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# FINANCE COMMITTEE

**Hundred and Eighty-fourth Session**

**Rome, 28 - 29 January 2021**

**Update on the bottom up strategic budgeting exercise**

Queries on the substantive document may be addressed to:

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### EXECUTIVE SUMMARY

- It is important that WFP has the required resources from the most appropriate funding sources to support its growing operational activities. The allocation of these resources should reflect the organization's priorities, be sufficient and be deployed efficiently.
- To support this objective, the Executive Director formed the bottom up strategic budgeting exercise (BUSBE). The exercise consists of an in-depth analysis of WFP's recurring programme support and business operations requirements, as well as a review of the current sources of funding for those requirements.
- This document provides an overview of the developments made with BUSBE.
- The "Update on the bottom up strategic budgeting exercise" is submitted to the Board for consideration.

### GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to review the "Update on the bottom up strategic budgeting exercise" and to endorse it for consideration by the Executive Board.

#### Draft Advice

- **In accordance with Article XIV of the General Regulations of WFP, the FAO Finance Committee advises the WFP Executive Board to approve the draft decision as outlined in the document "Update on the bottom up strategic budgeting exercise".**



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

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## Update on the bottom up strategic budgeting exercise

### Draft decision\*

The Board takes note of the update on the bottom up strategic budgeting exercise (WFP/EB.1/2021/5-A/1).

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\* 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.

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## Introduction to the bottom up strategic budgeting exercise

1. The World Food Programme (WFP) has a critical role in ensuring progress towards achieving the Sustainable Development Goals. It is therefore important that the organization has the required resources from the most appropriate funding sources to support its growing operational activities. The allocation of these resources should reflect the organization's priorities, be sufficient and be deployed efficiently.
2. To support this objective, the Executive Director formed the bottom up strategic budgeting exercise (BUSBE). The exercise consists of an in-depth analysis of WFP's recurring programme support and business operations requirements, as well as a review of the current sources of funding for those requirements. The four main objectives are to:
  - ensure the use of the optimum funding sources for activities;
  - enable a more efficient use of funding;
  - improve the transparency of headquarters division and regional bureaux funding; and
  - examine the programme support and administrative (PSA) support provided to country offices.
3. BUSBE has been introduced at WFP to determine the optimal PSA budget allocations for headquarters divisions and regional bureaux from 2022 in the light of the following factors:
  - WFP has grown significantly in recent years, in terms of its increasingly complex operational environment and the growing number of emergencies and interventions being implemented (e.g. cash-based transfers and other interventions relating to nutrition, climate adaptation and the humanitarian-development-peace nexus). This necessitates a review of the adequacy of WFP's support structure to sustain the growth of operations while ensuring efficiency and a more coherent approach.
  - The evolution of PSA budgets and increasing extrabudgetary resources has led to inconsistent funding across headquarters divisions and regional bureaux. This may be partially explained by PSA budgets being set in advance based on estimates of total organizational income, which over the past years have been underestimated.
  - The mix of PSA and extrabudgetary resources varies significantly between headquarters divisions and regional bureaux. Initiatives that match donor priorities and situations in which donors want additional assurance that funding will be dedicated to a specified purpose attract extrabudgetary funding (the supply chain and programme areas, for example, are heavily funded outside the PSA budget), thus creating an uneven funding landscape across the organization. This has also resulted in an increase in the number of consultants on short term contracts funded from outside of the PSA budget; this makes it possible to sustain a modest PSA budget but makes it difficult to estimate the actual running costs of WFP and to ensure consistent and predictable funding for important activities.
  - United Nations reform and other evolving United Nations initiatives (e.g. the United Nations Sustainable Development Group Business Innovations Group initiatives, funds and programmes cost classification exercise) need to be considered in any effort to optimize the PSA budget.

## BUSBE approach

4. A phased approach to BUSBE was employed primarily due to the calendar set out in WFP's current management plan, as well as to ensure a solid foundation upon which to conduct a thorough review with tangible benefits that addresses the expectations of the Executive Board and senior management group.
5. Phase I of the exercise in 2020 focused on the analysis of the current state of budgeting at WFP, particularly the identification of the findings and recommendations related to the allocation and management of PSA and extrabudgetary funding.
6. Phase II, in 2021, will see the implementation of the recommendations from phase I, building on the essential foundational work. A thorough assessment of headquarters divisions and regional bureaux funding needs and priorities will be conducted to inform their budget requests.
7. The benefits from phases I and II will be realized in 2022, in the 2022–2024 management plan. The advantages will be greater consistency, transparency and a more optimal use of resources.

## Rationale for a phased approach

8. The BUSBE was established in June 2020, when the current management plan calendar was already well under way; thus, there was limited opportunity to make significant changes that would affect the 2021 management plan exercise. Analysis outside of the management plan exercise and preparation for 2022 were thus the focus during this initial phase.
9. The phased approach has allowed the organization to prepare for a more rigorous assessment in 2022 through the development and refinement of definitions and guidance and the creation of mechanisms to facilitate a more detailed budgeting exercise. The overarching aim is for greater clarity and consistency in divisional and regional bureau budget submissions.
10. With WFP having been introduced to the concepts, the foundational work carried out with sufficient time for BUSBE to prepare, the 2022 management plan exercise will see changes that will result in greater alignment of funding sources with activities.

## Phase I

### Scope of phase I

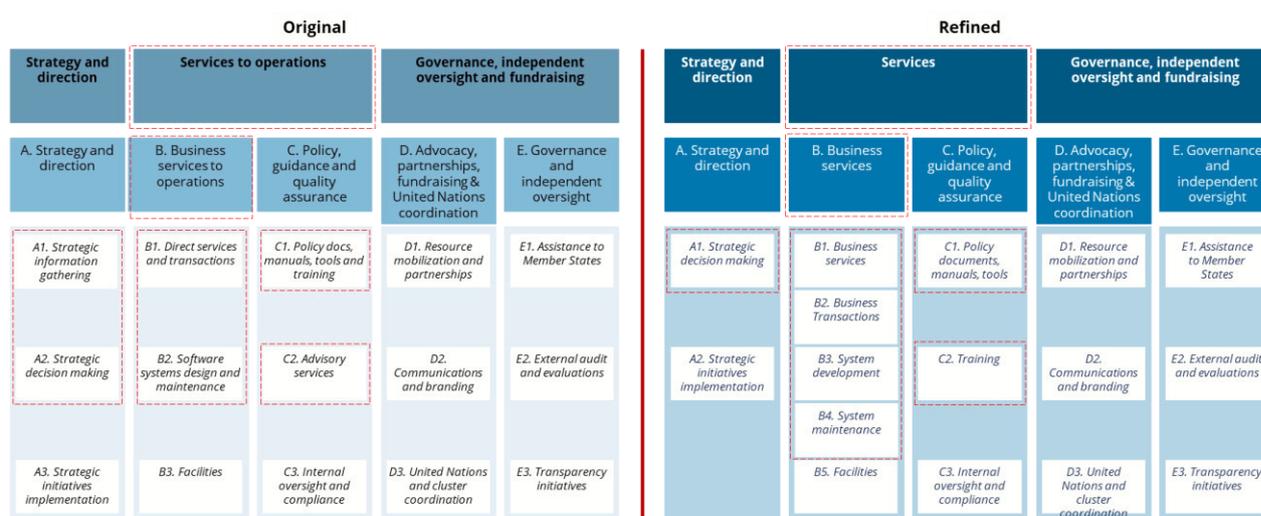
11. In order to achieve the objectives of phase I, four workstreams were identified:
  - **Technical budgeting:** Examine current use of various funding sources for headquarters divisions and regional bureaux budgets and develop a framework for optimizing the allocation of funding based on the nature of the activity being funded;
  - **Budget governance:** Assess current budget governance structures across funding sources;
  - **Cost recovery analysis:** Catalogue cost recovery models across WFP and make recommendations to support a corporate position; and
  - **Country office budget analysis:** Analyse country office budgets to define the optimum standard country office structure to be funded from PSA budget.

### Technical budgeting

12. The technical budgeting workstream involved an initial assessment of 2021 management plan budget submissions to develop a better understanding of the uses of PSA and extrabudgetary resources, the gap between requested and provided funding and how the submissions themselves are developed.

13. To improve the development of budgets, a planning framework was developed with two components: the refined corporate results framework (CRF) and the introduction of definitions for designating activities as baseline, other services or direct.
14. The CRF, developed in 2018 and since revised, mirrors country strategic plan activities and allows WFP to compare and track spending across divisions and regional bureaux; it is also used for reporting data in the management plan. Analysis by BUSBE found that the CRF would benefit from a refinement of the definitions to ensure consistent application.

## The corporate results framework has also been improved, which will be evident in the 2022 management plan proposal



15. The principal changes are at the lowest level of the CRF, which are the products and services (e.g. A1, A2, etc.). The products and services form the five broad pillars: A. strategy and direction; B. business services; C. policy guidance and quality assurance; D. advocacy, partnerships, fundraising and United Nations coordination; and E. governance and independent oversight. The five pillars form the three appropriation lines: strategy and direction; services; and governance, independent oversight and fundraising.
16. Changes aimed to differentiate business services from business transactions (B1 and B2 in the above diagram) because the level of expertise and processes required to perform the activities are different. They both represent direct activities performed on behalf of country offices, regional bureaux and divisions. Further changes were made, such as the splitting of system development from system maintenance (B3 and B4). This change gives greater visibility to the funding commitments given since the relevant activities have different funding profiles (one-time development costs versus ongoing operating costs).
17. The second concept was the application of the definitions of baseline, other services and direct activities to classify the needs of headquarters divisions and regional bureaux:
  - **Baseline indirect programme support and enabling services (baseline):** Baseline capability that needs to be funded to support the organization based on income projections and corporate priorities;
  - **Other indirect programme support and enabling services (other services):** "Above the Line" - surge, scaling or bridging shortfall or initiatives that are timebound or new; and
  - **Direct:** Attributable to a specific country office, regional bureau or headquarters division, and considered a sub-set of baseline for the purposes of this exercise.

18. A modelling exercise was conducted in November and December 2020 to apply the refined CRF pillars and the baseline, other services and direct classifications to the 2021 management plan budget submissions. Five regional bureaux and 23 headquarters division directors were asked to review and classify their budget submissions based on the new budgeting model. Together their budget requests account for more than half of the PSA budget that was approved by the Executive Board in November 2020, the approved amount being USD 443.5 million. The revised budget submissions completed by directors were then shared with their heads of departments.
19. January 2021 commenced with a hands-on review from the six heads of departments examining their in-scope division and regional bureau submissions, including the selection of refined CRF pillars and baseline, other services and direct classifications. This review and validation of the modelling is a critical step in ensuring the alignment of budget requests with divisional, departmental and organizational priorities.
20. The BUSBE team intends to present the findings from this review to the leadership group at the end of January and later to the Executive Board.

### **Budget governance**

21. The budget governance workstream assessed WFP's current budget governance framework by examining fora where corporate level budget decisions are made and developing recommendations to inform an update of the framework.
22. The BUSBE team mapped governance structures across funding sources and developed a responsible, accountable, consulted and informed matrix. The matrix articulated the roles and responsibilities of individuals and management layers across budgets and sources of funding at WFP.
23. The following observations were captured as outputs from this exercise:
  - There is a need to strengthen budget governance given that the organization has increased in size and complexity.
  - There is an obligation for the senior leadership to participate across multiple fora.
  - A greater use of subcommittees for preparatory work and the development of recommendations would facilitate decision making by leaders and there is scope for greater involvement of directors.
  - Further representation of country offices and regional bureaux would result in the broader consideration of decisions and greater acceptance.
24. The implementation of the recommendations on budget governance have been assigned to the Corporate Planning and Performance Division.

### **Cost recovery**

25. The cost recovery workstream explored the use of cost recovery across the organization. The methodologies were documented and observations and recommendations were made to inform further analysis by the relevant divisions.

26. Thirty-three active special accounts<sup>1</sup> were reviewed with regards to their purpose, recovery mechanisms and balances. The findings were validated by the special account owners. The analysis found that three mechanisms for cost recovery are currently utilized for special accounts:
- **Management cost recovery:** Covers the costs of managers and the management support infrastructure.
  - **Fee for service:** Costs are related to specific services rendered by the owner of a special account.
  - **Uplift:** Upfront fees are applied to goods and services based on a range of factors used to determine the amount of the payments.
27. Other cost recovery mechanisms were also included in the analysis, where these often relate to transfers between divisions for the provision of services. The analysis identified that future cost recovery initiatives would benefit from further guidance to ensure that they are fit for the future.
28. Included in the analysis were best practices from other United Nations agencies where shared services centres had been established, had already evolved and matured over the years in terms of services offered. The work of the Business Innovations Group was also critical as the BUSBE team sought to leverage initiatives from across the United Nations. The recommendation is that WFP's existing commitments to agreed costing, pricing and client satisfaction principles for service to other United Nations entities, should also serve as guides for internal service provision.
29. The analysis of cost recovery across the organization highlighted that cost recovery is an increasingly common method for funding the provision of internal services and that there is an opportunity for the organization to introduce corporate standards that will ensure transparency and equality. Corporate guidance is required for:
- Standards for estimating direct costs;
  - Tools needed for the implementation of a cost recovery approach;
  - Financial mechanisms for efficiently tracking and reporting on transfers; and
  - Feedback mechanisms for end-user engagement and service improvement.
30. A cost recovery working group has been formed under the leadership of the Corporate Finance Division director to take forward the BUSBE recommendations. The working group will continue the analysis, gathering further information on the scale of cost recovery, defining options for the organization and developing guidelines and principles.

### **Country office programme support and administrative budget analysis**

31. WFP is operational in more than 80 countries around the world, with varying levels of staff presence and capacity. Phase I included the analysis of the current PSA allocation to country offices which includes funds for country director positions, with additional allocations for national staff and operating costs. Various models for reinforcing a standard country office in a manner consistent with the rules and regulations were explored in order to reach a more equitable distribution of PSA funds and a reinforced standard office.

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<sup>1</sup> "Special account shall mean an account established by the Executive Director for a special contribution, or for monies ear-marked for specific activities, the balance of which maybe be brought forward to the succeeding financial period" (WFP Financial Regulation 1.1).

32. The PSA allocation to country offices in the 2021 management plan of USD 103.4 million represented 23 percent of the total PSA budget. Of that amount, 56 percent (USD 56.6 million) was in the form of direct allocations<sup>2</sup> and 44 percent (USD 45.3 million) was for centralized services.<sup>3</sup> Centralized services consist of information technology, security and wellness costs, which are per capita expenses, with evaluation being a small (USD 1.5 million) non per capita expense.
33. With USD 45.3 million being distributed based largely on the number of staff in each country office, there was an opportunity to define a model that would result in a more equitable allocation and not cover costs that are directly attributable to operations, which per capita staff costs could be considered.
34. A proposed model has been defined that would see the full allocation of PSA to country offices (USD 103.4 million in 2021) distributed more equitably in order to strengthen the standard country office's strategic capacity and enable WFP to better respond to the country context. This proposal would see no net change in the total PSA to country offices and would provide a more stable foundation for country offices to respond to country needs.
35. The model has been endorsed by the leadership group. The Operations Management Support Unit and the Corporate Planning and Performance Division will work with country offices to implement it and to ensure that the previously covered per capita costs are funded from the appropriate source.

## Phase two

### Scope of phase II

36. The first phase of the BUSBE has provided the organization with a strong foundation for phase II, through the development of a mechanism that more accurately determine baseline needs and through delivering recommendations that will bring enhanced transparency to the allocation of resources.
37. Phase II will see an improvement in quality and consistency across divisional and regional bureaux budgets by implementing the refined CRF and the mainstreaming of the concepts of baseline, other services, and direct. The new budget model will allow for the optimum allocation of funding based on the nature of activities performed by headquarters divisions and regional bureaux.

### Expected outcomes from phase II

38. A review process will be introduced to better align funding sources with activities, ensure consistency, transparency and impartiality and minimize bias. WFP staff from key headquarters divisions, regional bureaux and country offices will be asked to serve on a review committee. The committee's main objectives will be to ensure that financial resources are allocated in a manner consistent with WFP strategic and corporate priorities, in accordance with policies and procedures and based on transparent criteria. The committee will focus on cross-functional activities to move WFP away from fragmented budget requests.

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<sup>2</sup> 2021 PSA direct allocations to country offices include country director position costs; PSA other costs; and 2021 additional resources from investment cases (such as those on *enhanced operational effectiveness, partnerships and funding development and excellence in programme design*).

<sup>3</sup> Country office contingency fund of USD 1.5 million not allocated to specific country offices.

39. The responsibilities of the committee will include reviewing the 2022 budget submissions and asking for justification from directors when business deliverables are not clear; confirming that in preparing their budget submissions divisions and regional bureaux have applied the refined CRF and properly articulated their baseline needs; and recommending the most appropriate funding sources to the Executive Director.

### Proposed timelines for the 2022 management plan

40. In order to complete the 2022 management plan exercise by November 2021, the standard timeline for the preparation of the management plan will need to be revised. Additional updates and informal engagement with the Executive Board may be required.

## The BUSBE phase II will require additional steps



*Additional updates and informal consultations with the Executive Board will be held as required*

41. The new budgeting model tested with 28 divisions and regional bureaux of the 53 will form the basis for the 2022 exercise, informing budget requests for the 2022 management plan. The remaining divisions will therefore need to be introduced to it. Detailed guidelines will incorporate proposed changes and will be prepared to support the training that will be provided to all divisions and regional bureaux. The proposed timeline will allow enough time for all headquarters divisions and regional bureaux to prepare their management plan submissions.
42. All submissions will need to be thoroughly reviewed by the review committee. Funding proposals based on predicted availability of resources and strategic priorities will be shared with the Executive Board. As usual, the Executive Board will be consulted on a regular basis to inform the 2022 management plan exercise.
43. The 2022 management plan will be submitted to the Executive Board for approval at its 2021 second regular session.

**Acronyms**

BUSBE	bottom up strategic budgeting exercise
CRF	corporate results framework
PSA	programme support and administrative