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World
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Programme

Programa
Mundial
de Alimentos

**Executive Board
Second Regular Session**

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Agenda item 5

For approval

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NOTE TO THE EXECUTIVE BOARD

This document is submitted for approval by the Executive Board.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal point indicated below, preferably well in advance of the Board's meeting.

Donor Relations Officer, FDD: Mr P. Ward tel.: 066513-2742

Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms C. Panlilio Administrative Assistant, Meeting Servicing and Distribution Unit. (tel.: 066513-2645).



EXECUTIVE SUMMARY

To meet the food aid needs of all of its beneficiaries, WFP must seek to increase the volume of resources and ensure maximum efficiency in the way they are used. A strategy to expand and diversify the donor base has been approved by the Board that reiterates the different ways in which donors can contribute.¹ Focused on ensuring that all needs are met, this paper makes the case that if a greater portion of contributions are provided multilaterally, WFP will have more predictability and flexibility, and can be more effective in meeting beneficiary needs on time. Such donations could be provided in cash or in-kind, though cash generally provides more flexibility.

From the perspective of WFP's beneficiaries, the most crucial measure of donor effectiveness lies in the actual tonnage of food provided in a timely fashion. Whether this food assistance was the result of a cash or in-kind donation, where it was purchased or whether it was the result of a commodity swap or loan is all of secondary importance for the intended recipients. Therefore, in assessing the effectiveness of their funding, donors should accord highest priority to the tonnage actually provided in a timely way through their donations.

Global donations of food aid declined sharply from 2003 to 2004 from 10.2 million mt to 7.5 million mt and the decline occurred in all categories – emergency, project, and programme. One reason for this was a sharp rise in both commodity and fuel costs which ultimately resulted in a decline in the amount of food aid available, in part because most donors budget in cash rather than committing to providing fixed tonnages. Donors should therefore undertake to exceed their pledges significantly under the Food Aid Convention, given the sharp rise in the demand for food assistance in natural disasters and civil conflict and the assessment by the Food and Agriculture Organization of the United Nations that the number of chronically undernourished people has risen worldwide by more than 60 million in the last decade (FAO, 2004).

The paper also responds to a request made at EB.A/2004 for the Secretariat to provide information on the principles applied to the use of multilateral funding. In this context, the paper stresses the importance of multilateral contributions that can be used flexibly to respond to assessed needs and requests donors to provide more or a greater proportion of them.

If all donors could provide at least a portion of their contribution to a programme category on a multilateral basis, leaving allocation within the category to WFP, there would be benefits in terms of flexibility of allocation and efficiency. In line with this proposition and with current practice in terms of donor appeals and reporting requirements, an updated definition of “multilateral contribution” is proposed as follows:

¹ See “New Partnerships to Meet Rising Needs – Expanding the WFP Donor Base.” WFP/EB.3/2004/4-C



"A multilateral contribution is a contribution to WFP to be allocated without restriction and at the discretion of WFP for any programme category, including the IRA, for which the donor agrees to accept the Standard Project Reports and reports submitted to the Board as sufficient to meet the requirements of the donor; a multilateral contribution may also include a contribution in which the donor identifies the programme category only, but places no other restriction on its use, which will be at the sole discretion of WFP."

It is further recommended that the definition of "directed contribution" be updated as follows: "A contribution regarding which the donor requests WFP to direct it to a specific activity or activities or a specific operation or operations and agrees to accept Standard Project Reports and reports submitted to the Board as sufficient to meet the requirements of the donor."

To make changes, donors need to be able to justify them to their constituents and explain the benefits they bring. If requested, the Secretariat will work with individual donors to identify a strategy and the information and analysis required to support change. WFP will also work with individual donors to develop an appropriate "visibility package" to highlight the value of multilateral contributions.

More predictable contributions and early provision of contributions enable WFP to plan and assist beneficiaries in a more timely and effective way. Ideally, donors are requested to consider providing overall multi-year funding levels or an ongoing commitment to a particular project or programme over time. For donors that cannot provide this level of certainty on their contributions, regular informal discussions are proposed to enable WFP to develop a sense of probable funding levels that would be non-binding and would not constitute a commitment.

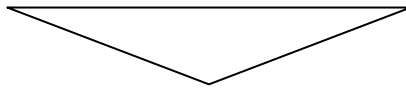
Donors have different resources to offer to WFP and can provide contributions as cash and as in-kind goods and services. All kinds of contributions are needed, but cash provided on a timely basis is generally preferred because it can be used in many ways to maximize the food available on time to beneficiaries, though WFP continues to welcome in-kind contributions especially from new donors.

Under the business process review, the Secretariat had a consultation with the WFP membership on the additional benefits to be gained through working-capital financing and pre-positioning/pre-purchasing arrangements. Agreement to alternative visibility packages to bag marking and to the use of all contributions for working-capital financing are needed to ensure that further gains can be made.

Currently, only 5.3 percent of contributions received by WFP are fully multilateral, in cash and without requirements as to their use. With additional and more flexible resources, WFP would have greater capacity to purchase food urgently when needed for emergencies, avert pipeline breaks, reimburse advanced financing and provide regular food rations more efficiently to its beneficiaries. Ideally, all contributions would be provided this way; as a step in this direction, it is recommended that in the next biennium efforts be made to reach a target of 30 percent of contributions provided multilaterally, without restrictions and preferably in cash.



DRAFT DECISION*



The Board **endorses** the strategy to seek a greater portion of contributions in ways that support beneficiary needs most effectively, as presented in “Funding for Effectiveness” (WFP/EB.2/2005/5-B), and **requests** the Secretariat to submit to the Annual Session of 2006 amendments to the Financial Regulations with respect to the following:

- (i) that the definition of “multilateral contribution” be updated as follows:

"A multilateral contribution is a contribution to WFP to be allocated without restriction and at the discretion of WFP for any programme category, including the IRA, for which the donor agrees to accept the Standard Project Reports and reports submitted to the Board as sufficient to meet the requirements of the donor; a multilateral contribution may also include a contribution in which the donor identifies the programme category only, but places no other restriction on its use, which will be at the sole discretion of WFP."

- (ii) that the definition of “directed contribution” be updated as follows:

“A contribution regarding which the donor requests WFP to direct it to a specific activity or activities or a specific operation or operations and agrees to accept Standard Project Reports and reports submitted to the Board as sufficient to meet the requirements of the donor.”

* 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.



INTRODUCTION

1. The WFP membership and the Secretariat are seeking ways to meet all identified beneficiary needs and to ensure maximum efficiency in the use of contributions provided. This paper identifies further opportunities for WFP to work with Members to ensure that contributions are provided and used in ways that support beneficiary needs most effectively.
2. The paper also responds to a request made at EB.A/2004 for the Secretariat to provide information on the principles applied to the use of multilateral funding. In this context, the paper stresses the importance of multilateral contributions that can be used flexibly to respond to assessed needs and requests donors to provide more or a greater proportion of them.
3. The Secretariat prepared a document that was discussed with the membership at an informal consultation on 19 May 2005. There was overall support for the paper's approach, but members requested that the Secretariat set out more clearly WFP's objectives in a final paper for approval.

Maximizing More Effective Contributions

4. As stated in the paper "New Partnerships to Meet Rising Needs—Expanding the WFP Donor Base" (WFP/EB.3/2004/4-C), WFP's goal is to meet the full requirements of programmes and operations approved by the Board and by the Director-General of the Food and Agriculture Organization of the United Nations (FAO) and the WFP Executive Director in the case of emergency operations (EMOPs). This will require maintaining support from existing donors, the enlistment of new public and private donors, and diversification of relationships with existing donors.
5. Donors have different resources to offer WFP and can provide contributions as cash and in-kind goods and services. All contributions are needed to meet increasing needs, but in seeking more flexible resources, it is important to remember that WFP needs all its current resources and more to meet assessed and approved beneficiary needs.
6. The ideal contribution is one that is multilateral and predictable, given early in the donor's fiscal year without requirements as to its use, and preferably in cash. Providing a greater proportion of contributions this way would enable WFP to be more effective in providing food to meet beneficiary needs on time.
7. In 2004, only 5.3 percent of contributions to WFP were completely multilateral, in cash and without requirements as to when and where they could be used. To increase WFP's effectiveness, it is recommended that in the next biennium efforts are made to reach a target of 30 percent of contributions that are provided multilaterally, and without additional requirements, and preferably in cash.



| 2004 CASH CONTRIBUTIONS | | |
|---|---------------|------------------------|
| | US\$ | % of total cash |
| Total cash contributions | 1 134 032 081 | 100.00 |
| Multilateral cash contributions | 247 719 985 | 21.84 |
| Breakdown of multilateral cash contributions | | |
| Cash restricted to purchase in donor country | 49 521 600 | 4.37 |
| Cash specified for purchase in developing countries | 102 870 934 | 9.07 |
| No GMO* commodities | 830 787 | 0.07 |
| Directed to particular operational activities | 32 326 260 | 2.85 |
| Directed to trust funds | 2 510 134 | 0.22 |
| Cash contributions without requirements | 59 660 270 | 5.26 |

* Genetically modified organism

8. There have been encouraging signs of donor willingness to make adjustments where possible and when the benefits of doing so are clear. For example:
- WFP has reached agreement in principle with some in-kind donors and is testing the technical arrangements for making reimbursable advance commodity purchases against forecast in-kind contributions.
 - WFP's largest donor has begun to pre-position commodities overseas, a mechanism that significantly decreases the lead time for delivering food to projects in immediate need, thus enhancing the range of tools available for rapid emergency response.
 - Several donor countries have begun to provide all or part of their contributions in the form of cash for local and regional purchases, where appropriate.
 - A number of donors have indicated willingness to review their requirements for bag markings in view of the efficiency gained in meeting needs through working-capital financing.
 - A number of donors have provided their contributions early in their respective fiscal years in 2005, helping WFP to provide a steady food pipeline for operations in need.
 - A number of donors have supported twinning arrangements, which leverage a much greater quantity of food to meet beneficiary needs.²
9. To make changes, donors need to be able to justify them to their constituents and explain the benefits they bring. WFP will work with individual donors to identify opportunities for progress, an appropriate strategy and the analysis, information and support required from WFP. Improved efficiency and effectiveness will be demonstrated in the context of results-based management (RBM) and reporting on results achieved under the new business processes.

² For further information on the advantages and criteria for twinning arrangements, see "New Partnerships to Meet Rising Needs—Expanding the WFP Donor Base" (WFP/EB.3/2004/4-C).



MULTILATERAL CONTRIBUTIONS

Advantages of multilateral contributions

10. Providing a contribution multilaterally is the most effective way of ensuring that its value can be maximized. This is because it enables WFP to allocate resources where and when they are most needed in accordance with the policy framework set by the Board. With its expanded expertise in needs assessment, overview of global requirements, knowledge of international food markets and experience in transport and logistics, WFP is strategically placed to make timely and well founded decisions to ensure that a contribution is used efficiently.
11. At present, the majority of allocations among EMOPs are not WFP decisions. The result has been decreased flexibility and sometimes under-funded emergencies, even though some donors try to give to a broad range of operations and/ or pay particular attention to “forgotten emergencies”.³ Donors are requested to provide WFP with more multilateral funds, or a greater proportion of such funds, to increase flexibility in balancing the use of resources across operations more effectively.
12. Another advantage of multilateral funding is that it contributes to WFP’s operational flexibility and efficiency. Once committed, multilateral funding can quickly be applied to a variety of situations to provide rapid response to an emergency situation or to avoid pipeline breaks. Such advantages are substantially increased if the multilateral contribution is multi-year, announced early in the donor's fiscal year, and provided as untied cash. Multilateral funds also enable WFP to provide vital resources for its development work and meet under-funded portions of regional operations.

Examples of the Effectiveness of Multilateral Funding

- When tropical storm Jeanne struck Haiti in 2004, multilateral funds were quickly used to purchase locally-available bread for flood victims in Gonaives who had lost their homes.
- WFP recently faced a critical break in food supplies for refugees in Kenya under its PRRO. The use of a multilateral cash contribution allowed WFP to provide regular assistance to 200,000 refugees until additional contributions were confirmed.
- Low-profile operations such as the relief operation for refugees in Myanmar and the Namibia refugee operation rely almost 100 percent on multilateral funds.
- Multilateral contributions are currently being used to pre-position food for the school feeding programme in Yemen. Ensuring timely and regular supplies are essential to successful school feeding programmes.

³ For example, generous support is being provided to Liberia which has received more support than Guinea and Sierra Leone, which face equally critical humanitarian needs.



Definitions

13. Donors currently providing multilateral contributions almost always ask WFP that they be used for a particular programme category. In 2004, 50 percent of the funds were provided for development activities (DEVs), 10 percent to EMOPs and 14 percent to protracted relief and recovery operations (PRROs); the balance went to special operations (SOs), the Immediate Response Account (IRA) and the General Fund.
14. If donors could provide at least a portion of their contribution to a programme category on a multilateral basis, leaving allocation within that category to WFP, there would be benefits in terms of flexibility of allocation and efficiency. In line with this and recognizing that the current definition is out of date with practice in terms of donor appeals and reporting requirements, an update of the definition of the term “**multilateral contribution**” is proposed.⁴
15. The current definition of a multilateral contribution to WFP is:

“... a contribution for which WFP determines the Country Programme or WFP activities in which the contribution will be used and how it will be used, or a contribution made in response to a broad-based appeal for which WFP determines, within the scope of the broad-based appeal, the Country Programme or WFP activities in which the contribution will be used and how it will be used, and for which the donor will accept reports submitted to the Board as sufficient to meet the requirements of the donor.”⁵

16. The following updated definition of a multilateral contribution is proposed:

“A multilateral contribution is a contribution to WFP to be allocated without restriction and at the discretion of WFP for any programme category, including the IRA, for which the donor agrees to accept the Standard Project Reports and reports submitted to the Board as sufficient to meet the requirements of the donor; a multilateral contribution may also include a contribution in which the donor identifies the programme category only, but places no other restriction on its use, which will be at the sole discretion of WFP.”

17. In contrast, a directed multilateral contribution is currently defined as:

“... a contribution, other than a response to an appeal made by WFP for a specific emergency operation (EMOP), which a donor requests WFP to direct to a specific activity or activities initiated by WFP or to a specific Country Programme or Country Programmes.”⁶

18. To ensure consistency and clarity, an updated definition of a directed contribution is proposed as follows:

“A contribution regarding which the donor requests WFP to direct it to a specific activity or activities or a specific operation or operations and agrees to accept Standard Project Reports and reports submitted to the Board as sufficient to meet the requirements of the donor.”

⁴ These definitions would need to form part of WFP's Financial Regulations. If the Board agrees with the proposals in this paper, the Secretariat will approach the FAO Finance Committee and ACABQ.

⁵ *WFP General Rules and General Regulations, Financial Regulations*, Section I: Definitions.

⁶ *Ibid*, pp. 37–38.



19. Definitions of multilateral and directed contributions should be differentiated from “tied” and “untied” contributions.⁷ “Tied” aid refers to the origin of the assistance provided, not to flexibility as to how it can be used. It is, for instance, possible to have a tied multilateral contribution.

How Multilateral Contributions Are Used

20. In 2004, WFP received US\$316 million in multilateral contributions (including both cash and in-kind contributions), 14 percent of total contributions of US\$2.3 billion. Virtually all multilateral contributions were provided for a particular programme category. WFP allocated resources to operations in the specified programme category, in line with priorities outlined in the Strategic Plan approved by the Board.
21. Multilateral contributions to development have been used to support projects in priority countries as agreed at EB.3/2003.⁸ Currently, 86 percent of WFP’s multilateral development contributions are being used to support projects in least developed or low-income countries and in countries faced with widespread chronic malnutrition, which is in line with the Board’s decision to meet a target of 90 percent by 2007.
22. The vast majority of contributions to EMOPs and PRROs in 2004 were directed contributions. Very few multilateral funds were made available to WFP to use within the EMOP and PRRO programme categories. Of total funding, including directed contributions, only 2.8 percent of EMOPs and 7 percent of PRROs were resourced from multilateral funds, even though these programme categories account for 85 percent of WFP’s programme of work.
23. Multilateral contributions have been used in operations ranging from the very small to the large and high-profile mainly to purchase staple commodities; they have been used in all regions, the largest percentage in sub-Saharan Africa.
24. Multilateral contributions to the EMOP and PRRO categories have typically been used to:
- avert imminent pipeline breaks; until the recent introduction of new business processes, there has been no other mechanism to address this problem;
 - give priority to refugee/internally displaced people (IDP) operations, because the beneficiaries often depend entirely on WFP’s food aid for their subsistence, and an uninterrupted supply is essential;
 - assist operations that have received few directed contributions;
 - round out commodity baskets, usually through local purchases of non-cereal foods or non-staples such as sugar or salt; and
 - enable country offices to repay borrowings from other operations in the same country or to cover unpredictable cash requirements such as unexpected costs of the diversion of shipments.

⁷ According to the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC), tied aid includes loans or grants that are either in effect tied to the procurement of goods and/or services from the donor country and/or a restricted number of other countries. See OECD/DAC. 1987. *Revised Guiding Principles for Associated Financing and Tied and Partially Untied ODA*. Paris, OECD.

⁸ Summary of Work of EB.3/2003, paragraphs 19 and 20.



25. recent improvements in WFP's analytical capacity, particularly in vulnerability analysis and mapping (VAM) and emergency needs assessments (ENAs), enables it to make decisions on the allocation of multilateral funds based on data and methodologies that are widely understood.

Principles for the Allocation of Multilateral Funds

26. The following principles are intended as a general guide, not rigid criteria, in allocating multilateral funds. It would not make sense to request flexible funds and then to impose inflexible criteria on their use.
27. If a significant portion of funds for EMOPs and PRROs were provided as multilateral contributions, WFP would have the flexibility to allocate funds according to need; priority would be given to operations assisting beneficiaries who are highly dependent on WFP food, at least in the short term, and for whom directed resources are insufficient. Such beneficiaries are likely to be found among:
- people severely affected by “new” emergencies and where other funding mechanisms such as the IRA are insufficient to cover needs; multilateral cash contributions can provide for an early response through local purchases while other donations are mobilized;
 - refugees and IDP populations;
 - people caught up in “unpopular”, under-funded emergencies; and
 - people without physical access to other sources of food.
28. Another level of support would be accorded to:
- avoiding pipeline breaks;
 - rounding out commodity baskets; and
 - exceptional circumstances such as the unexpected costs involved in the diversion of ships.

Visibility and Recognition of Multilateral Contributions

29. To encourage donors to provide at least a portion of their contribution to each programme category on a multilateral basis, WFP will need to find ways to give multilateral donors suitable recognition and visibility, as is currently the case with many directed contributions to high-profile operations. Different donors have different priorities; WFP will work with them individually to identify a “visibility package” that meets their needs in terms of visibility for multilateral contributions. Suggestions include the following:
- Press statements and media materials could make reference to the use of multilateral donations for a particular operation and mention the main multilateral donors; this would help to show parliamentarians and the public that a multilateral donor is participating, particularly in response to high-profile EMOPs.
 - Ensure that recipient governments, WFP country offices and embassies of multilateral donors are aware of contributions and consider special events and ceremonies in the recipient country to acknowledge the contribution.
30. The Annual Performance Report will provide information on the sources and uses of multilateral funding. WFP would also be open to discuss with donors other possibilities for visibility of multilateral contributions.



More Predictable Contributions

31. Working-capital financing based on forecasts of resources available for a particular operation will enable WFP to assist beneficiaries in a more timely and effective way. WFP's contribution forecasts are currently based on a triangulation of each donor's contribution history, events or policy changes that shape its current outlook and informal interaction with donors. WFP needs to improve the accuracy of its forecasts, which have so far consistently been over-conservative.
32. Ideally, more predictable contributions would include overall multi-year funding levels or an ongoing commitment to a particular project or programme over a period of time. For instance, one donor's recent three-year commitment to school feeding has been instrumental in providing regular rations and steady support to 500,000 school children.
33. It is recognized that not all donors can provide this level of certainty on their future contributions, particularly in public or written undertakings. For these donors, it is preferable to hold regular low-key discussions that enable WFP to understand the donor's situation and thinking; WFP will develop a sense of probable funding levels, which will be useful in the context of working-capital financing, and donors will be reminded that information on indicative levels of funding will not be made public, will be considered non-binding and will not constitute a commitment.

More Cash Contributions

34. Donors have different resources to offer to WFP and can provide contributions in several ways – as cash, in-kind goods and services and contributions to SOs managed by WFP. All these contributions are needed, but timely cash contributions are generally preferred when donors have the capacity to provide them. As demonstrated below, cash can be used in multiple ways to maximize the food available on time to meet beneficiary needs.
35. Over the past few years there has been an upward trend in the donation of cash to purchase food commodities. In 2001, WFP purchased 1.4 million mt at a cost of US\$294.3 million. By 2004, this rose to 2 million mt of food at a cost of US\$511.4 million.⁹ Additional cash contributions are expected as WFP receives donations from the private sector.
36. When cash is provided in a timely way, WFP can respond quickly in emergency situations by purchasing food that may be already available in the country or region. It can also mean savings on shipping and other transport costs, which can be used to assist more beneficiaries.
37. Cash contributions can be twinned with in-kind contributions from a developing country donor, an arrangement which in many cases serves to leverage a far larger volume of resources than if the same cash contribution were used to purchase commodities on the local or international market.¹⁰

⁹ This does not include additional purchases made for the Iraq operation in 2004.

¹⁰ See "New Partnerships to Meet Rising Needs—Expanding the WFP Donor Base" (WFP/EB.3/2004/4-C).



Accessing additional food using cash in Ethiopia

In a recent case study, WFP found that when a donor provided an in-kind contribution worth US\$3 million, it would be possible to ship **6,200** mt of wheat from the donor country to 60,000 people affected by drought in Ethiopia. If the same contribution were provided in cash and used to purchase food on the local market, it would be possible to purchase **7,760** mt of wheat for 73,000 people. If the same cash were used to “twin” with an in-kind donation, it could be used to leverage **14,080** mt of wheat – over twice as much as the in-kind donation allowing WFP to provide assistance to 133,500 people.

38. A recent report of the Organisation for Economic Co-operation and Development (OECD) found that there is a high variance in the cost effectiveness of local purchases depending on the circumstances in which they are undertaken and the commodities involved.¹¹ Economic Analysis Unit is also conducting an analytical review of WFP’s local food purchases.¹²
39. In practice, the efficiency and effectiveness of local cash purchases varies greatly from one market to another and from one year to another. In view of this, WFP’s preferred approach, unless a donor specifically proposes otherwise, is to conduct analysis on the implications of various scenarios to find the best way forward from among the following options:
- purchase in the recipient country;
 - purchase in a neighbouring country with a stronger market capacity;
 - twinning with a suitable commodity donation from a developing-country donor;
 - purchase in the donor country, or the EU in the case of its member donors; and
 - purchase through an international tender.
40. As cash contributions increase, WFP must take account of the fact that there may be a limit on the volume of commodities that should be purchased in a particular local or regional market. Large-scale purchases can lead to significant upward pressure on prices, with negative effects on poor consumers; this is most likely to be the case in small markets or at times of limited supply. Another consideration is that local purchases may in certain circumstances be more expensive than imported commodities, even when transport costs are taken into account. In addition, WFP always has to take into account the reliability of a supplier to deliver quality commodities on time.
41. Additional multilateral donations in-kind, especially to country programmes, can provide many of the advantages of cash donations by allowing WFP in essence, to pre-position resources. Historically, one of the most effective mechanisms WFP has at its disposal for dealing with emergencies is borrowing commodities from its own stocks or national stocks against anticipated in-kind donations. New cash donations often take weeks, even months to negotiate. WFP was, for example, able to begin providing food aid to Sri Lankan victims of the Indian Ocean tsunami within 48 hours, drawing on in-kind donations provided earlier for the development programme there. Similarly, the

¹¹ OECD Development Cooperation Directorate, “The Development Effectiveness of Food Aid and the Effects of its Tying Status,” 21 October 2004.

¹² An analytical review of WFP’s local/ triangular food purchases and their impact on WFP operations and local economies is currently under preparation in WFP’s Policy Department.



first new food donation of substantial size to arrive in Indonesia was an in-kind donation diverted during shipping, one of the 40–50 ocean cargoes WFP has in transit at any given time. Borrowing from WFP or national stocks provides for an extremely rapid response, because no tenders are required and the food is generally close to where it will eventually be used.

42. With regard to cash contributions it is important to remember that lead times are required to procure and transport commodities, even locally or regionally, so it is critical that the cash is provided in a timely manner to increase its effectiveness in meeting needs.

More Flexible Contributions

43. Under the business process review (BPR), WFP has had a consultation with the WFP membership on the additional benefits to be gained through working-capital financing and pre-positioning/pre-purchasing arrangements. Significant gains have been achieved. Full implementation and further gains, however, are hampered by requirements placed on donor contributions. The following paragraphs give examples of the requirements and potential alternatives that take donor needs into consideration.
44. **Funding Proposals.** Before confirming a contribution, some donors request funding proposals outlining the commodity that will be purchased and delivered with their contribution and the associated costs. Many donors request these proposals for directed contributions; some also request them for multilateral contributions. This creates an administrative burden, and the funding proposal requirement inhibits the flexibility required to purchase under working-capital financing, because supplies are procured in advance of a confirmed contribution on the basis of a forecast contribution.
45. Funding proposals for multilateral contributions should not be required. For directed contributions, an alternative to funding proposals with a detailed breakdown of costs – which inevitably change – is to provide donors with a general estimation of the volume of food that WFP can deliver with the contribution before it is confirmed.
46. Some donors use the funding proposal largely to track their Food Aid Convention (FAC) commitments after a contribution is confirmed, so WFP can support them in meeting this requirement by providing information on actual tonnages loaded and shipped after the transaction, in line with the FAC reporting calendar.
47. **Bag Markings.** The use of donor bag markings is an important visibility tool for some donors, but is of little or no interest to others. The condition stipulating the use of bag markings, however, limits contributions from being used for working-capital financing because it limits reimbursement to a single donor.
48. In exploring the possibility of flexibility with regard to bag markings, WFP will need to discuss the issue individually with donors rather than seek a standard approach. There will be instances where a donor's wish for bag markings is not a significant constraint and times when it is. Where it is a constraint, WFP will develop a technical solution, such as the use of a bag sleeve, which would make it easier to provide visibility for those who need it and still be compatible with the BPR. In addition, WFP will discuss an alternative visibility package, which could include one or more of the following:



- press releases, media briefs, websites, official handing-over ceremonies and the placing of flags at distribution sites;
 - stickers on food bags indicating the donor, particularly for media events and handing-over ceremonies; and
 - marks on the bags that give recognition to all donors contributing to a particular operation.
49. **Purchase in a Specific Location.** Some donors also request that their contributions be used to purchase in a specific country, particularly the recipient country. This makes it more difficult to use them in the context of the working-capital financing project cash account. Specifying where commodities should be purchased reduces flexibility and increases the risk on the use of the account.¹³
50. Rather than have donors specify a purchase location when making a contribution, WFP proposes that it conduct thorough analyses of the most efficient way to use cash contributions.
51. **Terminal Obligation Date.** Many donors require WFP to use their contributions within a specified period. As WFP plans its pipeline and coordinates the arrival of multiple contributions, a short timeframe may be unworkable or result in inefficient use of resources. To make the most of a contribution, to coordinate it with other cash and in-kind contributions and to ensure that purchases are made when needed or when prices are at their lowest, it is important that there is flexibility as to when the contribution can be used. Requirements on the timing of the use of a contribution also make it difficult, if not impossible, to use it to repay the IRA, the Central Emergency Revolving Fund (CERF) and to use it within the context of the working-capital financing project cash account.
52. Donors are encouraged to take steps to remove prescribed time periods within which a contribution can be used. If this is not possible, donors may consider a request that the terminal obligation date coincide with the end of the operation.

Target for Increased Funding Flexibility

53. WFP's objective is to resource all its approved programmes and operations. Ideally, all needs would be met through contributions that are multilateral, predictable and flexible so that WFP can plan and allocate them according to assessed need.
54. Currently, only 5.3 percent of contributions to WFP are fully multilateral, in-cash and without requirements as to their use such as bag markings, purchase locations and utilization dates. At the operational level, multiple requirements on multiple directed contributions make it extremely difficult to manage a pipeline and ensure that regular rations are provided on time to those in need.
55. Additional flexible resources provided early in the donor's fiscal year and in cash would enable WFP to plan the use of its resources more effectively across all programme categories, to purchase food urgently when it is needed to respond to emergency situations, to avert pipeline breaks, to repay cash loans from CERF and IRA, to reduce the risk of working-capital financing and to ensure a daily balanced food-basket for its beneficiaries.

¹³ "Business Process Review, Meeting Donor Conditions and Working-Capital Financing", 7 December 2004.



56. In view of the above and the fact that multilateral flexible resources would enhance WFP's capacity to meet needs on time, it is recommended that in the next biennium, efforts are made to reach a target of 30 percent of contributions provided multilaterally, without additional requirements, and preferably in cash. All donors are encouraged to make progress where possible and as soon as possible.



ACRONYMS USED IN THE DOCUMENT

| | |
|------|---|
| BPR | business process review |
| CERF | Central Emergency Revolving Fund |
| DEV | development project |
| EMOP | emergency operation |
| ENA | emergency needs assessment |
| FAC | Food Aid Convention |
| FAO | Food and Agriculture Organization of the United Nations |
| FDD | Donors Relations Division |
| GMO | genetically modified organism |
| IDP | internally displaced person |
| IRA | Immediate Response Account |
| PRRO | protracted relief and recovery operation |
| RBM | results-based management |
| SO | special operation |
| VAM | vulnerability analysis and mapping |

