



November 9, 2010

FINANCIAL FRAMEWORK REVIEW

Second Regular Session of the Executive Board 2010



Draft Decision

Draft Decision



The Board approves the changes to General Rule XIII.4 and Financial Regulation 1.1 as set out in the document Financial Framework Review (WFP/EB.2/2010/5-A/1).



Background

- **Annual Session of the Executive Board (June 2010):**
 - Six Financial Framework Review recommendations* presented
 - Members requested further consultations
- **Informal consultations in July 2010:**
 - Consensus reached on two recommendations:

Recommendation 1: Segregate non-commodity activities within projects and – exceptionally – allow separate funding streams

Recommendation 2: Modify the current direct support cost funding model to a percentage of direct operational costs rather than a rate per metric ton

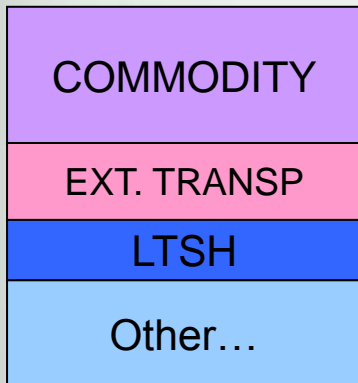
- **Today, Second Annual Session 2010:**
 - Changes proposed to the WFP General Rules and Financial Regulations that will allow WFP to implement the above recommendations

* Financial Framework Review Options (WFP/EB.A/2010/6-E/1)

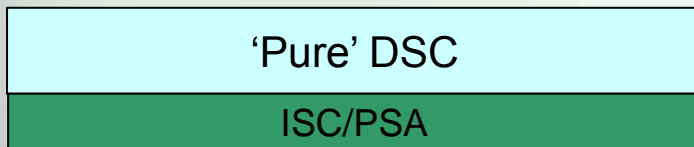
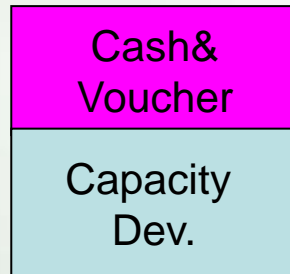


1) Proposed costing model for non-commodity activities

Commodity Activities



Non-Commodity Activities



Currently:

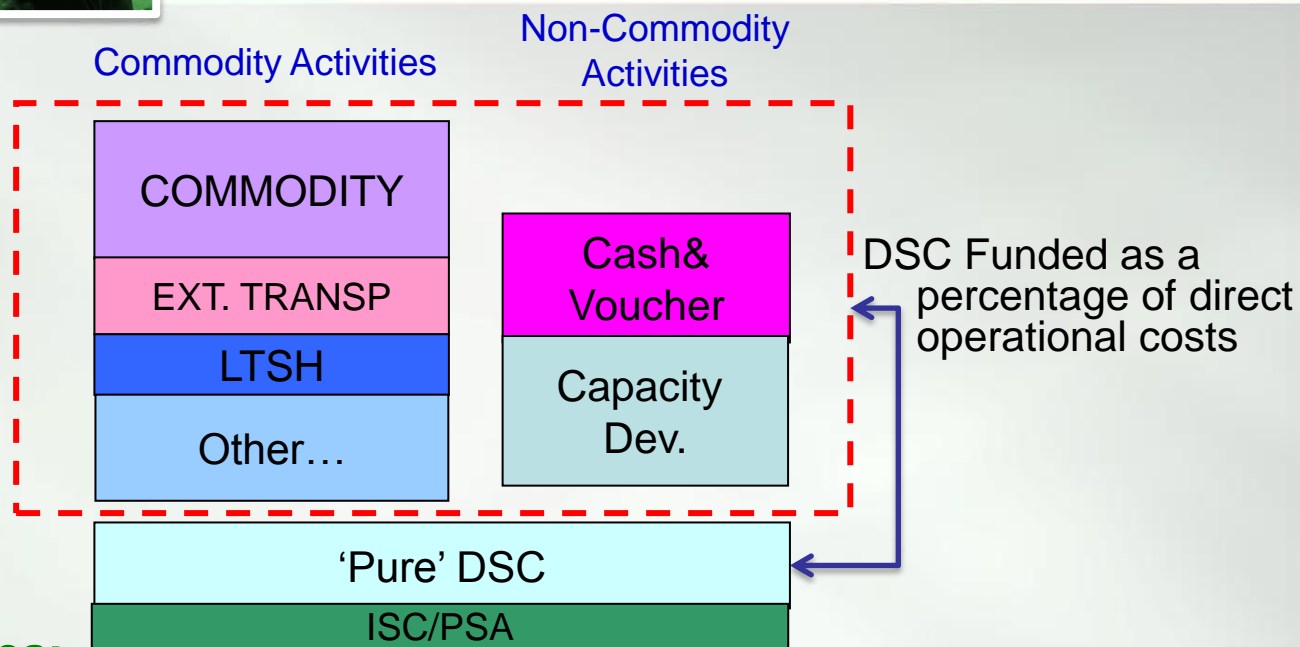
- Cash and vouchers budgeted as commodities
- Capacity building budgeted as 'ODOC' and 'DSC'

Changes:

- Cash and vouchers separately identifiable
- Capacity building separately identifiable
- True commodity costs, ODOC and 'pure' DSC separately identifiable



2) Proposed funding of Direct Support Costs



Impact of changes:

- DSC recovery based on percentage ensures fairer, transparent distribution across all contributions
- There would no longer be an incentive to maximize tonnage purchases in order to increase DSC funding
- The DSC percentage rate will vary by project; the project's percentage rate will be applied to all contributions to that project



Proposed changes to General Rules and Financial Regulations

- **General Rule XIII.4:**
 - Modify General Rule XIII.4(a) to apply more clearly to commodity activities only
 - Insert a sub-paragraph (General Rule XIII.4(b)) to cover contributions not designated for commodity distribution activities
 - Define the calculation of direct support costs, for all contributions, as a percentage of the direct operational costs of the projects (rather than a per metric ton rate)
- **Financial Regulation 1.1**
 - Define operational costs more broadly so that they relate to both commodity and non-commodity project activities

* A Corrigendum has been issued with slight wording changes



FAO Finance Committee

- FAO Finance Committee Recommendation (para. 14 of the report):
- **“Requested, for clarity, the deletion of the word „estimated“ from the phrase „estimated actual cost“ in both General Rule XIII.4 (a) (ii) and General Rule XIII.4 (b) (i); and”**
- The Secretariat supports the above recommendation



THANK YOU

