
WHO's cost-recovery mechanisms: programme support costs

1. The last formal overview of WHO's cost-recovery mechanisms was presented to the governing bodies in 2017.¹ The present paper therefore provides an updated overview of WHO's cost-recovery mechanisms and the related budget, revenue and expenditure from programme support costs (PSC).

COST RECOVERY

2. WHO's Organization-wide cost-recovery policies aim to ensure that:

- the administrative and management costs attributable to project implementation are fully charged to those projects (and contributors);
- a fair and transparent method is used for identifying, budgeting and charging both direct and indirect costs; and
- the total amount recovered is adequate to pay for the corporate services required.

3. WHO corporate/enabling functions ensure a more effective and efficient WHO that provides better support to countries and comprises data; innovation; leadership; governance; advocacy for health; and financial, human and administrative services. Costs related to corporate/enabling services can be divided into two broad categories: direct and indirect costs.

- **Direct costs** are those that can clearly be attributed, either wholly or in part, to a project or a specific contribution; they include costs associated with providing management and other support functions in which a direct link between the cost and the project can be identified. Full recovery of all direct costs is a key component of WHO's budgeting and resource mobilization.
- **Indirect costs** are those that cannot be traced unequivocally to specific activities, projects or contributions, but which are nevertheless incurred in support of such activities. Indirect costs can be incurred when performing the following functions: project formulation; preparation, monitoring and administration of workplans and budgets; recruitment and servicing of staff; activities performed by consultants; procurement and contracting; and financial operations, payroll, payments, accounts, the collection of contributions, the investment of funds, reporting and auditing and other similar administrative and management activities. Indirect costs also include the Organization's leadership, data, innovation, advocacy, oversight and governance costs. Many of these costs are "fixed" in nature, since they do not tend to vary as much with the amount of work involved – for example, the costs of holding the meeting of a governing

¹ Document A70/INF./5.

body such as the World Health Assembly or the costs associated with maintaining WHO buildings.

4. WHO has implemented improvements to the cost classifications and costing of its corporate services/enabling functions, so that direct costs are budgeted within core programme costs and indirect costs under corporate services/enabling functions.
5. WHO operates the following three key indirect cost-recovery approaches:
 - (a) PSC amounts are charged as a percentage of voluntary contributions at the time of implementation. This is the largest category of cost recovery and is discussed in further detail below.
 - (b) A post occupancy charge was introduced in 2010 as a percentage of salary cost, which currently stands at 9.5% of gross salaries. This charge was introduced to partially address the shortfall between the amount raised for PSC and the amount required to finance the administrative functions needed to fund the Organization. Each year, approximately US\$ 80 million is raised from post occupancy charges, an amount which is used mainly for information technology; office running costs; and the management and administration of the Global Service Centre.
 - (c) Cost recovery from hosted partnerships was introduced in 2016 to ensure full cost recovery and improve the transparency of cost recovery from hosted partnerships. In recent years, this has amounted to approximately US\$ 4 million per year.
6. Cost recovery is a key systemic approach to fund those essential functions of WHO in a sustainable manner. However, these three cost-recovery mechanisms do not cover the entire indirect costs required to undertake WHO activities and indirect funding is therefore supplemented by assessed contributions, core voluntary contributions, thematic funding and even voluntary contributions. This makes it critical that PSC rates and revenue be maximized, wherever possible.

PROGRAMME SUPPORT COSTS

7. The standard PSC rate is 13%, which was set through a World Health Assembly resolution.¹ In addition, there are several exceptions established by a WHO governing body,² set by the Organization in accordance with United Nations system-wide agreements³ or based on special agreements approved by the Director-General.⁴ These rates do not necessarily reflect the actual indirect costs related to programme implementation, which vary depending on the location, cost structure, funding and type of work to be performed. It is clear that the resolutions adopted by the Health Assembly in 1981 and the Executive Board in 1964 are no longer entirely applicable and instead the Organization must set PSC rates according to various factors. For example, all United Nations agencies have had to accept a 7% PSC rate when receiving funds from the European Commission. As another example, in 2020 and as a result of the COVID-19 emergency, the Director-General agreed to a reduced 5% PSC rate for contributions from international financial institutions related to COVID-19 activities. This was based

¹ Standard rate at 13%; see resolution WHA34.17 (1981).

² Member State procurement at 3% and 0% for emergencies; see Executive Board resolution EB33.R44 (1964).

³ For example, UN Central Emergency Response Fund at 7%; UN Multi-Partner Trust Fund at 7%; European Commission at 7%.

⁴ For example, 7% for emergency response and polio and 5% for international financial institutions, COVID-19.

on the level of contributions and the extent of the COVID-19 emergency and was agreed across the entire United Nations system.

8. Annex 2 to document A70/INF./5 summarized the cost-recovery rates for 16 organizations of the United Nations system. While there have been some adjustments since then, some organizations continue to maintain a 13% rate; however, 13% is the maximum rate charged and it does not appear feasible to consider an increase in this standard rate. It is also important to note that a comparison of rates among United Nations organizations is difficult as each organization has very different budgeting and funding models, with the most notable difference being the extent of core or administrative contributions (that is, organizations with a high percentage of assessed contributions can fund indirect costs with those contributions rather than PSC revenue).

9. The overarching considerations are that all voluntary contributions will cover the full cost of the activities undertaken, that the standard PSC rate will remain 13% to defray the maximum indirect costs and that exceptions to the standard PSC rates will remain limited.

10. Table 1 summarizes PSC revenue, expenditure and the overall PSC rate obtained from 2016 to 2020. All figures are taken from the annual Audited Financial Statements. The PSC rate is also disclosed in the Audited Financial Statements following WHO's commitment under the United Nations funding compact.

Table 1. Summary of PSC income from 2016 to 2020 (in US\$ millions)

	2020	2019	2018	2017	2016
PSC revenue (a)	185	183	156	162	149
Total expenditure subject to PSC (b)	2557	2370	1734	1813	1642
PSC calculated, realized percentage (a/b)	7%	8%	9%	9%	9%

Note: All figures are from Statement V and Note 6.1 of the annual Audited Financial Statements.

11. While total PSC revenue has increased due to the corresponding increase in expenditure, the overall PSC percentage has decreased due to both an increase in emergency activities (which have a lower PSC rate) and the approval of reduced PSC rates (as explained above for international financial institutions in 2020).

12. PSC revenue forms an important part of flexible funding. At the beginning of each biennium, an estimate is made of the PSC income budget, which is then made available for implementation as part of flexible funding. The budgeted amount is adjusted throughout the biennium based on the PSC revenue earned. Table 2 shows the evolution of PSC funding made available at the beginning of the biennium, as compared to the indirect enabling functions budget. All figures are available in the WHO Programme budget and the WHO Programme budget web portal.

Table 2. Enabling functions and PSC revenue/budget (in US\$ millions)

	2020–2021	2018–2019	2016–2017
Enabling functions budget	802.5	715.5	733.5
PSC revenue/budget	360.0	339.0	311.0
Difference	442.5	376.5	422.5
Difference as a % of enabling budget	55%	53%	58%

Note: Enabling functions budget per programme budget – for the biennium 2020–2021, 4.2 and 4.3 for prior bienniums, category 6. PSC revenue per table 1 and for 2020–2021 budgeted at US\$ 360m.

13. Table 2 highlights the difference in PSC funding, where the budgeted PSC covers less than half of the enabling functions budget, and alternative sustainable funding is therefore needed to cover the remaining portion in order to ensure that the indirect costs of the enabling functions can be adequately planned and budgeted.

CONCLUSION

14. This paper provides a brief overview of the WHO's current cost-recovery policy, focusing on PSC revenue, and builds on the previous cost-recovery work summarized in document A70/INF./5. PSC revenue is an important component of cost recovery and needs to be preserved to ensure a portion of sustainable funding for enabling functions.

= = =