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**Executive Board  
First Regular Session**

**Rome, 31 January–2 February 2005**

# **RESOURCE, FINANCIAL AND BUDGETARY MATTERS**

**Agenda item 5**

*For approval*

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## **FINANCIAL FRAMEWORK FOR STRATEGIC PRIORITY 5 IMPLEMENTATION**



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## NOTE TO THE EXECUTIVE BOARD

**This document is submitted for approval by the Executive Board.**

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.

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## EXECUTIVE SUMMARY

In approving the document “Building Country and Regional Capacities” (WFP/EB.3/2004/4-B), which sets out a policy framework for WFP’s Strategic Priority 5, the Executive Board requested further clarification on the financial framework for implementation of the policy. The current document examines the potential legal mechanisms for making contributions to WFP and for receipt by WFP of contributions targeted to help build country and regional capacities. Once established, the legal framework will provide the starting point for the design of an effective resource mobilization strategy for all five strategic priorities.

The policy framework for building country and regional capacities outlines five principles that must be followed in developing the financial framework and stipulates that: “... as much as possible, WFP should mainstream capacity interventions in all its food aid operations”. After considering a range of options, existing mechanisms are considered to be sufficiently flexible to accommodate financing needs. For stand-alone capacity-building interventions, cash-only projects can be launched within any existing programme category, depending on the country situation and the capacities to be supported.

Approval of the framework will allow WFP to take several steps, including accepting and soliciting contributions for country and regional capacity-building activities, issuing appropriate financial rules and designing, developing and implementing a resource-mobilization strategy for such activities.

## DRAFT DECISION\*

The Board

- **approves** the financial framework for country and regional capacity building set out in this document (WFP/EB.1/2005/5-A); and
- **takes note** of the next steps outlined in paragraph 16.

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\* 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.



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## BACKGROUND

1. The document “Building Country and Regional Capacities” (WFP/EB.3/2004/4-B) set out a policy framework for WFP’s Strategic Priority 5. One of the policy recommendations was that: “Any changes required in the financial policy framework will be presented to the Executive Board at the earliest opportunity.” The current document examines the potential legal mechanisms for making contributions to WFP and for WFP receiving contributions targeted to help build country and regional capacities. The scope of the current document is necessarily limited, since the document addresses only the legal mechanisms for making contributions, and not WFP’s potential resourcing strategy for supporting and implementing country and regional capacity-building activities. Once established, the legal framework will provide the necessary starting point for the design of an effective resource mobilization strategy for all five strategic priorities.

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## SUMMARY OF ISSUES

2. Traditionally, the extent of capacity-building activities undertaken by WFP country offices has been closely tied to the food volume being delivered in these operations. Where WFP has large-volume operations, country offices have some flexibility in budgeting resources for capacity development initiatives. However, in WFP’s development programming, which is typically smaller in volume than its other programmes, lack of resources limits the degree to which WFP is able to incorporate capacity-building interventions into its operations. Particularly in smaller development programmes, where handing over capacity may be a major objective, resource constraints hamper appropriate investments in capacity building.

### Existing Funding Mechanisms

3. In 2000, following recommendations from the Executive Board (1999/EB.1/3), WFP re-defined the cost category direct operational costs<sup>1</sup> (DOC) to include a fourth sub-category called other direct operational costs (ODOC). Most capacity-building interventions undertaken by WFP in its operations have been financed through ODOC budgets. These have included training to government counterpart and NGO implementing staff, technical assistance and inputs given to government or implementing partners to assist with food aid monitoring such as vehicles, computers and telecommunications.
4. Only a few interventions have been funded through direct support costs (DSC), or quality-improvement funds available from donor trust funds, or by Headquarters divisions or regional bureaux from WFP’s Programme Support and Administrative (PSA) budget. These have included workshops, special studies and support to networks.
5. Capacity-building interventions, when implemented as a parallel aspect of a WFP food aid intervention or separately from a food aid intervention, have usually been funded by a bilateral donor or by the recipient government, including funding given by a bilateral donor to the government.

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<sup>1</sup> DOC previously covered only the costs of commodities, ocean transport and landside transport, storage and handling (LTSH).



## Agreed Framework Principles

6. The following five principles were agreed as part of the policy framework for building country and regional capacities to guide WFP's approach to the development of specific mechanisms and funding modalities.
  - Within existing resources, WFP should continue to undertake and should mainstream ancillary capacity-building activities, both formal and non-formal, where it has the resources and capacity to do so.
  - Any significant stand-alone capacity-building efforts should be funded from voluntary contributions given for this purpose; WFP anticipates that many of these contributions will come from national governments themselves.
  - The funding mechanisms and modalities should be as transparent as possible with respect to costs and resources, and designed to facilitate inter-agency partnership wherever practicable.
  - Pending subsequent approval by the Executive Board of the financing modalities, undirected multilateral resources should not be allocated for new capacity-building activities, unless there is specific consent for this from the donor government.
  - WFP should always maintain an appropriate overall balance between the financial and human resources devoted regional and country capacity-building activities, and those devoted to WFP's other strategic priorities, taking into account the core mission and mandate of the organization.

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## FINANCIAL FRAMEWORK FOR CAPACITY-BUILDING INTERVENTIONS

7. The policy framework for building country and regional capacities stipulates that "as much as possible, WFP should mainstream capacity interventions in all its food aid operations". This principle has guided the consideration of financing options. Given WFP's existing experience with capacity-building activities, existing mechanisms are considered to be sufficiently flexible to accommodate financing needs. This is particularly true given that capacity-building expenditures are expected to remain a relatively small proportion of WFP's overall operational expenditures.

### Financial and Resource Framework

8. Capacity-building interventions should continue to be embedded as far as possible within existing WFP operations. The current use of ODOC and DSC budget lines should continue to be used for capacity-building activities undertaken as part of a WFP food aid operation. This facilitates the mainstreaming of capacity-building in all programme categories and allows WFP to begin building capacities while providing food aid.
9. For stand-alone capacity-building interventions, cash-only projects can be launched within any existing programme category – depending on the country situation and the capacities to be supported. While maintaining the principle of mainstreaming, cash-only projects allow WFP to undertake capacity-building interventions funded separately from a food aid project or where a recipient government requires only capacity-building assistance. These projects will follow the same principle of full cost recovery as other projects.
10. Overall stand-alone capacity-building interventions are expected to be significantly lower in value relative to WFP's food aid operations, and predominantly funded by recipient governments. Where a recipient government self-finances a stand-alone



capacity-building project that is related to a programme initiated by the government, it may be considered a bilateral service, and financed in line with WFP's current definition of bilateral services.

11. Transparency and accountability for resources absorbed by capacity-building activities is important and should be covered through ex-post reporting. Operational expenditures to stand-alone capacity-building projects will be reported separately from WFP's food aid operations in each programme category.
12. For new stand-alone capacity-building activities, WFP will monitor the human resource implications of implementing them.

## Other Financing Options Considered

### ⇒ *Special Operations (SOs) and Capacity-Building*

13. SOs have a specific definition and resource allocation process geared towards rapid response in crisis situations. Where capacity building interventions are undertaken in support of special operations objectives, such interventions could be financed through SOs. To preserve the effectiveness of the SO category as a vehicle for implementing activities requiring rapid response in crisis situations, the use of the SO category as a catch-all for all of WFP's capacity-building interventions is regarded as inappropriate and counterproductive.

### ⇒ *Separate Programme Category for Capacity-Building*

14. The separation of capacity-building activities into a separate single new programme category is considered to be against the principle of mainstreaming, and unnecessary given the flexibility of existing instruments.

### ⇒ *Broader Review of WFP's Financial Policy Framework*

15. Following the decision of the Executive Board in February 2003, WFP has deferred the review of WFP's Financial Policy Framework until the completion of the Business Process Review. This broader review of WFP's Financial Policy Framework would also include a review of the framework for capacity-building interventions.

## Next Steps

16. Upon approval of a financing framework for country and regional capacity-building activities, WFP will be in a position:
  - to accept and solicit contributions for country and regional capacity-building activities, including stand alone projects;
  - to issue appropriate financial rules;
  - to design, develop and implement a resource-mobilization strategy for such activities;
  - to design and develop guidelines for implementation;
  - to implement appropriate projects, including stand-alone projects;
  - to assess the effectiveness of implementation efforts and the need for additional institutional mechanisms and/or support;
  - to monitor implementation costs, including human-resource costs.

