

ANNEX VI

Update on the budget governance, cost recovery analysis and country office budget analysis workstreams of the bottom up strategic budgeting exercise

Introduction

1. Four workstreams were established to achieve the objectives of the bottom up strategic budgeting exercise (BUSBE). This annex provides details on the progress achieved under three of those workstreams, those on budget governance, cost recovery analysis and country office budget analysis.¹ The results of the fourth workstream, on technical budgeting, are covered in section IV of the management plan.

Budget governance

2. During phase I of the BUSBE, launched in 2020, an initial high-level assessment of WFP's budget governance framework was carried out through an examination of all the forums where corporate-level budget decisions are made. The BUSBE team mapped WFP's budget governance structures for all funding sources and developed a matrix outlining the roles and responsibilities of individuals and various management levels across budgets and sources of funding at WFP.
3. The following are the findings from this exercise:
 - There is a need to strengthen budget governance as a result of WFP's increased size and complexity.
 - There is an obligation for WFP's senior leadership to participate in multiple budget decision making forums.
 - The increased use of subcommittees to conduct preparatory work for the review of budgets and to develop recommendations would facilitate decision making by WFP's senior leadership and enable directors and regional directors to be more fully engaged.
 - Greater representation of country offices and regional bureaux in the budget governance process would strengthen the inclusion of field perspectives in decision making processes.
4. As a result of the high-level assessment, the BUSBE team recommended that a more detailed budget governance review be carried out under phase II of the BUSBE. The leadership group accepted the recommendation and assigned responsibility for the review to the Resource Management Department, which appointed the Corporate Planning and Performance Division (CPP) to carry out the review from January 2021.
5. The primary focus of the review was to consider the following processes:
 - budgeting, i.e., – formulation of the annual corporate budget through the preparation and presentation of a management plan and off-cycle funding requests and the budget review and approval process;
 - the resourcing and management of funding sources; and
 - budget monitoring and the review of results achieved.

¹ A previous update was provided in February 2021. See WFP/EB.1/2021/5-A/1.

6. The phase II review covered the activities of WFP headquarters in Rome, the regional bureaux and the global offices and the allocation of multilateral resources to the implementation of country strategic plans (CSPs). Because country portfolio budgets are well established and functioning, their governance structure and processes were not subject to the budget governance review (while decision making on resource allocation was).
7. In addition, the CPP team analysed budgeting and resource allocation documents and conducted interviews with more than 40 key stakeholders, including the Strategic Resource Allocation Committee (SRAC) members, regional, divisional and country directors and senior officers from other United Nations entities (FAO, UNHCR and UNICEF). Recommendations from recent audits, in particular the Office of the Inspector General's 2019 advisory assignment on WFP's corporate resource allocation² and the report of the External Auditor on critical corporate initiatives for the fiscal year 2020,³ were also considered.
8. A decision memorandum containing the key recommendations from the review was approved by the Executive Director on 29 July 2021.⁴ In particular, the decision memorandum noted the following:
 - The "baseline" budgeting methodology established under the BUSBE, which was used for the review of the budget submissions for the management plan for 2022–2024, will be mainstreamed to ensure that the budgetary implications (including one-time and multi-year costs) of all policy and leadership group decisions are taken into consideration.
 - The budget governance decision making structure will include two new standalone review committees chaired by the Chief of Staff and supported by CPP as its secretariat. The committees will review budgets and make recommendations to the leadership group and the Executive Director based on the strategies and priorities established by the leadership group.
 - One review committee will be dedicated to the budgets of WFP headquarters, regional bureaux and global offices and will include regional and country directors as members; the other committee, with membership comprising headquarters directors, will focus on the allocation of multilateral resources to CSP activities.
 - Decision making on certain financing mechanisms, such as internal project lending, macro advance financing (a subset of internal project lending) and the Capital Budgeting Facility, will be delegated to the Chief Financial Officer and CPP.
9. The new budget governance structure is expected to be in place by early 2022; its implementation will be led by CPP.

Cost recovery analysis

10. During phase I, the BUSBE team explored the use of cost recovery throughout WFP. Methodologies were documented and recommendations were made to inform further analysis by the relevant divisions.

² Advisory Assignment AA/19/01.

³ WFP/EB.A/2021/6-F/1.

⁴ OED 3897 (2021).

11. The purpose, recovery mechanisms and balances of 33 active special accounts⁵ that use the cost recovery mechanism were analysed and the findings were validated by the special account owners. Other cost recovery mechanisms, primarily those relating to transfers between divisions for the provision of services, were also included in the analysis. The analysis also included a review of best practices from other United Nations entities that have established shared services centres and have evolved and matured in terms of the services offered, as was a review of the work of the business innovations group to enable the BUSBE team to benefit from initiatives undertaken across the United Nations.
12. The organization-wide analysis highlighted the increasing use of cost recovery to fund the provision of internal services and concluded that there is a need for WFP to introduce corporate standards to ensure transparency and equality with regard to:
 - standards for estimating direct costs;
 - the tools needed for implementation of a cost recovery approach;
 - financial mechanisms for efficiently tracking and reporting on transfers; and
 - feedback mechanisms for end-user engagement and service improvement.
13. Phase II began in 2021 with the establishment of a cost recovery working group led by the Corporate Finance Division. The group's main objectives were to strengthen corporate guidance on cost recovery within WFP, particularly internal cost recovery, and to identify centralized internal activities that were being funded by indirect support cost (ISC) fees and that could be charged to country portfolio budgets and other funding sources.
14. The working group conducted a comprehensive assessment of existing corporate mechanisms for internal cost recovery. There are three categories of cost recovery mechanism, each of which uses a different cost recovery method:
 - Large internal service provision mechanisms (such as the Global Commodity Management Facility, the United Nations Humanitarian Response Depot, the United Nations Humanitarian Air Service and other supply chain services) are administered via special accounts, provide services externally and internally and pass direct operational and management costs to their customers by charging for the services performed.
 - Headquarters units that provide support to country offices in their areas of technical expertise, such as the Logistics Execution Support System, the Food Safety and Quality Unit and the Information Technology (IT) unit, recover their costs through internally established recovery rates that are in turn determined using the most appropriate cost drivers, such as tonnage handled or head count served.
 - Certain costs, primarily employee-related costs (such as termination funding, after-service employee benefits and the wellness programme), are included as charges in addition to the standard position costs. A portion of field security costs is also included in this category.
15. Although the existing internal cost recovery mechanisms have reached a certain level of maturity, the working group concluded that the current application of cost recovery in WFP is limited and fragmented and would benefit from wider and more consistent implementation with enhanced methodologies and the development of guidance.

⁵ A special account may be established by the Executive Director for a special contribution, or for monies earmarked for specific activities, the balance of which may be brought forward to the succeeding financial period, as indicated by WFP Financial Regulation 1.1.

16. To obtain insights into common practices regarding internal cost attribution in the United Nations system, the working group interviewed staff from five United Nations entities. The key findings were that the other United Nations entities had a higher level of direct cost attribution compared with WFP and that there were significant commonalities in the approaches of the five entities. Specifically, the entities attribute a majority of their centralized transactional activities in finance, human resources, procurement and IT to funds and projects, while key corporate governance, policy-setting and oversight activities are funded through ISC fees.
17. Based on the findings from the assessment of existing WFP cost recovery mechanisms and the interviews with the staff of the other United Nations entities, the cost recovery working group identified several activities that are currently part of business services for operations (pillar B business services) funded by ISC fees and that have strong potential for direct cost attribution. These activities are transactional in nature, are clearly identifiable and measurable, and it is possible to identify one or more cost drivers that enable their costs to be apportioned to relevant funding sources. In other words, these activities can be directly linked to specific operations or spending units and therefore should be charged as direct costs to the budget holder that benefits from them. The activities identified include finance and budget administration, human resources management (including management of entitlements and contracts), beneficiary management, IT and supply chain services (procurement and shipping).
18. Moving forward, the working group will address the following issues:
 - The management plan for 2022–2024 includes a proposal that selected procurement, shipping and beneficiary management services be considered direct costs, starting in January 2022. Appropriate charge-back mechanisms need to be defined and set up by the end of 2021.
 - Other activities identified for direct cost attribution will be thoroughly assessed, and related cost drivers and attribution mechanisms will be determined.
 - The impact of increased direct cost attribution on programme, extra-budgetary and PSA activities will be analysed.
 - A governance structure for, and corporate guidance on, future direct cost attribution will be developed and presented to the leadership group for approval by the end of 2021.

Country office budget analysis

19. WFP has operations in more than 80 countries around the world, with varying levels of staff presence and capacity. Phase I of the BUSBE included an analysis of PSA allocations and a review of various models for reinforcing the function of a standard country office in a manner consistent with WFP's rules and regulations and with a view to achieving a more equitable distribution of PSA funds and an optimum standard country office structure.
20. In the past each country office received a PSA allocation that included funds for a country director position and additional funding for national staff and operating costs. The PSA allocation of USD 103.4 million for country offices in the management plan for 2021–2023 represented 23 percent of the total PSA budget. Of that amount, 55 percent (USD 56.6 million) was in the form of direct allocations, 1 percent (USD 1.5 million) served as a contingency fund exclusively for country offices, and 44 percent (USD 45.3 million) was for centralized services. Centralized services consist of IT, security and wellness costs, which are per capita expenses, and evaluation, which is a small (USD 1.5 million), non-per capita expense.

21. The USD 45.3 million allocation for centralized services presented an opportunity to define a new funding model that would result in more equitable allocations and avoid using PSA funds to pay for costs that are directly attributable to operations. The leadership group therefore approved the BUSBE recommendation to abolish country office centralized costs starting from January 2022.
22. During phase II of the BUSBE, a more equitable model was developed for the allocation of PSA funds to country offices in line with the definition of country office PSA adopted by the Board in 1998. A draft document describing this model was shared with the regional bureaux and more than half of all country directors for comment. The revised country office allocations have been designed to support core functions that are not directly attributable to operations but that provide country offices with strategic capacity and essential support as close to the beneficiaries of WFP programmes as possible. In cases where the country director has responsibility for a single country, a standard PSA allocation will be provided to the country office. In other cases, such as those where a country director manages two or more countries, or in countries where WFP has a smaller presence, the allocation will be adjusted accordingly. The total baseline PSA budget allocated to country offices in 2022 will be USD 43 million, which will be used to finance country director positions, a nationally recruited assistant and a driver for each country director, basic office running costs and a contingency fund. This will be supplemented by an allocation of USD 48 million for CSPs, drawn from flexible multilateral contributions. The use of these funds will be left to the discretion of each country office, as needs will vary among offices. In total, the funds will provide country offices with USD 91 million of predictable funding in 2022.
23. Starting in 2022, costs relating to mandatory United Nations Department of Safety and Security (UNDSS) activities will be included in central appropriations. WFP participates in the United Nations security management system and shares the costs of UNDSS services. UNDSS distributes field-related costs among participating agencies according to an agreed formula based on the number of staff members in countries that are not members of the Organisation for Economic Co-operation and Development.
24. The “wellness” PSA allocation has been used to co-fund decentralized wellness officer positions in the regional bureaux (USD 0.7 million in 2021). These costs have been removed from PSA centralized services for country offices following the Chief of Staff’s decision to include the wellness officer positions in the budgets of the regional bureaux.
25. The Contingency Evaluation Fund (CEF) is a mechanism for supporting country offices that have adequately planned and budgeted for decentralized evaluations but face genuine resource constraints. From 2022 onwards, the CEF will also support country offices that have planned and budgeted for CSP evaluations and small country offices that need financial support to cover data collection costs for impact evaluations but face genuine resource constraints. CEF grants are allocated to country offices that meet specific eligibility and assessment criteria. The evaluation function steering group makes the final decisions on grant allocations based on recommendations issued jointly by the Office of Evaluation and the Programming Services Branch. Over the period 2017–2021 the source of funding for the CEF was the PSA budget, but because the costs relate directly to CSPs the funding source as of 2022 will be multilateral contributions.
26. IT per capita costs will be charged to the funding source for the relevant positions. Most of the IT per capita costs related to non-PSA-funded positions will in the future be funded through the CSPs.

27. The model for country office PSA allocations has been endorsed by the leadership group. The Operations Management Support Unit and the Corporate Planning and Performance Division will work with country offices and relevant headquarter divisions to implement the new approach.