PROGRAMME, BUDGET AND ADMINISTRATION COMMITTEE OF THE EXECUTIVE BOARD
Sixteenth meeting
Provisional agenda item 4.1

EBPBAC16/2
3 May 2012

General management: update

Report by the Secretariat

1. This document highlights progress made by the Secretariat since the fifteenth meeting of the Programme, Budget and Administration Committee in January 2012, in the following areas: financing the Programme budget 2012–2013; foreign currency risk management; enterprise risk management; and the upgrade of the Global Management System. Additionally, the document includes terms of reference (see the Annex) in response to the request by the Executive Board at its special session on reform in November 2011[1] for a detailed analysis of the actual costs of administration and management within the Organization, and to make recommendations on how these should be financed.

FINANCING THE PROGRAMME BUDGET 2012–2013[2]

2. The Sixty-fourth World Health Assembly adopted resolution WHA64.3, the appropriation resolution for the financial period 2012–2013, in which it noted the total effective budget of US$ 3959 million, presented in three segments: Base programmes (US$ 2627 million); Special programmes and collaborative arrangements (US$ 864 million); and Outbreak and crisis response (US$ 469 million).[3]

3. Near the end of the first quarter of 2012, the financing available to support all segments of the budget for the biennium 2012–2013 was US$ 2760 million, including both voluntary and assessed contributions. This comprised:

- income received in 2010–2011 and planned for 2012–2013 of US$ 1000 million;
- income planned and carried forward from 2010–2011 of US$ 500 million; and
- new income received for 2012–2013 of US$ 1260 million, including:
  - US$ 915 million in assessed contributions; and

---

[1] See document EBSS/2/2, paragraph 136; document EBSS/2011/REC/1 summary record of the fourth meeting; 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] Detailed information on the implementation of the Programme budget 2010–2011 is provided in document A65/28, Programme budget 2010–2011: performance assessment.

[3] The figures provided in paragraph 2 are rounded to the closest million US dollars.

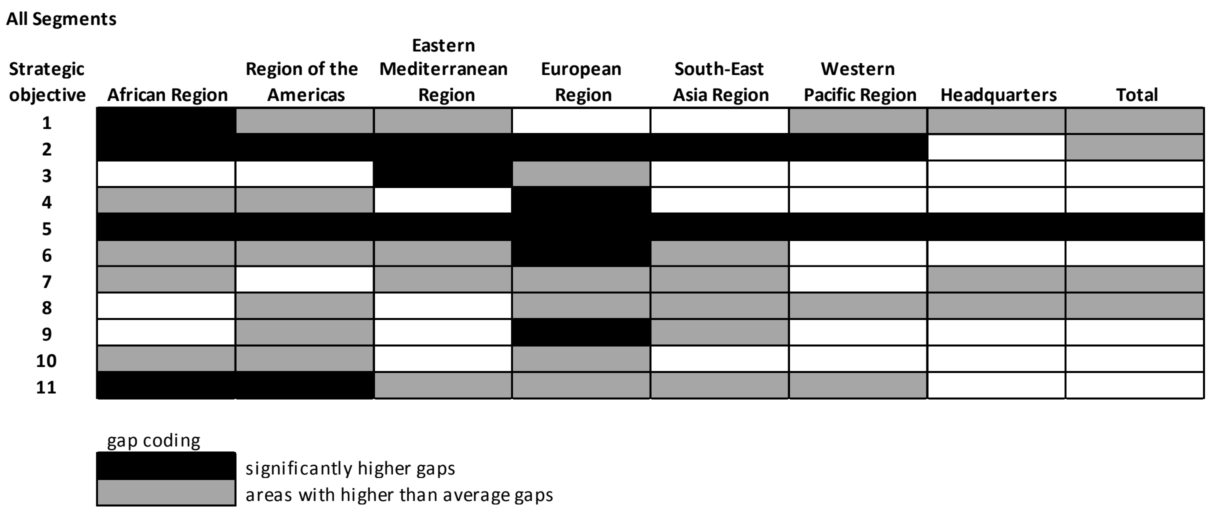
– US$ 345 million in new voluntary contributions for the biennium.

4. To fully finance the Programme budget, US$ 1200 million in additional financing is needed. In order to fund the opening of the 2014–2015 biennium securely, maintaining a level of financing similar to that which was available to open the 2012–2013 biennium, an amount remains to be raised of between US$ 2200 million and US$ 2700 million, depending on the flexibility of financing and its alignment to the budget. Having an opening balance of funds that have been carried forward from the previous biennium helps to ensure continuity of activities and security for salaries as new income is mobilized.

5. Table 1 below indicates the current financing status of the technical strategic objectives 1 to 11. There is currently an average financing gap of 30%, when measured against the Programme budget 2012–2013. The strategic objectives appearing in grey have financing gaps above the average level, that is, between 30% and 50%. Those in black have financing gaps above 50% of the current Programme budget. Those estimates exclude the requirement for funds to be carried forward in order to open the 2014–2015 biennium.

6. Work is continuing on the refinement of income forecasts for the technical areas for Programme budget 2012–2013 and on the related resource mobilization strategy.

Table 1. Indication of financing gaps for all segments, by major office and strategic objective, Programme budget 2012–2013



FOREIGN CURRENCY RISK MANAGEMENT: CURRENCY OF ASSESSMENT

7. As discussed during the fifteenth meeting of the Committee, improving the overall balance between income and expenditure currencies will help the Organization to protect itself in future from significant exchange rate movements. If a balance can be achieved between the amount of a foreign currency that the Organization expects to receive, and the amount it expects to pay, then gains (or losses) on receipt can be offset by losses (or gains) on payment.

8. Currently, the Organization prepares its budget and its accounts in United States dollars, but receives and pays in a range of currencies. Under its present financing arrangements, the Organization has much larger Swiss franc payments than receipts. As a result, if the US dollar weakens against the

Swiss franc, it must pay more. Conversely, if the dollar strengthens, it pays less. In the short term, such increases or decreases can be eliminated through currency hedging, which provides certainty within the financial period. However, it is not a solution in the longer term. Achieving a better balance between the currency of receipt and payment could address much of the problem.

9. A number of other United Nations organizations already invoice all, or part, of their assessments in a currency other than US dollars, with a view to matching currencies of major expenditure. In most cases, such organizations do not have the same high proportion of voluntary funding as WHO (the majority of WHO voluntary income is also in US dollars).

10. To address the imbalance in currencies, it is proposed to denominate Member States' assessments fully in Swiss francs in the future.

11. Under this proposal, the WHO budget would continue to be presented in US dollars, but the total assessments of Member States would be expressed in Swiss francs, using the exchange rate at the time of approval of the budget. Individual assessments would be based on the total assessments multiplied by the applicable scale of assessment percentage. The Member States would be invoiced in January of the budget period for the agreed amount in Swiss francs.

12. At present, most Member States are exposed to currency risk arising from the value of their respective national currencies against that of the US dollar. The amount payable in national currency terms is not certain at the time of approval of the WHO budget, owing to exchange rate movements between the US dollar and the national currency until the date of payment. For those Member States using US dollars or a currency pegged to the US dollar, no such risk exists at present.

13. If the assessment changes to Swiss francs, most Member States will not experience increased currency risk. Rather, the risk arising from the value of the US dollar against that of Member States' respective national currency will be replaced by the risk arising from the value of the Swiss franc against that of the national currency. For some Member States, that change will reduce currency risk: those Member States whose assessments are in Swiss francs at present or whose currency is pegged to the Swiss franc – that is, all countries of the Eurozone. For those Member States, assessment in Swiss francs will produce greater certainty, because the actual cost in national currency terms will be known at the time the WHO budget is approved.

14. In considering the matter, the Independent Expert Oversight Advisory Committee looked at a range of possible options, then strongly recommended the full denomination of assessments in Swiss francs, noting that such a step would be easy to understand and to implement, and it would provide a good currency balancing mechanism. The Independent Expert Oversight Advisory Committee also noted that such a step would not fully address WHO's currency mismatches, owing to the large volume of voluntary contributions. With respect to those contributions, it encouraged WHO to ensure that all expected costs were fully built into donor agreements.

ENTERPRISE RISK MANAGEMENT

15. Currently, enterprise risk management is being addressed in the Organization through two streams of work. On the administrative side, work is well advanced through regular reviews by designated risk owners of the administrative risk register. That work has been reported to the Programme, Budget and Administration Committee on different occasions and has been acknowledged by the Independent Expert Oversight Advisory Committee. At a more strategic level, and going beyond administration, a framework and risk register for corporate risks are being

developed, drawing from the advice of the Independent Expert Oversight Advisory Committee and lessons learnt with respect to administration.

16. Identified areas of potential corporate (organization-wide) risks include major financial loss (including significant falls in income and/or fluctuations in WHO's operating currencies); loss of Member State confidence through major shortcomings in WHO's performance, or failure to fulfil international obligations; or incidents that significantly disrupt the business continuity. Once the risk register has been finalized, it will be presented periodically to the Programme, Budget and Administration Committee.

17. Detailed work is in hand on risk identification, risk assessment and evaluation of impact. That follows closely the process implemented in the administrative area, according to which a risk owner takes over the main responsibility for the analysis, the development of a mitigation proposal and its implementation as well as monitoring the development of the risks. The detailed responsibilities are defined in the terms of reference of a risk owner.

18. The risk owner is supported in the discharge of his or her responsibilities by the Organization's management and governance structures, within which the major decisions will be made and their implementation monitored. For the corporate strategic risks, the Global Policy Group will be the governance body responsible for major decisions. In addition, and depending on the complexity and background of the risks, an escalation mechanism has been defined, which raises the discussions first to the level of Assistant Directors-General and Regional Directors, and, if needed, to the Director-General, and following that, to the governing bodies.

GLOBAL MANAGEMENT SYSTEM: UPGRADE

19. Planning for the technical upgrade of the Global Management System has continued. A project team comprising IT staff, business subject matter experts as well as external consultants has been established to bring the process forward at the working level. Simultaneously, a governance structure involving regional representation has been put in place for the project. The project team, with its full complement of members, is scheduled to start its work in April 2012, and the upgrade is scheduled to be completed prior to November 2013. The current cost estimates remain within the initial budget and the timeline remains consistent with the original plan.

20. In terms of scope, further feasibility studies have been carried out to identify options for targeted improvements or "de-customization" in the Global Management System. The key factors used to evaluate the feasibility of those options have included cost, business value, risk and end-user impact. While some possible areas for de-customization have been identified (e.g. supplier management and procurement), it has finally been decided to de-link those system changes from the technical upgrade and to move forward with any de-customization only once the technical upgrade has been completed. It has been estimated that any additional changes coupled with the technical upgrade would significantly increase the risk of business disruption and would also necessitate a major change management effort across the Organization, as the impact of the changes on the end-users is expected to be high.

21. Certain improvements to internal controls – part of the overall project to enhance the WHO internal control framework – are also being introduced. They will be integrated into the ongoing Global Management System training.

STUDY ON FINANCING OF ADMINISTRATIVE FUNCTIONS IN WHO

22. The Executive Board at its special session on reform in November 2011 requested that the Programme Budget and Administration Committee commission a detailed analysis of the actual costs of administration and management to the Organization and make recommendations on how these should be financed. In response to that request, a study is proposed, to be conducted by an external expert. The aim is to determine the optimal approach to financing of administrative and managerial functions within WHO. The Secretariat has developed a draft terms of reference for this study (see the Annex).

ACTION BY THE PROGRAMME, BUDGET AND ADMINISTRATION COMMITTEE

23. The Committee is invited to review and approve the draft terms of reference of the study and to note the report.

ANNEX

COSTS OF ADMINISTRATION AND MANAGEMENT TO WHO

Draft terms of reference for a proposed external study

INTRODUCTION

The Executive Board at its special session on reform in November 2011 requested that the Programme Budget and Administration Committee commission a detailed analysis of the actual costs of administration and management to the Organization and make recommendations on how these should be financed.[1]

A study is proposed in response to that request, to be conducted by an external expert. The aim of this study is to determine the optimal approach to financing of administrative and management functions within WHO.

In addition, the study is required to propose a new model for financing administrative and management functions, and to provide a road map for implementation. In order to ensure that the proposed model is workable, a clear and comprehensive definition of requirements is to be developed, including those associated with structure, systems and data.

The proposed solution must meet the following criteria:

1. Sustainability of financing;

2. Transparency of costs and financing;

3. Promoting cost efficiency in the delivery of administrative and management services;

4. Scalability, in the event of either increases or decreases in administrative needs due to programmatic changes.

BACKGROUND

WHO administrative functions are currently grouped within strategic objective 13, which includes the provision of enabling services to facilitate programmatic delivery by WHO. In addition, strategic objective 12 includes provision of leadership and governance functions some of which could be considered to be administrative/management, for example legal, audit and translation services, the costs of governing body meetings, and costs associated with the Director-General, Assistant Directors-General, Regional Directors and the Heads of WHO Offices in Countries, Territories and Areas. Most of these functions are performed at the three organizational levels of the Organization, that is, headquarters, regional offices and country offices. For 2010–2011, the total cost of services in

[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.

strategic objective 13 was US$ 556 million, and for strategic objective 12, US$ 267 million. Two lists of functions and services contained in strategic objectives 12 and 13 are provided at the end of this document (see Appendix). It is expected that the study will review the scope of what is included within “administrative and management costs”.

Some administrative services are provided to outside entities that are “hosted” by WHO, primarily UNAIDS, the International Computing Centre and the International Drug Purchase Facility (UNITAID). These organizations have separate governance, and their budgets and organizational structures are completely separate from WHO. Administrative Service Agreements exist with these entities, which define the services provided and the costs to be charged for those services. Other “partnerships” exist within the umbrella of WHO, which are closely aligned to WHO objectives and, in some cases, for which the results and expenditures are considered within WHO’s Programme budget. These partnerships are not subject to Administrative Service Agreements, but contribute towards administrative costs in the same way that regular WHO programmes contribute.

Financing of administrative and management costs for WHO is currently provided through four sources:

1. WHO regular budget (assessed contributions).

2. Programme support costs (charge on voluntary contributions, see further explanation below).

3. Fees for administrative services for hosted entities (under Administrative Service Agreements, described above).

4. Post occupancy costs (charge via staff payroll to all sources of funds, except for the hosted entities with fees arrangements, see further explanation below).

Programme support costs

Programme support costs were created by the Thirty-fourth World Health Assembly resolution WHA34.17, and are included in the Financial Regulations. They are raised through application of a 13% charge to voluntary contributions in order to provide funding for administrative costs in relation to the implementation of the project being financed by the contribution. At that time, the majority of WHO’s financing was from its assessed contributions, and the budget of the Organization was considered as being the regular (assessed) budget only. More recently the financing from voluntary contributions has become the major source of financing for the Organization, with just under 25% of the financing being from assessed contributions. In the same period the average rate of programme support costs has fallen to approximately 7%, due to the application of a number of reduced programme support rates, for example, for emergency situations and for procurement. In recent years revenue raised by programme support costs has been used to finance both strategic objective 13 and strategic objective 12, including functions such as Director-General, Assistant Directors-General and Regional Directors’ offices, and Heads of WHO Offices in Countries, Territories and Areas, as well as the costs of running global and regional governance meetings, in addition to contributing to the administrative costs described above. When WHO was first established, it was assumed that all such indirect fixed costs would be financed from the regular budget. As WHO has developed, and the role of voluntary contributions in the budget has grown, the regular budget cannot finance all indirect fixed costs, hence the need to also use programme support costs for this purpose.

Post occupancy charge

Due to the reduction in the rate of programme support costs, coupled with the increased burden, above, on the use of such funds, it was recognized during 2008–2009 that an additional source of financing was required. A new "post occupancy" charge was created at a fixed 8.5% of gross staff salary costs to all programmes and partnerships, with the exception of the hosted entities (due to their Administrative Service Agreements arrangements). This therefore became an additional "non salary" component of overall staff costs, replacing and augmenting an earlier 2% charge for the financing of staff training needs. The effect has been to render WHO staff costs charged to programmes 8.5% higher than the costs arising from the payment of the net salary, pension, health insurance and other benefits payable throughout the career (and retirement) of an eligible WHO staff member. The money thus raised has been used to finance those parts of strategic objective 13 that most closely correlate to occupancy of space by a staff member, namely, office space costs, building maintenance, IT provision and staff security. The latter has increased substantially due to much higher common system security costs. The charge is also used to finance staff training needs. Other agencies have considered or implemented similar charges, as a means to supplement inadequate (and falling) programme support cost collections. Efforts to introduce a harmonized programme support costs rate across all United Nations organizations have not to date succeeded, because those organizations continue to have very different operations, cost structures and financing models. WHO is in a somewhat unique position as being the only specialized agency to be funded by assessed contributions that have now become financed mainly by voluntary contributions.

REQUIREMENTS

1. To confirm the scope of administrative and management costs in WHO.

2. To make proposals, with pros and cons, for at least three different financing models for these costs.

3. To consider financing needs of those functions financed today by programme support costs but not considered as administrative and management costs.

4. To make proposals for budgeting, reporting and cost control of administrative and management costs.

5. To suggest the most appropriate, transparent means of estimating costs of service provision to hosted entities and to partnerships, and for recovering such costs.

6. To outline any procedural, accounting, or system requirements in order to implement the above mentioned proposals.

TIME SCALE

1. The study is expected to commence 1 September 2012, with a draft report and recommendations expected by 30 November 2012, and the final report to be produced by 28 February 2013. (Timing allows for presentation of the findings to the Programme, Budget and Administration Committee of the Executive Board in January 2013, with subsequent finalization taking place.)

2. It is possible that the study be divided into two parts: the first to address the scope of administrative and management costs, and recommendations on budgeting and cost control; the second to propose appropriate financing arrangements, together with accounting and system implications.

EXPERIENCE REQUIRED

In order to carry out this project, WHO would require the assistance and experience of a management consulting firm with international scope and relevant experience in cost recovery/cost accounting, including in the public/not-for-profit sector. Specifically, the following are required:

- Excellent understanding of the drivers of administrative costs;
- Experience in cost recovery and cost accounting methodologies and systems;
- Proven ability to provide practical solutions;
- Excellent understanding and experience of working with large, multisite international organizations;
- Previous work with WHO, other international organizations and/or major institutions in the field of administration (with a focus on budget- and finance-related matters).

Particular emphasis will be placed on the bidders' track records and proven experience in terms of successful implementation of project recommendations by their clients.

Appendix

STRATEGIC OBJECTIVES 12 AND 13 AND A CORRESPONDING LIST OF FUNCTIONS

Strategic objective 12

To 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.

Functions

- Internal audit
- Legal
- Director-General's Office
- Language services
- Country cooperation
- Director-General, Deputy Director-General, Regional Directors
- Regional Committees
- Heads of WHO Offices in Countries, Territories and Areas
- Executive Board, World Health Assembly and other governance meetings

Strategic objective 13

To develop and sustain WHO as a flexible, learning organization, enabling it to carry out its mandate more efficiently and effectively.

Functions

- Human resources
- ITT
- Finance (accounting, treasury)
- Budget
- Planning
- Resource coordination

- Training and staff development
- Buildings management
- Security (except highly specific programme needs, charged as direct costs)
- External audit
- Contributions to mandatory United Nations common services (for example, the United Nations Department of Safety and Security, the Joint Inspection Unit of the United Nations system, and the International Civil Service Commission)
- Staff pensions administration
- Staff health insurance administration
- Partnership coordination

= = =