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RESOURCE, FINANCIAL AND BUDGETARY MATTERS

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UPDATE ON THE FINANCIAL FRAMEWORK REVIEW



* In accordance with the Executive Board's decisions on governance, approved at the Annual and Third Regular Sessions, 2000, items for information should not be discussed unless a Board member specifically requests it, well in advance of the meeting, and the Chair accepts the request on the grounds that it is a proper use of the Board's time.

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NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for information

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.

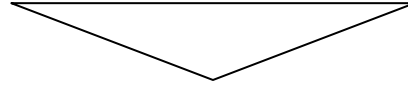
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Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms C. Panlilio, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).



DRAFT DECISION*



The Board takes note of “Update on the Financial Framework Review” (WFP/EB.2/2009/5-B/1).

* 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 its Annual Session of 2009, the Executive Board took note of the three objectives of the financial framework review:¹
 - i) ensuring the **predictability** and **stability** of WFP's funding;
 - ii) achieving a higher level of **flexibility** and **effectiveness** in resource usage; and
 - iii) reinforcing **transparency** in the allocation of resources.
2. Strategic alignment and harmonization with the United Nations system were to be underlying themes of the review. During the Session, a number of Board members also urged focusing early on clarifying issues related to programme categories and funding windows. The review process is in progress and receiving priority attention from the Secretariat.
3. The timeline originally proposed for the review indicated that a paper outlining initial findings and options would be brought to the Board at EB.2/2009. Following discussions with the Executive Board Bureau, it was decided that a paper updating progress on the review would be presented to EB.2/2009 for information, allowing for additional consultations and forming of consensus on several key issues because none of the proposals put forward reached unanimous support. The purpose of the present paper, therefore, is to provide the Board with an update of actions taken and the review process to date, a summary of discussions regarding the key components in the review and an indication of the proposed next steps in the process.

SUMMARY OF ACTIONS AND REVIEW PROCESS

4. The financial framework review was initiated in late 2008 following the approval of the Strategic Plan in June 2008.² Initial efforts focused on identifying major areas of concern, conducting preliminary research and determining the benchmarks of other agencies.
5. In early 2009, informal discussions were held with the Board regional Lists. The annual financial seminar held with the membership on 25 May was devoted to highlighting the issues to be covered by the review and sharing the initial results of a benchmarking exercise with comparable organizations. It became clear during the seminar that for a number of Board members there was a need to prioritize issues surrounding the relationship between funding windows and programme categories. The Secretariat has prioritized this issue and is fully committed to addressing these concerns in order to facilitate contributions to WFP from diverse donor funding structures. In addition, the Secretariat has initiated reforms and procedures to increase the clarity and consistency of the application of programme categories and greater oversight for programmes, as described later in this document. These continue in parallel with the broader structural discussions of the financial framework review.

¹ "Financial Framework Review" (WFP/EB.A/2009/6-C/1 and WFP/EB.A/2009/6-C/1/Corr.1).

² The WFP Strategic Plan (2008–2011) was extended by two years, to 2013, by decision of the Board 2009/EB.A/3.



6. Feedback from the financial seminar was incorporated into a paper presented to the Board for information at EB.A/2009, which outlined potential actions to be taken in the review process overall.
7. The Secretariat and the Board have undertaken a number of reforms and actions designed to enhance transparency, accountability and responsiveness to Board concerns. Some recent developments are summarized below.

Consultations and Events

8. During an informal consultation held on 29 July 2009 discussions were held regarding the relationship between funding windows and programme categories and how best to address issues including donor constraints and priorities. Many of the concerns regarded the distinction between recovery, long-term recovery and developmental programmes; some of the concerns arise for technical funding and accounting reasons. One challenge is that within the humanitarian assistance community there is no agreement regarding the distinction. However, the Secretariat explored whether work carried out in the “grey area” between recovery and development – prevention, stabilization and long-term recovery – could be contained in a new programme category that would allow donors to choose whether to fund those activities. Some members felt that prevention should *not* be included in that new proposed category.
9. An informal consultation on 24 September 2009 included a presentation by the World Bank on increasing predictability and stability in funding and operations through enhanced risk management. A more developed proposal on the programme categories (in particular a new programme category for extended recovery contexts) was also presented and discussed.
10. From June to September, informal discussions were held bilaterally with several Member States exploring their specific needs and priorities regarding funding windows and during which their views on the options presented were discussed.
11. Senior-level meetings were held with the World Bank in September 2009 to discuss possible areas of collaboration in mitigating volatility in WFP’s business model.
12. Work commenced at the country level regarding the implications of adjustments in the financial framework for WFP delivery of programmes and coherence with government and other agencies. The first of several workshops for country directors regarding the issue was held in Johannesburg in October 2009.
13. WFP is discussing with partner agencies the financial issues involved in harmonized delivery of programmes under the “One UN”. Many of the issues in the financial framework review have an impact on WFP’s harmonization with United Nations agencies and other partners at the country level.
14. List meetings with senior WFP management were held prior to EB.A/2009 to solicit members’ views on issues regarding the review, with a view to understanding which issues and proposed solutions may be garnering support.

Actions Affecting and Resulting from the Financial Framework Review

15. After EB.A/2009 the Strategic Resource Allocation Committee (SRAC) was established as a management forum to increase the coherence of, and senior management input into, resource allocation decisions. The Committee was established to ensure a more formal way of making such decisions internally. Although there were several inter-departmental



committees for other issues (the Policy Committee, the Programme Review Committee and the Staffing Committee), there was no similar forum for resource allocation decisions.

16. The initial focus of the Committee has been on structural issues: i) finalization of the Committee's terms of reference; ii) input into the financial framework review; and iii) establishment of an extra-budgetary structure for the Management Plan.
17. The Committee's resource allocation decisions have addressed multilateral funds to ensure they are used more strategically and transparently. The Committee recognized that compiling regular, structured, meaningful information on shortfalls and their potential impact is a prerequisite to a broader role for SRAC and is needed to facilitate more strategic decisions. Once this information system is in place the focus of the SRAC will expand to include providing more guidance, and interacting with directed multilateral donors.
18. WFP's financial controls and management structures were changed significantly, as reported to the Board at EB.A/2009. Greater financial control was achieved by consolidating all inward and outward resources flows under WFP's newly created Resource Management and Accountability Department (the first in the United Nations system). This department is headed by a Deputy Executive Director who reports directly to the Executive Director. The department includes a fully renovated Performance and Accountability Management Division, to ensure that effectiveness and evaluation are taken into account when management makes resource decisions.
19. The Executive Director directed a review of the internal guidelines governing the distinctions between programme categories with a view to achieving more precise and consistent understanding and application of the category guidelines.
20. The Executive Director directed a review of the internal process and procedures for approval of newly proposed programmes and budget revisions with a view to better prioritization and greater consistency in the application of guidelines, along with harmonization between country-, regional- and global-level processes.
21. WFP received a clean and unqualified audit opinion for its 2008 financial accounts, an impressive confirmation of its success in implementing International Public Sector Accounting Standards (IPSAS). WFP was the first United Nations agency to implement IPSAS, in compliance with the United Nations' High-Level Committee on Management decision adopted by all the governing bodies in the United Nations system, including the General Assembly and the WFP Executive Board. WFP's achievement in implementing IPSAS is years ahead of other United Nations organizations.
22. In July 2009 WFP became the first United Nations agency to launch an updated IPSAS-compliant SAP software system, WINGS II, which allows for more accurate and detailed tracking of financial and human resources from Headquarters to sub-offices. The upgraded system was successfully rolled out in July; additional functionalities will be added in the future as WFP continues to evolve.
23. Pursuant to recommendations from various governance and oversight bodies in WFP, and as a result of discussion on issues of internal control, enterprise risk management and accountability within the United Nations system, in mid-2009 WFP established the Committee of the Sponsoring Organizations of the Treadway Commission (COSO)³

³ COSO is an independent professional organization dedicated to guiding executive management and governance entities toward the establishment of more effective, efficient and ethical business operations on a global basis. It sponsors and disseminates frameworks and guidance based on in-depth research, analysis and best practices.



implementation project within the Resource Management and Accountability Department. The objectives of the COSO project include the establishment, implementation, roll-out, training and mainstreaming of internal control and enterprise risk management frameworks in order to enhance WFP's accountability structures. The COSO project will provide annual statements on internal control and enterprise risk management to be incorporated into the annual audited financial statements.³

24. WFP increased the number of staff required to submit financial disclosures from 6 to more than 400, ensuring, for example, that everyone with significant procurement authority was included.
25. With guidance from external experts, WFP issued a new investment policy to mitigate risk following the global financial crisis.
26. WFP built up the Programme Support and Administrative (PSA) Equalization Account to stabilize finances and mitigate risk and provide for financial security in a period of market volatility.

UPDATE ON KEY COMPONENTS OF THE REVIEW

27. The work and discussions related to the financial framework review have focused on a few components that are central to WFP's business model.

Programme Categories and Funding Windows

⇒ *Issue*

28. Programme categories provide an operational framework that sets out when, for what purpose and in what context all WFP programmes operate.⁴ In light of the WFP Strategic Plan 2008–2013 and of evolving donor policies, it is important to review the coherence of WFP's programme categories and their interaction with multilateral and directed multilateral funding windows.

⇒ *Discussions and actions to date*

29. The relationship between funding windows and programme categories was discussed during informal consultations in July and September. Members mentioned several areas that need attention:
 - **Programme category definitions and boundaries.** Several members requested additional clarification regarding how programme categories are defined, including the distinction between relief and early recovery, and between stabilization and recovery and development programmes. This is an important issue for donors who are required to distinguish between humanitarian and developmental funding. The Secretariat is conducting such a review, which will enhance this process.
 - **Consistency in application.** Members have pointed to inconsistencies between countries in the application of programme categories between projects and have requested clearer definition of the contexts and timeframes in which various

⁴ All WFP projects are classified into four programme categories: emergency operation (EMOP), protracted relief and recovery operation, development activities including country programmes and special operations.



programme categories are applied. The Secretariat is working on proposals and guidelines in this regard.

- **Transparency of resource allocation and utilization.** Members would like clarification on the process of resource allocation and utilization between and within programme categories, including prioritization criteria and allocation procedures. While the vast majority of funds are directed at particular programmes, this is an issue of particular concern for donors who provide untied, multilateral funding. The SRAC was created in part to effectively address some of these concerns.
30. The Strategic Resource Allocation Committee (SRAC), which has met six times since its creation in June 2009, can also help to provide further transparency, particularly for the small percentage of WFP funding that is multilateral. The SRAC is currently reviewing and further developing prioritization criteria and procedures, and has sought to improve information sharing regarding critical needs and shortfalls.
31. The Secretariat has also proposed the option of a new programme category that would focus on extended recovery contexts. Stabilization Actions For Enhanced Recovery (SAFER) projects would feature:
- contexts where a significant percentage of households are dependent on negative coping strategies, government capacity remains low and there is a high rate of environmental destruction in fragile, poor and highly populated ecosystems;
 - activities clearly linked to the initial shock(s) faced by a population – at least half of the activities would involve some form of conditionality;
 - robust consultative processes and inclusion in Government-led initiatives, the United Nations Development Assistance Framework, the Poverty Reduction Strategy Paper, etc.;
 - opportunities to lay foundations for sustainable safety nets; and
 - multi-year (for example three-year) time span.
32. Reaction from Board membership during the two informal consultations regarding the SAFER proposal was mixed. Some delegations showed interest in seeing the concept developed further, while others expressed a preference for improving the existing programme categories. Additional consultations will be necessary to come to a consensus on which option should be pursued.

Programme Support and Administrative Budget and Resource Stability

⇒ *Issue*

33. As a voluntarily funded agency with less than 5 percent multi-year funding, WFP's income is difficult to predict, making it challenging to plan and manage critical core functions and programmes. Given recent dramatic fluctuations in markets and funding levels, the need for predictable funding of those costs is even more compelling.

⇒ *Discussions and actions to date*

34. The issue of Programme Support and Administrative (PSA) budget stability was raised during the 25 May financial seminar. Preliminary benchmarking data from comparable organizations was presented but not discussed comprehensively. No formal proposals have been made.



35. During the 24 September consultations, the membership was also given a presentation by the World Bank regarding its diagnostic report on WFP's risk environment. Several members expressed their support for identifying ways to improve predictability of funding for WFP, as well as to increase efficiency in expenditures.

Cost Components

⇒ *Issue*

36. WFP's current cost structure was designed on three assumptions: i) most contributions would be in kind, with the cash costs of transporting and distributing in-kind contributions fully recovered; ii) nearly all interventions would be food-based; and iii) tonnage-based recovery rates could be established on a project-by-project basis and they would be sufficient to cover all associated costs through the full-cost recovery principle.
37. There are two main reasons to review this cost structure: i) cash contributions are becoming more common as many donor policies have changed; and ii) WFP has many activities which do not involve food distribution, such as cash and voucher programmes; the current cost structure is difficult to apply to all types of WFP activities and a more complete cost framework needs to be developed.

⇒ *Discussions and actions to date*

38. The issue of cost components and structure was raised during the 25 May financial seminar and during several informal bilateral meetings with members. The Secretariat is engaged in discussions with partners experienced in non-commodity food security programming and used these consultations to develop and propose to the Board frameworks adequate to support such activities.

PROPOSED NEXT STEPS

39. Elements of the financial framework review are central to the effectiveness of WFP. Following discussions on the areas to be focused on for the review, the Secretariat has identified funding windows and programme categories as priorities to address immediately. PSA funding stability and cost components will be addressed in a second phase.
40. A revised timeframe for the financial framework review is therefore proposed as follows:
- i) Additional informal consultations will be held on programme categories and funding windows.
 - ii) An options paper focusing on programme categories and funding windows will be presented to EB.1/2010.
 - iii) A paper for approval with final proposals on programme categories will be submitted to EB.A/2010.
 - iv) Consultations on PSA funding stability and cost components will take place between EB.1/2010 and EB.A/2010 as well as later in 2010. An options paper will be submitted to the Board at EB.2/2010, followed by a decision paper at EB.1/2011.
 - v) Efforts by the Secretariat to increase clarity and consistency in the application of programme categories and greater oversight of how programmes are prioritized will



continue in parallel with the broader structural discussions in the financial framework review.

41. A proposed timeline is included in the Annex.

ANNEX

TIMELINE (as of November 2009)

