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PROGRESS ON THE FINANCIAL FRAMEWORK REVIEW, INCLUDING INDIRECT SUPPORT COSTS

NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for approval.

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

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EXECUTIVE SUMMARY

In recent years WFP has sought to maximize the transparency, efficiency and effectiveness of its resource allocations and to articulate more clearly the relationship between financial and operational performance. At the country office level, managers must balance the delivery of food assistance, nutrition support and capacity development activities with piecemeal funding directed to multiple projects or funds, each requiring fund management at the cost component level and clear articulation of information on performance.

Through consultation with the Board, WFP has made a number of enhancements to its financial architecture in recent years, including improvements to the operational budget structure and optimization of resource management instruments such as internal project lending. Despite the progress made to provide operations with the tools and resources required to deliver assistance in the communities WFP serves, fundamental challenges in the financial architecture continue to limit the predictability and flexibility of, and the accountability for, WFP's resources for country offices.

In 2015 and 2016, WFP will implement a series of work streams to examine the challenges in the current financial architecture, and develop methods for working towards a target financial framework. These work streams include:

- optimization of WFP's advance financing;
- resource-based planning;
- operational budget structure review, including country portfolio budgeting; and
- simplification initiatives.

In parallel to the previous phase of the Financial Framework Review, in 2013 WFP began a review of its method for determining indirect support costs. In 2014 the conclusion was that no fundamental changes to indirect support cost policy or methods were required at the present time. However, an analysis of cost drivers of the Programme Support and Administrative budget and WFP's overall cost structures remained to be done. It was determined that a holistic review of WFP's financial architecture, and of the resource management tools that support WFP's operations, should be conducted in the context of the Financial Framework Review.

The review of indirect support cost issues concluded that despite unprecedented funding levels in 2014 WFP must continue to manage financial risk to ensure that fluctuations in funding do not compromise the provision of support and services.

The Programme Support and Administrative Equalization Account is a risk-mitigation tool that provides funding when indirect support cost income does not materialize. The account is also a suitable source of funding for non-recurring uses such as transfers to reserves and funds, and to discrete investments in critical corporate initiatives that are indirect in nature and provide high strategic value for WFP. On an exceptional basis, the account is also a suitable funding source for recurring security-related expenditures if other funding sources such as individual projects are insufficient. WFP's General Fund should be used only as a last resort to fund recurring costs such as security expenditures.

As part of the review of the financial architecture, WFP will further review the current target level of the Programme Support and Administrative Equalization Account, currently four months, with a view to optimizing the account.

DRAFT DECISION*

Taking note of "Progress on the Financial Framework Review, including Indirect Support Costs" (WFP/EB.A/2015/6-C/1) and the consultations to finalize the indirect support cost review, the Board:

i) welcomes the update on the Financial Framework Review, and looks forward to further regular updates;

ii) takes note of the conclusions of the indirect support cost review contained in this document;

iii) endorses the use of the balance on the Programme Support and Administrative Equalization Account for the following purposes:

  a) to cover any difference between indirect support cost income and approved Programme Support and Administrative expenditure;

  b) as a reserve to underwrite risk of decreases in indirect support cost income or underfunding of the Programme Support and Administrative budget;

  c) for critical corporate initiatives or thematic support funds; and

  d) for strengthening WFP's reserves;

iv) endorses the use of net interest income that accrues to the unearmarked portion of the General Fund: i) to strengthen WFP's reserves and enhance the management of financial risk; ii) to fund critical corporate initiatives if funds in the Programme Support and Administrative Equalization Account are insufficient; and iii) to fund recurring costs only as a last resort; and

v) looks forward to the further review of the Programme Support and Administrative Equalization Account target level.

* 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.

PART I: UPDATE ON THE FINANCIAL FRAMEWORK REVIEW

Context

1. WFP continues to use a range of tools to support people affected by food insecurity, disaster and conflict in 80 countries. To do so, WFP must ensure that its financial framework can support predictable resource flows to its operations, flexible resource management and sound accountability for results. The financial framework supports tools such as food and nutrition assistance, and WFP-managed common services and cluster responsibilities.

2. To meet these challenges, a new phase of the Financial Framework Review and a review of the indirect support cost (ISC) rate were launched in 2014. These are significant initiatives to enhance transparency and accountability in the management and reporting of financial resources and operational performance.

3. In 2013 WFP implemented a revised project structure to reflect its evolving toolkit, and in 2014 the Working Capital Financing Facility (WCFF) was restructured and WFP's project lending capacity was trebled.[1] The Board endorsed an increase in the level of the Global Commodity Management Facility (GCMF; formerly the Forward Purchase Facility) in 2013, and an increase to the Immediate Response Account (IRA) in 2014. Thus in 2015 WFP is better positioned to continue addressing the challenges and gaps and is aligning its regulations, tools and systems to support operations and report results to donors.

4. At the Board's 2014 Second Regular Session, the Resource Management Department presented for approval the document "Method for Determining the Indirect Support Cost Rate for WFP",[2] which concluded that no fundamental changes to ISC policy or methods were required at that time. The Board approved an ISC rate of 10 percent for private-sector contributions, and looked forward to the finalization of the ISC review in 2015.

5. During the ISC review it became clear that the issues being covered – in particular those related to cost drivers and how the Programme Support and Administrative (PSA) budget fits into WFP's overall cost structures – should not be addressed in isolation. As a result it was decided to address the remaining ISC issues in the context of the Financial Framework Review.

Challenges in WFP's Current Financial Architecture

6. WFP's current financial architecture is fragmented. Piecemeal authority to incur costs is extended to projects as contributions are forecast and received; funding at the country-office level is allocated among projects and extra-budgetary resources such as trust funds; and project funds are programmed into subdivisions such as cost components.

7. Operational planning is affected by this financial architecture. WFP's project-based approach, whereby it identifies needs and designs interventions that respond to them, is often cited as a particular strength. But although this approach supports rapid responses, implementing several projects in a single country can create fragmented funding streams and programming. Planning and implementation may be inhibited, and performance accountability and results may also be affected as a result.

[1] WFP/EB.A/2014/6-D/1.

[2] WFP/EB.2/2014/5-D/1.

8. This approach also limits the flexibility of resource management for country offices because it creates multiple budget envelopes with complex budget management; this reduces overall efficiency, particularly where several projects are active in a single country. The inflexibility inhibits WFP's ability to manage resources effectively for results and can lead to unspent balances in budget components.

9. The earmarking of contributions creates additional levels of fragmentation by directing funds to particular projects or activities within projects, to food types or transfer modalities, to areas of implementation or to particular phases of a project. Larger projects with multiple donors can present challenges in management of resources and alignment of donor priorities with project implementation. This reduces WFP's flexibility to manage resources for results as part of a planned portfolio of work, sometimes reducing efficiency. It also increases the complexity and detail of reporting to donors and reduces the value of WFP's Standard Project Reports (SPRs) for many stakeholders.[3]

10. Another major challenge in the management of financial resources is the uncertainty related to the timing of contributions. Although WFP can rapidly scale up its operations – or create new projects – based on the specific humanitarian requirements and receipt of funds at any point during the year, the current financial framework does not allow it to optimize its utilization of resources over time for projects that are medium- or longer-term in nature. As both the timing and level of contributions vary during the project life cycle, gaps in resources can result in delays in programme delivery or higher expenditures for support costs, including payments to commercial suppliers or non-governmental organization (NGO) partners. Managers may also be unable to optimize staffing levels over the medium and longer term, having to depend instead on expensive temporary deployments or short-term contractual arrangements to meet staffing gaps when other arrangements might be more suitable or cost-effective. This challenge can have impacts on the stewardship of WFP's financial resources.

11. Over time, WFP has developed a number of mechanisms to mitigate some of the challenges that country operations face in resource management, including timing of contributions. These mechanisms include using internal project lending to provide advance financing to projects on the basis of forecasted contributions. However, only half of all contributions to WFP qualify for such advances. If contributions are received too late to meet urgent gaps, extraordinary measures may be taken internally to ensure that life-saving activities can continue, for example through the IRA. In addition, WFP continues to request multilateral contributions to facilitate the global allocation of resources to countries with the greatest needs and to operations that can make the biggest impact with donor funds. However, current multilateral allocations to WFP account for less than the target of 11 percent of total contributions.[4]

12. Despite progress made to date in ensuring funding stability for WFP operations, a more comprehensive approach may be required to ensure that WFP operations are equipped to respond to humanitarian and protracted crises and that WFP continues to be a reliable partner of choice in the implementation of activities in the fight against hunger.

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[3] SPRs are prepared annually and provide information on the activities of a project/operation during the previous calendar year. SPRs provide a significant amount of very detailed information, but a donor may require a report that provides information specifically on its contribution. WFP's governing body has mandated that the donor must cover the additional costs to WFP of preparing such a report, including the time of country office and Headquarters staff. (WFP/EB.3/99/INF/18).

[4] WFP/EB.A/2014/4.

Cost Benchmarking

13. In recent years, WFP, other United Nations agencies and partners have also been challenged in providing greater detail in measuring and reporting operational performance in reaching outcomes. As a result, WFP is making significant investments in corporate information management systems. Change initiatives brought about by the Fit for Purpose effort, the Business Process Review and other ongoing efforts – including the Logistics Execution Support System (LESS) and the country office monitoring and evaluation tool (COMET) – have impacts on WFP's data management and decision-making, and WFP must examine opportunities to integrate financial performance data with quantitative and qualitative results.

14. In 2014, in parallel with efforts to restructure WFP's Working Capital Financing Facility, the Secretariat carried out an analysis of cost drivers and a cost benchmarking exercise as part of the Fit for Purpose Framework for Action Theme 6 on improving transparency, risk management, oversight and fiscal management. The objective of the exercise was to explore ways in which WFP can "unpack" costs to improve transparency and identify cost-saving opportunities.

15. In addition to a deep analysis of resource management in several countries – Afghanistan, Chad, the Democratic Republic of the Congo and Myanmar – the Secretariat completed a stocktaking of country-level key performance indicators and identified areas where it is difficult to discern cost drivers at three levels: cost category, project, and country portfolio. The Secretariat examined whether WFP's financial information systems, data structures and business processes fully supported the cost-benchmarking methodology.

16. At the country level, the identification and planning of support and administrative costs, including staff, administration, security and programme delivery, have impacts on the efficiency with which WFP utilizes contributions. While underestimation affects the ability to implement activities, overestimation of the level of associated costs required to implement activities could result in inefficiency and reduced rations or fewer beneficiaries being assisted. There is a need to be able to identify and analyse cost drivers more confidently so as to improve cost management and increase accountability through the transparent monitoring and articulation of country-specific cost structures.

17. The cost-benchmarking exercise indicated that integrating performance and costing information to develop meaningful cost-oriented key performance indicators required significant preparatory work and assumptions and methodologies at varying levels. The Financial Framework Review will examine the linkages with the new systems as they are rolled out, and will identify opportunities for data automation and integration in agreed approaches. This will help to link financial and operational performance and establish a basis for comparison across operations.

Financial Framework for the Future

18. To optimize its financial architecture WFP will re-examine its resource management framework with a view to supporting operations more effectively and aligning the financial framework with the Strategic Plan.

19. Building on the components of the Financial Framework Review identified during the Board's 2014 Annual Session,[5] WFP prioritized the requirements for the scope of the review. In 2015–2016, the review will aim to:

- increase the predictability of funding, so that country offices can improve operational efficiency and effectiveness;
- increase flexibility with a view to improving responses to operational needs, while maintaining discipline in financial management, reporting and analysis;
- enhance accountability by linking resource management responsibilities and outcomes; and
- simplify the resource management framework.

20. Following consultations in 2015, WFP is examining:

- budget authority: the timing and source of budget authority for operations – currently confirmation of contributions or approval of advance financing;
- budget entities: the units and levels at which a budget is managed and reported – currently projects and trust funds; and
- budget structure: the control categories used in each budget entity – currently entities such as landside transport, storage and handling, other direct operational costs and cash and vouchers.

21. Three underlying principles will remain in place: the voluntarily funded nature of WFP, the principle of full cost recovery and contribution-specific expenditure tracking. The Financial Framework Review may examine the application of these principles in consultation with the Board.

22. In revising the financial framework, WFP has prioritized the activities described below in paragraphs 23 to 28. The modular approach will ensure that activities are designed and implemented with a view to achieving stand-alone and collective benefits.

23. Steps to increase the predictability of resources will include two priority work streams to extend budget authority to country offices:

i) *Optimization of WFP's advance financing*. In consultation with the Board, WFP intends to use mechanisms such as internal project lending to pilot increased and more predictable budgetary authority for prioritized operations, matched with appropriate risk-mitigation methods for internal lending.

ii) *Resource-based planning*. A new resource-based planning approach will develop a standard approach for defining medium-term country-level plans with priorities based on expected resource levels, and will establish the underlying planning methodology required to support the provision of expanded internal lending.

24. WFP also intends to review the possibility of a single budget entity – including a country portfolio budgeting approach – that can consolidate all country-level food assistance interventions. Such an approach could reduce the fragmentation of resource management at the country-office level. Case studies from current and recent operations will be used, with attention to humanitarian and development trends and best practices. This work will be maintained through a dedicated work stream to review the operational budget structure. Concept design and methodologies for the mechanism will be developed in consultation with the Board and other stakeholders.

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[5] WFP/EB.A/2014/6-D/1. The document was approved and the Board welcomed further discussion (see Annex I).

25. "Simplicity" will be a core objective of the next phase of the Financial Framework Review, with a dedicated work stream to implement a series of simplification initiatives where relevant. The Secretariat will support a limited number of initiatives on the basis of expected benefits for operations and resource availability. Simplification proposals will be assessed against criteria established by senior managers with a view to implementing those with the greatest operational benefits.

26. The Financial Framework Review will make proposals for harmonizing resource management tools and improving the quality of data to support country operations and provide greater visibility of value for money. Resources will initially be allocated to support the tools and dashboards relevant to corporate emergencies.

27. In line with the Quadrennial Comprehensive Policy Review (QCPR), and to develop a financial framework that is aligned with other United Nations agencies and NGOs, WFP will review the financial architecture of United Nations agencies and NGOs to determine where harmonization or integration of best practices is feasible.

28. By reducing funding fragmentation and addressing institutional challenges relating to the current budget entity and budget structure, WFP can position itself to continue ensuring rapid, life-saving assistance in emergencies, while developing a financial architecture that allows multi-year and more results-oriented planning. These characteristics are essential for ensuring that WFP can respond to severe food insecurity in some operational contexts, while making progress towards sustainable food and nutrition security interventions in others.

PART II: FINALIZATION OF THE INDIRECT SUPPORT COST REVIEW

Background of Indirect Support Cost Rate Review

29. The Management Plan (2014–2016) proposed a review of the ISC rate in response to the QCPR and to ensure alignment with the Strategic Objectives and the Management Results Framework. The first phase, presented to the Board's 2014 First Regular Session,[6] outlined the context and drivers of the review. These included: i) the QCPR; ii) current and future resourcing environment; iii) value for money; and iv) cost and support structures. The paper highlighted four questions:

i) Given that WFP is a voluntarily funded organization with no core budget, should it consider core funding or other funding approaches to fixed and variable costs?

ii) Should WFP continue with a single ISC rate, or should the rate vary according to the type of intervention?

iii) Could WFP use variable ISC rates to encourage resource mobilization, for example through South–South cooperation or host-government contributions?

iv) Recognizing that some costs related to support and administration are covered from other sources, should WFP consider multiple sources to fund costs such as security and non-recurring investments?

30. Following two informal consultations with the Board, a second paper presented at the 2014 Second Regular Session addressed three of these questions and reached the following conclusions:

- The current voluntary funding model is preferable to a core funding model.
- The current single-rate ISC model is simple and transparent and should be maintained.
- Variable ISC rates linked to programme categories or activity types would not be an improvement.
- Variable ISC rates would probably not incentivize additional contributions through South–South cooperation or host governments.
- A single ISC rate of 10 percent should be applied to private-sector donations.

31. The fourth question of the ISC review, proposed at the Board's 2014 Regular Session,[7] was: "As some costs related to support and administration are covered from sources other than the ISC recovery rate, WFP should undertake a detailed analysis of its indirect costs and review the PSA Equalization Account, which serves as a safety net for unplanned fluctuations in ISC recovery. Should WFP continue to consider multiple sources of funding for costs such as security and non-recurring investments?" An informal consultation in March 2015 reviewed preliminary conclusions pertaining to this question.

Review of PSA Budget and ISC Drivers

32. An indirect support cost is "a cost which supports the execution of projects and activities but cannot be directly linked with their implementation."[8] To achieve full cost recovery for operations, the ISC rate is applied to every contribution.

[6] WFP/EB.1/2014/4-B/1.

[7] WFP/EB.2/2014/5-D/1.

[8] WFP Financial Regulations I: Definitions.

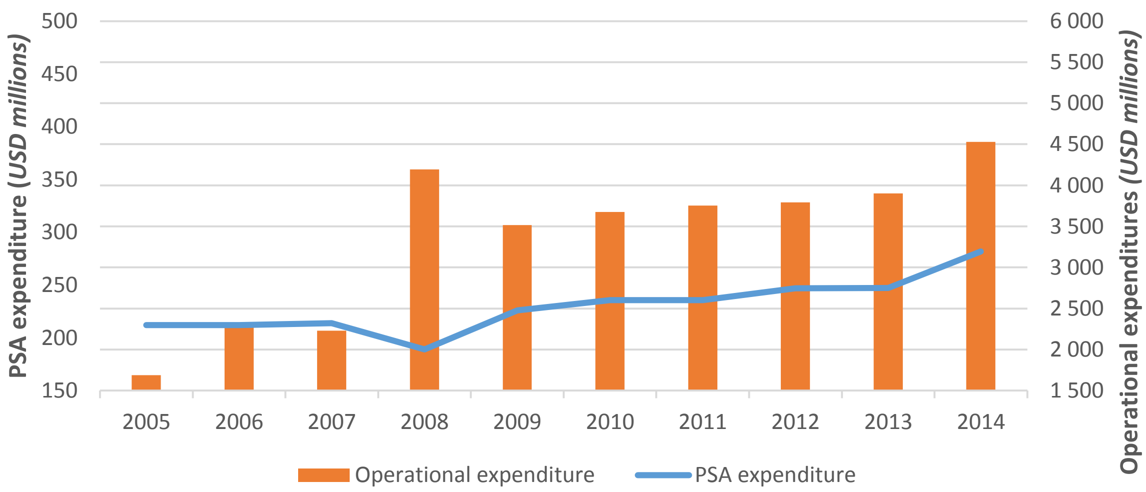
33. Recovered ISC income funds the PSA budget, which is defined as "the portion of the WFP Budget that pertains to providing indirect support to WFP's activities."[8] It covers most Headquarters and regional bureau costs and some programme support costs in each country. Its three appropriation lines are:

- programme support: regional bureaux and country offices;
- programme support: Headquarters; and
- management and administration.

34. Various other PSA-like costs that are indirect in nature such as those related to the United Nations Department for Safety and Security (UNDSS), the United Nations system and WFP information technology (IT) have not always been treated as part of the regular PSA budget. They are funded from sources such as the PSA Equalization Account, the net interest income accrued to the General Fund and trust funds.

35. The primary driver of the regular PSA budget is the level of operational implementation: changes in the scale of WFP's operational response drive PSA expenditure. Figure 1 provides the ten-year trend of operational and PSA expenditures, showing that PSA expenditures have remained relatively stable in recent years compared to increased operational expenditures.

Figure 1: PSA expenditure and operational expenditure 2005–2014



36. With the approval of the Strategic Plan (2008–2013) WFP began the transition to food assistance, which included scaling up transfer tools such as cash and vouchers, maximizing the nutritional impact of interventions and building sustainable resilience. WFP's work has thus become more effective, and more challenging. The expansion of WFP's toolkit and the growing complexity of its work are among the drivers of the PSA budget, with annual allocations prioritized to support the development of modalities such as cash and voucher programming and nutrition assistance.

PSA Equalization Account: Primary Purpose and Use as a Funding Source

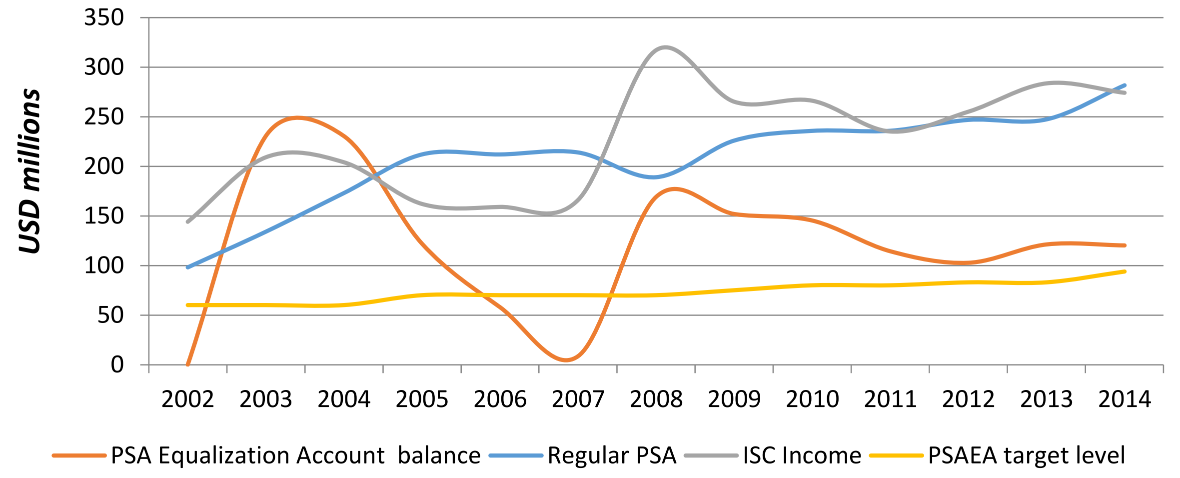
⇒ *Primary purpose*

37. The PSA Equalization Account was established in 2002 to manage surpluses or deficits between ISC revenue and PSA expenditures; it mitigates the risk that ISC income may not materialize at the expected rate. The Board adopted a target level of four months of expenditure for the PSA Equalization Account, and has approved all uses of the account.

38. The annual PSA budget considers anticipated need, forecast contributions and expected ISC income. Once approved by the Board through the Management Plan it provides a ceiling for PSA expenditures, while ISC income will vary with changes in voluntary contributions.

39. Figure 2 plots actual ISC income and PSA expenditures since 2002. Between 2005 and 2007, the regular PSA budget ran a deficit when ISC income did not materialize; WFP drew down the PSA Equalization Account to provide stability for PSA planning and to realign the management and support structure with actual income. Since 2007, WFP has built the PSA Equalization Account balance to reach and exceed the target level and, with the approval of the Board, has conservatively utilized the positive balance.

Figure 2: PSA, ISC income and PSA equalization account trends 2002–2014



40. Because the balance of the PSA Equalization Account declined in 2007, WFP presented a PSA budget for 2008–2009 that involved: i) a 21 percent reduction in real terms; ii) streamlining of the organizational structure, including the merger of two departments; iii) elimination of 290 PSA-funded posts; and iv) a reduction from seven to six regional bureaux.

41. In 2008, however, WFP faced dramatic increases in food and fuel costs and turmoil in international financial systems. The 2008 Annual Performance Report noted: "Progress towards the Millennium Development Goals was suddenly reversed. To meet these challenges, donors provided WFP with more resources than in any other year and WFP was able to assist a record number of beneficiaries."

42. The experience of 2007 and 2008 showed that large-scale reductions in PSA are challenging, that they have significant consequences for WFP and that they should be undertaken gradually, if possible, and with a perspective that goes beyond the next financial period.

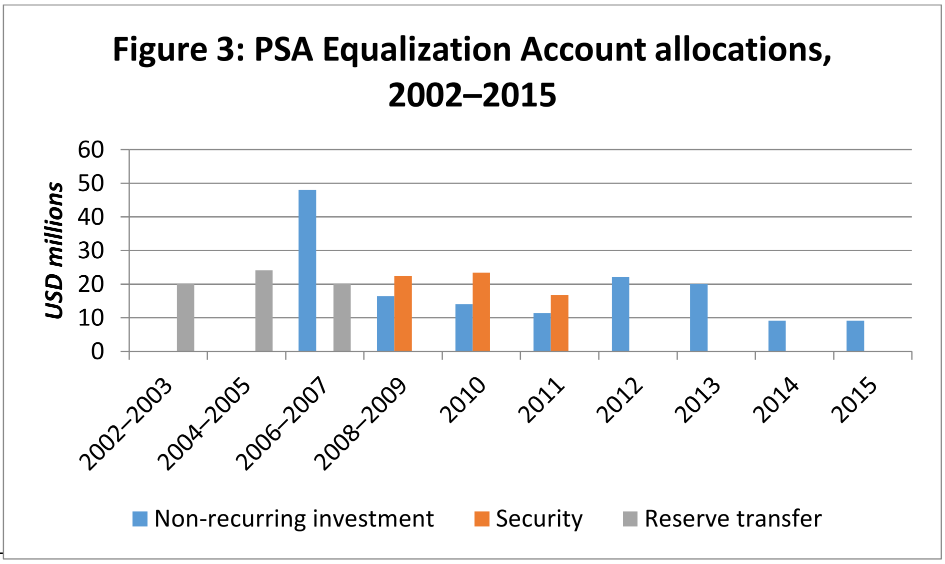
43. The primary purpose of the PSA Equalization Account reserve is to "give time to adjust [the] PSA cost structure if ISC income fails to materialize at the expected rate."[9] A stated purpose of the ISC review is to establish financial resilience. As an entirely voluntary funded organization, income fluctuations can quickly undermine WFP's ability to cover all indirect costs. This calls for periodic validation of the robustness of WFP's financial safety nets to proactively manage financial risk and ensure that fluctuations in overall funding do not impact the provision of support and services funded through the PSA.

- **Conclusion 1: As part of the Financial Framework Review, it would be appropriate to undertake further review of the optimal target level of the PSA Equalization Account. This may result in consideration being given to changing the current target level, established in 2006, of four months of PSA expenditure.**

⇒ *Use as a funding source*

44. As WFP is 100-percent voluntarily funded and has no core budget, surpluses in the PSA Equalization Account enable it to take forward – with the Board's approval – strategic actions such as reserve transfers and implementation of corporate priorities that would not be affordable in the regular PSA budget. Since 2002, the Board has approved the allocation of USD 277.1 million from the PSA Equalization Account for items outside the regular PSA budget. The actual utilization of approved allocations is reported in the annual Financial Statements (see Annex I for a list of all allocations). Figure 3 breaks down the allocation into:

- non-recurring investments – USD 150.3 million allocated to capital development and other non-recurring investments;
- security – USD 62.7 million allocated between 2008 and 2011 to field security upgrades and WFP's share of United Nations Department of Safety and Security costs; and
- reserve transfers – USD 64.1 million authorized to increase the balances of the IRA and the direct support cost advance facility, which was later merged into the Operational Reserve.



[9] WFP/EB.1/2006/6-A/1.

Non-Recurring Investments

45. Non-recurring investments in previous years include the WFP Information Network and Global System II (WINGS II), International Public Sector Accounting Standards, enhancement of financial management such as the Statement on Internal Control, IT modernization and Fit for Purpose. These go beyond the support and administrative activities funded in the regular PSA budget: they have helped WFP to adapt and develop to meet the changing needs of beneficiaries and stakeholders, and would not have been possible without recourse to the PSA Equalization Account.

46. WFP has used various terms to describe these investments: Board documents have included references to "non-recurring capital expenditure", "one-time supplementary PSA allocations", and "critical corporate initiatives" (see Annex II). Standardizing the language will improve the clarity of decisions and enhance understanding of the type and criticality of investment.

47. Building on the description in the Management Plan (2015–2017), critical corporate initiatives may be defined as strengthening WFP's programming, operational and administrative capacity to fulfil its mission, and delivering value for money. For consistency, it is proposed that the term "critical corporate initiatives" be used to describe such allocations from the PSA Equalization Account.

48. WFP introduced a process that requires the presentation of investment cases for all proposed critical corporate initiatives as part of the 2015 budgetary review. The process enables rigorous evaluation of each proposal based on standard criteria covering activities, deliverables, anticipated value-for-money benefits, and total cost of the investment.

49. As part of the process for developing investment cases for critical corporate initiatives, the Secretariat proposes the use of additional criteria for guiding the development and prioritization of proposals:

- be one-off in nature, and not covered by regular PSA;
- not be related to a single project;
- require predictable funding;
- be unlikely to generate sufficient additional investment from donors through corporate trust funds; and
- focus on organizational change.

50. Results will be recorded in the Annual Performance Report to strengthen accountability in WFP's performance monitoring process. This will enable performance-informed budgeting in future planning periods.

Reserve Transfers

51. In 2003, 2004 and 2006 the Board approved transfers totalling USD 64.1 million from the surplus balance of the PSA Equalization Account to other reserves (see Annex I and II). Any transfer of resources from the PSA Equalization Account requires the Board's approval.

52. Two separate transfers to the IRA totalling USD 40.0 million were used to supplement low available balances in the IRA, which reduced the PSA Equalization Account balances. A third transfer of USD 24.1 million was approved to bring the balance of the direct support cost advance facility to USD 60 million. This facility, now embedded in the Operational Reserve, is the underwriting reserve for internal project lending. Advances from the WCFF increase funding predictability and reduce response times.

53. Injecting surpluses from the PSA Equalization Account into other reserves leverages the value and flexibility of scarce resources to provide efficiency gains to beneficiaries.

Security

54. Between 2008 and 2011, the Board approved the allocation of USD 62.7 million from the PSA Equalization Account for field security upgrades that are handled through the Security Emergency Fund and for WFP's share of UNDSS costs (See Annex I and II).[10]

55. For the 2010–2011 biennium, security expenditures were originally approved from the unearmarked portion of the General Fund. However, additional liabilities such as long-term employee benefits, as required by International Public Sector Accounting Standards, were charged to the funding sources and interest income was insufficient for security expenditures. The Board approved a subsequent proposal to fund security expenditures from the PSA Equalization Account.[11] Such transfers from the PSA Equalization Account can address capacity deficiencies in security issues. A similar approach – the establishment of a thematic support fund – is proposed to provide start-up funding for addressing staff wellness issues.[12]

56. Given the importance of security to WFP's staff safety and operations, a reliable funding source for recurring security expenditures is essential. Surpluses above the target level of the PSA Equalization Account fluctuate and are not a stable source of funding for recurring expenditures apart from the stated purpose of the account.

- **Conclusion 2: All uses of the PSA Equalization Account balance will continue to be approved by the Board. Such approval should take into consideration the following priority uses:**
  - **to cover any difference between ISC income and approved PSA expenditure;**
  - **as a reserve to underwrite risk of decreases in ISC income or underfunding of PSA, with an established target level;**
  - **for critical corporate initiatives or thematic support funds; and**
  - **for strengthening WFP's reserves, through reserve transfers.**
- **Conclusion 3: WFP should in future use the term "critical corporate initiatives" as defined in paragraph 47 for non-recurring investments from the PSA Equalization Account, and routinely report on results in the Annual Performance Reports.**

Corporate Trust Funds as a Funding Source

57. Corporate trust funds are established by the Executive Director to account for a special contribution whose purpose, scope and reporting procedures have been agreed with the donor. WFP can seek donors to fund high-priority corporate needs or utilize available multilateral resources in consultation with the donor. Corporate trust funds can be utilized to finance institutional strengthening activities or to develop new tools and modalities that can later be mainstreamed into the regular PSA budget.

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[10] Between 2002 and 2007 and between 2012 and 2014, security expenditures were funded from net income interest accrued to the unearmarked portion of the General Fund.

[11] WFP/EB.A/2010/6-D/1.

[12] "Strategic Utilization of the WFP PSA Equalization Account" WFP/EB.A/2015/6-D/1.

58. Building on the description in the Management Plan 2015–2017, institutional strengthening activities may be defined as "Corporate trust fund activities for innovation and changes to operations and processes, funded by directed donor or multilateral contributions including funding in support of critical corporate initiatives".

59. Such allocations are overseen by the Strategic Resource Allocation Committee and approved by the Executive Director.

- **Conclusion 4: Corporate trust funds are a suitable source of funding for non-recurring investments for innovation and changes to operations and processes, and for critical corporate initiatives.**

Unearmarked Portion of the General Fund as a Source for Recurring and Security Costs

60. Question 4 of the ISC rate review seeks the Board's guidance regarding the continued use of multiple funding sources for recurring PSA-like costs.

61. With regard to the largest of these – UNDSS and other United Nations system costs – WFP has no direct control over budget increases and must pay its share regardless of its own budgetary constraints. WFP has in the past utilized the net interest income accrued to the unearmarked portion of the General Fund to fund security costs that could not be charged directly to projects. Security costs are an essential component in many of WFP's operations and cover the safety and security of WFP staff, premises and inventories.

62. The Secretary-General's 2000 Report on the Safety and Security of United Nations Personnel[13] addressed the weaknesses of the current system and proposed a significant increase in the number of security staff. In 2001, the General Assembly resolved that field security would be managed centrally, but that a cost-sharing formula would be utilized for:[14]

- central costs assumed by the United Nations Headquarters;
- field-related costs; and
- participation by agencies with minimal or no field presence.

63. Table I shows the growth in the UNDSS budget between 2002 and 2013. By 2012–2013, WFP's cost-share portion had increased by USD 17 million.

[13] A/55/494.

[14] Before 2001, field-related security was funded by local cost-share.

TABLE I : UNITED NATIONS FIELD-RELATED SECURITY COSTS AND FUNDING SOURCE[15] (*USD millions*)		
Budget Biennium	**UNDSS total field-related costs**	**WFP's share**
2002–2003	42.9	6.5
2004–2005	113.1	13.2
2006–2007	172.3	20.2 (a)
2008–2009	174.4	17.3
2010–2011	209.9	24.4 (b)
2012–2013	218.6	23.5

(a) Credit of USD 3.2 million received in 2006
(b) Credit of USD 1.4 million received in 2010

64. Where possible, security costs are charged to the direct support costs (DSC) of individual projects. With the Board's approval, costs that could not be funded through operations were covered by the PSA Equalization Account between 2008 and 2011 and by the unearmarked portion of the General Fund between 2002 and 2008 and 2012 and 2014.

65. The main source of income for the General Fund is interest income from WFP's investment portfolios and bank and money market accounts net of investment management costs. As interest rates have declined, income to the General Fund has become insufficient to fund UNDSS obligations and WFP has encountered significant difficulty in funding these costs. The unpredictability of net interest income means that the unearmarked portion of the General Fund should only be used for recurring expenditures as a last resort. Such recurring expenditures should preferably be met from operations or the regular PSA budget.

66. The 2015 approved PSA budget mainstreamed a portion of the security costs previously funded from the General Fund by including a charge in the standard staff costs. This increased the budget by USD 4.4 million to cover the PSA portion of these costs; the balance will be met from the standard staff cost charge for non-PSA funded positions. It was agreed that this solution would be revisited as part of the ISC review.

67. Stable funding forecasts and increased ISC recovery expectations over the three-year planning period have provided an opportunity for mainstreaming these recurring security costs in the regular PSA budget.

68. Consultations with the Board in 2015 reaffirmed WFP's commitment to its duty of care for personnel working in challenging environments where services and facilities are inadequate. The challenges noted in the 2013 WFP Medical Service Global Health Appraisal included limited or no access to secure buildings, basic medical facilities or health services. Respondents reported high levels of stress in insecure and remote locations, with consequences for their health.

69. In field duty stations, especially those with health or safety risks, WFP offices may access project-level budgets for employee wellness expenditures. Where investments cannot be fully recovered from the budget for field operations, creation of an integrated Staff Wellness Programme Fund is proposed,[12] which would be analogous to the Security Emergency Fund.

[15] WFP/EB.A/2014/11-E.

- **Conclusion 5: Interest income – net of the costs of managing the related investment portfolio – that accrues to the unearmarked portion of the General Fund should be used first to strengthen WFP's reserves and management of financial risk; and second to fund critical corporate initiatives where there are insufficient funds available in the PSA Equalization Account. Interest income should be used to fund recurring costs only as a last resort.**
- **Conclusion 6: Where possible, security costs should be charged to individual projects. Where security expenditures cannot be charged to an individual project, and when no other funding source is available, these costs should be included in the PSA budget or – exceptionally – be funded from the PSA Equalization Account. This is in line with the indirect nature of the costs.**
- **Conclusion 7: Similar to security costs, proposed investments for improving staff wellness, including in supportive infrastructure, health services and other staff wellness priorities, should be charged to individual projects. Where such expenditures cannot be charged to an individual project, and when no other funding source is available, these costs should be included in the PSA budget or – exceptionally – be funded from the PSA Equalization Account. This is in line with the indirect nature of the costs.**

Multiple ISC Rates

70. As outlined at the Board's 2014 Second Regular Session, variable ISC rates linked to programme categories or activity types are not desirable. WFP currently applies these ISC modalities:

- 7 percent for all contributions made to programme category activities;
- 4 percent for certain trust fund activities; and
- 10 percent for private-sector donations.

71. Other exemptions from ISC are allowed under WFP General Rule XIII.4. The Secretariat will strengthen internal guidance on the application of these ISC modalities with a view to maximum clarity and consistency.

Way Forward

72. As part of the Financial Framework Review, the Secretariat will review the target level of the PSA Equalization Account – currently four months of PSA expenditure – with a view to ensuring optimal financial resilience. This may result in consideration being given to changing the target level of the PSA Equalization Account.

ANNEX I

SUMMARY OF PSA EQUALIZATION ACCOUNT ALLOCATIONS			
Year	**Allocation category**	**Purpose**	**Amount (*USD million*)**
2002–2003	Reserve transfer	IRA reserve transfer	20.0
2004–2005	Reserve transfer	DSC Advance Facility Reserve transfer	24.1
2006–2007	Reserve transfer	IRA reserve transfer	20.0
	Non-recurring investments	WINGS II; Other Capital Asset Fund; Results-Based Management; Strengthening Financial Management; International Public Sector Accounting Standards (IPSAS) implementation	48.0
2008–2009	Security	Transfer to Security Fund for required on-site support, measures to ensure premises compliance, office relocation and security equipment	22.5
	Non-recurring investments	Cluster leadership; learning and development programmes; information and communications technology (ICT) support; extension of the IPSAS project	16.4
2010–2011	Security	Field security upgrades; Security Emergency Fund; United Nations Security Management System payments	40.2
	Non-recurring investments	Cluster leadership; learning and development programmes; IT modernization initiatives; Strengthening Managerial Control Accountability initiative (SMCA); Risk Management Framework	25.3
2012	Non-recurring investments	COMET; finalization of SMCA; strategic budgeting review; financial risk management for cash and vouchers; training and staff development; Logistics Execution Support System pilot; finalization of IT initiatives	22.2
2013	Non-recurring investments	Change-management package focusing on implementation of the Framework for Action; a fund to provide flexibility in managing staff changes	20.0
2014	Non-recurring investments	Human resources talent management; Business Process Review; procurement process streamlining; support for Fit for Purpose work streams; corporate reporting; operational support	9.2
2015	Non-recurring investments	People strategy implementation; Financial Framework Review; Global Change Team; improved branding and external awareness; partnership resource centre; improved support for decentralized evaluations; and improved integration of WFP's supply chain	9.2

ANNEX II: BOARD DECISIONS ON AND PURPOSES OF PSA EQUALIZATION ACCOUNT ALLOCATIONS

Year	Source	Board decision	Purpose
2002–2003	WFP Biennial Management Plan (2004–2005) WFP/EB.3/2003/13	Decision g) approved, on an exceptional basis, the reprogramming to the IRA of USD 20 million from the exceptionally high positive balance of the PSA Equalization Account	Supplement low IRA balance
2004–2005	Audited Biennial Accounts (2002–2003) WFP/EB.A/2004/9	Decision d) approved the transfer of USD 20 million from the General Fund and USD 24.1 million from the PSA Equalization Account to the DSC Advance Facility Reserve, to bring the balance of the Reserve to USD 60 million, as approved by the Executive Board in the 2004–2005 Management Plan.	Achieve balance of USD 60 million in the DSC Advance Facility
2006–2007	WFP Biennial Management Plan (2006–2007) WFP/EB.2/2005/14	Decision v) authorized the Executive Director to allot up to USD 20 million from the PSA Equalization account to the Capital Asset Fund to cover non-recurring capital expenditure	Allocation for capital and capacity funds, including the WINGS II project and the Other Capital Asset Fund
2006–2007	WFP Biennial Management Plan (2006–2007) WFP/EB.2/2005/14	Decision vi) authorized the Executive Director to allot up to USD 5.5 million from the PSA Equalization account to cover the completion of the capacity-building initiatives started in the previous Management Plan and due for completion in 2006–2007 for Results Based Management and strengthening financial management	Allocation for capital and capacity funds, including results-based management and strengthening financial management
2006–2007	Update on the WFP Management Plan (2006–2007) WFP/EB.A/2006/16	Decision b) approved the transfer to the IRA of USD 20 million from the positive balance on the PSA equalization account	Allocation to IRA to reduce positive balance of PSA equalization account
2006–2007	Update on the WFP Management Plan (2006–2007) WFP/EB.A/2006/16	Decision c) authorized the Executive Director to allot up to USD 3.7 million from the PSA equalization account balance to cover the implementation of International Public Sector Accounting Standards	Allocation for implementation of IPSAS
2008–2009	Update on the WFP Management Plan (2008–2009) WFP/EB.2/2008/15	Decision iii) approved one-time supplementary PSA appropriation of up to USD 40.8 million funded from the PSA Equalization Account, for the purposes outlined in Section II of the document	One-time allocations for capacity investments, including: WFP Security Fund; IT upgrades and costs; learning and development programme; IPSAS stabilization; Strategic Plan implementation; cluster leadership

ANNEX II: BOARD DECISIONS ON AND PURPOSES OF PSA EQUALIZATION ACCOUNT ALLOCATIONS

Year	Source	Board decision	Purpose
2010–2011	WFP Biennial Management Plan (2010–2011) WFP/EB.2/2009/14	Decision v) approved one-time supplementary PSA appropriation of up to USD 25.9 million funded from the PSA Equalization Account as outlined in Section III	One-off allocation to fund the completion and implementation of non-recurring capital expenditure and capacity-building costs, including: Committee of Sponsoring Organizations of the Treadway Commission (COSO); learning and development programme; IT initiatives; cluster leadership; United Nations internal justice system reform
2010–2011	WFP Biennial Management Plan (2010–2011) WFP/EB.2/2009/14	Decision vi) approved expenditures of up to USD 24.4 million funded from the General Fund for the United Nations Department of Safety and Security	Allocation for WFP's share of UNDSS security expenditures
2010–2011	Second Update on the WFP Management Plan (2010–2011) WFP/EB.A/2010/16	Decision iv) approved the use of the PSA Equalization Account as an alternative source of funding to cover expenditure totalling USD 38.9 million, originally approved for 2010–2011 against the unearmarked portion of the General Fund as outlined in this document.	Allocation for WFP's USD 24.4 million share of UNDSS security expenditures and the Security Emergency Fund
2010–2011	Fourth Update on the WFP Management Plan (2010–2011) WFP/EB.1/2011/15	Decision ii) approved supplementary expenditures of up to USD 10.2 million for field security upgrades, to be funded from the Programme Support and Administrative Equalization Account	Allocation for field security upgrades
2012	WFP Management (2012–2014) WFP/EB.2/2011/15	Decision v) approved a one-time supplementary PSA appropriation of USD 22.2 million as outlined in Section IV	One-time investments in IT, workforce retraining and accountability and financial risk management
2012	WFP Management (2012–2014) WFP/EB.2/2011/15	Decision vi) approved expenditures of up to USD 10.0 million funded from the General Fund for the United Nations Department of Safety and Security and for the WFP Security Emergency Fund	Security-related expenses that cannot be funded through operations

ANNEX II: BOARD DECISIONS ON AND PURPOSES OF PSA EQUALIZATION ACCOUNT ALLOCATIONS

Year	Source	Board decision	Purpose
2013	WFP Management Plan (2013–2015) WFP/EB.2/2012/14	Decision v) approved a supplementary Programme Support and Administrative appropriation of USD 20.0 million, as outlined in Section IV	Supplementary PSA investments for implementing Fit for Purpose work streams and creation of transition fund for staff changes
2013	WFP Management Plan (2013–2015) WFP/EB.2/2012/14	Decision vi) approved expenditure of up to USD 10.0 million funded from the General Fund for the United Nations Department of Safety and Security and for the WFP Security Emergency Fund	Security-related expenses that cannot be funded through operations
2014	WFP Management Plan (2014–2016) WFP/ EB.2/2013/12/Rev.1	Decision iv) approved a supplementary Programme Support and Administrative appropriation of USD 9.2 million, as outlined in Section III	Supplementary PSA appropriation for non-recurring investments including: human resources talent management; Business Process Review; procurement process streamlining; support for Fit for Purpose work streams; corporate reporting; operational support – processes and accountability
2014	WFP Management Plan (2014–2016) WFP/ EB.2/2013/12/Rev.1	Decision v) approved expenditures of up to USD 10.0 million funded from the General Fund for the United Nations Department of Safety and Security and for the WFP Security Emergency Fund	Security-related expenses that cannot be funded through operations
2015	WFP Management Plan (2015–2017) WFP/EB.2/2014/13	Decision iv) approved a supplementary Programme Support and Administrative appropriation of USD 9.2 million for critical corporate initiatives, as outlined in Section IV	Investments in critical corporate initiatives: people strategy; Financial Framework Review (FFR); Global Change Team; branding and external awareness; partnership resource centre; decentralized evaluations; integration of WFP's supply chain.

ACRONYMS USED IN THE DOCUMENT

COMET	country office monitoring and evaluation tool
DSC	direct support costs
IRA	Immediate Response Account
ISC	indirect support costs
IT	information technology
NGO	non-governmental organization
PSA	Programme Support and Administrative (budget)
QCPR	Quadrennial Comprehensive Policy Review
SPR	Standard Project Report
UNDSS	United Nations Department for Safety and Security
WCFF	Working Capital Financing Facility
WINGS	WFP Information Network and Global System