



World Food Programme

# Update on the Integrated Road Map, including proposals on full cost recovery

Informal Consultation

27 April 2018

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# Agenda

- 1. Proposed consultation process for CSPs and ICSPs in 2018 and 2019**
- 2. Proposed recommendations for full-cost recovery**
- 3. Update on internal audit of the IRM pilot phase**

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# Proposal for the CSP/ICSP review process

WFP proposes the following two-step process prior to Board approval of CSPs and ICSPs:

- a) **Informal consultation on concept notes** - approximately six months before the EB; and
- b) **Electronic review of CSPs and ICSPs** - 12 weeks before the EB; Member States have 20 days to provide detailed comments (current Board-approved process maintained).

**Propose to apply this process until the end of 2019, after which it could be reviewed along with the permanent delegations of authority at the 2020 first regular session.**

**Proposed  
'Option 5':**



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1. Proposed consultation process for CSPs and ICSPs in 2018 and 2019
- 2. Proposed recommendations for full-cost recovery**
3. Update on internal audit of the IRM pilot phase

# Recap: Application of full-cost recovery in the IRM framework

## **2016 Second Regular Session of the Executive Board** [WFP/EB.2/2016/5-B/1/Rev.1, decision v, ix]

- While approving the IRM in November 2016, the Board also approved:
  - i. Principles to guide the application of full cost recovery in the IRM framework; and
  - ii. Derogations from provisions of General Rule XIII.4 and Financial Regulations 1.1 and 4.5 relating to cost categories and full cost recovery to facilitate IRM implementation.

## **2017 Annual Session of the Executive Board** [WFP/EB.A/2017/5-A/1, decision vii]

- The Board decided that amendments to the General Rules and Financial Regulations relating to full cost recovery would be considered at the 2018 Second Regular Session.

## **2017 Second Regular Session of the Executive Board** [WFP/EB.2/2017/4-A/1/Rev.1, decision iv, v]

- The Board approved interim governance arrangements to guide the application of full-cost recovery from 1 January 2018 for CSPs, ICSPs, T-ICSPs and limited emergency operations.
- Countries operating in the project structure will continue to apply full cost recovery in compliance with General Rule XIII.4.

# Proposed recommendations for full cost recovery

The initial recommendations relate to:

- 1. Twinning**
- 2. Exemptions and waivers of indirect support costs (ISC)**
- 3. Adjusted DSC rates for mandated common services**
- 4. Handling of revenue generated from on-demand service provision**
- 5. Trust Funds**
- 6. ISC Flexibility**

# General Regulation XIII.2: Contributions

*Donors may contribute appropriate commodities, cash and acceptable services in accordance with the general rules made pursuant to these General Regulations. Except as otherwise provided in such general rules in respect of developing countries, countries with economies in transition and other non-traditional donors, or in respect of other exceptional situations, each donor shall provide cash contributions sufficient to cover the full operational and support costs of its contributions.*



# 1. Twinning – *current provisions*

A method utilized to achieve full cost recovery when a developing country, country with an economy in transition or other non-traditional donors provides an in-kind contribution, but not all associated costs. Such contributions are ‘twinned’ with a cash contribution from another donor.

## General Rule XIII.4(f)

*Governments of developing countries, countries with economies in transition, and other non-traditional donors as determined by the Board, may make contributions of commodities or services only, provided that:*

- (i) The full operational and support costs are covered by another donor or donors, by the monetization of part of the contribution and/or by resort to the WFP Fund;*
- (ii) Such contributions are in the interests of the Programme and do not result in any disproportionate administrative or reporting burden to the Programme; and*
- (iii) The Executive Director considers that accepting the contribution is in the interests of the beneficiaries of the Programme.*



### **In-kind contribution Donor A**

Developing countries,  
countries with an  
economy in transition or  
non-traditional donors



### **Cash contribution Donor B**

Other donors

# 1. Twinning – *initial recommendations*

## Recommendation 1

Continue twinning arrangements as provided for in General Rule XIII.4(f).

## Recommendation 2

Adjust General Rule XIII.4(f) to allow for cash as well as in-kind contributions to be eligible for twinning.

## Additional proposal under consideration

Re-invigoration of the **Emerging Donor Matching Fund (EDMF)**:

- WFP is considering to request the Board to approve an allocation of funds from the programme support and administrative (PSA) equalization account to the EDMF to support the continued use of twinning arrangements (as allowed under General Rule XIII.4(f)(i)).
- Proposal to be included in a paper on utilization of the PSA equalization account reserve to be presented to the Board at the 2018 annual session.

# 1. Twinning

## Additional proposal under consideration

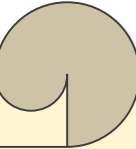
### Possible **expansion** of the **twinning donor definition**

- Policy on South-South and Triangular Cooperation (EBA.2015) outlined need to create incentives for South–South cooperation on food security and nutrition issues in line with WFP’s rules, regulations and financial framework.
  - Mechanisms for WFP to explore include twinning and similar arrangements, linking existing funding mechanisms to innovations in South–South and triangular cooperation, and facilitating bilateral cooperation programmes.
- Proposal to further review a potential expansion of eligibility for twinning -- noting that an expansion of the eligibility would have to be approved by the Board through a policy paper and could require a change to General Regulation XIII.2

## 2. Exemptions and waivers of indirect support costs (ISC)

### *Current provisions*

Exemptions and waivers of indirect support costs (ISC) are currently provided for through two distinct parts of General Rule XIII.4.



#### **General Rule XIII.4(e): ISC exemptions provided for the IRA, PSA or PSA-like contributions for cash only**

*Donors providing cash contributions which are not designated in any way or are designated to the Immediate Response Account (IRA) or to Programme Support and Administrative (PSA) or related activities shall not be required to provide additional cash or services to cover the full operational and support costs related to their contribution, provided that such contributions do not result in any additional reporting burden to the Programme; and*

#### **General Rule XIII.4(g): ISC waivers provided for in-kind direct support cost (DSC)**

*Exceptionally, the Executive Director may reduce or waive indirect support costs in respect of any contribution in kind to cover direct support costs of an activity or activities where the Executive Director determines that such reduction or waiver is in the best interests of the beneficiaries of the Programme, provided that:*

- i. such contributions do not result in any additional administrative or reporting burden on the Programme; and*
- ii. in the case of a waiver, the indirect support costs otherwise applicable have been determined by the Executive Director to be insignificant. provides for reduced or waived ISC for in-kind DSC contributions.*

## 2. Exemptions and waivers of indirect support costs (ISC)

### *Initial recommendations*

#### **General Rule XIII.4(e)**

ISC exemptions provided for the IRA, PSA and PSA-like contributions for cash only

#### **Recommendation 3**

Expand the ISC exemptions for PSA and PSA-related cash contributions provided for in General Rule XIII.4(e) to include relevant in-kind contributions that do not generate indirect support costs.

#### **General Rule XIII.4(g)**

ISC waivers provided for in-kind direct support cost (DSC)

#### **Recommendation 4**

Maintain the ISC waivers provided for in General Rule XIII.4(g) and amend the wording of the general rule to reflect the IRM framework and cost categories, including by adjusting the waivers to cover broader support costs in line with the interim full cost recovery formulation approved by the Board.

# 3. Adjusted DSC rates for mandated common services

## *Current provisions and initial recommendations*

- Mandated common services include the UN Humanitarian Air Service, the logistics and emergency telecommunications clusters as well as the food security cluster.
- These services were formerly provided through special operations with self-contained support costs but are now included as separate activities in the CSP framework.
- Contributions to these services are considered to be for the humanitarian community as a whole.

**Current provision:** At the 2017 second regular session, the Board approved a degree of flexibility in applying adjusted DSC for mandated services.

### Recommendation 5

Maintain the flexibility of adjusted DSC rates for mandated common services and draft the final wording of General Rule XIII.4(a), which will define DSC, so that more than one DSC rate can be applied in a single country in such cases.

# 4. Handling of Revenue Generated from On-Demand Service Provision

- WFP is reviewing the **handling of revenue generated from on-demand service provision** – and the application of full cost recovery in this circumstance, as such revenue is recognized as being distinct from contributions as defined by Financial Regulation I\*.
- **On-demand services** are defined as services provided on request to an organization/group of organizations on a direct cost recovery basis, e.g. transport, sourcing of non-food items, storage, accommodation, engineering services, information technology solutions.

## Recommendation 6

Continue to treat revenue generated from on-demand service provision as distinct from contributions as defined by Financial Regulation I\*.

\* *Contribution shall mean a donation of appropriate commodities, non-food items, acceptable services or cash made in accordance with procedures set out in these Regulations. A contribution may be multilateral, directed multilateral or bilateral.*

# 5. Trust Funds

- Following on the previous recommendation and considering on-demand service provision activities often serve as a basis for creating country level trust funds, the treatment of trust funds at the country level within the IRM framework will change.

## Recommendation 7

Country-level trust funds will be integrated into the IRM framework, although other trust funds are expected to continue. In terms of governance, continuation of the current Delegation of Authority to the Executive Director for approving CSPs and Strategic Outcomes fully funded by Host Governments.



## 6. ISC Flexibility

- Many contributions from Host Governments currently come in the form of Trust Funds, which can have lower support costs.
- Approval of ISC rates is provided by the Executive Board through the Management Plan.

### Recommendation 8

Reduced ISC for host government contributions to own programmes and for contributions made through south-south and triangular cooperation.

- Operational Reserves are established by the Board as facilities for funding and/or financing specific activities under specific circumstances.

### Recommendation 9

Additional ISC exemption for contributions to the Operational Reserve to be allowed under General Rule XIII.4 (e) – [this would directly expand WFP's ability to engage in Internal Project Lending].

- More recommendations may follow

# Agenda

1. Proposed consultation process for CSPs and ICSPs in 2018 and 2019
2. Proposed recommendations for full-cost recovery
- 3. Update on internal audit of the IRM pilot phase**

# Update on the internal audit of the IRM pilot phase

The Internal Audit of the Integrated Road Map Pilot Phase in WFP was conducted between 23 October 2017 and 31 January 2018 and covered three primary lines of enquiry:

1. Are the risks related to the IRM pilot phase adequately managed to ensure achievement of the intended objectives?
2. Is the process for formulating and approving CSPs effective?
3. Does the new financial framework provide for effective and sound management of budgets and costs?

The audit identified four observations with high priority actions (outlined within the following slides) and eight observations with medium priority actions.

Management has agreed to address the reported observations and efforts are already well under way to implement the agreed actions.

# Internal audit of the IRM pilot phase

**“Partially satisfactory with major efforts still needed.**

The assessed governance arrangements, risk management and controls were generally established and functioning. However, major effort and attention continue to be needed to address gaps remaining, and to promptly manage risks identified during the audit, to ensure that the Integrated Road Map delivers on its intended objectives.”

## **2017 pilots considered to have been successful**

- Significant contribution to corporate learning.
- Visibility on overall country office budget for the first time, on cross-cutting themes and interagency activities.
- Guidance adjusted based on lessons learned.
- Resulted in additional tools/processes to reduce risk (e.g. resource migration).

# Summary of high priority observations and actions

Observation	Agreed Actions
<p><b>1. Timeline, scope and assessment of pilots</b></p> <ul style="list-style-type: none"><li>• Initial tight deadline</li><li>• Decision for COs to assimilate the IRM transition within their existing capacities</li><li>• Adjusted timeline not allowing time to comprehensively assess impact of changes</li><li>• Dual PRRO /ICSP structure in complex pilot CO delayed lessons learned</li></ul>	<ul style="list-style-type: none"><li>• Ensure sufficient investments and time are factored into the IRM transition process</li><li>• Continuation of IRM Steering Committee arrangements</li><li>• More comprehensive assessments of the impact of changes over longer timeframes</li></ul>
<p><b>4. Capacities for IRM implementation</b></p> <ul style="list-style-type: none"><li>• Limited resources available for implementation</li><li>• Amended processes not yet standardized at the time of the HRM/IRMO reviews of pilots limiting pilot COs' visibility and understanding of capacity implications</li><li>• Strategic workforce planning tools and guidance being finalized at time of the audit</li><li>• Full flexibility on organisational design and structure may have long-term impact</li></ul>	<ul style="list-style-type: none"><li>• Closely monitor workload levels and capacity requirements of:<ul style="list-style-type: none"><li>➤ COs already in the process of implementation</li><li>➤ COs on the flexible implementation timeline</li></ul></li><li>• Ensure appropriate support and capacities are provided to COs for the IRM transition and implementation</li><li>• Expedite the updating and expansion of strategic workforce planning frameworks, tools, and guidance</li></ul>

# Summary of high priority observations and actions

Observation	Agreed Actions
<p><b>8. Demonstrating ability to deliver on newly-designed activities</b></p> <ul style="list-style-type: none"><li>• Insufficient availability of seed funding, and organizational support, tools and skills, within WFP for new activities to build evidence and ‘proof of concept’</li><li>• Gaps in criteria to guide decisions on unfunded activities</li><li>• Gaps in resource mobilization skills, capacities, tools and systems for development activities</li></ul>	<ul style="list-style-type: none"><li>• Assess availability for seed funding to initiate and implement new activities that have been approved</li><li>• Establish criteria to guide management decisions on unfunded activities within the CSP timeframe</li><li>• Update tools, processes and capacity for engaging in resource mobilisation for development activities within WFP’s mandate</li></ul>
<p><b>9. Controls and flexibility in budget management</b></p> <ul style="list-style-type: none"><li>• Responsibilities for internal controls and oversight related to budgetary management in CO pilots not always clearly defined</li><li>• Lack of clarity on and delays in reports for internal controls and oversight</li><li>• Complexity of actual versus planned costs monitoring report</li><li>• Lack of assessment of flexibility in the current budget structure design</li></ul>	<ul style="list-style-type: none"><li>• Further clarify and strengthen corporate standards for governance, internal controls and oversight of the budgetary management process</li><li>• Strengthen and communicate key reports for internal controls and oversight</li><li>• Review and assess flexibility in the use of funds and clarify how the process and system can be streamlined</li></ul>

# Summary of management response

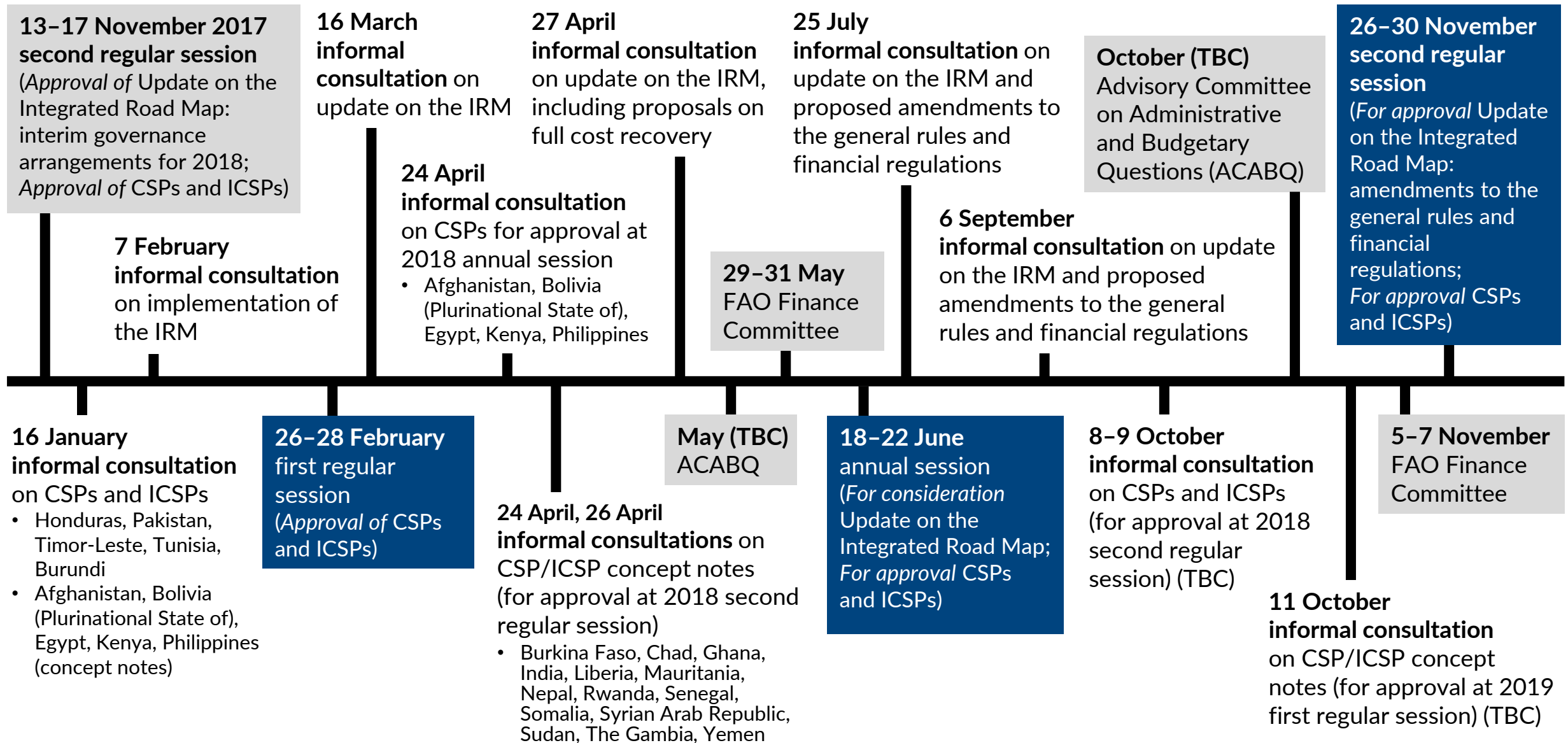
## Support conclusion that major effort continues to be needed during 2018

- Steering Committee to stay in place until at least the first quarter of 2020
- IRM implementation team to stay in place until at least first quarter of 2019, subject to budgetary decision
- Resources allocated for comprehensive organizational alignment exercise

## Specific responses to high priority observations and actions

- **Timeline:** acknowledges that original tight timeframe posed some risks, but recognises positive momentum generated; introduction of flexible timeline substantially reduced risk
- **Cost management and budget planning processes:** action is underway to review processes in consultation with country offices
- **Clarity of internal controls and oversight:** actions underway to strengthen corporate standards for governance, internal controls and oversight, including key reports

# Informal Consultations in 2018





# Discussion

