

## ANNEX VII

### Update on the bottom up strategic budgeting exercise

#### Introduction

1. The bottom up strategic budgeting exercise (BUSBE) was established in June 2020 by the Executive Director with the overall goal that the organization have the required resources from the most appropriate funding sources to support its growing operational activities and that the allocation of those resources reflect the organization's priorities.
2. In October 2021 the BUSBE project team was dissolved, and the Corporate Planning and Performance Division (CPP) assumed responsibility for continuing the implementation of the approach introduced by BUSBE and completion of the various workstreams in collaboration with other divisions.
3. In early 2022, as called for in its annual workplan, the Office of Internal Audit conducted an audit of the BUSBE. The audit report was released in July 2022. Some of the challenges facing the auditors were that performance indicators had not been established at the beginning of BUSBE and that a full budget cycle had not been completed using the approach introduced by BUSBE. Furthermore, the audit report acknowledged that actions to complete the BUSBE workstreams were still under way. Consequently, the auditors were not able to fully assess the impact of BUSBE on the budget process and budget decision making.

#### Status of BUSBE workstreams and activities

4. The table below summarizes the current status of the activities under the four workstreams established to achieve the BUSBE objectives.

<b>TABLE A.VII.1: STATUS OF ACTIVITIES UNDER THE BOTTOM UP STRATEGIC BUDGETING EXERCISE</b>	
<b>Activity</b>	<b>Status</b>
<b>Budget governance</b>	
Transition decision making from the Strategic Resource Allocation Committee to a new budget governance structure that includes two budget committees.	Completed
<b>Cost recovery</b>	
Identify activities and their related costs with potential for direct cost attribution.	Completed
Prepare an impact analysis with regard to the impact of such costs and their reattribution on country programmes, extrabudgetary activities and the programme support and administrative budget.	
Formalize principles and mechanisms for, and issue a policy and guidance on, the use of cost recovery.	In progress
<b>Country office budget analysis</b>	
Conduct a country presence review exercise.	Completed
<b>Technical budgeting</b>	
Elaborate detailed corporate priorities to guide resource allocation decision making.	Completed
Harmonize the naming of activities across all regional bureaux.	Completed
Analyse and eliminate overlaps between headquarters divisions and regional bureaux.	In progress
Analyse and eliminate overlaps across functional areas in headquarters.	In progress

### **Budget governance**

5. The budget governance workstream is considered to be complete. An Executive Director's circular was issued in January 2022 promulgating the new budget governance structure, with two new committees established to recommend and monitor resource allocations, the Multilateral Budget Committee (MAC) and the Global Budget Committee (GBC), which are currently fully functioning. In line with corporate priorities and leadership group guidance, MAC and GBC meet to deliberate on and adopt recommendations on the allocations of funds for the Executive Director's approval. The GBC met in June to review and deliberate on 2023 corporate budget submissions and, in that context, CPP provided analytical and procedural support to the committee to inform its 2023 budget allocation recommendations.

### **Cost recovery**

6. Led by the BUSBE cost recovery working group, this workstream has progressed from analysis of existing charging mechanisms at WFP and other United Nations entities to identification of headquarters activities eligible for direct attribution and charge to country strategic plans and extrabudgetary projects.
7. Using principles developed in 2022, the working group collaborated with the GBC on analysing cost recovery activities for the management plan for 2023–2025. This ensured alignment with the WFP budgeting process.

### **Country office budget analysis**

8. The country office budget analysis workstream is considered to be complete. The identification of only core country office representational costs as indirect costs was maintained for the 2023 budget, and consequently such costs will be covered by the programme support and administrative budget, while other country office costs are considered to be direct and will be covered by resources provided for country strategic plans.
9. WFP delivers food assistance, partners with governments and provides common services that allow the entire humanitarian community to save lives in emergencies and build the resilience of food insecure people and communities. With regard to country office presence, decision making about whether to open or close offices is ongoing. In 2022, WFP opened a new country office in Ukraine, and its Morocco office will close by the end of the year; to date no other decisions regarding the closure of country offices have been made in 2022.

### **Technical budgeting**

10. Within the technical budgeting workstream, the 2023 corporate budgeting framework was built on the methodology adopted under BUSBE. Budget submissions by organizational level were detailed by activity, with each activity linked to a management result and key performance indicators defined.
11. Standardization of activity names reduced the number of activities and improved comparability, especially for the regional bureaux. Further refinement and simplification will continue to improve analysis across the headquarters divisions and from year to year.

### **Outcomes and outputs**

12. The annual budget process and proposed budget allocations in the management plan for 2023–2025 are evidence of achievements towards the BUSBE objectives.
13. The annual budget exercise captured all activities managed by global headquarters ("global headquarters" includes headquarters divisions, regional bureaux and WFP liaison

- offices), regardless of funding source. The budget for such activities is set out in the comprehensive programme support and business operations budget (table IV.1).
14. In the comprehensive programme support and business operations budget for 2023, all activities included have identified funding sources and are classified according to whether they are baseline activities, other services or direct activities (paragraphs 133–137).
  15. The baseline budget is linked to management results (paragraphs 145–164 and table IV.4)
  16. Cost recovery activities are being maintained (paragraphs 136 and 301).
  17. Indirect costs incurred by country offices are funded from the programme support and administrative budget (paragraph 223).
  18. The leadership group provided prioritization criteria for proposed budget allocations (paragraphs 140 and 145).
  19. The budget governance committee recommended allocations that were subsequently endorsed by the Executive Director and included as proposed budget allocations in the management plan. They include:
    - a) the programme support and administrative budget increase for priority areas (figure IV.2, paragraphs 181 and 193-209);
    - b) the alignment of critical corporate initiatives with corporate priorities (paragraphs 140 and 251 and annex V);
    - c) consistent with the priority of effectiveness in emergencies, the proposed use of the programme support and administrative equalization account to replenish the Immediate Response Account (paragraphs 244 and 245) and the proposed increase in the operational reserve to support the internal project lending facility (paragraphs 284 and 285), and the proposed change to a dynamic ceiling for the internal project lending facility and the Global Commodity Management Facility (paragraphs 303–321).

#### **Moving forward: internal audit recommendations and ongoing activities**

20. WFP management welcomed and agreed with the observations set forth in the BUSBE audit report, which it is felt represent an opportunity for continued refinement of tools, frameworks and processes in subsequent budget cycles. WFP management has implemented most of the agreed actions that have a direct bearing on preparation of the 2023 budget and management plan.
21. Many of the audit recommendations were consistent with lessons learned from the BUSBE project team and have already been implemented during the preparation of the 2023 budget.
22. Based on the audit recommendation and also on the ongoing activities under BUSBE, the three main areas where work will continue are the following:
  - a) Measuring the impact of BUSBE: This involves defining key milestones against the workstreams and establishing key performance indicators to measure achievement of the original BUSBE objectives.

- b) Enhancing budgeting tools: the adequacy and effectiveness of budget planning processes and tools will be assessed and, where required, investment decisions on staffing and system enhancements will be made to continue strengthening processes and tools.
  - c) With the objective of redesigning a structure for efficiently supporting country offices, the country office support model optimization and simplification critical corporate initiative described in this document will analyse and resolve overlaps between headquarters divisions and regional bureaux, vertical overlaps, and horizontal overlaps across functional areas at headquarters.
23. The cost recovery working group will aim to finalize an Executive Director's circular and guidance documents on global headquarters direct cost attribution. These documents will describe underlying principles, the governance structure and costing and attribution methodologies.