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Resource, Financial and Budgetary Matters

For approval

Executive Board documents are available on WFP's Website (<http://executiveboard.wfp.org>).

Financial Framework Review

Executive Summary

The Financial Framework Review is one of four elements in the Integrated Road Map, together with the Strategic Plan (2017–2021), the Policy on Country Strategic Plans and the Corporate Results Framework. These interrelated components define the transformative changes required to facilitate and demonstrate WFP's contribution to achieving the goals of the 2030 Agenda, particularly Sustainable Development Goals 2, “End hunger, achieve food security and improved nutrition and promote sustainable agriculture” and 17, “Strengthen the means of implementation and revitalize the global partnership for sustainable development”.

The Integrated Road Map introduces a new corporate architecture that strengthens WFP's core business of emergency response while enabling the organization to operationalize its Strategic Plan more effectively in the field through country portfolios rather than the current project-based approach. It will change the way WFP plans, manages and reports on programmes, with a view to improving operational effectiveness to maximize impact for beneficiaries.

The objective of the Financial Framework Review is to maximize operational effectiveness through realistic financial planning, enhanced accountability, streamlined processes and harmonized financial and results frameworks. The Financial Framework Review involves three work streams: budgeting for operational effectiveness; resource-based planning; and macro-advance financing. As a component of the Integrated Road Map, the Financial Framework Review will deliver a country portfolio budget structure that demonstrates the relevance, performance and impact of WFP's work by creating a “line of sight” linking strategy, planning and budgeting, implementation and resources obtained to results achieved. This document sets out the principles and elements underlying the country portfolio budget structure, the Board's governance and oversight role, and transitional arrangements.

The guiding principles of the country portfolio budget structure include: i) consolidation of all operations and resources into a single structure; ii) summary of the country portfolio budget into four high-level cost categories; iii) inclusion of a country portfolio budget – broken down into the four high-level cost categories and approved by total budget per WFP Strategic Outcome – in all Country Strategic Plans, Interim Country Strategic Plans and limited emergency operations; iv) clear

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links between resources obtained and results achieved; and v) simplified application of full-cost recovery.

The key features of the country portfolio budget structure include: i) use of a calendar year for planning and budgeting; ii) planning and budgeting of emergency responses through the addition or augmentation of a WFP Strategic Outcome in the Country Strategic Plan, Interim Country Strategic Plan or limited emergency operation; iii) more detailed cost elements linked to the United Nations harmonized cost categories; and iv) provision of country-level operational and budgetary information to Member States to complement Country Strategic Plans.

The Secretariat will submit up to 16 Country Strategic Plans with pilot country portfolio budgets to the Board for approval at the 2017 First Regular Session and the Annual Session. Lessons learned during the pilot will inform all aspects of the final design of the country portfolio budget structure, which will be rolled-out to all country offices in 2018. The transitional arrangements for piloting the new programmatic and financial framework in 2017 will require certain derogations from WFP General Rules and Financial Regulations, including granting the Executive Director authority to make necessary revisions during the pilot period, subject to existing delegations of authority with respect to emergency operations. At the 2017 Second Regular Session the Board will consider the amendments to the WFP General Rules and Financial Regulations and the revised budgetary thresholds for delegations of authority.

The document also provides an update on the resource-based planning and macro-advance financing work streams that are geared towards supporting internal resource management and were piloted in 2016.

Draft decision*

Having considered the Financial Framework Review (WFP/EB.2/2016/5-B/1/Rev.1), the Executive Board:

- i) *notes* that the FFR is composed of three work streams: “budgeting for operational effectiveness”; “resource-based planning”; and “macro-advance financing”;
- ii) *notes*, in connection with the “budgeting for operational effectiveness” work stream, that under the Policy on Country Strategic Plans [WFP/EB.2/2016/4-A/1/Rev.1*] (CSP Policy) each Country Strategic Plan, Interim Country Strategic Plan and limited emergency operation shall include a country portfolio budget (CP Budget), to which the approval mechanisms and transition and implementation arrangements set forth in the CSP Policy will apply;
- iii) *notes* that, under the CSP Policy, Country Strategic Plans containing pilot CP Budgets (Pilot CSPs) shall be submitted for Board approval in 2017, and *requests* the Executive Director to ensure that the experience of such Pilot CSPs informs the final design of the CP Budget and CSP structure;
- iv) *notes* that the roll-out across WFP of the CP Budget structure is expected to begin in 2018, following its finalization and the approval of amendments to the General Rules, Financial Regulations and Executive Director delegations of authority at EB.2/2017;
- v) in line with the recommendations set forth in this paper, *approves* the following principles to guide the introduction of pilot CP Budgets in 2017 and the finalization of the CP Budget structure:
 - a. that the CP Budget structure encompass all operations in all contexts, replacing the multiple programme and project budgets and also reflecting the trust fund budgets where possible, that currently exist within a country;
 - b. that the CP Budget be summarized in four high-level cost categories – transfer costs, implementation costs, adjusted direct support costs, and indirect support costs;

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.

- c. that each CSP include a CP Budget, broken down by the four high-level cost categories set forth in point v) b of this decision and approved by total budget per WFP Strategic Outcome;
 - d. that the CP Budget be results-oriented with clear links from WFP Strategic Results to WFP Strategic Outcomes to activities to costs; and
 - e. that the principle of full-cost recovery, which applies to contributions, shall employ the high-level cost categories of transfer and implementation costs, adjusted direct support costs, and indirect support costs; and that the full-cost recovery norms approved by the Executive Board in the General Rules be simplified.
- vi) Consistent with these principles, the Executive Board *further approves* the following elements for inclusion in the CP Budget structure:
- a. that the CP Budget be stated by calendar year;
 - b. that, where a country has a Country Strategic Plan or Interim Country Strategic Plan, the initial response to an emergency be handled by either modifying an existing strategic outcome or by introducing new strategic outcomes in a CP Budget;
 - c. that more detailed cost planning elements be aligned with harmonized United Nations cost categories, where possible; and
 - d. that, as a complement to CSPs, country-level budget and operational information from WFP's annual planning process be made available for information purposes to Member States, as outlined in paragraphs 50–57 of the Financial Framework Review (WFP/EB.2/2016/5-B/1/Rev.1);
- vii) *notes* that the application of the principles set forth above would derogate from, and eventually require amendment of, provisions of the General Rules and Financial Regulations relating to cost categorizations and the manner in which full-cost recovery is achieved;
- viii) *expects* that experience of the Pilot CSPs will assist in identifying the necessary normative amendments to the General Rules and Financial Regulations, and *requests* the Executive Director to present the necessary proposals for approval at EB.2/2017;
- ix) *authorizes*, as a temporary measure, pending the Executive Board's approval of amendments of the WFP General Rules and Financial Regulations at EB.2/2017, derogations from provisions of General Rule XIII.4 and Financial Regulation 1.1 and 4.5 concerning cost categorizations and the manner in which full-cost recovery is achieved, solely where these are necessary to permit application to the 2017 Pilot CSPs of the CP Budget principles that are listed at point v of this decision;
- x) *notes* that adoption of the CSP framework will require revision of the programme category terminology and the budgetary thresholds that are included in the Delegations of Authority to the Executive Director and *looks forward* to the Secretariat's proposal on the revised Delegations of Authority, to be presented to the Executive Board for approval at EB.2/2017;
- xi) *grants*, as a temporary measure for 2017, authority to the Executive Director to make revisions to the Pilot CSPs, subject to existing delegations of authority with respect to emergency operations, with the understanding that any such revisions shall be reported promptly to the Executive Board; and
- xii) *notes* that informal consultations will be scheduled in 2017 to ensure informed and extensive engagement with the Board regarding the finalization of the CP Budget structure and approval of amendments to the General Rules, Financial Regulations and Executive Director delegations of authority at EB.2/2017.

I. Introduction

1. The current financial framework was designed in the 1990s to support food aid delivery through a project-based model. At the country office level, managers must balance the efficient delivery of assistance with fragmented funding directed to multiple projects and requiring fund management at the project and cost component levels. The complexity of this framework leads to lack of coherence among the planning, management, costing and expenditure of operations. Outside WFP, it creates perceptions of lack of transparency in identifying cost drivers and articulating results.
2. The Financial Framework Review (FFR) involves the following work streams:
 - i) *Budgeting for operational effectiveness* aims to reduce internal fragmentation, simplify processes and maximize transparency, flexibility and accountability. It will deliver the Country Portfolio Budget (CP Budget) structure and is aligned with the country strategic planning approach.
 - ii) *Resource-based planning* standardizes implementation plans – previously called resource-based plans – at the country office level to improve planning and performance management.
 - iii) *Macro-advance financing* provides aggregated budget authority for country offices early in the process to reduce the effects of fragmented funding streams, increase the predictability of resources and maximize efficiency and effectiveness.
3. Country offices are at the centre of the FFR, with country directors and staff from 15 country offices engaged in development of the three work streams since 2015.
4. Annex I provides an overview of the approach to three FFR work streams and the intensive engagement with partners that has occurred so far.

II. Context

Internal Context: Case for Change

Strategic shift to food assistance

5. In 2008, WFP made a fundamental shift from food aid to food assistance. However, its financial framework continued to be geared to food aid delivery, primarily in emergencies, and tracking the metric tonnage transported and associated input costs. Operationalization of the Strategic Plan (2017–2021), the Policy on CSPs and the Corporate Results Framework (CRF) requires a revised financial framework that facilitates better delivery of results, increases operational effectiveness and provides value for money in meeting the demands of the 2030 Agenda, stakeholders and beneficiaries.

Fragmented budget authority

6. Budget authority refers to a manager's ability to incur costs for a project. Currently, authority is extended only when contributions are received or internal advances granted against forecasts. Uncertainty in the timing of contributions leads to piecemeal authority, short-term focus on operations and higher transaction costs. Mechanisms such as internal project lending help reduce this fragmentation. However, in 2014 and 2015 only 42 percent of all contributions to WFP qualified for advances.

Inflexible budget structure

7. In country offices, funding is allocated among projects or directed by donor conditions¹ and is programmed into cost components. Funds are managed at the cost component level with the budget envelope of each cost component acting as a budgetary limit or constraint. Managers have limited flexibility to move funding among cost components without a budget revision, and unspent balances and returned funds can affect operational efficiency and effectiveness.

Multiple budget entities

8. Each project in a country is considered a separate budget entity with its own life cycle and budget. Implementation of multiple projects in a country creates fragmented funding streams and complicated programming. Varying project life cycles makes it difficult for managers to achieve a holistic view of strategy or operations in a country for a given period.

Input orientation

9. The current budget structure is based on inputs, and resource allocations are not linked to stated objectives and outcomes. WFP's cost categories are not aligned with data for performance reporting and have little meaning outside WFP.

Cost benchmarking

10. In 2014, the Secretariat launched a cost benchmarking exercise in four country offices² to analyse cost drivers with a view to improving cost management and increasing accountability through transparent articulation and monitoring of country-specific cost structures. However, cost analysis among countries or projects was challenged by the fragmentation of the current financial architecture. For example, project structures – which are amalgamations of activities – vary widely among countries, making it difficult to meaningfully compare project costs. It was also difficult to separate costs within certain existing cost components.

External context

11. The United Nations' 2030 Agenda, ~~the SDGs~~ and the ~~outcomes of the World Humanitarian Summit~~SDGs set the strategic direction for global humanitarian and development assistance for the next 15 years and beyond. WFP must align its strategy and reform its corporate architecture to support the overarching vision of achieving zero hunger.
12. The FFR incorporates recommendations from the Quadrennial Comprehensive Policy Review (QCPR) on harmonizing the business practices of United Nations organizations, particularly by aligning cost classifications with the United Nations' harmonized cost categories where possible, to improve joint planning at the field level.

III. Budgeting for Operational Effectiveness: Reform of WFP's Financial Framework

13. The aim of the budgeting for operational effectiveness work stream is to design a CP Budget structure that supports the country strategic planning approach, the Strategic Plan (2017–2021) and the CRF.³

Inclusivity

14. The current financial architecture supports the project-based approach to delivering assistance and creates multiple budget entities with varying life cycles and separate funding streams within a single country office. This approach leaves managers with a fragmented view of operations and resources within a country, with impacts on the efficiency and effectiveness of planning, budgeting and performance management.

¹ Donors direct funding to particular projects or activities, food types or transfer modalities, areas of implementation or phases of a project, increasing fragmentation.

² Afghanistan, Chad, the Democratic Republic of the Congo and Myanmar.

³ See Annex I for the approach to the budgeting for operational effectiveness work stream and prototype phases.

15. The CP Budget will replace the multiple programme and project budgets, and where possible also reflect trust fund budgets that currently exist within a country. As the single structure for managing the flow of resources in a country office, it will include all the resources, outcomes and activities foreseen in the CSP, the Interim Country Strategic Plan (ICSP) or the limited emergency operation. The CP Budget will provide managers with a holistic view of resources to improve planning, budgeting and performance management. The consolidated nature of the country portfolio budget will improve efficiency and operational effectiveness.
16. The CP Budget will create a single period for planning, implementation and reporting based on the calendar year. A year-by-year budget divided by WFP Strategic Outcome and the four high-level cost categories – transfers, implementation, adjusted direct support costs (DSC) and indirect support costs ISC) – will be provided for the duration of the CSP framework. The CP budget will consist of Strategic Outcomes developed on the basis of needs assessments and/or identified Outcomes based on strategic reviews or similar analysis in collaboration with government counterparts and partners. The CP budget for development-related Strategic Outcomes will be guided by estimated available resources as per General Rule X.8.
17. Notwithstanding paragraph 80, The Board will consider the total budget broken down by WFP Strategic Outcome and the four high-level cost categories and will grant budgetary approval by total budget per WFP Strategic Outcome for the duration of the CSP framework (Figure 1).

Figure 1: Proposed country portfolio budget approval at total budget per WFP Strategic Outcome for the duration of the CSP framework

INDICATIVE COST BREAKDOWN BY STRATEGIC OUTCOME (USD)					
	SR.X/SDG X.X	SR.X/SDG X.X	SR.X/SDG X.X	SR.X/SDG X.X	Total
	Strategic Outcome 1	Strategic Outcome 2	Strategic Outcome 3	Strategic Outcome 4	
Transfers					
Implementation					
Adjusted DSC (%)					
Subtotal					
ISC (7%)					
Total					

18. In countries with a CSP or ICSP, planning and budgeting for unforeseen emergency responses will be implemented under the authority delegated by the General Regulations and Rules to the Executive Director; where required, the Strategic Outcome specific to the emergency response will be approved by the Director-General of the Food and Agriculture Organization of the United Nations (FAO). In some cases, the emergency situation may elicit a significant or drastic change in the context and require WFP to develop a new CSP. To ensure flexible and rapid adaptation of WFP's response to a sudden change in context or to sustain humanitarian assistance, WFP will use an ICSP as a bridge to a new CSP informed by a national zero hunger strategic review.
19. The ICSP will be used during the 2018 transitional period. Beyond 2018, the ICSP will be used when a CSP informed by a strategic review cannot be developed owing to ongoing conflict or instability that undermines governance, including the functioning of national institutions.
20. In countries where WFP does not have an operational presence or a CSP in place, planning and budgeting will be through a limited emergency operation. The CSP, ICSP and limited emergency operation all include a CP Budget.⁴

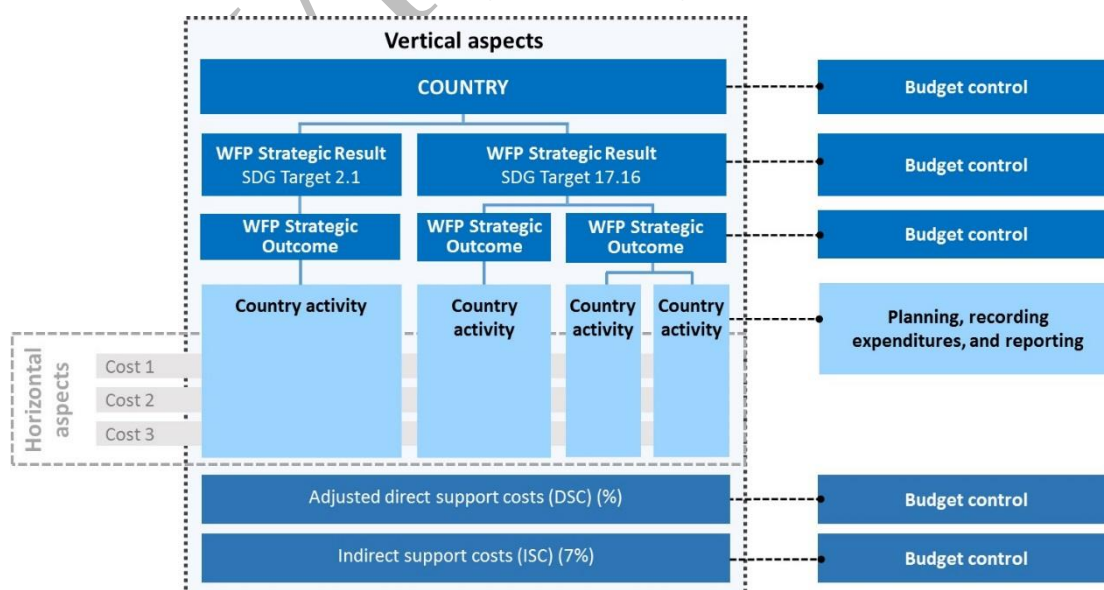
⁴ Rapid needs assessment will continue to be conducted and fundraising appeals developed at the onset of an emergency. Access to mechanisms such as IPL and the Immediate Response Account will be maintained.

21. WFP Strategic Outcomes and activities related to a regional response will be implemented through individual CSPs and CP Budgets of countries involved in the regional response. These Strategic Outcomes/activities will be tagged at the country office level to enable regional- and global-level monitoring and reporting on resources mobilized for the regional response. The regional bureau will coordinate the planning, design and pursuit of these strategic outcomes and other regional initiatives. Limited emergency operations formulated and managed by regional bureaux will be used as and when appropriate.
22. To facilitate reporting, WFP Strategic Outcomes or activities will also be aligned to the humanitarian outcomes laid out in United Nations coordinated humanitarian response plans. This alignment will enable WFP to manage, track and report on contributions that are earmarked for humanitarian response, and can be adjusted as WFP's response in the country evolves.
23. Some activities or outcomes will continue to be funded by trust funds.⁵ Where possible, trust fund activities for which a country office is responsible and accountable will be included in the CP Budget: country-specific trust funds will be allocated directly to the CP Budget, while trust funds managed from Headquarters or the regional bureau will be included in the CP Budget as activities resourced by trust funds. In all cases, expenditures against a trust fund will be grant-specific to eliminate the potential for cross-subsidization, and reporting on trust fund expenditures will be in the local currency, where necessary, and in US dollars.
24. Service delivery, i.e. planned common/shared services, will also be included in the CP Budget and linked, through the results chain, from corporate activity to WFP Strategic Outcome to the Strategic Result related to SDG 17. The common services received by a country office will be clearly distinguished in the CP Budget. When a country office provides common services to another country office, it will not link them to an SDG or include them in the CSP because the related costs will be considered in the budget of the country office receiving the services.

Results-oriented approach

25. The current input-oriented cost components and fragmented budget structure make it difficult to communicate the results or impacts of WFP's assistance and to demonstrate value for money.
26. The CP Budget structure mirrors the results-oriented focus of the CSP, transparently linking resources to results through the "line of sight" from WFP Strategic Results to WFP Strategic Outcomes to activities to costs (Figure 2). This will facilitate performance management and financial reporting by WFP Strategic Outcome, enabling the Secretariat to communicate the impact of WFP assistance.

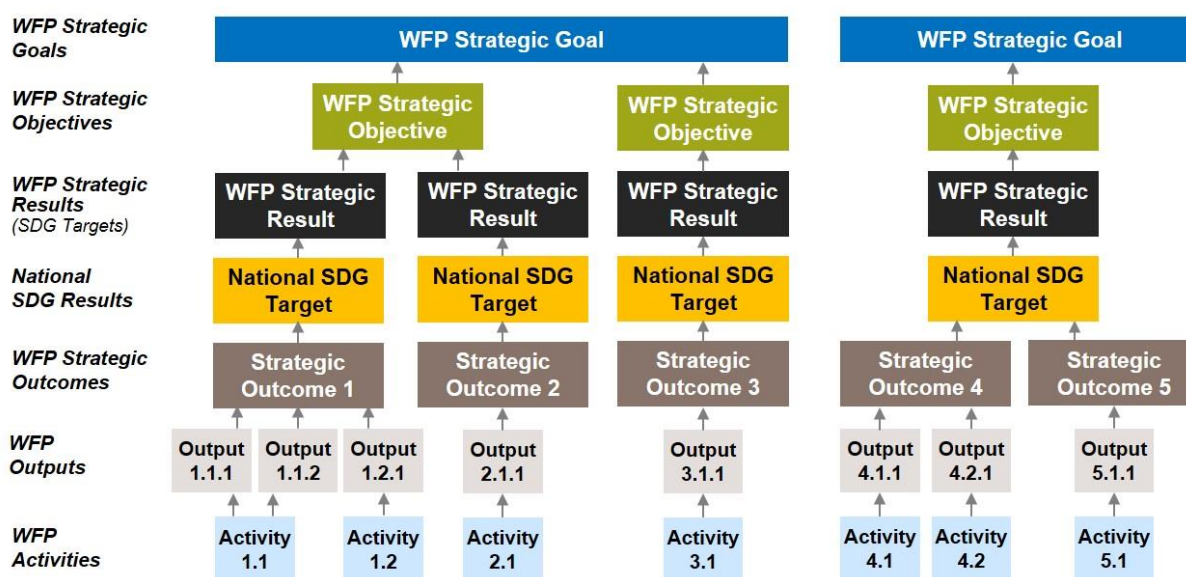
Figure 2. CP Budget Structure



⁵ The programme framework and rationale for these activities will be included in the CSP.

27. The WFP results chain (Figure 3) is the core of WFP's results-oriented management approach at the country level.

Figure 3: WFP results chain



28. Country offices will formulate their own strategic outcomes, outputs and activities in line with the standardized corporate categories set out in the CRF and in accordance with the United Nations harmonized terminology for results-based management adopted by the United Nations Office for the Coordination of Humanitarian Affairs and the United Nations Development Group. While this system gives country offices the flexibility to select appropriate outcomes, outputs and activities for the country context, the use of standardized categories will enable aggregation of results from all countries for corporate reporting and performance management.⁶
29. WFP Strategic Outcomes describe the short- to medium-term effects that contribute to the achievement of national SDG targets and WFP Strategic Results.⁷ They describe the people and entities, the geographic scope, the result that is sought and the foreseen timeframe of the programme intervention.
30. Under the CP Budget structure each WFP Strategic Outcome is tied to a single WFP Strategic Result or SDG target, and a single Strategic Objective. To ensure a clear "line of sight" there should be relatively few strategic outcomes; in cases of ambiguity a strategic outcome may need to be reformulated or divided into two result statements to show the links between cause and effect.
31. The activities planned by the country office will form the basis for recording expenditures. The prominence and visibility of activities in the CP Budget structure will enable managers to identify and compare cost drivers in similar activities in all country portfolios and will inform management and programme decisions. Country activities will be linked with corporate activity categories to enable better comparison of activities and cost benchmarking among country offices and activity types.
32. To facilitate integration with the CRF and corporate reporting, each country-defined strategic outcome will be linked to a single corporate outcome category, and each country-defined output will be linked to a single corporate output category.

⁶ Standardized categories can be found in WFP/EB.2/2016/4-B/1/Rev.1.

⁷ WFP/EB.2/2016/4-C/1-/Rev.1*.

33. The primary vehicle for the Board's approval will be the CSP. The CP Budget accompanying the CSP will be the total budget broken down by the four high-level cost categories and approved by total budget per WFP Strategic Outcome for the duration of the CSP framework. The budget approval will therefore create a budget envelope for each WFP Strategic Outcome. This will reinforce the results-oriented approach to budgeting and represents a fundamental change from the current budget envelopes at the cost component level, which restrict managers' flexibility.
34. The Secretariat is reviewing the information required for management to deliver reliable metrics for demonstrating value for money to Member States and donors. In WFP, value for money is defined as "getting the best results for our beneficiaries by wisely using our resources". The CP Budget and CRF are critical tools in enabling WFP to create a "line of sight" that links results to the resources utilized for better performance management and measurement of efficiency and effectiveness. CSPs, the CRF and CP Budgets will be designed to enable the Secretariat to monitor value-for-money metrics at the global level. With costing performed at the activity level and links to standardized corporate categories for comparison purposes, the Secretariat will be better able to identify cost drivers.
35. The Secretariat is optimistic that the CP Budget structure with its increased transparency and "line of sight" between resources and results at all levels of the budget hierarchy will increase the focus on performance, both internally and with donors, and will lead to more multilateral contributions and encourage partners to contribute at higher levels of the budget structure or by thematic area. In addition, the multi-year nature of CSPs, with outcome information on planned results, could provide a basis for donors to provide resources over multi-year periods.

Creation of a new cost structure

36. The current cost structure, which is unique to WFP, was designed primarily to support the food aid delivery model. Budget ownership is split by cost category, resulting in fragmented management of the overall budget. Cost categories are input-based and aggregated by modality: food, CBTs and capacity development and augmentation.
37. The new cost structure considers four requirements:
 - i) tracking four types of transfer modality – food, CBT, capacity strengthening and service delivery – as the default;
 - ii) establishing a cost classification system that allows the aggregation of cost information in high-level cost categories that can then be disaggregated;
 - iii) establishing the ability to drill down to detailed costs; and
 - iv) including an ability to aggregate costs in line with harmonized United Nations cost categories and other classifications as required.

High-level cost categories

38. The high-level cost categories in a CP Budget will reflect aggregations of detailed costs. They are clear and transparent, to facilitate communication of operational results and value for beneficiaries to Member States and other actors. Four high-level categories – transfer costs, implementation costs, adjusted DSC and ISC – will replace the ten current cost components.

Transfer

39. This category covers costs that add directly to the transfer value of food and CBT modalities and transfer cost of food assistance, CBTs, capacity strengthening and service delivery activities and are directly related to the specific transfer modality. In the case of food and CBTs, the costs under Transfer relate strictly to the transfer of assistance to beneficiaries. In the case of capacity strengthening and service delivery, they relate to the provision of goods or services to recipients, e.g host governments, United Nations agencies and other partners. All costs under the Transfer category will be tracked by modality.

40. Examples of transfer costs include, but are not limited to, the purchase price of a commodity and related costs such as for transport and storage; the costs of cash or vouchers and related costs such as for setting up the delivery mechanism; distribution costs; partners' costs associated with transfer of resources; and costs directly attributable to capacity strengthening and service delivery activities.

Implementation

41. This category covers costs directly attributable to implementing activities associated with a transfer. These costs do not add direct value to the transfer and are not always modality-specific. Examples include, and are not limited to, WFP staff working on an activity, assessments, monitoring and evaluation related directly to the activity; and WFP field office expenses linked to the activity. They can also include costs of assessments, monitoring and evaluations, and beneficiary management costs – targeting, sensitization, registration – non-food inputs for activity implementation, that are directly linked to an activity but not a specific transfer modality.

Adjusted Direct Support Costs

42. This category covers costs that are managed at the country level and directly support activities related to transfer of assistance and implementation of programmes.⁸ These costs can be allocated to activities using a country-specific percentage of transfer and implementation costs. The percentage will be based on the country's annual transfer and implementation costs as planned in the implementation plan. These costs are relevant to WFP's presence in a country and influenced by the scale of activities in the country. Examples include, but are not limited to, country office management costs, such as for heads of units; rental costs for the country office; assessments and country portfolio evaluations not directly linked to a specific activity; and certain security costs.

Indirect Support Costs

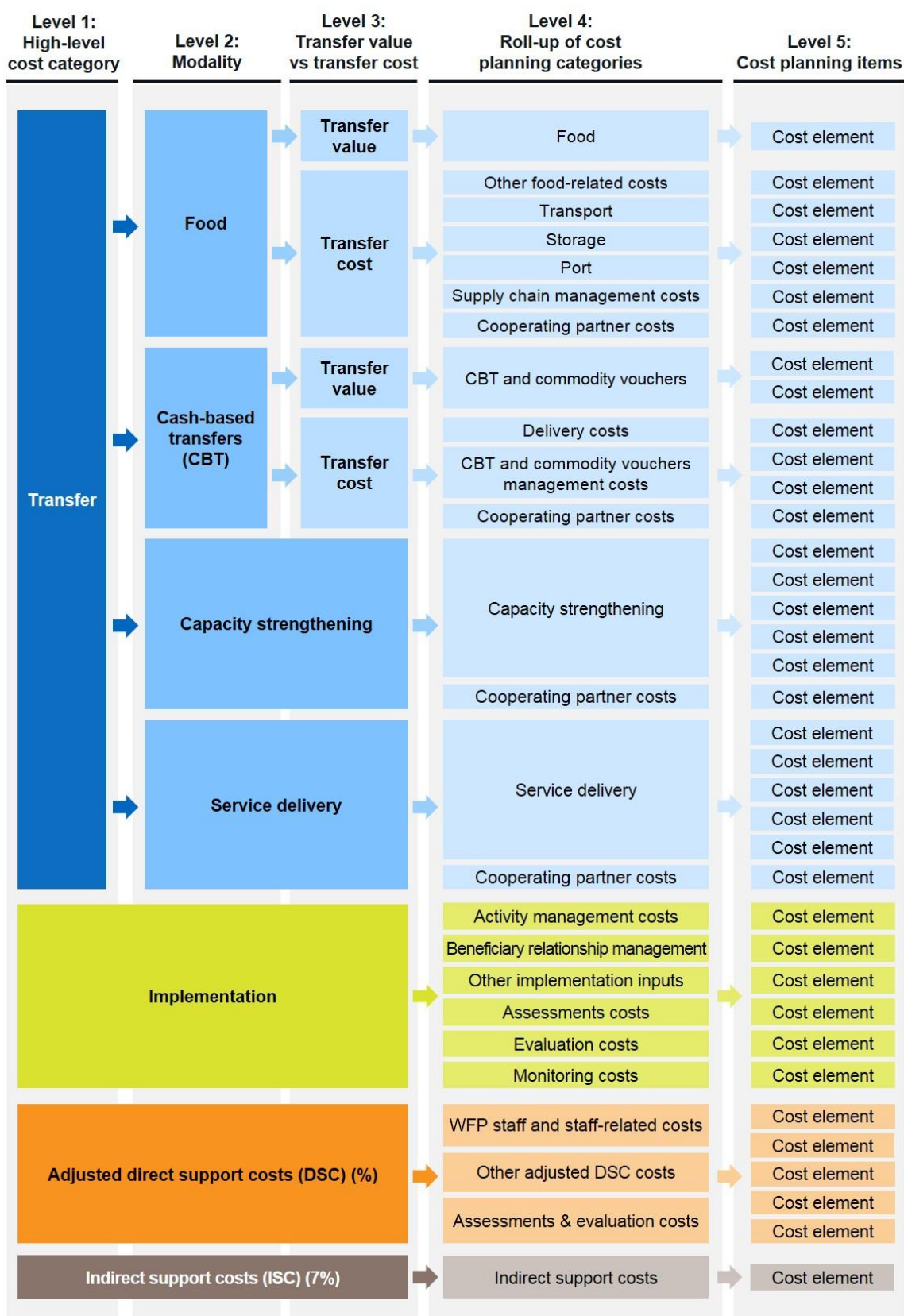
43. ISC includes costs that support the execution of activities but cannot be directly linked with their implementation.

Detailed planning elements and costs

44. Costs will be managed at all levels – the cost classification system will allow WFP to break down high-level cost categories into the lowest cost elements for planning. This detailed cost classification will improve WFP's ability to: i) reflect competitiveness; ii) demonstrate transparency and accountability; and iii) understand how costs are linked to the implementation of activities and/or provision of services, to facilitate reliable costing and cost benchmarking.
45. Managers will use activity-level planning and detailed cost information to analyse cost drivers and critical metrics such as average cost per ration, to help choose the most cost-efficient and operationally effective activity.
46. Figure 4 provides an example of the detailed cost classification hierarchy that will enable managers to drill down from the four high-level cost categories to detailed costs.

⁸ Analysis to date has focused on country-specific costs. Ongoing analysis of support costs will determine the implications of this approach for Programme Support and Administrative costs that are not related to a specific country.

Figure 4: Country portfolio budget cost classification hierarchy



Multi-faceted reporting capability

47. In addition to drilling down to detailed cost items, the cost classification hierarchy will also allow the aggregation of costs by country, strategic result, strategic outcome category, activity category or contribution, for reporting and to inform internal management decisions.

48. ~~In consideration of the World Humanitarian Summit and the High Level Panel Report on Humanitarian Funding,~~ WFP is committed to maximum transparency with regard to its operations, costs and results through simplified and harmonized reporting to the Board, partners, donors and beneficiaries.

Harmonization with United Nations cost categories

49. The new cost structure will enable managers to view detailed cost items according to the harmonized United Nations cost categories, where possible. This is line with the QCPR recommendation for harmonizing business practices and will facilitate joint planning, reporting and clearer comparison with other organizations.

Annual planning process

50. Country operation management plans (COMPs) will support the implementation of CSPs as part of WFP's internal management process. The COMP forms the basis of the annual planning cycle and will consist of a country's programme of work, including budgets for needs-based and resource-based implementation plans.
51. Operational and budgetary information from the COMPs, including activity-level details, will be made available to Member States via an online portal. Specific information will be provided on an annual basis for the full duration of the CSP. This will include:
- modality of transfers by Strategic Outcomes and Activity;
 - an overview of beneficiaries, broken down by age group, and by status;
 - beneficiaries by Strategic Outcome and Activity, disaggregated by gender;
 - food rations or transfers by activity for each Strategic Outcome and Activity;
 - breakdown of transfers by modality; and
 - quantitative information will be available by dollar value by Strategic Outcome and activity and by tonnage, where applicable.
52. In addition to receiving WFP-created reports in an annual cycle, Member States can use the portal to access and create reports at any time and for any period. The online portal will also link resources to results which will consist of Strategic Outcome budgets broken down by activity with respective planned results (output/outcome targets).
53. This information will be applied to all CSPs in 2017. In mid-2017, the Secretariat, in consultation with the Board, will assess the information that should be retained within the CSP framework; the balance of information that could be made available at the time of the CSP approval; and/or information that could be moved to the COMP process.
54. The online portal will be periodically updated with expenditure information and the outputs delivered, together with a description of the activities prioritized according to the available funding.
55. This holistic view of operations, together with formal Board processes of CSP and Management Plan approval, as well as its annual review of the Annual Performance Report, Standard Country Reports and post-factum reports on the use of delegations of authority will facilitate the Board's fulfilment of its oversight role. It will also contribute to the information required by Member States for fundraising purposes.
56. The Secretariat expects that the online portal will be functional by the second quarter of 2018. Until then, information from the COMP will be shared through an alternative mechanism for all CSP pilots in 2017 and all CSPs and ICSPs in the first quarter of 2018.
57. In consultation with donors, the Secretariat is also reviewing reporting requirements with a view to increasing transparency and standardizing reporting elements. Corporate reports on the allocation of multilateral funding will continue, as will contribution-specific expenditure tracking.

Alignment to funding lines

58. Donor policies and systems in many cases enable funding from discrete humanitarian and development funding lines. This distinction allows donors to commit development funds to provide the predictability and stability needed for longer-term investments, whilst at the same time protecting the ability to release humanitarian funds quickly in response to emergencies. These two streams often come with different procedures and accountabilities, sometimes from different departments or agencies. WFP's current programme category structure – made up of emergency operations, protracted relief and recovery operations, development projects, and special operations – align to some, but not all, of the discrete humanitarian and development funding lines of partners.
59. The Secretariat appreciates the commitments ~~made at the World Humanitarian Summit~~ to overcome the humanitarian/development divide by enabling coherent financing that avoids fragmentation by supporting collective outcomes and the pledges to increase multi-year funding in humanitarian contexts. Indeed, a number of donor partners have come forward with multi-year funding for WFP operations which are more humanitarian in nature.
60. The new corporate architecture must support partners' ability to commit funds as well as provide assurances that funding is deployed appropriately to different contexts, in accordance with their legislative or policy requirements. To ensure closer alignment of the corporate architecture to the funding lines, WFP will expand on various approaches in the pilot CSP countries in 2017.
61. The first step is to provide visibility on the nature of the intervention in the formulation of WFP Strategic Outcomes. Corporate guidance on the formulation of WFP Strategic Outcomes is being developed to ensure they are drafted with standard, coherent elements. The country-driven WFP Strategic Outcomes are tied to one Strategic Results and one focus area – crisis response, resilience building or root causes. They will describe the people and entities, the geographic scope, the result that is sought and the foreseen timeframe of the programme intervention. Piloting in 2017 will ensure that this level of information provided in the CSP framework, CP Budget and COMP is sufficient to facilitate resource mobilization and funding decisions. Figure 5 outlines an example of the formulation of Strategic Outcomes.

Figure 5: Example of a formulation of WFP Strategic Outcomes

1 WHO Target population	2 WHERE Geographic location	3 WHAT	4 WHEN Expected change and strategic focus
Children	In prioritized districts with high poverty and malnutrition rates	Have <u>stunting rates</u> trends in line with the national and global targets	By 2025 SR2
Food insecure communities and individuals, and institutions	In areas with high vulnerability to climate change	Have <u>adapted to</u> climate change	By 2021 SR4
Refugees, displaced person and other food insecure people affected by a shock	In Ecuador	Have <u>access to adequate food and nutrition</u>	All year long SR1
Food insecure people including refugees	In the most affected districts	Are enabled to <u>meet basic food and nutrition requirements</u>	During severe seasonal shocks or other disruptions SR1

62. The formulation of Strategic Outcomes, supported by the linkage to activities, will clarify alignment with partners' funding lines to ensure the accurate deployment of funding, in accordance with partners' legislative or policy requirements.
63. The second step is to explore outcome tags or categories to distinguish among Strategic Outcomes. Two potential methodologies – based on the situational contexts identified in the

Strategic Plan and on the focus areas – were examined. The Secretariat identified a preference for the latter, in view of the overlapping situational contexts under the Strategic Plan, which would make the mandatory one-to-one relationship required to ensure alignment with funding lines unfeasible.

64. Mutually exclusive tagging across all Strategic Outcomes would therefore use the focus area categories developed for Strategic Outcome formulation as system tags (crisis response, resilience building, root causes). Strict rules would apply under this method, whereby only one category would apply to each Strategic Outcome:
- i) *Crisis response:* ~~The response occurs in the context of a crisis. The objective is~~ **aims** to provide relief and maintain food security and nutrition. ~~The response could in relation to a crisis, and may~~ also include recovery efforts to restore livelihoods. ~~This outcome category;~~ targets internally displaced persons, refugees, vulnerable host communities, and malnourished and food-insecure populations affected by a shock – conflict, natural disaster, **or** economic crisis.
 - ii) *Resilience building:* ~~WFP responds in the context of building~~ **aims to build** resilience to future ~~crisis. WFP's objective is to~~ **crises and shocks by providing** support ~~the response of to~~ people and institutions ~~to future shocks and~~ **enable** enabling communities and institutions to develop their assets and capacities **and, in some cases, also to** **prepare for, respond to and** recover from crises. ~~This outcome category;~~ typically ~~includes~~ **supports** people, communities and institutions in **areas that are** food-insecure ~~areas, poor areas, hazard-prone areas or areas~~ vulnerable to climate change.
 - iii) *Root* **Response to root causes:** ~~WFP's response~~ occurs in the context of long-standing and/or unaddressed needs and vulnerabilities. ~~It addresses, and aims to address~~ the underlying, root causes of vulnerability, including unavailability of food, poverty, **and** poor access to education and basic social services, etc. ~~The;~~ objective is to ensure and protect the food security and nutrition of the most vulnerable people and communities while strengthening institutional capacity to respond to their needs. ~~This outcome category;~~ typically targets people and communities suffering from chronic food insecurity, persistent poverty and limited access to services.
65. A third step entails enhancing our ability to communicate results. The CP Budget structure will allow WFP to accept funds from different accounts, for different purposes, and to “track and trace” through the completion of activities to the achievement of outcomes.
66. The CSP framework, CP Budget and new CRF will facilitate a new degree of transparency and reporting on WFP’s impact to our partners, donors and beneficiaries. If a partner needs to account for funding, whether directed or “multilateral”, for example in emergencies, WFP will be able to provide that more precisely and transparently than before through the CRF and enhanced donor reporting, including, for example, corporate reports on the use of multilateral funds at the Strategic Outcome level. The decision-making process for allocating multilateral funds will also be updated.
67. There are risks associated with “tagging” and closely aligning our corporate architecture to donor funding lines. The first identified risk is that the new architecture will not be aligned completely to all donor funding streams. The second risk is that fragmentation of funding streams could increase at the country office level. The third risk is the potential for increased earmarking. Finally, the Secretariat recognizes that tags, categories and the formulation of the WFP Strategic Outcomes will be only as good as the guidance provided and that significant capacity development and training will be required across the organization.
68. The Secretariat is committed to testing all aspects of the steps outlined above within the 2017 pilot CSPs and CP Budgets and engaging with donors at each step. Discussions regarding the sufficiency of information for making funding decisions and sharing lessons learned with the Board will help refine the programmatic and financial framework.

Principle of full-cost recovery

69. As WFP is funded entirely by voluntary contributions, the principle of full-cost recovery must be retained when considering reform of the financial architecture. General Regulation XIII.2, which outlines the full-cost recovery principle, ensures that donors provide sufficient cash contributions to cover all operational and support costs related to each contribution.⁹
70. With the principle and General Regulation remaining in force, the Secretariat notes that the current application of full-cost recovery was designed primarily for contributions of in-kind food and cash for food. General Rule XIII.4 defines the application of full-cost recovery to different types of contribution to cover operational costs, DSC and ISC. Full-cost recovery is managed primarily by reserving a proportion of every contribution to cover related costs and is described in detail in General Rule XIII.4; examples include other direct operational costs where an average per ton rate is applied to the food component of the project. It is envisaged that the full-cost recovery principle will be embedded as a high-level policy in the General Rules, rather than the current detailed level.
71. In light of the increasing diversity of WFP's assistance, the proposed CP Budget structure and changes to the cost structure, the Secretariat reviewed the application of full-cost recovery with a view to developing a simplified design that is applicable to all types of contribution, while ensuring that donors provide sufficient cash resources to cover related transfer and implementation costs.
72. Most projects are not 100-percent funded, resulting in frequent revisions of full-cost recovery rates and subjecting projects to budgetary surpluses or deficits. It is therefore proposed that full-cost recovery calculations be based on the annual resource-based implementation plan¹⁰ to reflect the country office's operational reality, including the scale of country operations and related costs. Coupled with more accurate programming, this method is expected to minimize the need to revise full-cost recovery rates.
73. The new methodology for achieving full-cost recovery is predicated on the need to distinguish between the principle of full-cost recovery and the treatment of different types of contribution. Full-cost recovery would continue to be applied at the contribution level, and would be based on the high-level cost categories of transfer and implementation costs, adjusted DSC and ISC. Transfer and implementation costs would be calculated according to the level at which the contribution was committed – the activity, strategic outcome or strategic result level – and the adjusted DSC component would be calculated as a country-wide proportion of the consolidated transfer and implementation costs, which will vary by country. ISC and its current recovery rate of 7 percent would remain unchanged.¹¹

Governance

74. As articulated in General Regulation Article VI.2(c), a fundamental role of the Board is the approval of WFP programmes, projects and activities. Analysis of budgetary approvals over the past five years underscores the Board's central role, approving an average of USD 4 billion a year in budgetary value, or approximately 52 percent of WFP's approved project budgets.
75. Proposed changes to the governance model seek to maintain the Board's role in the approval process while enhancing its strategic oversight and retaining WFP's ability to respond quickly to emergencies. The CSP Policy sets forth the approval process for CSPs and their revisions, noting that the Board will need to review the Executive Director's authorities related to programme approvals and budget revisions.¹²

⁹ Exceptions to full-cost recovery are provided under General Rule XIII.4(g).

¹⁰ Pilots in the resource-based planning work stream tested full-cost recovery based on resource-based implementation plans and found that the more realistic budget enabled more accurate programming and more efficient use of resources. Implementation plans were standardized and mainstreamed for development of the Management Plan (2017–2019).

¹¹ The ISC rate is approved annually by the Executive Board.

¹² Changes to the delegations of authority will be considered within the context of the FFR.

76. Notwithstanding paragraph 80, the Board will approve all new CSPs with an accompanying CP Budget. This is a significant change as CSP frameworks will include elements that are currently not approved by the Board, including emergency and special operations that are protracted, predictable and/or recurring, as well as trust funds where possible. In addition, the results-oriented portfolio approach will inform and strengthen the Board's oversight. This expanded role would result in a *more strategic* and *less fragmented engagement* with the Board, giving it a more global perspective on WFP's work.
77. As prescribed in the CSP Policy, and noting paragraph 80, except for revisions related to emergencies, the approval of revisions will be sought from the Board in the event of a fundamental change to the overall strategic focus of WFP in a country involving an addition and/or deletion of one or more WFP Strategic Outcomes in the CSP.
78. To maintain WFP's ability to respond rapidly, approval of sudden-onset and other unforeseen emergency response assistance¹³ would continue to be delegated to the Executive Director and the Director-General of the Food and Agriculture Organization of the United Nations (FAO), in line with General Regulation 10.6.
79. Notwithstanding paragraph 80, for CSP revisions that do not involve fundamental changes to the strategic focus and that are not related to an emergency response it is necessary to review the levels of delegated authority to ensure that the Board's governance role is cost-effective, risk-based and not overly burdensome. A proposal that considers lessons learned from the pilot CSPs will be refined during 2017 in close engagement with Member States. Informal consultations scheduled for 2017 will include presentations of analyses and data on potential thresholds to ensure that the process is informed. A final proposal for the exact threshold levels for delegations of authority will be presented to the Board for approval at the 2017 Second Regular Session and, if approved, would take effect in 2018. The Secretariat also proposes that approved threshold levels for delegations of authority be reviewed after a set number of years of implementation.
80. As explained in the Policy on Country Strategic Plans, in cases where a CSP or new strategic outcome is entirely funded by the host country, it will be subject to the provisions of Financial Regulations 5.1 and 5.2, which delegate approval of bilateral projects to the Executive Director, unless the host government elects to have the CSP or strategic outcome approved through the regular CSP approval process. During the 2017 pilot phase, further consideration will be given to the interaction between the Board approval processes for CSPs and CSP revisions and the Executive Director's authority to approve bilateral projects under Financial Regulation- 5.

Transitional Arrangements for 2017

81. The first group of CSPs containing pilot CP Budgets is expected to be presented to the Board for approval at the 2017 First Regular Session. A second group will be presented at the 2017 Annual Session. The Secretariat will report back to the Board on the pilots' implementation, along with any recommendations for further refinement of the underlying programme and financial frameworks based on this implementation.¹⁴

¹³ Unforeseen during the development of the CSP.

¹⁴ The piloting of CP Budgets will occur in 2017 only. Accordingly, the pilot country portfolio budget components of CSPs approved by the Board in 2017 will become country portfolio budgets without the need for further Board consideration or approval, unless necessary, once the revised normative and financial framework is introduced in 2018. Thereafter, these CSPs will be governed by the financial and normative framework to be finalized and approved by the Board at EB.2/2017.

82. Application of the new financial framework for the 2017 CP Budgets will cause certain inconsistencies with provisions of WFP's current General Rules and Financial Regulations. Thus, the Board will need to authorize – solely for the pilot CSPs approved during the transitional period from the 2017 First Regular Session to 31 December 2017 – specific derogations from provisions of General Rule XIII.4 and Financial Regulation 1.1 and 4.5 concerning cost categorizations and the manner in which full-cost recovery is achieved, solely where these are necessary to permit application of the aforementioned CP Budget principles in the pilot CSPs and CP Budgets.
83. As noted in the CSP Policy, to support introduction of the revised programme and financial frameworks from 2018, WFP's General Rules and Financial Regulations will later need to be amended in three main areas: i) delegations of authority to the Executive Director and the FAO Director-General;¹⁵ ii) application of full-cost recovery and introduction of new cost categories; and iii) terminology and definitions to align with the new cost structure. Changes to the WFP's General Regulations are not foreseen.
84. The Secretariat will hold informal consultations on the proposed amendments throughout 2017 before presenting them to the Board for approval at the 2017 Second Regular Session.¹⁶
85. In the meantime, it is proposed that the Executive Director be granted temporary authority until the end of 2017 to make revisions to the budgets of the pilot CSPs, when necessary, subject to existing delegations of authority with respect to emergency operations. Such budgetary revisions would be reported to the Board and would provide useful information for formulation of the revised delegations of authority.
86. By the start of 2017, the information technology (IT) system will be ready to support implementation of the pilot CSPs and piloting of their CP Budgets. This pilot period will provide an opportunity for reviewing support structures, organizational readiness and amendments to WFP's General Rules and Financial Regulations. The Secretariat will consult partners regarding their system readiness and will provide the Board with regular updates on implementation of the pilots and any recommendations for refinement of the programmatic and financial frameworks.

Preliminary Resourcing Requirements

87. An investment case for transition to the new financial framework in 2017 and early 2018 is currently under review by KPMG. An update will be provided once the investment case has been finalized, reviewed and endorsed by senior management.

IV. Resource-based Planning

88. WFP's current Programme of Work consists of projects designed on the basis of needs assessments in collaboration with government counterparts and partners. It is a needs-based response plan¹⁷ that constitutes an appeal for resources to implement operations, and it will continue to be the basis for WFP's advocacy for full funding of its response to beneficiaries' requirements.
89. Operational requirements consistently exceed the level of actual contributions; many country offices currently address this gap by prioritizing assistance according to foreseen resources. In response to a Board request, the first prioritization exercise was included in the Management Plan (2014–2016) to show how managers planned to adjust programming, and the consequent effects on beneficiaries, if only a portion of operational needs were funded. Subsequent Management Plans have included a Prioritized Plan of Work based on funding projections by country.

¹⁵ The role of the FAO Director-General in the approval of emergencies under the delegation of authority will continue.

¹⁶ The Advisory Committee on Administrative and Budgetary Questions and the FAO Finance Committee will provide advice on amendments to the Financial Regulations and General Rules related to the financial administration of WFP in advance of the 2017 Second Regular Session. Once approved by the Board, amendments to the General Rules will be shared, for information, with the United Nations Economic and Social Council and the FAO Council.

¹⁷ This excludes DEVs, in accordance with General Rule X.8.

90. The resource-based planning work stream is driven by internal resource management needs. The objective is to standardize implementation plans¹⁸ as a second layer of operational planning in country offices to clarify the distinction between “needs” and “plans”. The approach was piloted in nine country offices.¹⁹ Staff from pilot country offices, regional bureaux and Headquarters noted the following benefits of implementation plans:
- enabled country offices able to plan their operations 12–18 months in advance, based on projected resources;
 - improved planning and performance management; increased coordination among all functional areas involved in the country office;
 - better visibility in the supply chain and pipeline;
 - longer-term planning discussions with host governments and partners;
 - more realistic rates for associated cost planning than in needs-based plans; and
 - anticipation of possible surplus/deficit on associated costs.
91. As part of development of the Management Plan (2017–2019), each country office prepared a resource-based implementation plan for 2017. These plans were aggregated to create the global Prioritized Plan of Work.
92. Lessons learned from the pilot phases also identified the future requirements for transitioning to the CP Budget structure in country offices in 2017 and 2018, including funding projections at strategic outcome level and prioritization of CSP activities.

V. Macro-advance Financing

93. The objective of the macro-advance financing work stream is to provide aggregated budget authority for country offices early in the process to reduce the effects of fragmented funding streams, increase the predictability of resources, and maximize efficiency and effectiveness.²⁰ The macro-advance financing concept is an extension of the current IPL facility, which provides loans to projects using forecast contributions as collateral.²¹ Macro-advances are not tied or linked to donor-specific forecasts of cash contributions: they are linked to the level of resources that a country office expects for a given year on the basis of historical trends and knowledge of donors’ likely intentions. Macro-advance financing pilots are ongoing in five countries.²² Managers from the five pilot country offices have highlighted the benefits:
- increased predictability of resources, facilitating longer-term planning of ration composition and reducing the number of periodic ration cuts;
 - increased supply chain efficiency, resulting from direct delivery from the port to the country and reduced transshipment costs – storage and handling;
 - reduced lead-times in procurement, transport and delivery of food to final distribution points;
 - reduced pipeline breaks, by covering initial CBT requirements before contributions arrived;
 - increased operational effectiveness, by pre-positioning food ahead of the rainy season and achieving lower transport costs;
 - increased cost savings, by procuring commodities at harvest, when prices are lower;

¹⁸ Previously referred to as resource-based plans.

¹⁹ See Annex I for the approach to the resource-based planning work stream and pilots.

²⁰ See Annex I for the approach to the macro-advance financing work stream and pilots.

²¹ Some forecast contributions are not eligible for use as collateral because of donor conditions.

²² Piloting and repayment of the macro-advances will continue throughout 2016.

- an improved forecasting framework, enabling better planning of resource mobilization; and
 - increased accountability for providing reliable and realistic contribution forecasts.
94. Managers observed that the internal management of advances could be improved, including through more timely clearance of macro-advance financing requests and more rapid release of funding by Headquarters to enhance the increase in resource predictability and the reduction in pipeline breaks.
95. Implementation of the macro-advance financing pilot has been constrained by donor conditions attached to contributions. Earmarking and other donor restrictions reduce a country office's ability to repay macro-advances, limiting the predictability and flexibility to maximize delivery of food assistance to beneficiaries. The validity dates on grants posed a particular challenge, with country offices facing difficulties with repayments when the validity date of a grant did not match the timeframe in which a macro-advance was utilized.
96. The Boston Consulting Group will carry out an analysis in the first quarter of 2017 to identify any gains in efficiency and effectiveness, and the associated risks. The Secretariat will share the results of this analysis with partners as part of its advocacy for relaxing donor conditions that have negative impacts on the delivery of food assistance.
97. Table 1 shows the country offices participating in the resource-based planning and macro-advance financing pilots.

TABLE 1: SUMMARY OF RESOURCE-BASED PLANS AND MACRO-ADVANCE FINANCING, AUGUST 2016					
Country	Project	2016 needs-based plan*	2016 resource-based plan	Macro-advance financing released	Repayment status
<i>USD million</i>					
Ethiopia	PRRO 200700	163	97	42.1	42.1
Kenya	PRRO 200737	118	89	11.5	11.5
Kenya	PRRO 200736	114	65	8.3	4.5
Kenya	CP 200680	30	27	9.5	5.7
Mali	PRRO 200719	106*	73	15.0	13.8
Nicaragua	CP 200434	9.9*	7.5	1.3	0.3
Sudan	PRRO 200808	347	270	13.0	13.0
TOTAL				100.7	90.9

* Budget revision in progress. CP = country programme.

ANNEX I

Approach to the Financial Framework Review and Partner Engagement

1. In consultation with WFP country directors and the Board,¹ four goals were developed to guide the work of the FFR:
 - increase the predictability of resources so that country offices can optimize operational efficiency and effectiveness;
 - increase flexibility with a view to improving responses to operational needs and maintaining discipline in financial management, reporting and analysis;
 - enhance accountability by linking resource management to performance outcomes; and
 - simplify the resource management framework.
2. Three work streams were prioritized: budgeting for operational effectiveness, resource-based planning, and macro-advance financing. The work streams were undertaken as separate but linked modules in 2015 and 2016 to achieve benefits for each work stream and for the overall financial framework.
3. The Secretariat has employed a bottom-up approach to the FFR. From the start, country offices have shared their experiences and participated in the design and implementation of work streams. Resource-based planning has been piloted in nine country offices, and macro-advance financing in five, while eight country offices have been involved in prototyping the CP Budget model.

Approach to Budgeting for Operational Effectiveness: Development and Design of a Country Portfolio Budget Structure

4. At the outset, it was agreed that three underlying principles would remain in place: the voluntarily funded nature of WFP, the principle of full-cost recovery, and contribution-specific expenditure tracking. However, the Secretariat noted its intention to review and simplify the application of full-cost recovery to contributions.
5. The analysis phase of the budgeting for operational effectiveness work stream began in mid-2015 with a review of WFP's budget structure and the financial frameworks of other United Nations organizations, non-governmental organizations and private-sector entities. Interviews with managers at country offices provided perspectives on budgeting challenges in different contexts.
6. A summary of the analysis was presented to the Budgeting for Operational Effectiveness Expert Working Group² in September 2015 to identify the characteristics of a budget structure that:
 - i) maximizes WFP's ability to respond efficiently and effectively to prioritized operational needs;
 - ii) provides for disciplined financial management, reporting and analysis; and
 - iii) facilitates fundraising.
7. Two preliminary budget structures were developed: one based on country office activities, the other on WFP Strategic Results. Budgets for the Colombia, Indonesia, Jordan, Uganda and Zimbabwe country offices were modelled under both structures to test the feasibility, practicality and effectiveness of each and identify governance and fundraising implications. Feedback from the country offices indicated that activities, while derived from WFP Strategic Results, had to be central to the budget structure from an operational planning, implementation and management perspective.

¹ WFP/EB.A/2014/6-D/1.

² The working group comprises participants from country offices, regional bureaux and Headquarters functional areas.

8. In November 2015, the Budgeting for Operational Effectiveness Expert Working Group considered results from this initial modelling exercise and proposed a CP Budget structure with:
 - a single planning period encompassing all operations in all contexts for a calendar year;
 - a results-oriented approach in line with WFP Strategic Results and WFP Strategic Outcomes, with activities as the primary dimension for operational planning;
 - a clear “line of sight” from WFP Strategic Results to WFP Strategic Outcomes to activities to costs;
 - identification of activity costs in terms of transfers or implementation;
 - new cost definitions harmonized where possible with those of other United Nations agencies to facilitate reporting and comparison;
 - adjusted DSC directly support multiple activities related to the transfer of assistance and implementation of programmes; can be apportioned among activities; and
 - addition or augmentation of one or more WFP Strategic Outcomes for the initial response to emergencies.
9. At the beginning of 2016, the prototype structure with these concepts was phased in at the five country offices participating in the initial modelling exercise – Colombia, Indonesia, Jordan, Uganda and Zimbabwe – and later in the Kenya, Niger and Yemen country offices to ensure regional representation and coverage of diverse operational contexts, including a Level 3 emergency. Indonesia and Zimbabwe have drafted their CSPs while Colombia, Jordan and Uganda are still in the process. Prototyping of the CP Budget structure in CSP countries ensures that the structure supports the CSP approach.
10. From January to March 2016, the Indonesia and Jordan country offices led phase I of the testing to refine the “vertical” aspects of the structure. The portfolios of activities and associated budgets of these country offices were mapped on to the preliminary CP Budget structure to create the desired “line of sight” from WFP Strategic Results to WFP Strategic Outcomes to activities to costs. Country offices recorded a sample of transactions in the WFP Information Network and Global System (WINGS) for further testing and refinement of the structure.
11. An initial cost-accounting model was set up to ensure that the values of direct transfers, implementation costs and costs managed country-wide – adjusted DSC and indirect support costs (ISC) – were captured.
12. Phase I assessments were largely positive. The Jordan country office noted that the CP Budget concept and its “line of sight” would improve effectiveness and transparency while the focus on activities reflected operational realities. The Indonesia country office appreciated the improved accountability and empowerment of budget owners. Phase I also identified additional areas that required the development of country-driven solutions in phase II of the testing.
13. In phase II, a CP Budget structure was simulated to inform the design of solutions for areas including definition of cost-accounting procedures; application of full-cost recovery; the treatment of emergencies and regional operations; and identification of operational contexts and governance requirements. Country offices tested a budget structure that encompasses all country office operations and shared services, service-level agreements, trust funds, regional operations and sudden-onset emergencies.
14. Country office assessments and detailed results from the phase II testing demonstrated that the CP Budget structure can support WFP’s operations and that the business solutions identified are viable. The country offices involved recognized that the budget structure and improved processes for managing budgets and contributions will streamline planning and resource management processes.

15. Following the two phases of prototype testing, country offices, functional leads and the Resource Management Integration and Support Division identified the business requirements for design of the IT system solution for the CP Budget structure. These requirements represent the minimum elements that will need to be in place to support the first wave of pilot CSPs in February 2017. The requirements identified formed the first part of a more comprehensive blueprint for design of the IT solution and systems implementation for the CP Budget structure. Work on the blueprint is coordinated with work on the country strategic planning approach and the CRF to ensure alignment and integration, with a view to testing the IT system solution in the fourth quarter of 2016.

Approach to Resource-Based Planning

16. The resource-based planning work stream will standardize the process whereby country offices match implementation plans with anticipated funding levels to improve planning for the coming 12–18 months, and facilitate performance management by making it easier to compare results with plans. The aggregation of all country offices' resource-based implementation plans will be included in WFP's Management Plan as the Implementation Plan.
17. The work stream takes into account: i) various approaches and models informally adopted by country offices to align funding with implementation; and ii) development of the Prioritized Plan of Work for previous Management Plans and WFP's pipeline management processes.
18. Nine country offices – Ethiopia, Guatemala, Kenya, Lesotho, Mali, Nicaragua, Pakistan, the Sudan and Zimbabwe – were selected to develop resource-based plans for 2016 to pilot this internal resource management tool. These pilot country offices were selected using the following criteria: i) a mix of operational sizes; ii) diversity of donors; iii) commitment of country office management; iv) resource management capacity; and v) likelihood of at least minimum funding.
19. The country offices developed their resource-based plans in the following steps:
 - i) Define operational needs by project, activity, beneficiaries, transfer modality and food type.
 - ii) Estimate annual projected funding from analysis of past and current funding levels by project, and possibly by donor.
 - iii) Develop plans based on projected resources, prioritizing activities and adjusting beneficiary numbers, ration sizes and duration of assistance.
20. At the outset of the pilot, it was agreed that to mitigate risk, WFP will: i) continue to communicate operational needs and advocate for full funding; ii) develop metrics for linking shortfalls to particular outcomes, to indicate the effects on beneficiaries; and iii) clarify the distinction between needs and plans in its fundraising.

Approach to Macro-Advance Financing

21. The macro-advance financing work stream addresses resource predictability and uncertainties in the timing and level of contributions by providing country offices with budgetary authority to incur expenditures on the basis of aggregated forecasts.
22. At the Board's 2015 Second Regular Session, the Secretariat stated its intention to "...manage a small number of pilots through the IPL facility, which is backed by the Operational Reserve: USD 150 million to USD 200 million is proposed to be set aside from the IPL ceiling of USD 570 million".³
23. Pilot countries were selected on the basis of: i) historical funding trends; ii) stability as reflected in needs and risk assessments; iii) participation in the resource-based planning pilot with a validated resource-based plan; and iv) an accountability agreement acknowledging the responsibilities and obligations associated with the macro-advance.

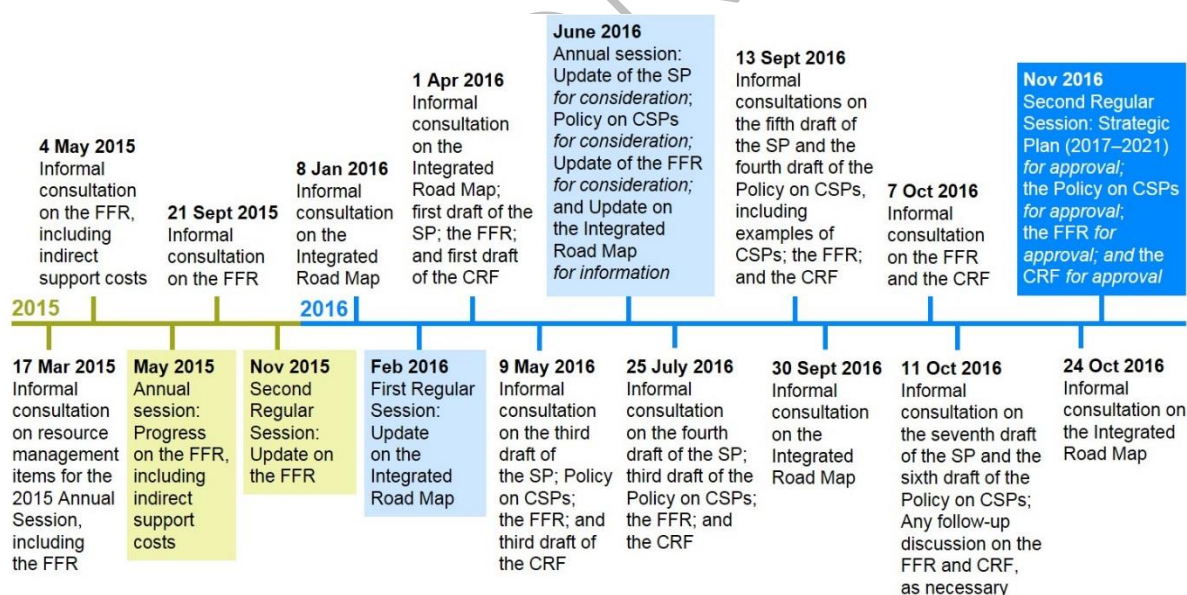
³ WFP/EB.2/2015/5-C/1, paragraph 25.

24. A first tranche of USD 82.3 million of funding for four pilot countries – Ethiopia, Kenya, Mali and the Sudan – was endorsed by the Strategic Resource Allocation Committee and approved by the Executive Director. Subsequently, a macro-advance of USD 1.3 million was approved for the Nicaragua country programme and a second tranche, of USD 17 million, was released to the Ethiopia PRRO. These releases bring the total advanced in the macro-advance pilot to USD 100.7 million. As of August 2016, USD 90.9 million of repayments had been made, all in accordance with donor conditions.

Engagement of the Board and partners

25. At the 2015 Annual Session, the Board considered progress on the FFR,⁴ particularly the challenges in WFP's current architecture and the requirements for a new financial framework.
26. At the 2015 Second Regular Session, an update on the FFR⁵ set out the objectives, associated risks and approach for each of the three work streams. The Board noted the progress achieved, the proposed timeline and cost estimates for 2015 and 2016.
27. At the 2016 First Regular Session, an update on the Integrated Road Map⁶ conveyed the synergies and interrelatedness of the Strategic Plan (2017–2021), the country strategic planning approach and the FFR.
28. At the 2016 Annual Session, an update on the FFR⁷ provided details on the emerging design of the CP Budget model and progress in the resource-based planning and macro-advance financing work streams and ongoing pilots.
29. Complementing formal Board sessions, the Secretariat held 12 informal consultations between 17 March 2015 and 24 October 2016 to present emerging designs and assessments of pilots and prototypes (Figure A.I.1). The Board's feedback and guidance over this period have been invaluable in helping to shape work on the FFR.

Figure A.I.1: Board consultations on the Financial Framework Review



SP: Strategic Plan; CSPs: Country Strategic Plans; FFR: Financial Framework Review; CRF: Corporate Results Framework.

⁴ WFP/EB.A/2015/6-C/1.

⁵ WFP/EB.2/2015/5-C/1.

⁶ WFP/EB.1/2016-4-F.

⁷ WFP/EB.A/2016/5-C/1*.

30. Since September 2015, the Secretariat⁸ has worked with WFP's partners to build common understanding of the components of the Integrated Road Map and various aspects of the FFR and to identify the potential implications for partners' systems and policies.

REVISION MODE

⁸ Particularly Directors from the Policy and Programme Division, the Budget and Programming Division, the Performance Management and Monitoring Division and the Resource Management Integration and Support Office.

Acronyms Used in the Document

CBT	cash-based transfer
COMP	country operations management plan
CP Budget	Country Portfolio Budget
CRF	Corporate Results Framework
CSP	Country Strategic Plan
DEV	development project
DSC	direct support costs
EMOP	emergency operation
FAO	Food and Agriculture Organization of the United Nations
FFR	Financial Framework Review
ICSP	Interim Country Strategic Plan
IPL	Internal Project Lending
ISC	indirect support costs
IT	information technology
PRRO	protracted relief and recovery operation
QCPR	Quadrennial Comprehensive Policy Review
SDG	Sustainable Development Goal
SO	special operation
WINGS	WFP Information Network and Global System