

برنامج
الأغذية
العالمي



Programme
Alimentaire
Mondial

World
Food
Programme

Programa
Mundial
de Alimentos

**Executive Board
Annual Session**

Rome, 8–12 June 2009

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For consideration



Distribution: GENERAL
WFP/EB.A/2009/6-C/1
15 May 2009
ORIGINAL: ENGLISH

FINANCIAL FRAMEWORK REVIEW



This document is printed in a limited number of copies. Executive Board documents are available on WFP's WEB site (<http://www.wfp.org/eb>).

NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for consideration.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

Deputy Executive Director: Ms G. Casar tel.: 066513-2885

Acting Chief Financial Officer: Mr S. O'Brien tel.: 066513-2682

Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms C. Panlilio, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).



EXECUTIVE SUMMARY

During discussions regarding the WFP Strategic Plan (2008–2011), Board members noted that a review of WFP's financial frameworks would be necessary to ensure that WFP's funding mechanisms provided sufficient flexibility, predictability and transparency to support full implementation of the Plan.

Based on those discussions; subsequent informal discussions with Board members, the World Bank and The Boston Consulting Group; and the Secretariat's initial analysis of changes in external and internal contexts since the last major review in 2003, the current review has identified three main areas of consensus for closer examination and discussion:

- i) ensuring the **predictability** and **stability** of the Programme's funding;
- ii) achieving a higher level of **flexibility** and **effectiveness** in resource usage; and
- iii) reinforcing **transparency** in the allocation of resources.

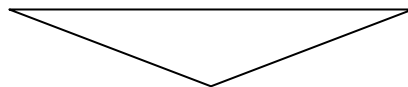
Strategic alignment and harmonization with the United Nations system will be important aspects of the review. A newly created Strategic Resource Allocation Committee will:

- oversee the strategic prioritization in the allocation of all resources, including trust funds;
- ensure development of and compliance to policies, guidelines and procedures within the WFP financial framework;
- maintain a strategic overview of all needs and shortfalls for WFP operations; and
- prioritize areas for major appeals and fundraising.

The Committee will oversee subsequent phases of the review process, which will also include meetings with Board membership and the preparation of Board documents. Outside experts from the World Bank and other partners will be consulted as appropriate.

A timeline is provided at the back of the document.

DRAFT DECISION*



The Executive Board, having considered the “Financial Framework Review” (WFP/EB.A/2009/6-C/1), takes note of the proposed timeline for the review and looks forward to a more comprehensive report, to be presented to the Second Regular Session of the Executive Board in November 2009.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.



INTRODUCTION

1. During discussions regarding the WFP Strategic Plan (2008–2011), Board members noted that a review of WFP’s financial frameworks would be necessary to ensure that WFP’s funding mechanisms provided sufficient flexibility, predictability and transparency to support full implementation of the Plan.¹ Events since the approval of the Plan pointed to the need to also take into account a number of changes in the external and internal context of the Programme, among them WFP’s role in responding to the food crisis, structural shifts in global markets related to the financial crisis and progress in United Nations harmonization and Delivering as One efforts.
2. With these factors in mind, the Secretariat has moved the financial framework review process forward in a number of ways:
 - i) The Secretariat held informal discussions with the Lists aimed at defining and verifying a base set of issues to examine in the review.
 - ii) The Secretariat held informal discussions bilaterally with several individual Member States during which it solicited their views.
 - iii) The World Bank was invited to review the financial architecture of WFP to identify ways to strengthen its risk management systems.
 - iv) The Secretariat engaged The Boston Consulting Group (BCG) on a pro bono basis to conduct a diagnostic review of major issues concerning the financial framework and to benchmark WFP against other comparable agencies.
 - v) The Secretariat conducted a review of its organizational structure that featured a realignment of the financial management and accountability systems based on recommendations aimed at strengthening accountability.
 - vi) The architecture and implementation of WINGS II was adapted to accommodate the new Strategic Plan.
 - vii) The Programme adopted International Public Accounting Standards (IPSAS), the first agency in the United Nations system to do so, which represented a decisive advance in financial reporting systems in WFP.
3. Following these steps, a consensus appears to have emerged regarding the central issues that would be examined as part of a financial review. This short document is intended to frame the background and context for the review, briefly outline the main issues to be addressed and propose a procedure for taking the process forward.

¹ The WFP Strategic Plan (2008–2011) (WFP/EB.A/2008/5-A/1/Rev.1) noted, “The implementation of this strategy will guide discussions on WFP’s funding mechanisms, which may require adjustments. Parallel discussions will be held between the Secretariat and WFP membership to review WFP’s current funding frameworks and programme categories so as to ensure Member States can fully embrace the implementation of the Strategic Plan. Funding mechanisms should allow flexibility to respond effectively to varying contexts and needs – including through greater predictability and less earmarking – while providing accountability and transparency with regard to the allocation of WFP resources.” (para. 9)



CONTEXT

4. WFP's financing framework is unique among United Nations agencies and has been both a source of strength and of challenges for the Programme. With no assessed contributions and no fixed level of core resources, each year WFP must deal with the challenges of raising its entire operational budget and managing variable levels of support costs.
5. The current financial framework has evolved from the resource and long-term financing (R<F) policies in the 1996–1997 biennium, which first introduced the concept of full cost recovery (FCR). Since then, there have been several significant reviews of, and revisions to, the financial framework, including:

1999	A review of the original R<F policies resulted in the redefinition of several cost categories and the decision to apply a single indirect support cost (ISC) rate to all contributions, regardless of programme category.
2002	The Board approved a reduction of the ISC rate from 7.8 percent to 7 percent and the establishment of the Programme Support and Administrative (PSA) Equalization Account (WFP/EB.3/2002/5-C/1).
2003	A comprehensive review of the financial framework resulted in the acceptance of government counterpart cash contributions as donor contributions (WFP/EB.1/2003/5-A/1 and WFP/EB/A/2003/6-A/1).
2004–2005	Significant changes were made to the financial framework in order to modify existing or implement new advance financing mechanisms: the working-capital financing facility was created, with a ceiling of US\$180 million (WFP/EB.1/2005/5-C), the Immediate Response Account uses were redefined and its target level increased to US\$70 million (WFP/EB.3/2004/12-A), and changes to Financial Regulation 8.1 allowed expenditures to be incurred during project preparation (WFP/EB.1/2005/5-C).
2006	The Board reviewed the ISC rate again and decided to leave the 7 percent rate in place (WFP/EB.A/2006/6-C/1).
6. WFP now faces several new challenges that necessitate further review of the financial framework. The innovative range of programming tools introduced in the WFP Strategic Plan (2008–2011) requires an examination of the funding mechanisms that will support them. Moreover, the critical stresses placed on WFP during the food and financial crises of 2008–2009 brought to light the need for ways to address the effects of: i) declining food availability; ii) volatility of commodity prices and exchange rates; and iii) significantly increased hunger-related needs resulting from the worldwide financial crisis.
7. It is also crucial for WFP to consider harmonization of best practices in financial policy in relation to WFP's sister agencies – particularly United Nations Development Group (UNDG) agencies – as the Delivering as One initiative and other harmonization efforts evolve. The review must be informed and guided by the Paris Declaration on Aid Effectiveness and the follow-up discussions at the 3rd High-Level Forum on Aid Effectiveness held in Accra, Ghana in September 2008.



OVERVIEW OF THE FINANCIAL FRAMEWORK REVIEW

Scope

8. The current review process aims to ensure that WFP's financial framework is responsive to the challenges of the external environment and is aligned with the Programme's strategic processes. It will focus on reviewing the main principles of the current framework, examining their evolution, their related organizational practices and their applicability to the current situation and needs of WFP.
9. Based on discussions around the Strategic Plan, subsequent informal discussions with Board members and the Secretariat's initial analysis of changes in external and internal contexts since the last major review in 2003, the current review addresses three essential areas:
 - i) ensuring the **predictability** and **stability** of the Programme's funding;
 - ii) achieving a higher level of **flexibility** and **effectiveness** in resource usage; and
 - iii) reinforcing **transparency** in the allocation of resources.
10. As already mentioned, strategic alignment and harmonization with the United Nations system will be important aspects of the review.

⇒ *Predictability and stability of funding*

- The ability of WFP to respond to dramatic and sudden changes in numbers of beneficiaries represents a significant management challenge. While WFP's principle of full cost recovery has served it well in general, the management of core operating costs is problematic because the size of the agency fluctuates according to funding levels proportionate to operational needs.
- A tonnage-based financial framework may make it difficult to support several of the innovative interventions outlined in the Strategic Plan that involve low or no tonnage.
- The review will identify potential mechanisms to offset short-term imbalances and allow WFP to react to macro-trends in an adequate and timely manner.

⇒ *Flexibility and effectiveness in resource usage*

- Flexible resource use and optimal resource utilization are vital to ensuring the effectiveness and efficiency of WFP operations, and to ensuring appropriate management of unspent balances.
- WFP could benefit from greater funding flexibility that allowed it to move funds across cost components within projects and provided it with a streamlined cost structure that supported activities whether or not they were based on commodities. Increased flexibility would also allow the Programme to address the early stages of projects, especially in emergency contexts.
- The review will examine current costing frameworks and funding mechanisms and consider options for improving flexibility.



⇒ *Reinforcing transparency in resource allocation*

- The ways in which WFP receives and allocates contributions is fundamental in determining the level of performance of its operations.
- WFP could possibly benefit from more explicit resource allocation criteria, as well as improved coherence and consistency in use of programme categories and funding mechanisms.
- The financial framework review will examine WFP's current funding and resource allocation mechanisms to reinforce their coherence and improve their transparency.

PROCESS

11. As described below, a newly created Strategic Resource Allocation Committee will oversee subsequent phases of the review process, which will also include meetings with Board membership and the preparation of Board documents. Outside experts from the World Bank and other partners will be consulted as appropriate.

Strategic Resource Allocation Committee

12. In response to Board requests for greater strategic focus on prioritization of resources, the Strategic Resource Allocation Committee (SRAC) will be formed in May 2009 in tandem with the creation of a new Resource Management and Accountability Department.² The SRAC's mandate is to oversee financial management and resource allocation activities in WFP.
13. Specifically, the SRAC will:
- oversee the strategic prioritization in the allocation of all resources, including trust funds;
 - ensure development of and compliance to policies, guidelines and procedures within the WFP financial framework;
 - maintain a strategic overview of all needs and shortfalls for WFP operations; and
 - prioritize areas for major appeals and fundraising.
14. The SRAC is to make recommendations to the Executive Director. It will be chaired by the Deputy Executive Director and Chief Operating Officer and comprise all other Deputy Executive Directors, the Director of Operations, the Director of the Government Donor Relations Division, the Director of the Programme Design and Support Division, the Director of the Budget and Programming Division and others as required.
15. The strategic overview available to the SRAC makes it an appropriate vehicle for the review of WFP's overall financial framework.

² The Department will be overseen by the Deputy Executive Director for Resource Management and Accountability and the Chief Financial Officer.



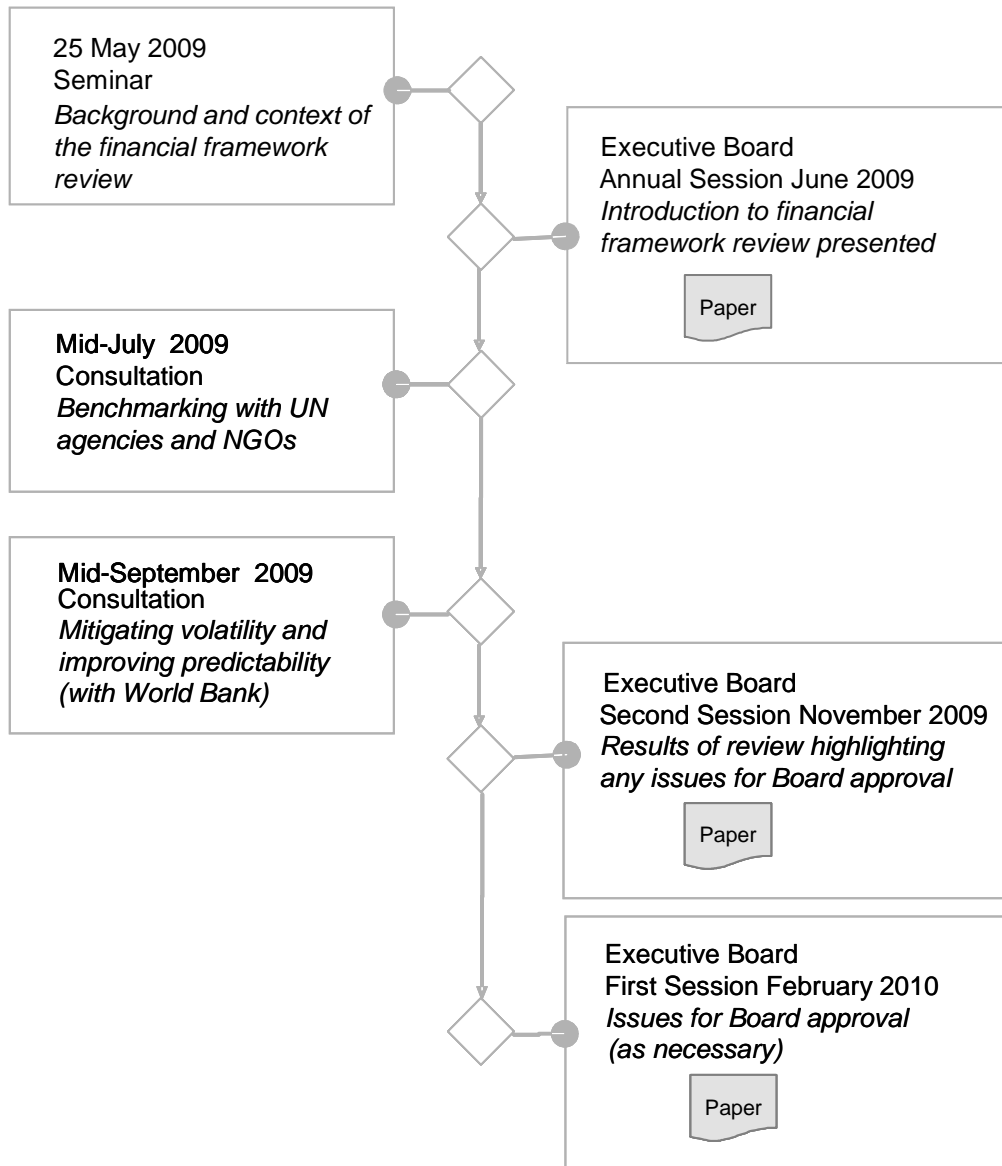
Meetings with Membership

16. A critical feature of the review process will be regular dialogue with the WFP membership on some aspect of the core issues. For the time being, three meetings are expected to be held between May and October 2009 to discuss:
- i) **background and context of the financial framework review:** the history of prior framework reviews and evolution of the issues under consideration;
 - ii) **benchmarking with comparable United Nations agencies and non-governmental organizations (NGOs):** how WFP compares with United Nations and NGO counterparts in terms of cost structures and funding mechanisms; and
 - iii) **mitigating volatility and improving predictability:** potential tools and innovative approaches available to WFP to mitigate risks related to market volatility (with World Bank participation in the discussion).

Documents to be Submitted to the Board

17. It is expected that two more documents will be presented to the Board regarding the review. The first, to be presented at the 2009 Second Regular Session, would summarize the results of the review, calling attention to any decisions that would require Board approval. The second document would include any changes requiring Board approval and would be presented at the 2010 First Regular Session.

TIMELINE



ACRONYMS USED IN THE DOCUMENT

ISC	indirect support costs
NGO	non-governmental organization
R<F	resource and long-term financing
SRAC	Strategic Resource Allocation Committee