



World Food Programme
Programme Alimentaire Mondial
Programa Mundial de Alimentos
برنامج الأغذية العالمي

Executive Board
Annual session
Rome, 20–24 June 2022

Distribution: General	Agenda item 6
Date: 8 June 2022	WFP/EB.A/2022/6-(A,B,C,D,E,F,G,H,I,J,K)/2
Original: English	Resource, financial and budgetary matters
	For information

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Report of the Advisory Committee on Administrative and Budgetary Questions (ACABQ)

The Executive Director is pleased to submit herewith the report of the Advisory Committee on Administrative and Budgetary Questions pertaining to WFP. The report covers the following agenda item:

- Audited annual accounts, 2021 (WFP/EB.A/2022/6-A/1)
- Report on the utilization of WFP's advance financing mechanisms (1 January–31 December 2021) (WFP/EB.A/2022/6-B/1)
- Classification of private sector donors as non-traditional donors under General Rule XIII.4(c) (WFP/EB.A/2022/6-C/1)
- Update on the WFP management plan (2022–2024) (WFP/EB.A/2022/6-D/1)
- Annual report of the Independent Oversight Advisory Committee (WFP/EB.A/2022/6-E/1)
- Annual report of the Inspector General (WFP/EB.A/2022/6-F/1) and note by the Executive Director (WFP/EB.A/2022/6-F/1/Add.1)
- Management review of significant risk and control issues, 2021 (WFP/EB.A/2022/6-G/1)
- Report of the External Auditor on the management of cooperating partners (WFP/EB.A/2022/6-H/1) and WFP management response to the External Auditor's recommendations (WFP/EB.A/2022/6-H/1/Add.1)
- Report of the External Auditor on oversight by management (WFP/EB.A/2022/6-I/1) and WFP management response to the External Auditor's recommendations (WFP/EB.A/2022/6-I/1/Add.1)
- Report on the implementation of the External Auditor's recommendations (WFP/EB.A/2022/6-J/1)
- Report of the Executive Director on contributions, reductions and waivers of costs under General Rule XIII.4 (f) in 2021 (WFP/EB.A/2022/6-K/1)

COPY OF LETTER RECEIVED FROM THE UNITED NATIONS — NEW YORK

Reference: AC/2210

Advisory Committee on
Administrative and Budgetary Questions

7 June 2022

Dear Mr Beasley,

Please find attached a copy of the report of the Advisory Committee on your submission of the reports in the attached annex.

I should be grateful if you could arrange for the Advisory Committee's report to be placed before the Executive Board at its forthcoming session, as a complete and separate document. I would appreciate it if a copy of the document could be provided to the Advisory Committee at the earliest possible opportunity.

Yours sincerely,

Abdallah Bachar Bong
Chairman

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I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered 14 reports of the World Food Programme (WFP) Secretariat, which will be submitted to the WFP Executive Board annual session to take place in Rome, Italy, commencing on 20 June 2022. Four reports are submitted to the Executive Board for approval, namely: (a) Audited annual accounts, 2021 (WFP/EB.A/2022/6-A/1); (b) Report on the utilization of WFP's advance financing mechanisms (1 January - 1 December 2021) (WFP/EB.A/2022/6-B/1); (c) Classification of private sector donors as non-traditional donors under General Rule XIII.4 (c) (WFP/EB.A/2022/6-C/1); and (d) Update on the WFP management plan (2022–2024) (WFP/EB.A/2022/6-D/1). The Advisory Committee also had before it nine reports submitted to the Executive Board for consideration and one for information (see annex for a full list). During the Committee's consideration of the reports, the WFP Secretariat provided additional information and clarification, concluding with written responses received on 26 May 2022.

II. Documents submitted to the Executive Board for approval

A. Audited Annual Accounts, 2021 (WFP/EB.A/2022/6-A/1) (for approval)

External audit and statement on internal control

2. As indicated in the audit report on the financial statements of the World Food Programme for the year ended 31 December 2021, the External Auditor issued an unqualified opinion on the financial statements, indicating that they present fairly the financial position of WFP as at 31 December 2021 and the results of the operations for the period, in conformity with the International Public Sector Accounting Standards¹.
3. According to the External Auditor, the Executive Director's Statement on Internal Control indicates that WFP operated a satisfactory system of internal control for the year ended 31 December 2021, in line with COSO's 2013 Internal Control - Integrated Framework. The Advisory Committee addresses the Statement on Internal Control in paragraph 52 below.

Financial matters

4. Detailed information on the financial analysis is provided in section I (report of the External Auditor) and section II (Executive Director's statement) of the report (WFP/EB. A/2022/6-A/1). The audit opinion indicates that the financial position of World Food Programme remains strong, with net assets as of 31 December 2021 amounting to \$7.949 billion, reflecting an increase of \$1.107 billion (16.17 per cent) compared to 31 December 2020, when net assets amounted to \$6.842 billion. As further described in the report, the increase in the net assets of WFP over recent years is linked to significant surpluses. The surplus for 2021 amounted to \$886 million, reflecting an increase of \$36 million (4.24 per cent) compared to 2020 when the surplus amounted to \$850 million.
5. The report also indicates that, due to the time lag between the receipt of the funds and their allocation, an increase in contributions would lead to an increase in the surplus of WFP. Specifically, in 2021, the significant contributions received shortly before the end of the year for the operations in Afghanistan and Pakistan comprised 88 per cent of the surplus for that year.
6. Upon enquiry, the Advisory Committee was provided with information on the trends regarding the surplus/deficit and net assets from 2012 to 2021.

¹ The report of the External Auditor states that the Russian Federation's intervention in Ukraine in February 2022 took place subsequent to the closure of the 2021 financial statements and did not result in any adjustment to the amounts recorded in 2021 but is expected to have an impact on WFP operations, and the related operational costs, in 2022.

Table 1: Surplus /deficit and net assets from 2012 to 2021 (rounded)
United States dollars

Years	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue*	4 211	4 536	5 450	4 765	5 909	6 431	7 368	8 272	8 904	9 768
Expenses	4 396	4 515	5 215	4 816	5 368	6 219	6 640	7 613	8 054	8 882
Surplus (Deficit)	(184)	21	236	(51)	541	212	729	658	850	886
Fund balances	3 351	3 400	3 591	3 492	3 997	4 054	4 898	5 438	6 431	7 478
Reserves	273	273	331	278	330	380	407	432	411	472
Net Assets	3 624	3 673	3 923	3 771	4 327	4 434	5 306	5 870	6 842	7 950
* WFP changed its contribution revenue recognition policy in 2016 and restated 2015 comparative period balances. Revenue and surplus in financial periods prior to 2015 are not restated.										

7. **The Advisory Committee notes that WFP recorded a deficit of \$184 million in 2012, and achieved a surplus of \$886 million in 2021, reflecting an increase of \$702 million. The Committee also notes the increase in the net assets of WFP by \$4.326 billion (119.37 per cent), from \$3.624 billion in 2012 to \$7.950 billion in 2021.**
8. Upon enquiry, the Advisory Committee was informed that WFP did not have a structured mechanism in place to control surpluses and/or deficits. The Committee was also informed that in line with WFP's accounting policies, revenue is recognized in full when a contributions agreement is signed while expenses are recognized when food commodities are delivered, or cash-based transfers are distributed over the average period of one-and-a-half years of duration of the contribution grant. Therefore, of the contribution revenue of \$9.608 billion in 2021, a total of \$7.686 billion (80 per cent) pertained to grants with a duration beyond 2021, which would only be actualized in the financial periods for 2022 and thereafter (see also section B below).
9. Upon enquiry, the Advisory Committee was provided with the financial ratio analysis from 2015 to 2021, as follows:

Table 2: Financial ratio analysis from 2015 to 2021

Year	Current ratio (current assets: current liabilities)	Total assets: total liabilities	Cash ratio (cash +STI: current liabilities)	Quick ratio (cash + STI + accounts receivables: current liabilities)
2015	8.6	4.3	3.0	7.3
2016	9.5	4.9	3.4	8.4
2017	9.8	4.9	3.5	8.7
2018	8.7	5.1	3.5	7.6
2019	7.9	4.5	3.0	7.0
2020	7.1	4.4	2.7	6.3
2021	7.9	5.0	2.8	6.9

10. **Despite small variances on financial ratios over the years, the Advisory Committee notes the continuing and consistent strong financial position of the World Food Programme.**

Food distribution and cash-based transfers

11. The report of the External Auditor indicates that while food distribution expenditures increased from \$2.41 billion in 2020 to \$2.83 billion in 2021, the volume of food distributed in 2021 decreased from 4.42 million metric tons in 2020 to 4.35 million metric tons in 2021. It is also indicated that in 2021, cash-based transfers increased to \$2.32 million compared to \$2.12 million in 2020, and that the increase, while moderate, confirmed a long-term trend linked to WFP's decision to develop this form of assistance. Upon enquiry, the Advisory Committee received the table below showing information on cash-based transfers and food commodities distribution from 2009 to 2021.

Table 3: Cash Based Transfer and Food Commodities Distributed, 2009-2021

Years	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Cash Based Transfer (CBT)	15.1	60.3	120.7	191.8	498.1	845.6	679.1	882.3	1 446.1	1 760.5	2 134.0	2 123.7	2 323.7
Food Commodities Distributed (FCD)	2 380.4	2 254.6	2 061.2	2 264.6	2 053.4	1 988.5	1 784.1	2 051.1	2 197.5	2 132.6	2 346.0	2 410.1	2 828.6
Total Expense	4 228.1	4 237.7	4 016.8	4 395.7	4 514.8	5 214.6	4 816.3	5 367.5	6 219.2	6 639.7	7 613.4	8 053.7	8 882.4
Proportion of CBT	0%	1%	3%	4%	11%	16%	14%	16%	23%	27%	28%	26%	26%
Proportion of FCD	56%	53%	51%	52%	45%	38%	37%	38%	35%	32%	31%	30%	32%

Other matters

12. The External Auditor also made observations regarding the efficiency of the financial procedures and controls, including on the following issues (see also WFP/EB.A/2022/6-A/1, executive summary):
- The application of an erroneous indirect support cost rate to several funding agreements shows that analyzing conditions is not always straightforward and clarification should be provided on the decision-making process to be followed before offering a reduced rate to a donor, as well as on the final authority responsible for approving the reduced rate.
 - WFP has made a long-term investment in bonds and equities in order to fund long-term employee benefits. As the long-term benefits are now fully funded from these investments, it is WFP's responsibility to analyze whether the funding arrangement needs to be suspended or whether an additional implementation period is required and to report on the matter to the Executive Board.
13. **The Advisory Committee trusts that the Executive Director will ensure the timely implementation of the recommendations of the External Auditor.**

B. Report on the utilization of WFP's advance financing mechanisms (1 January–31 December 2021) (WFP/EB.A/2022/6-B/1) (for approval)

14. The report on the utilization of WFP's advance financing mechanisms (1 January–31 December 2021) (WFP/EB.A/2022/6-B/1) includes information on advances made to programmes through internal project lending and the Immediate Response Account; corporate services advances; and the procurement of food through the Global Commodity Management Facility. The report also indicates that the Executive Board is requested to approve: i) the maintenance of the Immediate Response Account target at \$200 million for 2022; ii) an increase in the internal project lending ceiling to \$950 million (which reflects a ceiling to reserve leverage ratio of 10:1 against current reserve of \$95.2 million) with the aim of enabling WFP's effective response in case of scale-up; and iii) an increase in the Global Commodity Management Facility ceiling to \$950 million (which is 10 per cent of WFP's 2022 current contribution forecast), with the aim of enhancing WFP's ability to respond quickly to sudden emergencies in the current highly volatile context.

Immediate Response Account: maintenance of the target at \$200 million

15. Regarding the Immediate Response Account, which provides immediate assistance in life-threatening situations in the absence of forecast contributions, the report indicates that WFP's financial regulation 4.3 states that the Executive Board shall establish a target level for the Immediate Response Fund for each financial period. The target level should be maintained by annual replenishment contributions from donors and, when possible, by repayment of advances made for eligible operations or activities. Detailed information on the Immediate Response Account, including information on the 2021 contributions to replenish the Account and the 2021 allocations within the Account is provided in paragraphs 20 to 29 and annexes III and IV of the report on the subject. The Advisory Committee also addresses the Immediate Response Account and the proposal of WFP to replenish the account in paragraphs 42–43 below.

Internal Project Lending Mechanism

16. As indicated in paragraph 3 of the report, internal project lending (IPL) allows programmes to spend funds advanced to them before global forecast contributions to the programmes are confirmed, with the forecast contributions serving as collateral for the advances. Furthermore, the macro-advance financing mechanism is a subset of the aforementioned internal project lending and has a ceiling of \$270 million, which is managed within the internal project lending ceiling. Under the macro-advance financing mechanism, spending authority is provided based on overall funding projections rather than specific forecast contributions serving as collateral.
17. The report indicates that, in response to the high demand for advance financing, the Executive Board approved an increase of the ceiling of the internal project lending mechanism from \$560 million in 2021 to \$760 million for 2022. In 2022, the related operational reserve totaled \$95.2 million, at a ratio of 8:1, serving as a safety net should the forecast contributions not materialize. The Advisory Committee was also informed that an external analysis conducted by a consultancy in 2021 confirmed that, should the need arise, WFP should increase the ceiling in order to maximize its potential by increasing the leverage ratio to 10:1, and that the operational reserve fund is adequate for the requested increase of the ceiling.

Global Commodity Management Facility: increase of ceiling from \$760 million to \$950 million

18. The report indicates that the Global Commodity Management Facility (GCMF) is a strategic financing mechanism through which WFP purchases food before related contributions are confirmed, with the objective of reducing lead times for food deliveries, purchasing food when market conditions are most favorable, and enabling economies of scale and facilitating

local and regional procurement. It is also indicated that, in 2021, approximately 52 per cent of the food purchased from the Facility by country offices for certain emergency operations (L2 and L3 levels) was bought through the aforementioned internal project lending mechanism and the immediate response account, and that the synergy among these strategic financing facilities was successful in supporting WFP's response to the sharp increase in food insecurity in Afghanistan during that year.

19. The report further indicates that, to address the sudden and unforeseen rise in food insecurity in Afghanistan and the situation in the Middle East, and to reinstate the envelope for new emergencies, the Executive Board increased the ceiling of the Global Commodity Management Facility from \$660 million to \$800 million in January 2022, with WFP allocating: (a) \$700 million to active supply lines to ensure a ready-for-transfer inventory; (b) \$20 million to support small-scale farming procurement activities; and (c) \$80 million to any supply line for emergencies. It is also indicated that the proposed increase in the Facility's ceiling to \$950 million would represent 10 per cent of the current contribution forecast for 2022, with \$760 million to be allocated to active supply lines and \$190 million to supply lines in response to new emergencies. The Committee was also informed that recent ceiling amounts had evolved as follows: (a) 2017: the ceiling was \$350 million; (b) 2018: \$500 million; (c) 2019: \$560 million; (d) 2020: \$560 million; (e) 2021: \$660 million; and (d) February 2022: \$800 million.
20. Regarding the proposed increases in the ceilings of the IPL and GCMF, the Advisory Committee was informed, upon enquiry, that the key elements considered prior to requesting an increase of the IPL ceiling are the global contribution forecast, trend of contributions available for advances and operational requirements. Any proposed increase to the GCMF ceiling is based on a range of factors including food requirements, funding projections, delivery lead times, and the supply chain strategy. As at February 2022, WFP had forecast global contributions of \$9.5 billion, but this amount is expected to increase as a result of supply chain disruptions, as well as higher food prices and transportation costs caused, inter alia, by the Ukraine situation.
21. Upon enquiry, the Advisory Committee was informed that establishing advance financing mechanisms based on fixed ratios was analyzed and considered prior to the final proposal to the Board. For defining the GCMF ceiling as a percentage, or a fixed ratio, of the annual global forecast, it was indicated that such an approach would require further evaluation in order to determine the feasibility of implementing a systematic approach as the global forecast is considered a moving target throughout the year and therefore continuously updated. For the IPL, as noted above, the current proposal reflects a ceiling to reserve leverage ratio of 10:1, i.e. a proposed ceiling of \$950 million against current reserve of \$95.2 million.
22. **The Advisory Committee notes that the proposed ceilings for the advance financing mechanisms are calculated through the application of a percentage of the global contribution forecast (for the Global Commodity Management Facility) or a ratio to leverage its operational reserve (for the Internal Project Lending mechanism), but that approval of the revised amounts is still sought on an ad hoc basis. The Committee sees merit in further exploring an approach whereby the Executive Board would determine adequate ratios/ percentages for the calculation of the levels of advance finance mechanisms in determining the ceiling for the Global Commodity Management Facility and the Internal Project Lending mechanism. Therefore, the Committee recommends that the Executive Board consider requesting the Executive Director to conduct a further analysis and to report to the Board in the context of the next report.**

C. Classification of private sector donors as non-traditional donors under General Rule XIII.4 (c) (WFP/EB.A/2022/6-C/1) (for approval)

23. The report indicates that the Executive Board is requested to approve a decision according to which private sector donors shall be classified as non-traditional donors for the purposes of application of WFP General Rule XIII.4(c), without recourse to the WFP Fund or through monetization. According to WFP, exceptions to the principle of full cost recovery (Article XIII.2) are applied to “governments of developing countries, countries with economies in transition, and other non-traditional donors as determined by the Board” (General Rule XIII.4). Upon enquiry, the Committee was informed that the criteria for determining donor eligibility under General Rule XIII.4 (c) were established by the Board through its endorsement of the document, “New Partnerships to Meet Rising Needs – Expanding the WFP Donor Base”. These criteria were reaffirmed by the Board in 2018 and limited eligibility to contributions received from least-developed countries, low-income and lower-middle income countries defined by the Organisation for Economic Cooperation’s Development Assistance Committee.
24. In order to maximize the potential of the private sector as a funding source, it is proposed to extend, for private sector donors, eligibility for “twinning” under General Rule XIII.4 (c), which would allow for the full operational and support costs of private sector contributions to be covered through contributions by another donor or donors, with such an arrangement fulfilling the principle of full cost recovery. It is also indicated that, as the private sector is not currently considered a non-traditional donor by the Executive Board, private sector contributions have been excluded from a twinning approach. This is considered to be an impediment to the timely acceptance of contributions, particularly in emergency contexts, and to the engagement in innovative, efficiency-driving joint private sector partnerships.
25. Upon enquiry, the Advisory Committee was informed that WFP has encountered various challenges in recent years as the business sector’s ways of working have evolved to require in-kind and financial contributions coming from two separate, yet legally, affiliated sources. The Committee was also informed that given the current limitations in terms of combination of private sector contributions, WFP has not availed itself of potential opportunities at an early stage and, therefore, it was difficult to quantify the exact opportunity cost. According to WFP, the proposal would enable private sector contributions to be twinned with contributions from either private or public sector donors, and would include public-private partnerships. These have been identified as a potential innovative approach in an effort to expand and deepen WFP’s engagement with the private sector and with key government partners, as also indicated in the private sector partnerships and fundraising (PSPF) strategy, Pillar 1 (Impact). The Committee was informed that, at the same time, not allowing recourse to the WFP Fund or to monetization, as stipulated in the present proposal, would ensure that acceptance of contributions from the private sector would contribute towards diversifying WFP’s resource base.
26. **The Advisory Committee sees merit in the efforts to increase private sector donations but considers that, at this stage, further analysis and clarification is needed before proceeding with the classification of private sector donors as non-traditional donors for the purposes of application of General Rule XIII.4 (c), including on the possible implications of allowing twinning with other donations. If confirmed by the Executive Board that private sector should be exempted from the full cost recovery principle, the Committee is of the view that consideration should be given to adopting a specific classification, with a corresponding applicable regulatory framework, as a means of promoting pertinent treatment and transparency in the receipt of the private sector donations. Pending further review of the current proposal, the Committee recommends that the Board consider granting a temporary ad hoc authority for the Executive Director to allow twinning between private sector donations for a period no**

longer than two years. The Committee trusts that updated information thereon will be presented to the Board in future Updates on the WFP management plan.

D. Update on the WFP management plan (2022–2024) (WFP/EB.A/2022/6-D/1) (for approval)

27. Regarding the update on the WFP management plan (2022–2024), the report indicates that the Executive Board is requested to:

- a) take note of the 2022 approved needs-based plan of \$17.1 billion as of 31 March 2022, representing an increase of \$4.2 billion compared with the projected operational requirements for 2022 in the WFP management plan for 2022–2024; and of the increased contribution forecast for 2022, from the \$8.4 billion reported in the WFP management plan for 2022–2024 to \$9.5 billion;
- b) take note of the \$1.1 billion increase in the contribution forecast for 2022 and the increase in the complexity of operations, and note that the Executive Director is considering releasing additional funding for programme support and administrative costs of up to 2 per cent of the increase in the contribution forecast;
- c) decide that contributions from international financial institutions that are certified by such institutions as being made directly to WFP due to the absence of an internationally recognized or eligible government in the location to which funding is allocated shall be received under General Rule XIII.4(e)(iii), and that the rate for such contributions during the remainder of 2022 shall be 4 per cent and that General Rule XIII.4 (e) shall be revised accordingly;
- d) decide that a 4 per cent indirect support cost rate shall apply retroactively to the funding provided by the Asian Development Bank through the “Sustaining Essential Services Delivery Project (Support for Afghan People)”;
- e) approve the use of \$23.4 million from the programme support and administrative equalization account as follows: i) \$8 million as thematic funding for the Special Account for Wellness Programmes fund for the joint United Nations COVID-19 response covering the Medevac framework, first line of defense and vaccination programme; and ii) \$15.4 million for a critical corporate initiative aimed at aligning planning and reporting tools and platforms with the strategic plan and corporate results framework for 2022–2025; and
- f) approve the use of \$185 million from the unearmarked portion of the General Fund as follows: i) \$100 million to strengthen the Immediate Response Account; ii) \$55 million to establish a changing lives transformation fund; and iii) \$30 million to replenish the Emerging Donor Matching Fund; and
- g) take note of the updates on the bottom-up strategic budgeting exercise.

28. The Advisory Committee addresses certain elements pertaining to the draft decision of the Executive Board under the headings in the paragraphs below.

Needs-based plan and operational requirements

29. The report indicates that for 2022, the WFP management plan (2022–2024) outlined projected operational requirements in the amount of \$13.9 billion to reach 124 million beneficiaries with a provisional implementation plan of \$8.5 billion. It is also indicated that, as at 31 March 2022, the approved needs-based plan stood at \$17.1 billion, representing a 23 per cent increase over the original figure of the management plan (2022–2024), to reach 137 million beneficiaries, primarily due to the operations in Afghanistan and Ukraine. Upon enquiry, the Advisory Committee was informed that, as at 31 March 2022, the projected operational requirements for the year amounted to \$19.8 billion, representing an increase of \$5.9 billion, or 42 per cent, over the original figure in the management plan (2022–2024).

Of that amount, a total of \$4.2 billion, or 72 per cent of the total increase, related to Afghanistan, Ethiopia (Tigray), Somalia, Ukraine, and Yemen.

30. The report indicates that the contribution forecast of \$8.4 billion for 2022 in the management plan (2022–2024) had been determined in July 2021, based on the information available at the time, and that it was consistent with the 2020 funding level but below the updated 2021 forecast of \$8.6 billion. Actual contributions in the amount of \$9.6 billion were received in the fourth quarter of 2021. The report also indicates that, in 2022, the funding gap is expected to reach \$7.6 billion (44 per cent) (*ibid.*, para. 14, table 4). Upon enquiry, the Advisory Committee was provided with a table showing the forecast and actual contributions from 2019 to 2021, as below.

Table 4: Contributions, 2019-2021

	2019	2020	2021
Forecast contributions in approved management plan do (<i>approved in November/ previous year</i>)	6.8	7.5	7.4
Update at 2 nd informal consultation with the Executive Board (<i>September</i>)	7.4	7.7	8.6
Actual contributions (<i>as at March/ following year</i>)	8.1	8.4	9.6

Note: Figures are in United States dollars (billion)

31. The report indicates that funding diversification will continue to be a priority, by reaching out, for example, to the private sector, national governments, and international financial institutions. Upon enquiry, the Advisory Committee was informed that WFP has implemented three areas of innovative financing in 2021, namely: (a) debt swaps; (b) blended finance and co-financing, and (c) newer resource mobilization tools. The Committee was also informed that, for example in 2021, contributions from more than 50 national governments had been received, and that more than half of these agreements had been signed with funding from international financial institutions. Furthermore, private sector contributions from corporations and foundations, as well as from private individuals, have increased from \$100 million in 2019 to \$205 million in 2021, or by 105 per cent, since the implementation of the Private Sector Partnerships and Fundraising Strategy (2020-2025). In addition, WFP has strengthened and diversified its thematic engagement with donor governments and international institutions, focusing on climate adaptation, social protection, school health and nutrition. The Committee was furthermore informed that WFP operations are also receiving funding towards the respective Country Strategic Plans, which are approved by the Executive Board and developed through consultations with the stakeholders, including host governments, the donor community, cooperating partners, and communities in support of the efforts towards achieving zero hunger².
32. Upon enquiry, the Advisory Committee was provided with information on the contributions from various funding sources from 2017 to 2021, as below.

² See also <https://www.wfp.org/publications/wfp-strategic-plan-2022-25>.

Table 5: Funding sources and contributions, 2017–2021

Year	2017		2018		2019		2020		2021	
Category	Value (US\$)	Per cent	Value (US\$)	Per cent	Value (US\$)	Per cent	Value (US\$)	Per cent	Value (US\$)	Per cent
Private donors	84 601 886	1%	83 512 455	1%	100 983 818	1%	160 664 795	2%	493 695 029.16	5%
Public donors	5 739 837 285	95%	6 914 952 133	94%	7 642 893 028	95%	7 808 964 133	93%	8 485 411 414.62	89%
International financial institutions	6 250 000	0.10%	43 700 673	1%	270 000	0.003%	3 353 548	0.04%	273 267 274.00	3%
United Nations	228 741 579	4%	290 067 339	4%	307 086 613	4%	444 717 643	5%	274 280 337.77	3%
Development-oriented budget line		0%		0%		0%		0%		0%
Climate adaptation budget line,		0%		0%		0%	21 156 459	0%	28 952 600.18	0%
Total	6 059 430 750	100.00%	7 332 232 601	100.00%	8 051 233 458	100.00%	8 438 856 579	100.00%	9 555 606 655.77	100.00%

33. The report indicates that WFP intends to introduce a new subcategory of flexible funding, or “softly earmarked” funding, aimed at more donor funding flexibility. Upon enquiry, the Advisory Committee was informed that to align with the earmarking definitions introduced in the 2016 Grand Bargain³, the new category will be incorporated into WFP’s corporate reports and publications on flexible funding commencing with the year 2022. The Committee was also informed that “softly earmarked” funding includes contributions allowing flexibility above the country level while not being fully unearmarked, such as regional and thematic contributions.
34. **The Advisory Committee notes the introduction of a new subcategory of flexible funding and trusts that the WFP will continue to make every effort to engage in more flexible funding mobilization, in order to further increase the percentage of unearmarked contributions. The Committee looks forward to an update thereon in the next report on the Update on the WFP Management Plan.**

Proposal to expand the application of a reduced indirect support cost rate

35. The report indicates that of the recent growth in agreements with national governments, from \$334.1 million in 2020 to \$495.8 million in 2021, a significant portion (45 per cent) is driven by the leveraging of government resources that originate from international financial institutions (IFIs). As such agreements are signed directly with national governments, a 4 per cent indirect support cost rate is applied.
36. According to the report, in certain exceptional circumstances, IFIs may be unable to transfer funds directly to a government, for example, where there is no internationally recognized government or where a government is in arrears or otherwise ineligible to receive funds directly. In some such cases their boards have authorized them to transfer the funds directly to third parties, such as the WFP, but the IFIs continue to consider the fund transferred as being made on behalf of the government (ibid., paras. 23–25). With the proposed decision by the Executive Board on the expansion of the application of the ISC rate, the World Food Programme seeks confirmation that, in such temporary and exceptional circumstances,

³ As indicated on <https://www.wfp.org/publications/wfp-and-grand-bargain>, WFP is a signatory to the Grand Bargain: Agenda for Humanity. See also <https://interagencystandingcommittee.org/grand-bargain>.

funds transferred directly to WFP from a dedicated IFI country envelope fall within the scope of the Executive Board's provision relating to governments' contributions to programmes in their own countries. According to WFP, the need for clarity on exceptional circumstances came to light in 2021, when WFP received contributions directly from IFIs in operations in Afghanistan and Yemen that would have met the criteria for exceptional circumstances. The Advisory Committee notes that the application of the 4 per cent ISC rate in the aforementioned cases has been assessed as not consistent with the Board's exemptions by the External Auditor and that the shortfall resulting from the difference in the applied rates is \$6.1 million (WFP/EB.A/2022/6-A/1, paras, 42 – 45).

37. Upon enquiry as to what would be the role of the Executive Board in the determination of occasions where absence of an internationally recognized or eligible government in the location to which funding is allocated would justify the application of the reduced rate under General Rule XIII.4(e)(iii), the Advisory Committee was informed that confirmation by the IFI would preclude the need for a specific determination on a case-by-case basis by the Executive Board.
38. **The Advisory Committee notes the opinion of the External Auditor that the application of the reduced indirect support cost rate in the above-mentioned cases was inconsistent with the Executive Board's exemptions. The Committee is of the view that, should the Board be of the opinion that contributions from international financial institutions shall be granted reduced rates under specific circumstances, it should consider providing more precise parameters to the Executive Director as to which situations would justify the preferred treatment instead of anchoring exemptions on decisions taken by the international financial institutions, as proposed by WFP.**

New strategic plan and corporate results framework

39. The proposed decision would allocate \$23.4 million of the programme support and administrative equalization account, of which \$8 million would be for financing the joint United Nations Covid-19 response and \$15.4 million would be for the corporate initiative aimed at aligning planning and reporting tools with the new strategic and corporate results framework for 2022 -2025. Further information is provided in paragraphs 40 to 43 of the report and indicates that the implementation would require changes in systems and platforms, as well as new guidance and approaches to accommodate the five new outcomes and related outputs, management results, revised outcome and output indicators and activity categories for closer alignment with the United Nations system. It is also indicated that, due to the shift from a five-year to a four-year strategic plan, WFP is seeking the implementation of the new strategic plan and corporate results framework through all of its country strategic plans by 1 January 2023, with the exception of the 17 Plans for which new versions will be presented for approval at the Executive Board's 2022 second regular session and the 13 Plans with new versions due for presentation at the Board's first regular and annual sessions in 2023.
40. The report also indicates that the related cost would amount to \$15.4 million in the form of a multi-year budget proposal and include changes to, and automation of, existing tools and systems required, as well as key business deliverables with the final phase of the roll-out to occur in 2023. Upon enquiry, the Advisory Committee was provided with a break-down of the total cost, that is composed of \$6,075.8 for staff costs and \$9,278.0 for non-staff costs.
41. **The Advisory Committee trusts that updates on the implementation of the new strategic plan and corporate results framework, including on the actual related expenditures, will be provided in future reports.**

General Fund: proposed partial use of the unearmarked portion for the Immediate Response Account, establishing a new Changing Lives Transformation Fund, and for Emerging Donor Matching Fund replenishment

42. Information on the General Fund, including background information on the related proposal, is provided in paragraphs 44 to 66 of the report. The main income source for the unearmarked portion of the General Fund is interest income which is generated from the accrual of net investment income and exchange rate gains and is not designated to a specific programme category or project. That income is therefore considered the unearmarked portion of the General Fund, with no one-time drawdown having been initiated since 2014. As at 31 December 2021, the unearmarked portion of the General Fund amounted to \$313.3 million, and as at 31 December 2022, is projected to amount to \$336 million. Of the total of the unearmarked portion, WFP proposes to utilize \$185 million, or 55.05 per cent (of the projected amount for 2022), as follows:
- a) \$100 million to replenish the Immediate Response Account: as at 31 March 2022, the balance of the Account amounted to \$65 million which is considered insufficient and would put country offices' ability to respond to emergencies at risk. **The Advisory Committee recalls its expectation that additional information on efforts to solicit new contributions to the Immediate Response Account be provided in future WFP reports (see WFP/EB.1/2022/5-A/2, para. 11).**
 - b) \$55 million to establish a Changing Lives Transformation Fund: the establishment of the Fund is proposed in line with the WFP strategic plan for 2022–2025. The objective of the Fund is the achievement of government ambitions for national transformation, and of Sustainable Development Goals numbers 2 and 17. The Fund would be subject to regular progress reviews aimed at supporting country offices in their work. Upon enquiry, the Advisory Committee was informed that the allocation mechanism would be determined by country context readiness with need for long-term socio-economic programmes and by WFP country offices' ability to manage and implement transformative projects. The governance of the Fund would comprise: i) a Leadership Group/Executive Director; ii) a Budget Committee; and iii) Regional Directors, and a Portfolio Manager, providing key advisory roles.
 - c) \$30 million to replenish the Emerging Donor Matching Fund: the Fund is a corporate funding facility to assist eligible national governments in covering the associated costs of their contributions to WFP. It is proposed to increase the annual allocation ceiling to \$1.5 million (from \$1 million) per recipient country and to maintain the maximum total annual allocation at \$10 million. Established in 2003, the initial funding of \$47.5 million was depleted by 2016, replenished with \$30 million in 2018, and amounted to \$12.3 million, as at 31 December 2021.
43. **The Advisory Committee reiterates its expectation that additional information regarding the balance of the Programme Support and Administrative Equalization Account, the status of indirect support cost revenue, as well as the minimum and maximum levels of the Account, be provided in future WFP reports (see WFP/EB.1/2022/5-A/2, para. 7).**

Bottom-up strategic budgeting exercise

44. Information on the bottom-up strategic budgeting exercise (BUSBE) is provided in paragraphs 67 to 77 of the report. In November 2021, WFP provided a final report on the BUSBE covering activities up to the point of dissolution of the project team and describing the status of the four BUSBE workstreams (budget governance, cost recovery, country office budget analysis, and technical budgeting), with several actions still to be completed and progress updates to be provided throughout 2022. Upon enquiry, the Advisory Committee was informed that, pertaining to the cost recovery workstream, only a small portion of

business services provided by global headquarters functions is directly attributed to the CSPs and other projects that they support, i.e., primarily information technology services, logistics execution support system technical support, food quality and safety and few others. Additional activities have been proposed for attribution to the CSPs starting from 2022, namely, global headquarters costs of procurement, shipping, and beneficiary management, as well as transactional financial services, human resources services, transactional budgetary services, and administrative services. The Committee was also informed that corporate activities, covering governance, strategy and direction setting, executive management, policy, guidance and quality assurance, oversight and justice system could not be attributed to specific CSPs and would be under the indirect costs category, funded by the ISC revenue at the rates established by the Executive Board.

45. The report indicates that the country office budget analysis workstream is considered complete, and that while country office presence continues to be assessed, no decision had been taken regarding the closure of country offices in 2022. Upon enquiry, the Advisory Committee was informed that WFP continuously assesses the most appropriate way to be present in a country and that the new budget methodology, which came into effect on 1 January 2022, provides funding for a basic country office structure, while retaining flexibility for providing an appropriate budget for country offices which have an alternate model of WFP presence.
46. **The Advisory Committee trusts that updated information on the implementation of the BUSBE workstreams will be included in the next report, including regarding the allocation of corporate direct costs of global headquarters functions to the CSPs and other projects, and on the impact of the budget analysis workstream on the assessment of existing models to determine the most appropriate way for WFP to be present at country level.**

III. Documents submitted to the Executive Board for consideration

47. As indicated in the annex to the present report, nine reports are presented to the Advisory Committee for consideration by the Executive Board. The Committee addresses specific reports and selected matters in the paragraphs below.

Backlog on investigations

48. The report of the Inspector General (WFP/EB.A/2022/6-F/1) indicates that the budget of the Office of the Inspector General (OIG) has increased from \$13.3 million in 2020 to \$14.6 million in 2021, primarily to support the continuing increase in allegations received. As indicated in the annual report of the Independent Oversight Advisory Committee (IOAC), the case volume increased from 984 in 2019 to 1,323 in 2021. The OIG has been experiencing an increasing backlog and the average number of months it takes to complete a case increased from 9.6 months in 2020 to 10 months in 2021. Cases that take the longest time to complete are those related to harassment, abuse of authority, discrimination, and sexual exploitation and abuse (WFP/EB.A/2022/6-E/1, paras. 51–53).
49. Upon enquiry, the Advisory Committee was informed that the 2022 investigation resource increase was based on the 2020 number of new cases, but that the number of new cases in 2021 was 26 per cent higher, with the level observed for the first quarter 2022 showing a further increase. The Committee was also informed that taking into consideration the anticipated impact in 2023 of the capacity added throughout 2022, the investigation resources are considered insufficient.
50. The IOAC expressed concern regarding the increasing backlog of investigations and indicated that the workload of the Office of Inspections and Investigations/ Office of the Inspector General could be reduced in order to address the aforementioned backlog of cases. IOAC suggested that the intake could be streamlined whereby management would

determine an acceptable tolerance risk level for allegations of low risk and low financial value. Such allegations would then be submitted to management for action and would not undergo a full investigation. Upon enquiry, the Advisory Committee was informed by the Office of the Inspector General that, while appreciative of the objective of lowering its workload, the OIG notes that the implementation of the recommendation would require a decision of the Executive Board on a change to the mandate of the OIG, as it would go counter to its independence, as currently defined by the Board. The Committee was also informed that this approach would diminish accountability, contribute to a perception of increased impunity, possibly lead to a potential "shadow investigation service", and not be conducive to transparency. The Committee was furthermore informed that the investigation function also oversees the investigative activities of cooperating partners in instances when allegations relate to employees.

51. **The Advisory Committee shares the concern with the increased backlog of investigations. However, it concurs with the Office of Inspector General that all investigations should continue to be overseen by OIGI. The Committee trusts that updates on the efforts of OIGI to address the backlog in the number of allegations will be provided in the next reports. The Committee looks forward to an update thereon in the next report.**

Statement on Internal Control

52. The Independent Oversight Advisory Committee welcomed the changes to the process of preparing the annual Statement on Internal Control. Upon enquiry, the Advisory Committee was informed that the related self-assessment process was introduced in 2011 and redesigned in 2019 for an approach aimed at including management's perspectives on what is working, what is not, and how challenges are being managed. The resulting "Management review of significant risk and control issues" is presented to the Executive Board at its annual session and supplements the statement on internal control by giving stakeholders additional detail on significant risk and control issues covering context, management perspectives, relevant oversight findings and mitigating actions. **The Advisory Committee notes the progress achieved by World Food Programme in presenting the management review of significant risk and control issues complementary document to the Statement on Internal Control.**

Staffing matters

53. Regarding WFP's new People Policy aimed at a diverse and inclusive workplace, it is indicated that WFP finalized a diversity and inclusion framework in 2021. Also, a new WFP gender policy was approved at the first regular session of the Executive Board in 2022, including a commitment to developing and implementing a gender staffing, recruitment and reporting architecture in alignment with the ongoing workforce planning exercises. Upon enquiry, the Advisory Committee was informed that the WFP People Policy reaffirms WFP's commitment to creating an environment of belonging, respect and fairness that is free of any forms of discrimination due to race, ethnicity, gender, sexual orientation, beliefs, disability, age, cultural background or any other dimension of diversity. The Committee was informed that the diversity and inclusion framework aims to bring clarity and focus to what inclusion and diversity means for WFP, focusing on inclusive and respectful workplaces and diverse workforce and gender equity, embedding diversity into talent management practices, setting targets and monitoring progress of level of diversity and progressing WFP towards gender parity especially at the more senior levels.

54. Regarding the Staffing Framework, it is indicated that a major element of was the short-term service contracts (SC) conversion exercise launched in June 2021 and completed as at 31 March 2022, which was a one-time exercise granting full-time contracts to 2,100 eligible long-term SC holders. Upon enquiry, the Advisory Committee was informed that the conversion exercise shifted WFP's short-term/long-term staff ratio from 60 per cent short-term staff in 2021 to 50 per cent as at 31 March 2022, with a corporate-wide key performance indicator of 46 per cent short-term staff envisaged for 2025. The Committee was also informed that the cost of the conversion exercise amounted to approximately \$30 million in 2021/2022 (a recurring annual cost). In addition, the main contribution of the BUSBE to this process (see paras. 44 - 46 above) is bringing visibility on all headquarters and regional bureau employees, and their contract types, during the annual budget process. **The Advisory Committee notes WFP's efforts to review the contractual status of eligible long-term service contract holders and looks forward to updates on short-term/ long-term staff ratios in future reports.**

Management of implementing partners

55. It is indicated that the United Nations Partner Portal (UNPP) continues its rollout, with participation mandatory across WFP operations, and guidelines being made available and specific training provided to all target country offices. Upon enquiry, the Advisory Committee was informed that, as an initial partner in the creation of UNPP, WFP continues to engage with other partner agencies in implementing enhancements and developments, and has a role on all governance boards, while currently co-chairing the UNPP Change Advisory Board. In addition, WFP is working with partner agencies on the development of the UNPP Risk and Capacity Assessment module to allow the sharing of audits, spot-checks and other partner assessments among all participating agencies. The Committee was furthermore informed that the UNPP Risk and Capacity Assessment module functions as an interagency harmonization mechanism which includes the uploading of Harmonized Approach to Cash Transfers (HACT) assessment reports.

ANNEX

Title of report	Report Symbol	Action
Four reports presented to the Advisory Committee for approval of the Executive Board		
Audited annual accounts, 2021	EB.A/2022/6-A/1	For approval
Report on the utilization of WFP's advance financing mechanisms (1 January–31 December 2021)	EB.A/2022/6-B/1	For approval
Classification of private sector donors as non-traditional donors under General Rule XIII.4 (c)	EB.A/2022/6-C/1	For approval
Update on the WFP management plan (2022–2024)	EB.A/2022/6-D/1	For approval
Nine reports presented to the Advisory Committee for consideration of the Executive Board		
Annual report of the Independent Oversight Advisory Committee	EB.A/2022/6-E/1	For consideration
Annual report of the Inspector General	EB.A/2022/6-F/1	For consideration
Note by the Executive Director on the annual report of the Inspector General	EB.A/2022/6-F/1/Add.1	For consideration
Management review of significant risk and control issues, 2021	EB.A/2022/6-G/1	For consideration
Report of the External Auditor on the management of cooperating partners	EB.A/2022/6-H/1	For consideration
WFP management response to the recommendations in the report of the External Auditor on the management of cooperating partners	EB.A/2022/6-H/1/Add.1	For consideration
Report of the External Auditor on oversight by management	EB.A/2022/6-I/1	For consideration
WFP management response to the recommendations in the report of the External Auditor on oversight by management	EB.A/2022/6-I/1/Add.1	For consideration
Report on the implementation of the External Auditor's recommendations	EB.A/2022/6-J/1	For consideration
One report presented to the Advisory Committee for information of the Executive Board		
Report of the Executive Director on contributions, reductions and waivers of costs under General Rule XIII.4 (f) in 2021	EB.A/2022/6-K/1	For information