery of A&M costs from *partnerships* is at best ad hoc and lacks a consistent framework.

Opportunities

The following key opportunities can be identified:

- The *management reform underway and study on future financing of WHO* offer an avenue to engage in the debate with Member States and raise awareness of the important, yet complex issue of A&M financing.
- Similar *reflexions are underway at other UN agencies*. This may allow agencies to speak with the same voice and convey a consistent message to Member States and donors, thereby increasing the prospect that a satisfactory and consistent model can be defined to finance A&M.
- WHO senior management is driving *focus on areas where WHO can demonstrate distinctive expertise*. This could offer a better negotiating position to defend and justify support costs to donors.

Threats

The following key threats can be identified:

- The *financial crisis* is putting increased pressure on Members States and donors to get value for money. A&M support is a key area where donors expect WHO to show efficiencies.
- Programme managers may be *competing for funds where WHO cannot justify a premium* based on a distinctive expertise, thereby keeping pressure to accept lower support cost.
- The *continuous erosion of effective PSC rates* due to the share of programmes funded by other UN agencies or other multilateral organisations may perpetuate or widen the gap in A&M funding if not complemented by another financing mechanism.
- The issue of *cost recovery has been debated since the foundational 1973 review of administrative support costs in the UN*. It has not yet been settled satisfactorily to date, triggering scepticism on the prospect of this issue being solved in the foreseeable future.

3.4.2. Areas of focus for future financing model

The following 6 areas of focus for a future financing model emerge from the current state assessment:

- settle the debate between cross-subsidisation and full cost recovery from voluntary programmes;
- leverage GSM by strengthening data management as a requisite for cost control and transparency;
- base A&M financing on a comprehensive cost allocation framework and methodology, rather than merely focusing on ad hoc recovery of A&M costs or on a set of recovery percentage;
- ensure that the mechanisms for cost recovery do not get in the way of visibility and transparency of A&M spend, e.g. by mainstreaming and making them visible as part of the programme and budget;
- accompany and where possible leverage cost recovery as a means to influence voluntary funding, e.g. via incentives; and
- develop a consistent and balanced cost recovery framework for hosted entities and partnerships.

4. Financing Options Analysis

This chapter identifies and assesses four A&M financing models as follows:

- **Option A** would consist in recovering all indirect A&M costs through one single mechanism, the PSC, which would be be charged on AC, VC funded programmes, and hosted entities.
- **Option B** would build on the mechanism defined for Option A (PSC for indirect costs) and add an overhead charge for cost recovery.
- **Option C** would build on the mechanism defined for Option A (PSC for indirect costs) and define a service catalogue with cost units. Indirect costs would then be recovered based on consumption.
- **Option D** would fund Core management activities with direct AC funds. Other indirect administrative costs would be recovered through the PSC and an overhead charge.

Sections 4.1, 4.2 and 4.3 outline the trends, requirements and evaluation criteria to assess each option, as well as the various parameters and variables that need to be taken into consideration when defining a particular financing model. Section 4.4 describes and assesses each of the four options in detail.

4.1. Trends, requirements and Member State expectations

This section complements the focus areas identified in section 3.4.2 with additional trends and requirements that are of importance in defining future A&M financing options.

Overall direction for WHO financing

As part of the WHO reform, work has been undertaken to define the future financing of WHO. As part of this stream of activity, a report has recently been produced, which highlights the challenges and recommendation for WHO's future financing. The table below is an extract from the resulting paper on "*Proposals to improve WHO's financing* (EBPBAC/EXO2/2)", which was finalised in the last quarter of 2012.

Table 2: Summary of WHO financing challenges and proposals (PBAC document EBPBAC/EXO2/2)

Challenges	Proposals
1. Misalignment of funds to Programme Budget 2. Predictability of funding 3. Transparency and Resource Management 4. Vulnerability of WHO due to narrow donor base 5. Flexibility of funding	Proposal 1 : the entire programme budget is approved by the Health Assembly in order to ensure the alignment of available resources with agreed priorities and expected outputs. Proposal 2: mechanisms are explored to facilitate receipt of supplementary Assessed Contributions in the short term and achieve an increase in Assessed Contributions in the long term. Proposal 3: financial dialogue is established and multi-year funding that is in line with the general programme of work is sought. Proposal 4: the coordination of resource mobilization, resource management, internal financial controls, and reporting is strengthened. Proposal 5: avenues to broaden WHO's donor base are explored.

As far as A&M financing is concerned the following should be stressed:

- *Challenges*: the vulnerability to donors is a key consideration in designing a cost recovery mechanism. Failing to do so may impact the attractiveness of WHO to key donors. On a more positive note we are of the view that potential incentives (or penalties) on PSC rates could influence the flexibility of funding, e.g. by differentiating the PSC rate based on whether the funds are earmarked or not;
- *Assessed Contributions*: whilst increasing assessed contribution is desirable in the short and long term, it is unclear whether any increase in AC funding is likely to occur. A&M financing options will have to be able to accommodate the current situation and the desired increase in AC;
- *Voluntary Contributions*: the approval of the entire budget by the WHA and the strengthening of reporting are consistent with our view that all A&M costs should be presented in a straightforward and transparent manner. The improved coordination in resource mobilisation also allows for a more consistent policy on cost categorisation and recovery to be implemented. It would also enable improved communications with donors and demystify the true cost of support.

Trends observed at other UN agencies and multilateral organisations

A review of cost recovery practices at other UN agencies and multilateral organisations shows that:

- There is general awareness among Member States and UN agencies that some costs related to voluntarily funded programmes have been funded by Assessed Contributions.
- Most international organisations have similar definitions of direct and indirect costs. However the UN is the only group of international institutions that differentiates between fixed indirect and variable indirect costs. Some studies have found this distinction hard to implement because definitions are inconsistent and difficult to follow through, and the differentiation is being questioned by some Member States.
- Cost categorisation is usually driven by cost function or purpose, as opposed to title. Some IT costs can be direct (e.g. telecommunications) or indirect (e.g. ERP). Some agencies have defined a policy for the classification and recovery of functional costs (e.g. UNDP or UNESCO).
- A robust cost classification framework is foundational in thinking about cost recovery options and in simulating rates. As pointed out in section 3.3.4.1 the same cost recovery framework may yield different recovery rates due to the specific cost drivers of each organisation.
- Donors welcome a clear explanation of costs and the (different) rates to recover costs. The rates (i.e. PSC and overhead charge) need to follow a clear methodology in order to be able to explain them.

Member States' expectations

We surveyed a few Member States and donors during the study. Although the engagement with these stakeholders was limited due to time constraints, it allowed us to identify the following expectations:

- *Transparency is a requisite* for a discussion on financing models and financing options. It was clear in our interviews that Member States do not understand the weight, structure and evolution of WHO's A&M spend. It is also apparent that they are not aware of the cost savings that the organisation has achieved in recent years. This suggests that the future financing model should provide means to support adequate reporting, notably on changes in cost structure.
- *Cross subsidisation* is a key concern for Member States, most notably those that contribute a relatively higher share of Assessed Contributions.
- *Demonstrating cost efficiency* is as important to some Member States as the definition of a sustainable cost recovery model - if not more so. This is notably the case for States that are most impacted by the financial crisis. There is therefore a requirement to embed possible incentives for cost effectiveness into the future financing model or to ensure that transparency will facilitate the identification of cost savings.

4.2. Evaluation criteria

Based on the results of the current state assessment, notably the identified areas of focus for a future financing model, as well as the trends and Member State expectations in section 4.1, the project Steering Committee agreed upon a set of criteria for evaluating possible options. These criteria constitute the common basis against which each option for future financing should be evaluated.

Table 3: Option assessment criteria

Requirement	Evaluation criteria	Example questions
Applicable now and in the future	Sustainability	*What governance processes will be required to manage the process in the future?*
	Scalability	*How does this option behave under various circumstances, given changes in level and sources of funding?*
	Efficiency	*Does it create the right incentives for WHO to become more efficient?*
Reflecting the organisation's need for fairness and transparency	Strategic fit	*Does the proposed solution fit with the strategic intent of WHO and the hosted organisations / partners? Does it fit with the broader strategic direction of the UN as a whole?*
	Fairness	*Is the division of cost in the new model perceived to be fair across different units?*
	Transparency	*Is the new solution clear and transparent so that it can be presented to Member States and donors?*
Practical in terms of implementation and control	Simplicity	*Is the proposed solution easy to understand and is there unnecessary complexity which should be eliminated?*
	Feasibility	*Does the proposed solution take full account of the way that WHO is organised, (HQ, regional offices, country offices), its governance arrangements and the requirements of the hosted organisations and partners?*
	Speed of implementation	*What will be the key challenges for WHO staff, donors and recipients of A&M services when implementing the new model and how can these best be minimised and managed?*
	Controllability	*How will activities such as planning, budgeting, cost accounting, controlling and billing need to be organised under the proposed new model?*

Each option may then be ranked against each criterion using the rating system described in table 4.

Table 4: Option rating

Symbol	Legend
👍	The option meets the criteria, although minor adjustments might be needed
👉	The option partially meets the criteria *or* does not meet the criteria but could meet them provided material adjustments or mitigations are implemented
👎	The option does not or cannot meet the criteria

4.3. Option definition

In accordance with the terms of reference for this study, we identified at least three financing options for A&M. By an option we mean a comprehensive model for financing A&M throughout the organisation. Section 4.3.1 clarifies the various parameters to be considered for each option.

To avoid creating an unmanageable number of combinations of funding mechanisms and parameters, a limited set of assumptions and guiding principles was defined, as outlined in section 4.3.2 below.

4.3.1. Parameters

Funding hypotheses

The funding hypotheses relate to the level of funding for WHO as well as the split between Assessed and Voluntary Contributions. These parameters are important to test or simulate how each option would fair against specific funding conditions.

We simulated each option against the following hypotheses:

- Scenario 1: Maintain current level of funding and current split between Assessed and Voluntary Contributions.
- Scenario 2: Decrease of overall budget to $3 Billion for a biennium, with a 31/69 split between AC and VC, reflecting a worst case scenario and assuming a decrease in A&M cost of 2%.
- Scenario 3: Increase of the budget to $5 Billion for a biennium, with a 19/81 split between AC and VC, reflecting a further increase in VC funding and assuming an increase in A&M cost of 5%.

Definition of cost categories

The cost categorisation framework has an impact on the financing model and on the specific amounts that each financing mechanism will need to recover.

Table 5: Approaches for cost categorisation

Cost category	Approach 1	Approach 2	Approach 3
Direct costs	Costs that are incurred for and can be traced in full to a project	Costs that are incurred for and can be traced in full to a project	Costs that are incurred for and can be traced in full to a project
Indirect fixed	No differentiation between variable and fixed costs	Restrictive definition, e.g. portions of core management	Extensive definition, e.g. base infrastructure, including core management + portions of administrative functions
Indirect variable		Extensive definition	Restrictive definition
Comment	Approach used by most international organisations, with the exception of the UN	In line with the UN cost categorisation, albeit with a narrow scope for indirect fixed and extensive for indirect variable.	In line with the UN cost categorisation, albeit with an extensive scope for indirect fixed and narrow for indirect variable. Similar to the concept of *Base Infrastructure* applied by UNDP

Note: A&M Financing Options A to C apply Approach 1 whilst Option D applies Approach 2 and 3.

Financing mechanisms for A&M

A number of financing mechanisms can be identified and combined. The table below lists the various mechanisms considered, as well as the cost category that each funding mechanism is best suited for.

Table 6: Possible financing mechanisms

Financing mechanism	Description	Match with cost category		
		Direct	Indirect fixed	Indirect variable
Direct charge to the programme	Direct funding by or recharge to the programme	√		
Programme support charge	% charge on the value of each programme			√
Overhead charge	% charge on each FTE of the organisation, irrespective of the source of funding			√
Unit costing	Chargeback of specific services based on measurement of consumption and based on costing of service unit	√		√
Assessed contribution	Direct funding through assessed contribution		√	
Fee	Fee for defined services, e.g. through an Administrative Service Agreement			√

Approach on rates

Rates relate to the setting of the numerical value of the recovery mechanisms used. Various approaches on rates can be envisaged:

- harmonised rate, not taking into account specific factors or cost drivers;
- alignment of rates on key cost drivers, e.g. differentiate PSC or overhead charge based on the location of the programme or staff; and
- leverage rates to influence behaviours through incentives/penalties, e.g. by taking a premium or giving a discount on rates based on the size of the grant, the type of donor or whether the grant is earmarked or not.

Each approach would have a different impact on the complexity and fairness of the resulting A&M financing model. Care should be taken to define situations and scenarios that warrant a departure, whether upward or downward, from the base rate to avoid the appearance of bias. Furthermore, a clear escalation and approval policy should be implemented and utilised when a departure from the standard rate is proposed. The completed approval process, as well as supporting documentation should be retained to promote both consistency and transparency.

Approach on Capital Expenditures

The approach on Capital Expenditure management can either be to:

- Fund investment and capital items separately using distinct financing mechanisms. This results in spikes in investments, but can limit the burden on the amount to be recovered from programmes.
- Include the amortisation of assets in the calculation of recovery rates. This ensures continuous ability to replace obsolete infrastructure but may result in higher charges to be recovered from programmes.

To the extent that reserves for planned Capital Expenditures are included in the biennium budget, such estimates would likely be included in the cost to be recovered. Considerations related to the inclusion of Capital Expenditures should include the impact on transparency and other financial reporting criteria and requirements (e.g. International Public Sector Accounting Standards - IPSAS).

4.3.2. Assumptions and Guiding Principles

Combining the above parameters could yield a near infinite number of options for financing A&M, which cannot be realistically evaluated against the assessment criteria.

To narrow down the list of options to be assessed, we defined assumptions and guiding principles. The assumptions allow the list of options to be narrowed down, whilst the guiding principles set the expectations that the various options should meet.

The assumptions, determined together with WHO, are as follows:

1. *Programme Support Cost will remain*: It is conceptually possible to consider replacing the PSC rate by another mechanism. However, in practice this would require an extensive education programme with donors and would make comparability difficult between agencies and programmes with limited benefits to WHO and its stakeholders.
2. *There is no appetite for a general increase in the standard PSC rate beyond the 7-13% range*: In order to preserve WHO's position in a competitive market for aid funds, we observed general scepticism on WHO's ability to single-handedly align the PSC rate with true incremental A&M costs generated by voluntary funded programmes and hosted entities. *Option A–PSC rate* (see below section 4.4.1) challenges this assumption and assesses the impact this move could have on WHO.
3. *There should be no cross-subsidisation of assessed to voluntary funded activities*: This assumption is based on feedback obtained from Member States and the UN General Assembly's resolution A/RES/62/208, reaffirmed in the 2010 resolution A/RES/64/289 which "*urges the specialised agencies to avoid using core/regular resources to cover costs related to the management of extra-budgetary funds and their programme activities*".
4. *All A&M costs have to be aligned with income* (e.g. no financing gap): Any variation to this assumption would result in options that do not meet sustainability requirements.
5. *Project-by-project negotiation of support costs/rate is not an option*: A quick benchmark of this option against the options assessment criteria showed that this option would fail on most criteria. There was general consensus in discussions with WHO stakeholders that this would go against the targeted improvements.

The guiding principles echo the evaluation criteria and are as follows:

1. *Allocate to programmes the costs that relate to them:* this means qualifying as much cost as justifiable and realistic to direct cost (charged directly to technical programmes): This is in line with the recommendations of the 2008 UN High Level Committee on Management and enables a reduction in the amount of indirect A&M expenditures that needs to be recovered.
2. *Harmonise and mainstream the financing of A&M throughout the organisation:* This means a consistent application of recovery principles at HQ, regions and countries. It also means that wherever feasible the same cost recovery mechanisms should be applied to AC funded programmes, VC funded programmes, partnerships and hosted entities. Exceptions should be as limited as possible.
3. *Balance operational simplicity and transparency*: Whilst a number of mechanisms may appear to provide transparency, those typically come at the cost of operational simplicity. Conversely, simple approaches to cost recovery often fall short of providing the required degree of transparency. The goal is to promote transparency whilst striving for simplicity and effectiveness;

4. *Build-in incentives for donors and for the organisation:* Cost recovery is more than merely a way to recover costs. It can also play a role as a governance mechanism to influence desirable behaviours. Based on feedback obtained, external donors want WHO to demonstrate more drive to generate efficiencies whilst internal WHO stakeholders would like donors to grant more flexible funding, i.e. non earmarked contribution;
5. *Include capital expenditure depreciation in A&M costs and chargeback*: The goal here is to ensure that the full cost of providing support is funded in a sustainable way, without generating spikes in expenditures.

4.4. Financing options and analysis

The following sections present and evaluate four A&M financing options for consideration by WHO. Each option is described, then evaluated against the assessment criteria listed above.

4.4.1. Option A: PSC rate applied to recover all indirect A&M costs

Description

In this option, the PSC is used to recover all indirect costs irrespective of their nature. It is applied to all programmes irrespective of their source of funding:

- **Direct costs are charged directly to programmes, with the goal to qualify as much cost as direct as realistic and justifiable;**
- **All indirect A&M costs, including management costs which have to date been financed through direct AC contribution, are recovered through the PSC rate applied to both assessed and voluntary funded programmes**

This option maintains the same split of AC versus VC funding in A&M compared with the technical units. This effectively decreases the amount of AC funding required for A&M compared to the current situation and eliminates cross subsidisation.

This option requires greater focus on moving costs to direct to the extent justifiable. Consequently it requires a fresh look at the process/procedure around direct/indirect costing.

WHO needs to consider the viability of this option primarily in the context of the perception it would create among donors and Member States, and how WHO would be assessed against other organisations with much lower PSC rates. Selecting this option would be a strategic decision to be made at senior level, especially given that the financial or mechanical aspects of this option are relatively simple.

Rationale

This option recognises that voluntary funding has become a central part of WHO's business model and that the organisation can be considered as a multilaterally agreed programme of action, primarily executed and funded via bilateral agreements.

This option recognises that all core management costs in essence benefit to voluntary programmes, and that all indirect costs should be apportioned accordingly. It completely eliminates cross subsidisation and directs AC funding to technical programmes. This may in return have a positive impact on AC contributions.

A single rate to recover all indirect costs is relatively simple and the concept would be transparent to donors and Member States.

The burden on administration and monitoring of cost recovery would be low compared with other options.

Simulation

The table below summarises the quantitative impact of Option A on the various funding hypotheses considered.

Table 7: Recovery rates for Option A

	Scenario 1	Scenario 2	Scenario 3
Additional direct charge to the programme	$49,743,480	$48,749,106	$52,229,417
Programme support charge	21%	34%	19%
Overhead charge	NA	NA	NA
Unit costing	NA	NA	NA
Direct assessed contribution	0%	0%	0%

Risks and mitigations

The main risk of this option is that it may be too simple, even simplistic. The following risks also need to be considered:

- *Acceptability to donors*: the PSC rate would increase substantially beyond the current 13%, which simply may not be acceptable to donors. Further, the higher rate may create the illusion or perception that WHO is less efficient, or less cost effective than other organisations. Such a move might be possible if done concurrently by several agencies or based on UN-wide guidance. This would also require donors' attitude towards PSC levels to change. Justification for the perceived "premium" on PSC rate would need to be put in the context of a strategic refocusing of WHO on its distinctive value add to donors. Sensitivity analysis would be required to identify potential churn in donations and awards linked to an increase in the PSC rate.
- *Transparency and fairness*: a single rate, while transparent from a financial perspective, may be too broad to satisfy donor and Member States' desire for transparency into actual indirect, or non-programme costs. A single rate, at least on the face of it, does not promote the notion of transparency of costs. There could be inequitable distribution of indirect costs among programmes especially for programmes which draw more than "their fair share" of indirect costs, e.g. programmes operating in high risk areas, or those that are new and require significant development effort. This could be mitigated through a fresh look at the totality of indirect costs to determine if any can be directly charged based on the existing strict definition of a programme direct cost.
- *Cost control and governance*: although this option is mechanically simple, controls are required to ensure that AC does not end up cross-subsidising voluntary programmes. Also governance related to cost control, charging between direct/indirect and other business processes will still be required. A key area to be addressed relates to incentives or controls for the technical units to negotiate higher PSC rates, since currently they will not show up in the program budget (or may in fact decrease funds available for the programme). There needs to be adequate governance in place to ensure that the PSC rates are adequate, and ongoing monitoring as to ensure actual A&M costs are covered.

Implementation pathway and transition timing

From an accounting or technical point of view, this option would be simple to implement.

The following considerations would however need to be addressed:

- In such an option, WHO would determine which additional indirect costs could be charged directly based on the existing strict definition of a programme direct cost;
- Strong engagement with Member States and key donors would need to take place prior to this option being endorsed and implemented. As part of this dialogue, the potential impact of the move to higher PSC rate on VC funding levels should be determined, as well as whether this would be compensated by the increase in AC funding available to technical programmes;
- Engagement with other agencies should take place to explore if this move could be done jointly or if the timing of changes in distinct agencies could impact the success of this option;
- A specific focus would need to be put on equipping programme managers and resource mobilisation staff with adequate material to educate donors, justify rates and demonstrate the distinctive value of WHO;
- Even if the transition to this option could be done in the next biennium, a number of programmes would persist with pre-existing agreement on PSC rates; consequently it would probably take time before the effective PSC rate comes in line with the budgeted recovery rate.

Assessment against evaluation criteria

Below we evaluate Option A against the evaluation criteria defined in section 4.1 above.

Evaluation criteria		Evaluation
Applicable now and in the future	Sustainability	It is questionable whether merely using the PSC rate to recover costs is a sustainable practice. The last 20 years have shown that merely relying on this mechanism has progressively eroded the financial situation of WHO. The challenge is to negotiate an adequate rate with donors that allows for full cost recovery.
	Scalability	Scalable, albeit not completely linked to actual cost drivers. If one rate is calculated to recover indirect costs, the magnitude of both direct and indirect costs does not matter, from a mechanical perspective. The scalability, in the sense of numerical rate, is however constrained by what PSC rate donors are willing to accept.
	Efficiency	The PSC rate in itself does not consider mechanisms to promote cost containment. The dialogue on efficiency can therefore become misleading when a simple PSC rate is the key parameter for discussion, and may lead agencies to become creative in managing their PSC rate through for instance cross-subsidisation at the cost of focus on improving overall efficiency. Also given its indirect nature, PSC does not provide a means for programme and budget managers to influence their spend or to tie accountability for results with accountability for resources.
Reflecting the organisation's need for fairness and transparency	Strategic fit	While the calculation is simple, transparent (in the sense that the calculation itself is easy to conceptualize) and easily explainable, it evenly allocates indirect costs to all programmes, without considering whether some programmes "absorb" or "use" more of the indirect costs than others. The use of more granular, or multiple indirect rates would address, at least partially, this concern. Conversely, this option may be considered too simplistic, which may be negatively viewed. Further, a single rate, especially if POC is no longer used, and all indirect costs are recovered, would likely be substantially higher than the current PSC rate, which may be a "tough sell" to donors and Member States, not to mention optically negative as compared with similar organizations. This clearly goes against WHO's strategic interest in future-proofing funding for its activities.
	Fairness	PSC is not an optimal way to apportion costs to programmes fairly. Programmes would receive an allocation of indirect costs using the single PSC rate regardless of the relative amount of indirect costs consumed. This can only be marginally mitigated by differentiated PSC rates depending on the nature of work. Besides this, PSC comparisons between different organisations can give an unfair representation of the perceived efficiency of these organisation, which does not give justice to the nature of work (implementation versus fund coordination), the location of work (e.g. high-risk countries), the size of the programmes or the way costs are charged (direct or indirect).
	Transparency	Although calculating a single indirect cost recovery rate to be applied to all programmes is transparent and easily explained, the resulting rate blends a number of costs into a single rate which does not provide transparency on the exact mix of costs that make up the rate.
Practical in terms of implementation and control	Simplicity	Proposed solution is simple, if not simplistic.
	Feasibility	Based on the amount of A&M indirect costs to be recovered, this option would result in a substantial increase in the PSC rate to which donors are likely to react negatively. This challenges the overall feasibility of this option.
	Speed of implementa-tion	Calculations are not complex, and the system is already set up to administrate funds through a PSC rate. However a material lead time is to be expected before donors understand the rationale behind such a move and agree to arbitrate in favour of WHO when comparing PSC rate applied by other competing organisations.
	Controllability	No specific issues or impact foreseen on operational processes.

4.4.2. Option B: Option A+ overhead allocation mechanism

Description

Option B is a re-baselining of the cost recovery mechanisms currently in place:

- Direct costs are charged directly to programmes, with the goal to qualify as much cost as direct as realistic and justifiable;
- Indirect costs, including fixed costs or core management costs are recovered through a PSC rate applied to all programmes, complemented by an overhead charge to all staff costs, including assessed funded programmes.

Option B does not distinguish between fixed and variable costs. Similar to Option A, all indirect A&M costs are recovered, creating less requirement for funding through AC. The split of AC versus VC funding in A&M is the same as in technical units.

The key difference with the current model lies in:

- **The fact that all indirect A&M costs are subject to recovery, including management costs which to date have been financed through direct AC contributions;**
- **The operationalisation of the overhead charge, which is more coherent since it is based on a transparent methodology and reported in a more straightforward and visible way to Member States.**

Note: Option D is a variant of this option which distinguishes between fixed indirect costs, funded by AC and indirect variable costs, funded via overhead allocation and PSC.

Rationale

The rationale for recovering all A&M cost is described in Option A.

Indirect costs are recovered against two different but material cost drivers: the programme and staffing levels. The two recovery rates allow WHO to maintain a PSC rate in line with that of competing agencies, which is likely beneficial when negotiating with and communicating to donors and Member States.

The overhead charge allows WHO to collect the shortfall without undue pressure on the PSC or AC funding, using headcount as a basis which is a fair allocation key.

Simulation

Table 8 below summarises the quantitative impact of Option B for the various funding hypotheses considered.

Table 8: Recovery rates for Option B

	Scenario 1	Scenario 2	Scenario 3
Additional direct charge to the programme	$49,743,480	$48,749,106	$52,229,417
Programme support charge	17%	27%	15%
Overhead charge	11%	18%	10%
Unit costing	NA	NA	NA
Direct assessed contribution	0%	0%	0%

Risks and mitigations

While this option is not a dramatic departure from the cost recovery method currently employed at WHO, it is not without risks, notably:

- *Likely increase in recovery rates* because all indirect costs are recovered proportionally. This may cause challenges in justifying rates to donors and would require some sensitivity analysis to be performed to identify the impact on voluntary funding.
- *Lack of a coherent definition of the overhead charge*, or use of the overhead charge as a mere gap-filling mechanism. This would raise questions from donors and fail to provide a credible basis for justification of cost recovery. Mitigating this risk would require focusing first on defining cost categories based upon cost nature and drivers, and only quantifying the resulting rate later to avoid categorising costs in a manner that would pre-determine the rate structure outcomes.
- *Lack of a consistent assignment of costs incurred throughout the year to the revised pre-defined cost categories*. WHO's ability to assess cost recovery against budget forecasts would be constrained if WHO personnel are not adequately trained, or otherwise do not properly assign cost. Additionally, if costs are misclassified there may be a false perception of under or over-recovery of cost compared with the actual amounts received through the PSC or overhead charges. This would reduce the transparency of WHO's cost modelling in the eyes of both internal and external stakeholders.

Implementation pathway and transition timing

In addition to the pre-requisites of Option A the following requirements would need to be addressed:

- Definition and validation of a policy on what functional cost categories could be moved to direct costs, which should be recovered by the overhead charge, and which would lend themselves to recovery through PSC;
- Estimation of the amount that would be recovered via each mechanism;
- Estimation of the effective resulting percentages that would be applied to programmes and overhead;
- Adjustment of the specific rate cards based on the chosen approach on rates and incentives (refer section 4.1);
- Validation by the various governance layers of the organisation, which may take time;
- Inclusion of the above in the budgeting process and financial reporting;
- Briefing of WHO’s resource mobilisation teams on the basis used to determine PSC and overhead charges; and
- Training of administrative staff to ensure that costs be adequately allocated.

Assessment against evaluation criteria

Below we evaluate Option B against the evaluation criteria defined in section 4.1 above.

Evaluation criteria			Evaluation
Applicable now and in the future	Sustainability		Complementing PSC with an overhead allocation is one of the more sustainable options, notably if this overhead can be requalified as a direct cost. A requisite is however to substantiate this overhead based on a robust rationale, methodology and measurement of actual cost making up the overhead.
	Scalability		Full proportional allocation of indirect costs and overhead allocation are scalable because they tie cost recovery to key cost drivers. Also from a technical point of view automation of PSC and overhead recovery is already in place.
	Efficiency		Overhead allocation does not drive efficiency by itself. Worse, it can have a detrimental impact on effectiveness, if the overhead allocation covers costs which do not relate to headcount or if there is a lack of transparency on the level and nature of costs covered by the overhead allocation, as is currently the case. Conversely, targets could be set to reduce the ratio of overhead per FTE in the long run, and demonstrate efficiency gains to donors.
Reflecting the organisation's need for fairness and transparency	Strategic fit		This eliminates subsidisation between AC and VC funds, because all indirect costs are funded proportionally via programmes. This approach frees up AC resources to pursue approved strategic directions. This option balances transparency to donors with feasibility. Donors will receive a more substantiated explanation as to what PSC and overhead charges contain, albeit short of full transparency. The overhead charge would shift away the pressure on PSC negotiations, and force technical programmes to take a substantial share of overhead costs which are not direct. These overhead costs can be allocated to direct headcount through a transparent mechanism which links overhead cost to the direct labour costs which benefit from them.
	Fairness		This option is fair in the sense that the two main cost drivers (funding and staffing levels) are used as the basis for cost recovery (PSC and overhead allocation). A requisite is however to ensure that there are clear boundaries and definitions between the cost funded via PSC vs cost funded via overhead. There is also a risk that donors do not perceive the deal as fair since they would contribute to funding core management activities.
	Transparency		Transparency is improved compared to PSC rate alone, although to a lesser extent than for the cost unit option. Option B requires that the definition of what is covered by the PSC rate and what is covered through overhead recovery are both comprehensive (all indirect costs are covered) and mutually exclusive (the same cost cannot be funded by the two mechanisms). Because these two rates are applied to different costs, they should be separately stated. Overhead or indirect costs that are allocated to headcount should be those which benefit headcount in a measurable way, so that the allocation mechanisms are clear and transparent.
Practical in terms of implementation and control	Simplicity		This mechanism is already in place and would be relatively easy to revamp. The complexity would lie in the identification and quantification of costs that can be justified as linked to the headcount cost driver.
	Feasibility		Whilst PSC and overhead charges are already in place, the hardest part would be to justify recovering all indirect costs through this mechanism. Also considering that currently allocations mostly follow the availability of budget, the challenges of a proper implementation of this option should not be underestimated.
	Speed of implementa-tion		The key internal challenges will be 1) to define cost categories of adequate granularity, and 2) to have the admin staff book costs correctly to these buckets. The challenge with donors, justifying an additional rate on top of the PSC, is that they may not want to accept additional percentage charges to project budgets (see also DfID study on UNDP Financing Arrangements, p.54). Since this option is an improvement on the current model the challenge is to maintain and justify its existence to donors.
	Controllability		Careful consideration will need to be given to how overhead costs are not only estimated but also presented in the budget and reported to Member States and donors. Also, strong controls on categorisation of costs will need to be implemented to avoid mixing PSC and overhead charges for the same costs.

4.4.3. Option C: Option A + Unit Cost allocation

Description

Option C applies a PSC rate on all programmes. It also introduces a new mechanism allocating costs which are generally indirect in nature to projects based upon a defined methodology, known as unit cost allocation. This decreases the overall amount of indirect costs to be recovered via PSC.

Unit cost allocation allows the cost of certain functions, typically those which are transactional, back office or administrative in nature such as those performed at the Global Service Centre, to be assigned directly to programmes based on consumption. For example, the cost of photocopying can be allocated to programmes based on a cost per page and the cost of accounts payable can be allocated based on the number of invoices processed on behalf of each programme.

As in option A, all indirect costs irrespective of their management or administrative nature are recovered through these mechanisms.

Rationale

The rationale for this option is similar to Option A, with a focus on decreasing the pressure on PSC charges. This option allows WHO to assign additional costs direct to programmes, based on transparent costing methodologies that align the cost of a particular function or resource to the programme it benefits. This would reduce the amount of indirect costs which are allocated proportionally across programmes and provide WHO and its stakeholders with greater visibility into the actual cost of particular programmes.

Such an option also reflects the nature of A&M service provision to programmes. It could form part of an overall philosophy to turn A&M into a professional and competitive service provider.

Simulation

The table below summarises the quantitative impact of Option C on the various funding hypotheses considered.

Table 9: Recovery rates for Option C

	Scenario 1	Scenario 2	Scenario 3
Additional direct charge to the programme	$49,743,480	$48,749,106	$52,229,417
Programme support charge	17%	27%	16%
Overhead charge	NA	NA	NA
Unit costing	4%	7%	4%
Direct assessed contribution	0%	0%	0%

Risks and mitigations

A number of risks, essentially relating to the complexity of this option, could only be partially mitigated:

- *Organisational impact*: There would be a large change element to consider given that this option would require implementing a process not currently contemplated at WHO. Additionally, the upfront set-up time and associated costs would likely to be greater than with the other options.
- *Delineation of unit cost*: Costs related to the unit-costed functions would need to be maintained separate and distinct from other indirect functions in order to avoid potential double counting. This would be an initial and ongoing challenge, from a definition and accounting perspective. Mitigating these risks would require careful scoping of what functions and services would be unit-costed, phased implementation and strong controls.
- *Predictability and controllability for programme managers*: There may not be sufficiently precise estimations of anticipated consumptions of cost units (e.g. number of invoices to be processed) to allow programme managers to budget accurately. Variations between actual and budgeted consumptions could pose problems. There would also be a risk that donors would not understand and agree to the variety of A&M charges. As the JIU noted in paragraph 43 of its 2002 report on Support cost related to extra-budgetary activities in the organisation of the UN, "*in reality, however, such an approach is cumbersome, difficult to administer and confusing to donors.*"
- *Return on investment*: The initial scoping of what could be unit-costed and moved to direct cost may reveal that only a limited amount of expenditure could realistically and pragmatically be moved to direct through cost unit allocation. The GSC, for instance, represents only a marginal portion of SO 12-13 expenditures. This would have to be offset against the cost of the initial costing studies, implementation and ongoing maintenance of the capability required to administer this system. All in all the benefit may be limited unless greater use of GSC-type functions is made in the future.

Implementation pathway and transition timing

On top of requisites for options A and B, Option C would require a significant amount of upfront analysis and calculations prior to implementation.

- First, WHO would need to determine whether 1) an adequate number of processes could be unit-costed, e.g. based upon a number of factors including feasibility, practicality and consistency/repeatability of task, and 2) whether such processes would likely be charged sufficiently directly to make the initial investment worthwhile.
- Secondly, the total cost of the unit-costed functions would be removed from the amount of indirect costs recovered through POC and PSC, thereby necessitating a recalculation of those rates.
- Thirdly, business processes to account for and to bill unit cost allocation would need to be developed, in addition to any IT modifications necessary to facilitate such processes.
- Fourthly, if specific financial flows need to be setup or if the Oracle costing module is required, this would create a strong dependency on the GSM technical upgrade project (or the backlog of enhancements on GSM). This could result in the implementation timeframe shifting beyond the next biennium.

Assessment against evaluation criteria

Below we evaluate Option C against the evaluation criteria defined in section 4.1 above.

Evaluation criteria		Evaluation
Applicable now and in the future	Sustainability	Fair amount of initial set up needed to perform time/costing studies. Strong governance required to ensure that costs are booked correctly and the Chart of Accounts can be defined and utilized to monitor the costs effectively. An update of these studies would be necessary to rebaseline time/cost, likely in conjunction with biennium planning.
	Scalability	On the one hand this option is scalable since costs are assigned to specific and meaningful cost drivers and recovery is based on actual consumption. However it has limitations given the need for programmes to budget precisely the expenditure they will generate. There may not be sufficiently precise estimations of anticipated consumption of cost units (e.g. number of invoices to be processed) to allow programme managers to budget accurately. Also although the GSC is a primary candidate for this mechanism, it only represents a small % of the overall A&M cost to be financed.
	Efficiency	Yes. First, by showing clear metrics on cost units, costs become more visible and comparable to other organisations. This will make it easier to analyse costs at a more detailed level, which may, in turn, allow for better cost control and measurability of efficiency improvements. Secondly allocating unit consumption to programmes can be done as a direct expenditure and provides the means for programme managers to better understand and manage the demand they place on A&M. This brings accountability for results and resources closer. A downside of this option is that it requires capability and infrastructure to operate, e.g. cost accounting specialists, measurement tools, possibly cost accounting modules.
Reflecting the organisation's need for fairness and	Strategic fit	Unit costing promotes and allows for greater transparency, and therefore it is a good strategic fit. Unit costs also contribute to the principle of full cost recovery of extra-budgetary programmes, and would likely reduce cross-subsidisation. This option also fits with the principle of moving costs to direct.
	Fairness	Unit costing would be fair, per se, because it assigns the cost of a task equally to projects. Unit costs also helps to minimize cross-subsidisation, because it effectively takes the cost of an indirect function and allocates the unit cost of that function directly to a programme in a clear, transparent and equitable manner.
	Transparency	Unit costing is provides very good transparency. Time study methodologies, calculations and resultant unit costs could be summarized in a manner which could be presented to donors. Although we understand that some donors resist having these types of charges in the technical programmes (DFID study on UNDP Financing Arrangements), AC contributors would likely welcome it.
Practical in terms of implementation and control	Simplicity	Inherent complexity involved in setting up and maintaining detailed cost calculations for each cost unit. The type and number of functions, processes or tasks to be unit costed would need to be further analyzed. Additionally, overall composition, controls and current processes within the General Services Centre (GSC) must be considered and analyzed.
	Feasibility	Further discussion around the GSC, including capabilities, processes, controls and personnel are necessary. Additionally, evaluation of the current accounting system is necessary to determine if such a mechanism of cost allocation and tracking would be possible, or if a modification of GSM is necessary. Also refer to Option A and B for further comments.
	Speed of implementa-tion	Unit cost allocation may take some time to implement, depending on the scope and functions which are to be allocated. An assessment of IT/accounting system changes is also necessary prior to determining the speed of implementation. Also business processes to account for, and bill unit cost allocation would need to be developed, in addition to any IT modifications necessary to facilitate such processes.
	Controllability	Impact is foreseen on budgeting process where consumption of unit costs by programmes will have to be estimated, e.g. based on quantification of historical consumption for specific cost units. Cost accounting will also be made more complex due to greater level of precision, requiring specific infrastructure and manpower.

4.4.4. Option D: Option B + Finance core A&M through Assessed Contributions

Description

Option D is a variant of Option B which makes the distinction between fixed and variable indirect costs:

- Fixed indirect costs relate to Core Management activities and are funded by Assessed Contributions only.
- Variable indirect costs are generated by programmes although they cannot be traced back unequivocally to a specific programme. They are subject to recovery via PSC and overhead allocation.

This option does not equate to cross-subsidisation although a material part of A&M costs are funded by AC. The nature, purpose and amount of these costs are defined upfront and they do not relate to programme support.

Under this option, capital expenditures would be financed through AC if considered a planned fixed cost and would be included in the cost to be recovered through the PSC or overhead rates if considered a planned variable cost.

Rationale

This option is consistent with trends observed at a broader UN level:

- It matches the specific categorisation of costs provided by the UN High Level Committee on Management (indirect fixed, indirect variable and direct) since core activities can be assimilated to indirect fixed costs. It provides substance to the fact that some A&M tasks are required irrespective of the number, value or content of technical programmes. These core functions allow WHO to fulfil the core mandate of the organisation and meet its governance requirements. Their costs therefore need to be funded by AC.
- It reflects the model in place at UNDP, the benchmark organisation for rate setting: UNDP has defined a "base infrastructure" which is funded through regular resources.

Option D provides a much needed degree of flexibility to ensure an appropriate foundation for execution and monitoring.

This approach is familiar to WHO and therefore would be relatively straightforward to implement compared to other options.

Simulation

The table below summarises the quantitative impact of option D on the various funding hypothesis considered.

Table 10: Recovery rates for option D

	Scenario 1	Scenario 2	Scenario 3
Additional direct charge to the programme	$49,743,480	$48,749,106	$52,229,417
Programme support charge	7%	11%	6%
Overhead charge	11%	18%	10%
Unit costing	NA	NA	NA
Direct assessed contribution	43%	43%	43%

Risks and mitigations

While this option is not a dramatic departure from the cost recovery method currently employed at WHO, it is not without risks, notably:

- *Lack of a coherent definition of the fixed versus variable costs and lack of alignment between cost categories and recovery mechanisms*. This could lead to the use of the overhead charge or AC funds as mere gap-filling mechanisms. This would also raise questions from donors and would not provide a credible basis for justification of cost recovery. Mitigating this would require focusing first on defining cost categories based upon cost nature and drivers of the, and only quantifying the resulting rate later to avoid categorising costs in a manner that would pre-determine the rate outcome. The concept of core management, or base infrastructure, is currently being debated and evaluated throughout the UN at many levels. WHO needs to be prepared for these ongoing discussions if selecting this option.
- *Lack of buy-in due to a perception in the organisation that this approach has been considered before*. This may be countered based on the fact that it forms part of a wider change effort which would need to be properly considered, planned and implemented.
- *Lack of a consistent assignment of costs incurred throughout the year to the revised pre-defined cost categories*. WHO's ability to assess cost recovery against budget forecasts would be constrained if WHO personnel are not adequately trained, or otherwise do not properly assign costs,. Additionally, there may be a false perception of under or over-recovery of cost compared with the actual amounts received through the PSC or overhead charges if costs are misclassified. Furthermore, misclassification of cost or ineffective controls over cost assignment would reduce the transparency of WHO's cost modelling in the eyes of both internal and external stakeholders.
- *Opportunity cost in the use of AC funds*: Non-earmarked funding is a precious resource which strategically can be directed towards programmes of importance for world health but of lesser importance to donors. "Burning" these non-earmarked funds for A&M could be seen as sub-optimal use of this type of funding. This may have unintended consequences, such as Member States reducing their AC contributions and shifting such contributions to VC, which of course are more restrictive and often earmarked for a particular programme or effort.

Implementation pathway and transition timing

This option requires less transition time as compared with the other options presented in this report, as it would be a refinement of the existing model.

However the following pre-requisites would need to be addressed:

- definition and validation of a policy on what functional cost categories should be moved to direct costs, recovered by the overhead charge, recovered through PSC or qualify as core/fixed variable costs;
- estimation of the amount to be recovered by each mechanism;
- estimation of the effective resulting percentage to be applied to programmes and overhead;
- adaptation of the specific rates applied based on the chosen approach on rate and incentives (refer to section 4.1);
- validation by the various governance layers of the organisation;
- inclusion of the above in the budgeting process and financial reporting; and
- briefing of resource mobilisation teams on the basis used to come up with PSC and overhead charges.

Assessment against evaluation criteria

Below we evaluate option D against the evaluation criteria defined section 4.1 above.

Evaluation criteria		Evaluation
Applicable now and in the future	Sustainability	This option is sustainable since it allows WHO to recover variable costs fully and fund fixed costs, which are not expected to evolve much, through AC. It also does not put undue pressure on PSC rates. A requisite is however to define in detail what falls under fixed indirect, variable indirect and direct based on a robust rationale, methodology and measurement of actual cost making up the overhead and core management.
	Scalability	See under Sustainability above. Depending on whether the core is defined restrictively or extensively, the amount of AC contribution may vary, to the point that AC alone may not be enough to cover everything that has been defined as core.
	Efficiency	The ability to move indirect costs to core, and deem them necessary to carry out the mandate can be used as a way to manage the PSC rate. Additionally, the difference between core and non-core has not always been transparent, and therefore there is an existing perception that this method does not foster or encourage efficiency, notably for core management activities.
Reflecting the organisation's need for fairness and	Strategic fit	Consistent with trends observed at a broader UN level (HLCM recommendation on cost categorisation in indirect fixed, indirect variable and direct UNDP definition of "base infrastructure"). This approach also provides much-needed flexibility to ensure an appropriate foundation for execution is in place. A caveat to this is that "burning" non-earmarked funds for A&M can be seen as sub-optimal use of this type of funding.
	Fairness	This option is fair on both Member States and donors, provided the fixed indirect costs do not include activities that directly benefit programmes. PSC and overhead charges also allow for a fair recovery of indirect variable costs based on meaningful cost drivers.
	Transparency	Reduced. Allocating indirect costs between fixed, funded by core, and variable is inherently judgemental. Experience demonstrates that, at times, costs have been categorized as fixed to reduce the PSC, or cost recovery rate. At a minimum this would require debate with Member States and a clear policy on what qualifies as core vs non-core.
Practical in terms of implementation and control	Simplicity	Reduced. As mentioned above, the inherently judgemental nature of assigning the cost of some posts, locations, services, etc can increase complexity, given that reasonable people may disagree depending on their point of view.
	Feasibility	The key driver behind the feasibility of this option is whether Member States primarily would be willing to support it. Technically this option is already partially in place, although currently bookings are mostly following the availability of budget. The challenges of a proper implementation of this option should not be underestimated.
	Speed of implementa-tion	All the technical capability to implement this option is already in place. The definition of a consistent framework and budgeting against this, as well as the engagement and endorsement by Member States may be time consuming. This would require articulating to them why such a model does not constitute cross subsidisation of voluntary funded programmes. Whilst this is achievable, getting the message across might take time.
	Controllability	Impact to be foreseen on planning and budgeting process. Also in terms of cost control, attention will need to be paid to ensuring that the definition of core is not inflationary. Also requires strong engagement with Member States to justify the rationale Given that this option would fund core A&M through AC, a periodic (likely when planning for each biennium) exercise to re-examine what truly is core, and the associated costs for such activities is necessary. This would not be simply a budget to actual, or budget forecasting exercise. Rather, it would focus on a substantive discussion about what functions are necessary to support the mandate of the organization, if programmes did not exist. Once those functions, posts, locations are defined (at a relatively detailed level) the associated costs are then determined. This amount becomes "fixed" A&M and is funded completely through AC.

4.5. Recommended option

The table below summarises our assessment based on the analysis performed and discussions with WHO management.

Table 11: option assessment summary

		Option A. PSC rate to fund all Indirect costs	**Option B.** Option A + overhead allocation	**Option C.** Option B + Cost unit allocation	**Option D.** Option B + A&M core funded by AC
Applicable now and in the future	Sustainability	👉	👍	👉	👍
	Scalability	👉	👍	👉	👍
	Efficiency	👎	👉	👍	👎
Reflecting the organisation's need	Strategic fit	👉	👍	👍	👍
	Fairness	👎	👉	👍	👍
	Transparency	👉	👉	👍	👉
Practical in terms of implementation & control	Simplicity	👍	👉	👎	👉
	Feasibility	👎	👉	👉	👍
	Speed of implementation	👉	👍	👎	👉
	Controllability	👍	👉	👉	👉

Based on the above assessment of each option, we note that:

- Option A scores poorly on a number of criteria and would result in a prohibitive PSC rate;
- Whilst Option C may be possible in the medium term, it would be difficult to implement at short notice;
- Options B and D would constitute a good middle ground and could be a stepping stone towards implementation of Option C; and
- Option D has the advantage of being consistent with the cost categorisation of the UN HLCM cost classification and with what is observed at UNDP. Whilst speed of implementation of this option would depend on Member States' endorsement, we believe it is the most sustainable and fair option.

Our recommendation is therefore to implement Option D, i.e. fund core management via AC and recover other A&M costs via a combination of PSC and overhead allocation.

An implementation roadmap for this option is described in the next section.

5. Recommendations and roadmap

This section addresses the following elements of the terms of reference of the study:

- "proposals for budgeting, reporting and cost control of administrative and management costs";
- the identification of "any procedural, accounting, or system requirements" in order to implement the above-mentioned proposals;
- "a road map for implementation of the new approach".

5.1. Key recommendations

We used the following framework for defining the recommendations to implement the preferred option and to address the weaknesses, threats and opportunities identified in the currents state assessment:

The requisite business capabilities (e.g. process) are broken down into domains (e.g. policies). The next table organises our recommendations against each domain. The recommendations are aimed at addressing:

- The implementation of any new financing model in general and of the recommended option in particular;
- Improvements in **budgeting, control and reporting of costs.**

The table below provides an overview of the recommendations per domain, which will be discussed in detail in the subsequent sections.

Recommendation	Business Capability domain
Define, implement and enforce a cost categorisation policy	Processes and policies
Align the Programme and Budget based on defined categories	Processes and policies
Ensure that category 6 Corporate and Enabling Functions presents clearly the total cost of indirect A&M costs	Reports & analytics, Processes and policies

Recommendation	Business Capability domain
Reinforce data quality and compliance roles	Governance arrangements
Socialise study results with internal and external stakeholders	Networks and interdependencies
Mainstream and record products and services to partnerships	Processes and policies
Update data structures	Data
Strengthen data analysis and controlling function	Reporting and analytics, organisation structure
Raise the awareness of administrative and programme support staff awareness on how to properly categorise expenditure and why it is important to do so	Competencies
Fine tune the A&M operating model	Organisation structure

5.1.1. Define, implement and enforce a cost categorisation policy (Processes and policies)

The definition of a clear and harmonised policy on cost definition and categorisation is a prerequisite for the implementation of a new financing model.

Whilst the framework we used in this study could be used as a valid starting point, it would need to be revisited and fine-tuned. The following tasks would require particular attention:

- Define the scope of what is considered A&M. Particular focus should be given to determining whether or not programme managers in technical units, event organisation and travel qualifies as A&M (WHO could opt to categorise none, some or all travel expenditures incurred by technical units as A&M in nature).
- Define which costs are direct, indirect variable or indirect fixed. Attention should be paid to ensuring that as much cost is categorised as direct when appropriate, feasible and realistic. This can cover for instance facility or certain IT costs.
- Define which cost categories will be funded by specific funding mechanisms (directly from programme funds, via AC, PSC, overhead or unit costs).
- Identify possible shifts of allocation from one biennium to the next: Care should be taken to ensure that costs are categorised in a consistent way across biennia in order to ensure comparability.

The policy should be applied consistently at all levels of the organisation (HQ, regions and country offices).

5.1.2. Align the Programme and Budget based on defined categories (Processes and policies)

Based on the above policy, the Programme and Budget should be realigned with respect to ensuring that:

- all A&M costs defined as direct are budgeted as part of technical categories 1 to 5; and
- all A&M costs defined as indirect variable and indirect fixed are budgeted as part of category 6 – Corporate and Enabling Functions.

Wherever possible the programme areas, priorities or products and services in category 6 should be mapped to the functional cost categories defined in the policy (e.g. core management, HR, IT) so as to enable proper tracking and comparison of costs per category between regions and identification of trends over time. This is likely to require a harmonised set of programme areas, output and products and services across the various levels of the organisation, which we understand WHO is currently working on.

5.1.3. Ensure that category 6 presents clearly the total cost of indirect A&M costs (Reports & analytics, Processes and policies)

WHO finds it hard to differentiate budgeting (what is the money spend on?) from funding (how are these activities funded?). This is creating challenges when presenting the Programme and Budget. Category 6 does not show the full cost of provision of indirect A&M, since the A&M costs funded via the Post Occupancy Charge (POC) are not budgeted as part of category 6.

We are of the view that category 6 should present the full cost of indirect A&M budgeted expenditures, i.e. all costs that will be financed via PSC, POC and direct AC funding of A&M activities.

This means that the equivalent of 8.5% of the salaries in categories 1-5 would need to be presented as part of category 6 to give a true reflection of what is spent on indirect A&M activities.

This would enable presenting the Budget to Member States in a way that has no bearing on how these A&M costs are funded. It would not necessarily mean that staff costs as budgeted and costed as part of donor agreements would need to change.

5.1.4. Reinforce data quality and compliance roles (Governance arrangements)

GSM provides sufficient granularity of information, provided the information is coded properly.

We however noted a number of inconsistencies regarding the allocation of expenditures to activities, tasks and sometimes accounts. Improving data quality when transactions are entered into GSM is a prerequisite to get any insight from data analysis.

Whilst we noted that some regions and functions (e.g. travel) have setup compliance functions, our analysis shows that there is some way to go to ensure appropriate data quality.

In our view, this requires the implementation of strengthened data quality and compliance roles, consisting notably of ongoing and periodic data quality checks and exception management. Where exceptions are noted, this should trigger correction and if needed staff training or escalation to senior management.

This role could for instance be performed by a central function such as the GSC, in order to provide a consistent and cost-effective way to drive data quality improvement through compliance.

5.1.5. Socialise study results with internal and external stakeholders (Networks and interdependencies)

The A&M cost study provides important insights into the A&M function at WHO. The impact of the recommendations and future financing options is also far reaching for internal and external stakeholders.

To raise awareness and improve the acceptance of the initiatives coming out of the study, the following socialisation activities should be undertaken:

- **Resource mobilisation teams at all levels of the organisation:** Resource mobilisation teams at country, region or HQ level play a pivotal role in negotiating PSC rates with donors and in building donor trust in WHO. Also, given the currently devolved nature of resource mobilisation, there is no incentive for programme managers to ensure that they cover their support cost in full (either directly or via an adequate PSC rate). We understand that WHO is working on a number of initiatives relating to resource mobilisation activities, including the implementation of a central review function. Aside from these initiatives, there is a need to educate staff involved in resource mobilisation on why A&M costs are incurred and what they represent so that WHO teams can more easily justify them to donors and understand the need to properly fund support activities.

- **Key donors:** A number of the options assessed would likely result in an increase in A&M costs recovered from voluntary funded programmes. Given the relative concentration of WHO funding, a proactive dialogue with key public and private donors should take place. This dialogue should build on the general considerations on A&M and support costs outlined in the presentation made to the PBAC. It could be part of the broader "Financing Dialogue" that WHO is implementing.
- **Member states:** The secretariat would need to prepare a recommendation on a financing option and way forward for evaluation and decision by the World Health Assembly**.** Whilst this report outlines four alternative financing models, work has to be undertaken by the Secretariat to engage with internal and external stakeholders prior to making a recommendation to the PBAC and the WHA. This process of engagement should ensure that each possible option's characteristics, advantages and disadvantages as described in section 4 of this study are understood by key stakeholders. This is likely to require consultation with Member States outside formal PBAC or other governance meetings.
- **Other agencies:** WHO is more likely to obtain support from Member States if other agencies are also moving in the same direction. A number of studies on cost recovery and financing of A&M have been performed. Also, the High Level Committee on Management of the UN (HLCM) has undertaken work on cost categorisation. We are of the view that the conceptual framework to classify costs and to evaluate financing options described in this study is of relevance to other agencies and goes beyond the output of previous studies. There is an opportunity for WHO to lead other agencies in adopting a similar approach and influencing any future guidance that could be issued at UN level on cost recovery and financing of A&M. This could be done by WHO engaging on a bilateral basis with some agencies (e.g. UNDP, ILO) or by doing this as part of the UN HLCM.

5.1.6. Mainstream and record products and services to partnerships (Processes and policies)

As a principle, partnerships should cover their A&M costs through the same mechanisms as AC & VC funded programmes (e.g. PSC overhead or direct).

Where only a subset of services is used and applying the standard recovery model does not make sense, the following should be envisaged:

- **Harmonise / align the A&M service catalogue**: we understand WHO is creating a products and services catalogue to capture the costs of specific outputs. This initiative is an opportunity to align the A&M services and products with those described in ASAs and mainstream these services and products with those provided to WHO itself.
- **Evaluate the costs to provide services to partnerships**: for standard services, this can be done based on a cost unit where it exists and an evaluation of historical or anticipated consumption. If cost units are not available, this can be done by estimating the share of the cost of that service represented by the demand from the partnership. For specific services, specific measurement of cost should be done (e.g. through time recording). Care should be taken to ensure that this evaluation is validated by finance.
- **Realign Administrative Service Agreements (ASAs)**: This can be done as a one-off initial exercise to realign ASAs on the same structure and catalogue, and then updated each biennium once the new costs for A&M services and products have been calculated.

We also encourage WHO, as part of the broader reflection on the governance of partnerships, to determine whether partnerships that are strongly embedded within WHO operations should be able to apply for ASAs.

5.1.7. Update data structures (Data)

GSM offers adequate data structures and fields to record transactions and enable analysis. However, as they are currently setup, populated or used, these fields have shortcomings that constrained our analysis. In order to be able to replicate the type analysis performed as part of this study in a streamlined and ongoing manner, the following should be reviewed:

- **Standardise outputs and tasks**: strategies are broken down into organisation-wide expected results (OWERs), office specific expected results (OSERS) and Top Tasks. OSERS and Top Tasks are essentially free text fields that each programme can populate. This does not allow for consolidation of expenditure of a cross functional nature, e.g. HR or ICT spend throughout the organisation. We understand that in the 2014/15 biennium these fields will be harmonised and determined centrally, which is a welcome evolution. WHO however needs to address how the functional categories (e.g. Core management) and sub-categories (e.g. Legal) will be catered for in this revised structure.
- **Refine General Operating accounts and definitions**: The General Operating account of the Chart of Accounts should be broken down to allow finer tracking of the nature of costs. Of particular focus, the following could be considered:
    - IT expenditure categories: hardware, software, professional IT services and outsourcing
    - Facilities expenditure categories: rental, commodities (fuel, electricity, water supply), building maintenance, building construction
- **Apply Commodity Types in a consistent and meaningful manner**: the procurement module in GSM offers an ability to use a commodity type to categorise purchases. Commodity types are currently used in an inconsistent or unclear way. In order to be able to get intelligence from this field, we recommend to review the definitions of existing commodity types, to streamline them and if possible align them with the functional categories (e.g. for utilities).
- **Ensure accuracy and clarity of job titles:** We noted a number of generic descriptions such as "Technical Officer" which are hard to categorise and may include staff performing A&M work. We also understand that staff may not necessarily perform work corresponding to their job title. Since at least 2/3rd of A&M costs are staff related, ensuring accurate and explicit job titles is a requisite for transparency. HRD should validate that new positions have an explicit and accurate job title. In a second step, new positions relating to specific functions (e.g. IT, HR or Finance) should be reviewed by the corresponding central or regional director to ensure that there is no duplication of resources and that activities are performed in the most efficient way (refer to section 5.1.10 on fine tuning the A&M operating model).
- **Identification of GSC/offshored expenditures**: currently the GSC is considered part of the HQ Major Office. We also noted that not all offshored activities (e.g. IT) are part of the GSC budget centre. In order to provide more visibility on the evolution of offshored activities and expenditure, WHO could consider grouping all offshored expenditures under a single budget centre. Alternatively the organisation could consider creating a new Major Office to track and report the GSC spend more easily. This would however only be reasonable if the scope and size of the GSC is expected to grow significantly.
- **Classification of imprest and e-imprest transactions:** currently expenditures raised through e-imprest are tagged automatically against the General Operating Category. Also, we understand that e-imprest does not offer the possibility to allocate a commodity type. In order to ensure proper categorisation of e-imprest transactions, e-imprest data entry should be updated in order to require the classification of expenditures against the above mentioned refined account categories and if possible commodity type.

5.1.8. Strengthen data analysis and controlling function (Reporting and analytics, organisation structure)

Finance and controlling functions are currently split between:

- the Programme, Resources and Planning unit, which has the responsibility to coordinate the definition of the Programme and Budget and the subsequent allocation of resources; and
- the Finance unit - under the responsibility of the Comptroller -, which has the responsibility for accounting, treasury and financial reporting.

Despite each exercising a number of controls on how resources are budgeted, allocated, spent and reported, we observed gaps in WHO's current ability to:

- get insights from the data it collects in GSM and support decision making; and
- drive value for money from its activities through analysis of operational performance of units and programmes.

As WHO now has a robust ERP backbone, and once the above-mentioned data quality improvements materialise, we believe that WHO should consider strengthening its data analysis and performance management capability. This should consist of enhanced Business Intelligence (BI) tools and of an HQ based data analysis and operational performance improvement function.

This function could notably undertake:

- benchmarking of A&M functions with other UN entities, as well as not-for-profit or private organisations as appropriate;
- benchmarking the performance of similar activities performed by different regions or programmes (e.g. event organisation);
- analysing trends in the evolution of key costs items (e.g. various A&M categories) over time; and
- providing assistance to programmes in driving value for money through advice or analytical expertise.

5.1.9. Raise the awareness of administrative and programme support staff on how to properly categorise expenditure and why it is important to do so (Competencies)

A number of data quality challenges found in the study relate to the fact that a number of people raise purchase requests in GSM, without necessarily understanding the impact of inaccurately recording information.

The roll out of the upgraded version of GSM offers an opportunity to reskill staff members who enter information into GSM. This should go beyond technical training and address the importance of properly allocating costs, as well as the individuals' responsibility in ensuring quality data input.

As a principle, no new staff should be allowed to raise a purchase request without having followed adequate training and committing to recording data accurately.

5.1.10. Fine tune the A&M operating model (Organisation structure)

Our analysis showed the following elements:

- The GSC, whilst having been ramped up, only represented 4.4% of SO 12-13 expenditures in 2010-11
- From one biennium to the other, resources are being shifted from SO 12-13 to SO 1-11, without the nature of their role changing
- Whilst HQ has seen a sharp decline in FTEs and staff costs compared to January 2010, the evolution of A&M staffing in regions has not followed the same curve.
- A number of roles or functions need to be created and reinforced, e.g. compliance or data quality and compliance (refer to section 5.1.4 above), data analysis and controlling (refer to section 5.1.8 above), internal audit or risk management. We understand that this is currently being discussed with Member States.
- Based on our working definition of A&M costs, the overall A&M spend represents between 31 to 33% of WHO expenditures in 2010-11. Whilst this is material, this does not mean that this spend is completely aligned with business needs nor that all activities are performed in the most efficient way.

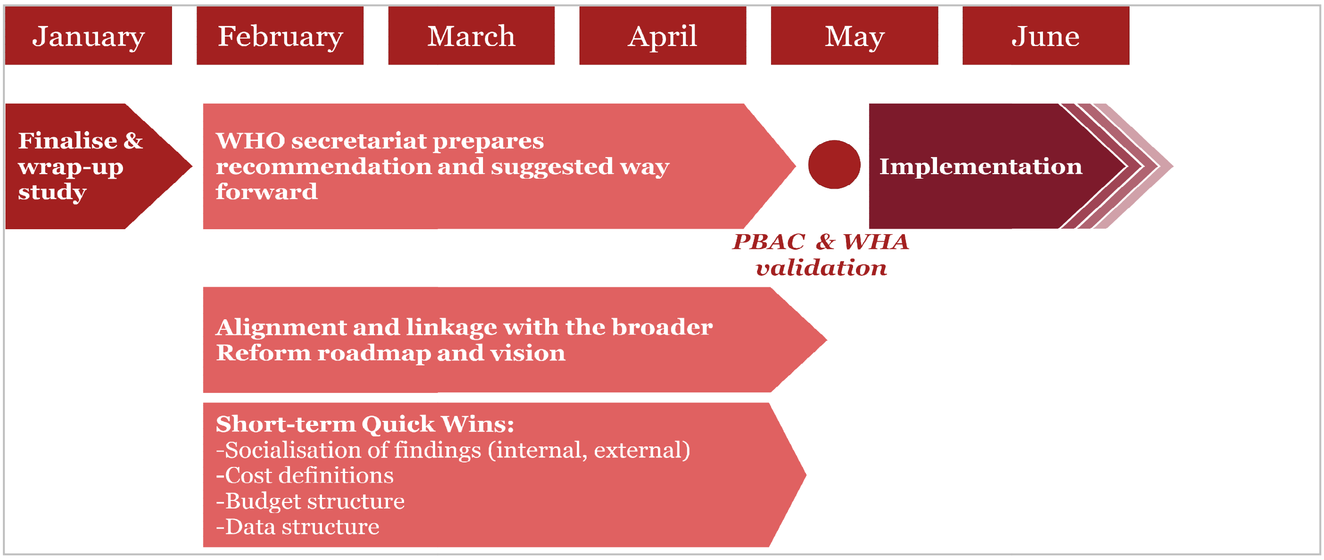
Overall, in order to drive better alignment with business needs and to ensure tasks are performed in the most cost-effective way, we believe there is an opportunity to have a fresh look at the overall A&M operating model. Such an exercise could focus on the following:

- Determining what A&M activities are best performed from within a programme and which A&M activities are best performed when pooled;
- Determining which activities or functions need to be reinforced or created (refer to sections 5.1.4 and 5.1.8 above and to discussion underway on staffing levels in internal audit and the creation of a risk management unit);
- Determining the respective roles of A&M at HQ, regional, country and GSC level;
- Determining the future roadmap and scope of activities for the GSC, now that it is reaching a first step in its maturity.

5.2. Implementation roadmap

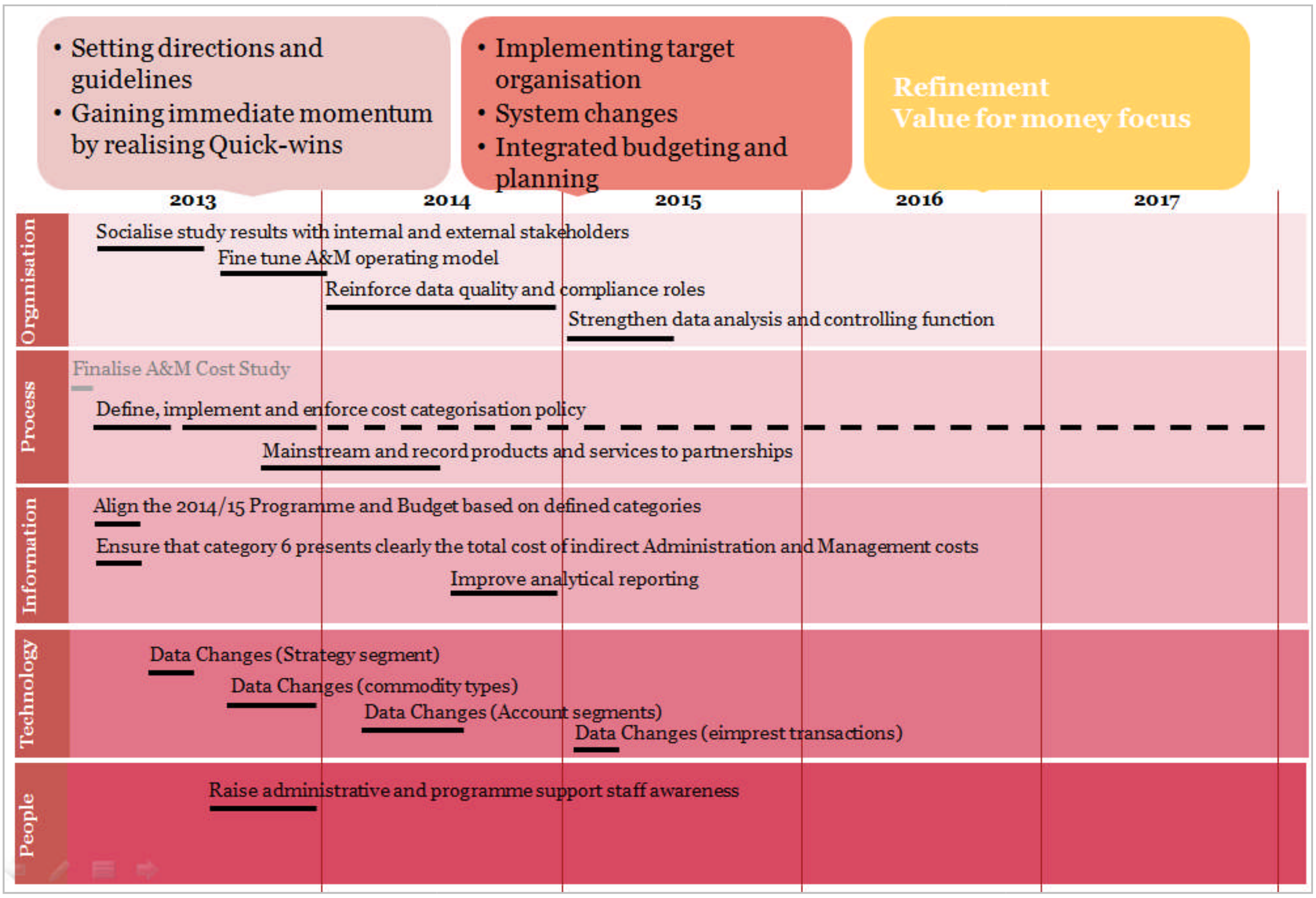
Developing a detailed implementation roadmap for the above recommendations and the preferred financing option cannot be undertaken in isolation from the broader implementation of WHO reform plans..

The chart below provides an outline of the work that we suggest should be undertaken between the finalisation of this study and the next PBAC and WHA.



In addition, the chart below outlines a possible sequence of actions for the implementation of our recommendations. It assumes the WHA takes a decision on the future financing model for A&M in May 2013.

Rather than seeing this implementation plan as a straight jacket, we encourage WHO to adapt and merge this roadmap with the broader reform roadmap.



Appendix A. - Acronyms

A&M	Administration and Management
AC	Assessed Contribution
ASA	Administrative Service Agreement
FTE	Full Time Equivalent
GPW	General Programme of Work
HLCM	High Level Committee on Management
HQ	Headquarters
ICC	International Computing Center
ICT	Information and Communication Technology
IPSAS	International Public Sector Accounting Standards
JIU	UN Joint Inspection Unit
OSER	Organisation Specific Expected Result
OWER	Organisation Wide Expected Result
PB	Program Budget
PBAC	Programme, Budget and Administration Committee
POC	Post Occupancy Charge
PSC	Programme Support Charge
PwC	PricewaterhouseCoopers
SO	Strategic Objective
UNAIDS	Joint United Nations Programme on HIV/AIDS
VC	Voluntary Contribution
VCC	Voluntary Core Contribution
VCS	Voluntary Specific Contribution
WHA	World Health Assembly
WHO	World Health Organization

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