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COUNCIL

Hundred and Sixty-eighth Session

29 November–3 December 2021

Report of the 187th Session of the Finance Committee (Rome, 28-29 October 2021)

Executive Summary

At its 187th Session, the Committee considered a number of financial, budgetary and oversight matters relating to the World Food Programme (WFP), prior to their consideration by the Second Regular Session of the WFP Executive Board in November 2021.

Suggested action by the Council

The Council is invited to note the views and recommendations of the Finance Committee in respect of matters considered by the Second Regular Session of the WFP Executive Board in November 2021.

Queries on the substantive content of this document may be addressed to:

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Introduction

1. The Committee submitted to the Council the following report of its Hundred and Eighty-seventh Session.
2. In addition to the Chairperson, Ms Imelda Smolčić Nijers (Uruguay), the following representatives of Members were present:

<ul style="list-style-type: none"> • Ms Lynda Hayden (Australia) • Mr Haitham Abdelhady Elsayed Elshahat (Egypt) • Ms Demitu Hambisa Bonsa (Ethiopia) • Mr Kuraya Yoshihiro (Japan) • Mr Miguel Jorge García Winder (Mexico) 	<ul style="list-style-type: none"> • Mr Farid Moustapha M. Sanda (Niger) • Mr Tomás Alberto Duncan Jurado (Panama) • Mr Vladimir V. Kuznetsov (Russian Federation) • Mr Petter Nilsson (Sweden) • Mr Thanawat Tiensin (Thailand) • Ms Elizabeth Petrovski (United States of America)
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3. The Chairperson informed the Committee that:
 - Ms Kristina Gill (Australia) had been designated to replace Ms Lynda Hayden as the representative of Australia for part of this session;
 - Mr Mina Rizk (Egypt) had been designated to replace Mr Haitham Abdelhady Elsayed Elshahat as the representative of Egypt for part of this session;
 - Mr Farid Moustapha M. Sanda (Niger) had been designated to replace Ms Tahirou Rahila Rabiou for this session;
 - Mr Mohammed Ahmed M. Alghamdi (Saudi Arabia) had informed that he was unable to attend this session;
 - Mr Petter Nilsson (Sweden) had been designated to replace Ms Pernilla Ivarsson as the representative of Sweden for this session;
 - Ms Elizabeth Petrovski (United States of America) had been designated to replace Ms Jennifer Harhigh as the representative of the United States of America for this session.
4. A summary of the qualifications of the substitute representatives can be downloaded from the Governing and Statutory Body Web site at: <http://www.fao.org/unfao/govbodies/gsbhome/finance-committee/substitute-representatives/en/>
5. The 187th Session of the Finance Committee was convened in a hybrid setting with some representatives of Members participating in person at FAO headquarters and others participating virtually on an exceptional basis due to the COVID-19 pandemic. The Finance Meeting confirmed, pursuant to Rule VII of the rules of procedure of the Finance Committee, that it agreed to suspend the rules that may be incompatible with the hybrid session.
6. In addition, silent observers from the following Members attended the 187th Session of the Committee:

<ul style="list-style-type: none"> • Belarus • Belgium • Brazil • Cabo Verde • Congo • Cuba 	<ul style="list-style-type: none"> • Dominican Republic • Germany • Honduras • Hungary • Iran (Islamic Republic of) 	<ul style="list-style-type: none"> • Israel • Italy • Libya • Luxembourg • Malaysia • Morocco
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- Netherlands
- Peru
- Philippines
- Portugal
- Romania
- Senegal
- Sudan
- Turkey
- Ukraine
- United Kingdom of Great Britain and Northern Ireland
- Zambia

Election of Vice-Chairperson

7. Mr Kuraya Yoshihiro (Japan) was unanimously elected Vice-Chairperson until the end of the Committee's present term of office.

World Food Programme Matters

WFP Strategic Plan (2022-2026)

8. The Committee supported WFP's dual mandate and prioritization of lifesaving emergency response while also contributing, in partnership with others, to reducing needs, improving food security and supporting countries in their efforts to achieve the Sustainable Development Goals (SDGs).

9. The Committee noted that WFP's comparative advantage should determine its level of engagement across the five strategic outcomes and be contextualized at country level.

10. While noting that the absolute amount of unearmarked and softly earmarked funding had been gradually increasing over the past years, the Committee noted that they nevertheless remained below 6 percent of total contributions. It encouraged WFP Management to mobilize higher levels of flexible funding, thereby increasing the share of flexible funding, and to continue to explore innovative financial solutions, such as debt swaps and purchasing of debt at a discount in line with WFP Regulations and Rules.

11. The Committee noted WFP's efforts and further encouraged evidence generation to better inform operations and measure programme performance and impact, also to inform WFP's comparative advantage.

12. The Committee observed that WFP had an important role to play in working with and through governments in strengthening national programmes and systems, including with middle income countries. It also noted the importance of WFP addressing humanitarian needs emanating from migration flows and adapting WFP's response accordingly.

13. The Committee noted the importance of the United Nations 2021 Food Systems Summit and the important role that WFP had to play in the follow-up of the Summit outcomes at the country, regional and global levels.

14. The Committee reaffirmed the importance of WFP working and collaborating closely with the Food and Agriculture Organization (FAO) of the United Nations and the International Fund for Agricultural Development (IFAD) as well as with the entire UN System and other relevant partners.

15. The Committee noted the need for WFP Management to consider further the principle of the humanitarian – development – peace nexus and ensure that WFP's work better reflects the primary mission and the role of WFP taking into account in particular the terminology used in the FAO Strategic Framework 2022-2031.

16. The Committee acknowledged that an Information Note on the Corporate Results Framework would be presented to the WFP Executive Board at its November 2021 regular session to supplement the strategic plan.

17. **The Committee:**

- a) **examined the draft WFP Strategic Plan (2022-2026);**
- b) **commended the Management on the consultative process leading to the preparation of the WFP Strategic Plan (2022-2026);**
- c) **noted that a corporate results framework including targets and indicators that enable the improved measurement of WFP's performance would be presented for approval by the Executive Board at its 2022 first regular session;**
- d) **requested that when presenting future strategic plans, WFP presents the Strategic Plan with the Corporate Results Framework as a package for approval by the Executive Board at the same session;**
- e) **recalled that WFP General Rule VI.1 provided that the Strategic Plan shall be submitted every four years to the Annual Session of the Executive Board and recommended that any departures from that timing should be formalized in the future; and**
- f) **advised the WFP Executive Board to approve the WFP Strategic Plan (2022-2026) taking into account the suggestions and observations of the Finance Committee.**

WFP Management Plan (2022-2024)

18. The Committee considered the *WFP Management Plan (2022-2024)* which included a forecast of USD 8.40 billion for 2022 compared with operational requirements for 2022 of USD 13.9 billion.

19. The Committee noted with appreciation the emphasis on emergency and life-saving interventions as demonstrated by 81 percent of the 2022 provisional implementation plan focused on crisis response activities compared with 77 percent of projected operational requirements.

20. The Committee was informed of areas that demonstrated greater transparency introduced in the 2022 budget such as the presentation of a holistic, baseline budget, the use of multilateral contributions for field activities, and the visibility of activities subject to direct charges to country offices.

21. The Committee welcomed the introduction of new concepts through the Bottom-up Strategic Budgeting Exercise (BUSBE). It cautioned that future budget presentations should be streamlined and not overloaded with details, information and methodologies. The Committee noted that following the disbanding of the BUSBE project team, work would continue to achieve the BUSBE outcomes not fully met through phases I & II.

22. The Committee noted the 12 percent increase of Programme Support and Administrative (PSA) budget and observed that the PSA budget presentation created difficulty for clear comprehension of the structural impacts of BUSBE versus actual budgetary changes. The Committee questioned whether the budget was sufficient to fund all essential activities. It received explanation on the criteria (refer to Annex I) used to determine what activities were categorized as baseline or other services and was informed that the categorization and prioritization of activities would be further reviewed as the process was refined in future budgeting cycles.

23. The Committee was informed that WFP planned to use full time equivalent (FTE) of staff as a budgeting method of comparison in future budget presentations and was assured that the distinction between staff and other employees tabulated in the document would be clarified in future management plans.

24. The Committee emphasized the priority to use Programme Support and Administrative Equalization Account (PSAEA) as a contingency for eventual shortfalls in indirect support cost (ISC) income. It noted that the proposed transfer of USD 42.4 million from the PSAEA for the last tranche of the Private Sector Strategy (USD 17.1 million), and for Investing in WFP People (USD 25.3 million) was within the limits of PSAEA spending authorized by the Executive Board.

25. Regarding the latter initiative, the Committee inquired if it was linked to the previously approved Termination Indemnity Fund (TIF) of USD 10 million. WFP Management confirmed that both initiatives were related, highlighting by way of illustration the TIF's connection to deliverable 1 of the proposed critical corporate initiative (CCI) to ensure the organizational structures and management of job positions are fit for purpose.

26. The Committee supported maintaining the 6.5 percent indirect support cost (ISC) and ISC recovery rate of 4 percent for host government contributions to programmes in their own countries. Noting that even if a lower funding level may not allow the ISC rate to be increased, the PSAEA provided a safety net for eventual downward adjustments to the PSA budget.

27. **The Committee:**

- a) **expressed its concern at the forecasted funding gap of USD 5.4 billion (39 percent) based on forecasted operational requirements for 2022 of USD 13.9 billion and anticipated funding of USD 8.5 billion while noting that operational requirements were likely to rise on account of additional needs identified since the plan was finalized;**
- b) **encouraged efforts to expand and diversify the funding base, including through exploring innovative financing mechanisms; private sector fundraising; and increased mobilization of predictable and flexible funding;**
- c) **expressed appreciation for the presentation in the management plan for 2022-2024 of a baseline budget and the increased transparency of the budget allocation process through the BUSBE, and encouraged Management to continue to work on the BUSBE objectives that were not yet fully achieved, including the need for additional budget transparency and clear prioritization of activities to support WFP's core processes;**
- d) **encouraged WFP to continue to improve the presentation of future management plans; and**
- e) **recommended that the draft decision presented in the WFP Management Plan (2022-2024) be approved by the Executive Board.**

Appointment of the WFP External Auditor for the term 1 July 2022–30 June 2028

28. The Committee noted that the WFP Executive Board approved the process for the selection and appointment of the WFP External Auditor at its 2020 second regular session.

29. The Committee was informed that through a competitive and transparent selection process, the evaluation panel for the selection had recommended that the WFP Executive Board appoint the Bundesrechnungshof (Supreme Audit Institution) of Germany as the WFP External Auditor for a non-renewable six-year term, from 1 July 2022 to 30 June 2028.

30. The Committee suggested that future selection results be presented with further details that follow best practices of other international organizations.

31. **The Committee:**

- a) **noted that the selection process of the WFP External Auditor as described in the document was consistent with that approved by the Executive Board and expressed its appreciation for the work of the evaluation panel;**
- b) **expressed its appreciation for the work of the outgoing external auditor, the Cour des Comptes of France; and**
- c) **endorsed the recommendation of the evaluation panel to the Executive Board to appoint the Bundesrechnungshof (Supreme Audit Institution) of Germany as the WFP External Auditor for the term 1 July 2022–30 June 2028.**

Other Matters

Working Methods of the Finance Committee

32. The Committee noted the importance of continually reviewing its methods of work in order to achieve its overarching goals and objectives. In this regard, the Committee **expressed support** for the practice of holding informal meetings of the Committee prior to its sessions.

Date and Place of the Hundred and Eighty-eighth Session

33. The Committee was informed that the next session was scheduled to be held as a hybrid meeting from 8 to 12 November 2021.

Annex I**Definition of Baseline and Other Activities as extracted from the Management Plan**

1. The preparation of a holistic programme support and business operations budget for 2022 through the BUSBE recognized that the programme support and administrative (PSA) funding source is complemented by trust funds and special accounts that strengthen WFP's organizational capacity, effectiveness and ability to support its operations.
2. In the first instance, the budget preparation required an assumption on the estimated level of funding in 2022, as the resources required to support WFP's operations worldwide are dependent on the scale of its work. A 2022 projected contribution income assumption of USD 8.4 billion was used.
3. Furthermore, to obtain a holistic picture of the activities undertaken by "global headquarters" (i.e. all headquarters functions and regional bureaus), every organizational unit was required to categorize its activities between baseline activities and other activities as described below. More than 1 000 activities were defined and examined in the exercise.

Baseline

4. "Baseline activities" are essential activities that contribute to the efficient and effective delivery of the annual implementation plan but that cannot be readily traced to individual CSPs (Country Strategic Plans) (*Paragraph 148, Page 44*).
5. These activities include the fulfilment of WFP's institutional obligations through:
 - corporate management;
 - representation and administrative functions;
 - operational services;
 - policy and advisory functions; and
 - oversight functions.*(Paragraph 149, Page 44)*
6. Examples of baseline activities:
 - Corporate management – "legal services reflect the growing diversity of WFP's donors and partners and the organization's reliance on innovative partnership arrangements and programme modalities" (*Paragraph 173, Page 48*)
 - Administrative functions – "carry out its fiduciary financial and budgetary duties, provide robust financial management and deliver foundational technology, connectivity and facilities management services" (*Paragraph 182, Page 51*)
 - Operational services – "strengthen WFP's leadership role in the food security, logistics and emergency telecommunication clusters" (*Paragraph 175, Page 49*)
 - Policy & advisory functions - "putting in place the policies, strategies, partnerships, tools and capacities to enable WFP to deliver on its mandate" (*Paragraph 179, Page 50*)
 - Oversight functions – "providing oversight on privacy and personal data protection to WFP's divisions, organizational units and offices when they process sensitive personal and non-personal data" (*Paragraph 227, Page 64*)
7. Baseline activities may be recurring or one-time (within a single year or within a multi-year period) (*Paragraph 150, Page 44*).
8. Baseline activities were further sub-categorized as "funded" or "unfunded". Funded baseline activities are those that could be foreseen as having budgetary coverage in 2022, thus obviating the need for a PSA budget. For example, baseline activities may be funded by directed donor contributions (*Paragraph 150, Page 44*).

9. The classification of activities as baseline may evolve over time, in line with the maturity of WFP's cost accounting, which can allow certain services to be traced to individual CSPs. For example, from 2022, some specific activities can be funded from direct charged to CSPs because they can be tied to specific operations. These include ocean transport services, sourcing of food, goods and services and beneficiary management (*Paragraph 151, Page 44*).

Other Services

10. As a complement to baseline activities, the BUSBE created a second category – “other services” – to capture:

- surge or scale-up activities;
- activities that bridge shortfalls; and
- initiatives that are timebound or new.

(Paragraph 154, Page 45)

11. Other services are activities that are incidental or supplementary and are not central to directly supporting the operations of the organization (*Annex VIII, page 122*).

Annex II**Documents for information**

- Workplan of the External Auditor
- Revised WFP financial rules