

Informal Consultation

Resource Management Items for EB.A/2017

16th May 2017



World Food Programme

Agenda

- 1 Audited Annual Accounts**
- 2 Annual Performance Report 2016**
- 3 Report on the Utilization of WFP's Advance Financing Mechanisms**
 - A. Further information on SRAC
 - B. Report on the Utilization of WFP's Advance Financing Mechanisms
 - C. Macro-advance Financing (MAF) *presented by BCG*



Audited Annual Accounts

Resource Management Department



2016 Financial Statements: Structure of presentation

1. Structure of WFP Financial Statements
2. 2016 Change in Accounting Policy
3. Surplus (Deficit) Evolution 2013-2016
4. Financial Performance for the year ended 31 December 2016
5. Financial Position as of 31 December 2016
6. Comparison of Budget and Actual Amounts for the year ended 31 December 2016
7. Overview of Statement on Internal Control



Structure of WFP Financial Statements

01 Executive Director's Statement provides an overview on:

- Financial and Budgetary Analysis
- Enhancing Transparency and Accountability
- Integrated Road Map
- Financial Risk Management

02 Statement on Internal Control

- The Internal Control Framework and Enterprise Risk Management
- Review of the Effectiveness of Internal Control
- Significant Risk and Internal Control Matters

03 Financial Statements I to V provide financial views on operations:

- Statement I – presents the financial position as of 31 December 2016
- Statement II – presents the financial performance for 2016
- Statement V – presents budgetary performance: Actual against Budget

04 Notes to the Financial Statements

- Disclose WFP's accounting policies (Note 1)
- Provide explanatory detail to elements of the Financial Statements (Notes 2 – 11)

05 External Audit Opinion and Report

2016

Change in accounting policy

WFP's non-exchange revenue recognition accounting policy was changed, in order to provide meaningful and relevant information related to contributions revenue stipulated for future years. As a result, deferred revenue of USD 986.2m was recorded in 2016 and USD 238.6m in 2015.

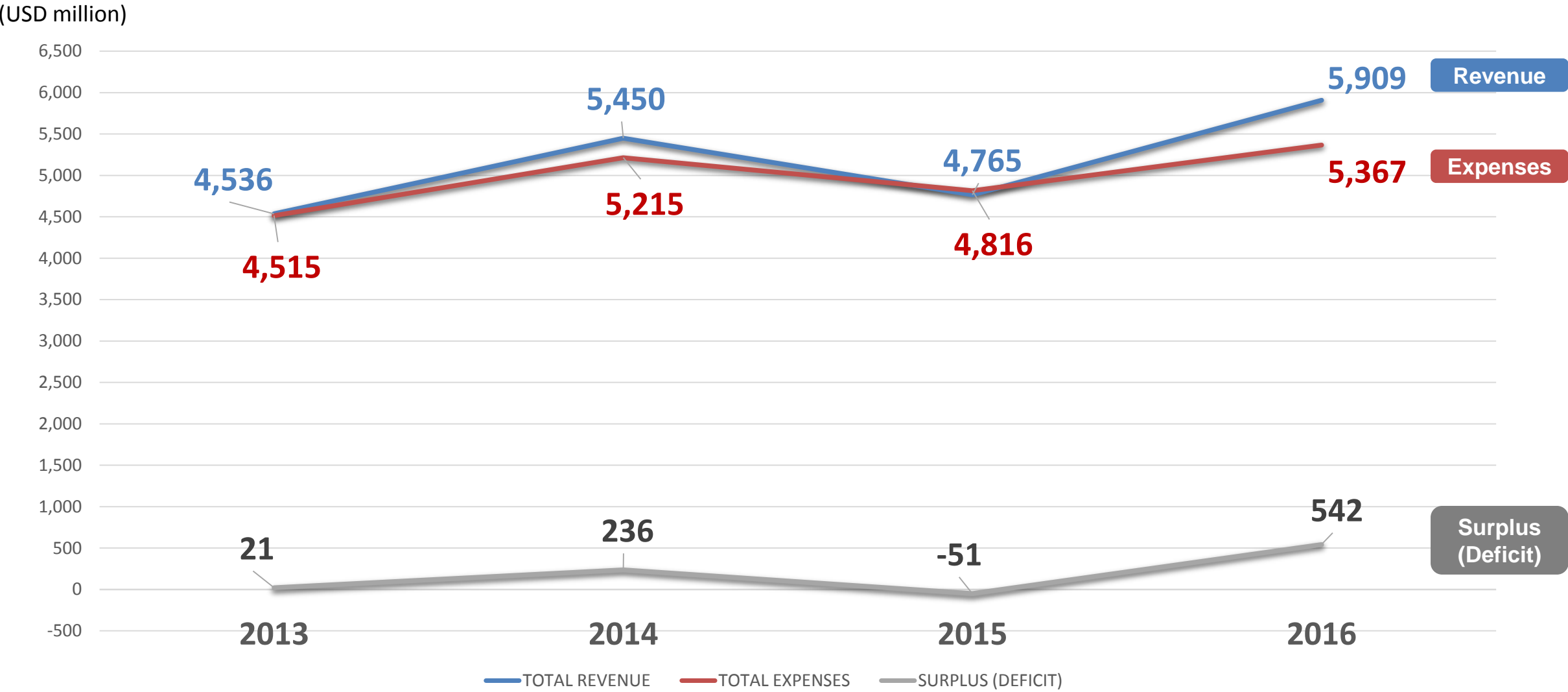
Policy language

Note 1 - New paragraph 28:

In 2016, WFP changed its accounting policy for recognition of contributions revenue (non-exchange revenue), whereby for contributions stipulated for future years, WFP recognizes an asset (cash or receivable) and a liability (deferred revenue) when the agreement is confirmed in writing. The liability is reduced and revenue is recognized only when the contribution year, as stipulated by the donor, starts. Previously, the entity recognised revenue for contributions stipulated for all years including future years and did not recognise deferred revenue.



Surplus (Deficit) Evolution 2013-2016: Revenue less Expenses



Note: Years 2013 and 2014 have not been updated for the accounting policy change

Statement II - Statement of Financial Performance

(Financial Statements 2016, Statement II)

(USD million)	2016	2015	
REVENUE			Contribution revenue increased by USD 1,108.9 M (24%), mainly due to increased monetary contributions received from two major donors for the programmatic response in Syria, Egypt, Iraq, Jordan, Lebanon, and Turkey
Monetary contributions	5,300.4	4,111.3	
In-Kind contributions	470.7	550.9	
Other revenue	137.8	103.2	Cash-based transfers distributed increased by USD 203.2 M (30%) mainly due to increased response to Syria and Yemen
TOTAL REVENUE	5,908.9	4,765.4	
EXPENSES			Cost of food commodities distributed increased by USD 267.0 M (15%). 63% of food commodities distributed in MT and 56% in value are attributable to WFP's large scale operations (Syria, Ethiopia and Yemen, Malawi, South Sudan, Sudan, & Pakistan)
Cash-based transfers distributed	882.3	679.1	
Food commodities distributed	2,051.1	1,784.1	
Distribution and related services	641.4	635.9	
Wages, salaries, employee benefits and other staff costs	826.4	797.4	Wages increased by \$29.0m (4%) mainly due to increase in the number of international professionals, national staff and consultants
Supplies, consumables and other running costs	170.8	167.3	
Contracted and other services	689.5	645.0	Contracted and other services increased by USD 44.5 M (7%), mainly increase in expenses related to services rendered by cooperating partners in South Sudan operations
Finance Costs	2.1	2.2	
Depreciation and amortization	48.3	52.4	
Other expenses	55.3	52.9	
TOTAL EXPENSES	5,367.2	4,816.3	Total expenses increased by USD 550.9 M(11%)
SURPLUS FOR THE YEAR	541.7	(50.9)	

Statement I - Statement of Financial Position

(Financial Statements 2016, Statement I)

USD million	31.12.2016	31.12.2015
Cash and cash equivalents	777.5	772.2
Short-term investments	1,176.6	817.2
Contributions receivable	2,756.9	2,233.4
Inventories	643.2	650.1
Other receivables	127.1	109.4
TOTAL Current Assets	5,481.3	4,582.3
Contributions receivable	488.4	36.5
Long-term investments	506.3	462.3
Property, plant and equipment	140.3	144.5
Intangible assets	5.7	5.2
TOTAL Non-current Assets	1,140.7	648.5
TOTAL Assets	6,622.0	5,230.8
Payables and accruals	557.8	513.8
Deferred revenue	486.9	198.9
Provisions	7.0	5.7
Employee benefits	7.8	10.6
Loan	5.7	5.8
Total Current Liabilities	1,065.2	734.8
Deferred revenue	499.3	39.7
Employee benefits	652.3	601.9
Loan	78.1	83.8
Total Non-current Liabilities	1,229.7	725.4
Total Liabilities	2,294.9	1,460.2
TOTAL NET ASSETS	4,327.1	3,770.6
Fund Balances	3,997.4	3,492.4
Reserves	329.7	278.2
TOTAL FUND BALANCES AND RESERVES	4,327.1	3,770.6

Cash and STI increased USD 364.7 M (23%), mainly due to a 44% increase in STI due to a significant increase in donor contributions

Contribution receivables increased USD 975.4 M (43%) due to a significant increase in donor contributions

Food inventory decreased USD 4.7 M (0.7%), due to decrease in stock held from 1.1m mt in 2015 to 1.0m mt in 2016

Total liabilities increased USD 834.7 M (57%) primarily due to the recognition of a deferred revenue liability because of the change in accounting policy on contributions revenue stipulated for future years

Statement V – Comparison of Budget and Actual Amounts

(Financial Statements 2016, Statement V)

USD Million	Budget Amount		Actual on comparable basis	Difference: final budget and actual	Prioritized Plan
	Original	Final			
Food and related direct operational costs (DOC)	4,265.7	4,996.7	2,949.4	2,047.3	2,354.0
Cash-based transfers and related DOC	2,421.5	1,717.3	970.6	746.7	1,140.0
Capacity augmentation	465.0	562.8	371.6	191.2	286.0
Direct support costs	867.4	1,011.9	622.3	389.6	561.0
Subtotal direct project costs	8,019.6	8,288.7	4,913.9	3,374.8	4,341.0
Regular PSA	290.3	290.3	289.7	0.6	290.3
Critical corporate initiatives	20.0	28.7	19.2	9.5	20.0
Subtotal indirect costs	310.3	319.0	308.9	10.1	310.3
TOTAL	8,329.9	8,607.7	5,222.8	3,384.9	4,651.3

Original budget is increased by USD 277.8 M, mainly due changes in: a) increases in the Syria crisis, Ethiopia, Haiti and Nigeria and b) decreases in Yemen, Iraq and Niger

Utilization of final budget in 2016 is 61%, due to the constraints of amount, timing and predictability of contributions, as well as operational constraints

Actual is higher than Prioritized Plan, due to higher than expected contribution revenue mainly driven by response to Syrian crisis and Ethiopia operation

The Prioritized Plan includes the Provisional Prioritized Programme of Work for the direct costs portion and the Final Budget for the indirect costs portion (MP 2016-2018)

Overview of Statement on Internal Control (I/II)

2016 is sixth year for which a Statement on Internal Control (SIC) is being produced

- One new question on evaluation was added to the 2016 Assurance Statement. Several other questions on ethics, gender, fraud, handovers and IT were updated
- Global best practice to assure stakeholders and demonstrate accountability
- SIC, signed by Executive Director, to be published with Annual Financial Statements (June 2017)



Completed Assurance Statements on internal control for each Office/Division form the basis of ED Statement

- Directors of WFP offices and HQ divisions submitted to RDs and DED/AEDs
- RDs and DED/AEDs cleared submissions by Directors reporting to them
- Evidence from other sources; e.g. oversight findings, corporate risk register, and Audit Committee

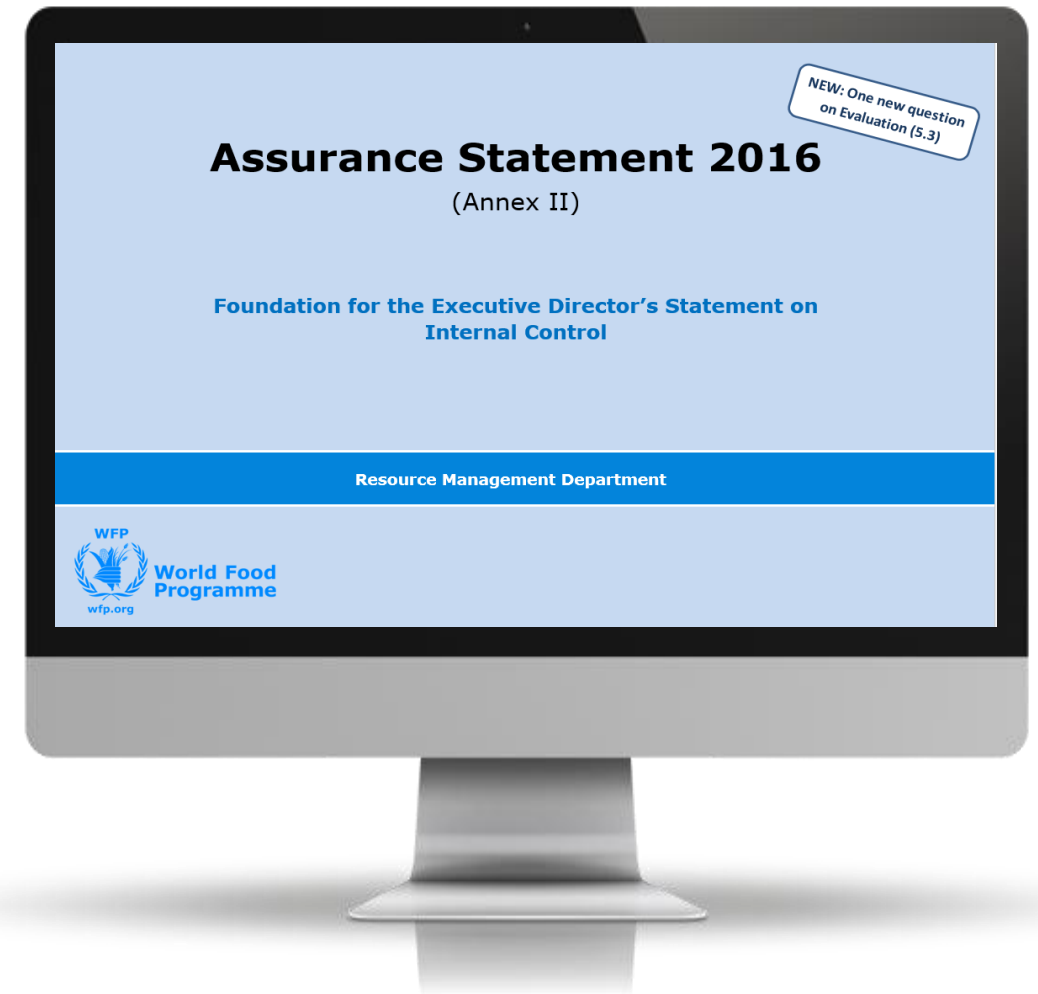


Overview of Statement on Internal Control (II/II)

100% of Directors, managing 136 WFP HQ and field offices, submitted an Assurance Statement and Letter of Representation

Statement of internal controls includes four significant risks:

- Two areas previously reported need further improvement (improving operational monitoring and review systems, the impact of an unusually high number of L-3 and L-2 emergencies on internal control in WFP)
- Two new internal control weaknesses arose during 2016 (enterprise risk management and oversight, talent management and workforce planning)





Annual Performance Report Preview

Resource Management Department



The world we operated in...

Strategic Context

- Historic highs of **complex protracted emergencies**
- **The SDGs and a world without hunger by 2030**

WFP response

- **Emergency response:** Innovative ways to respond, tailored WFP tools and staffing
- **Thematic areas:** Partnerships (including service provision), CBT, nutrition, gender and AAP
- **Review of Fit For Purpose Initiative**
- Development of the **Integrated Road Map** with four critical elements



Key Trends



Highest number of beneficiaries since 2013 – Increase last year due to El Nino and Nigeria crisis



Expansion of CBT – 40% increase in beneficiaries and highest transfer value ever



More nutritious-dense foods provided – Increment in assistance for vulnerable children and women



Better monitoring, especially emergencies – 85% reporting rate for food security indicators

People assisted by WFP in 2016



82.2 million vulnerable people received food or cash

An additional 1.8 million were assisted directly through Trust Fund Projects

More than 2 million were people exposed to nutrition messaging
Over 1.5 million farmers were connected to local markets
290,000 humanitarian workers were flown on UNHAS planes
80,000 government and partner staff were trained

13.2 million people indirectly benefited from assets rehabilitated/created by WFP

More than 70 million people are expected to benefit from government programmes designed and deployed with WFP support

The performance story from 2016

Strategic Objective 1

Strategic Objective 2

Strategic Objective 3

Strategic Objective 4

Management performance



World Food Programme



Moving into 2017

Responding to **emergency needs** (four famines and continued crises)

Transitioning towards **Agenda 2030**

Strengthening **risk management** and **internal controls**

Increasing **transparency** and enhanced **performance management and reporting**





Report on the Utilization of Advance Financing

Resource Management Department

A. More on Strategic Resource Allocation Committee (SRAC)

What type of resources does SRAC deal with?



Multilateral contributions

are donor contributions, for which WFP determines the Country Programme or other WFP activities in which the contribution will be used and how it will be used



Contributions can be made to...

1. Immediate response account (IRA)
2. Specific programme categories (EMOP, PRRO, SOP, DEV)
3. Extra Budgetary activities (ex: Organizational strengthening and innovation)



Reporting happens through...

Standard Project Reports (SPRs) as well as Specific donor's allocation report upon request

For the IRA, a quarterly bulletin is published and full overview is provided in the yearly Report on the Utilization of Advance Financing

How does the SRAC work?



Composed of five members

- Chief of Staff (Chair)
- Deputy Executive Director
- AED, Resource Management
- AED, Partnership, Governance and Advocacy Department
- AED, Operations Services Department



The SRAC is responsible for...

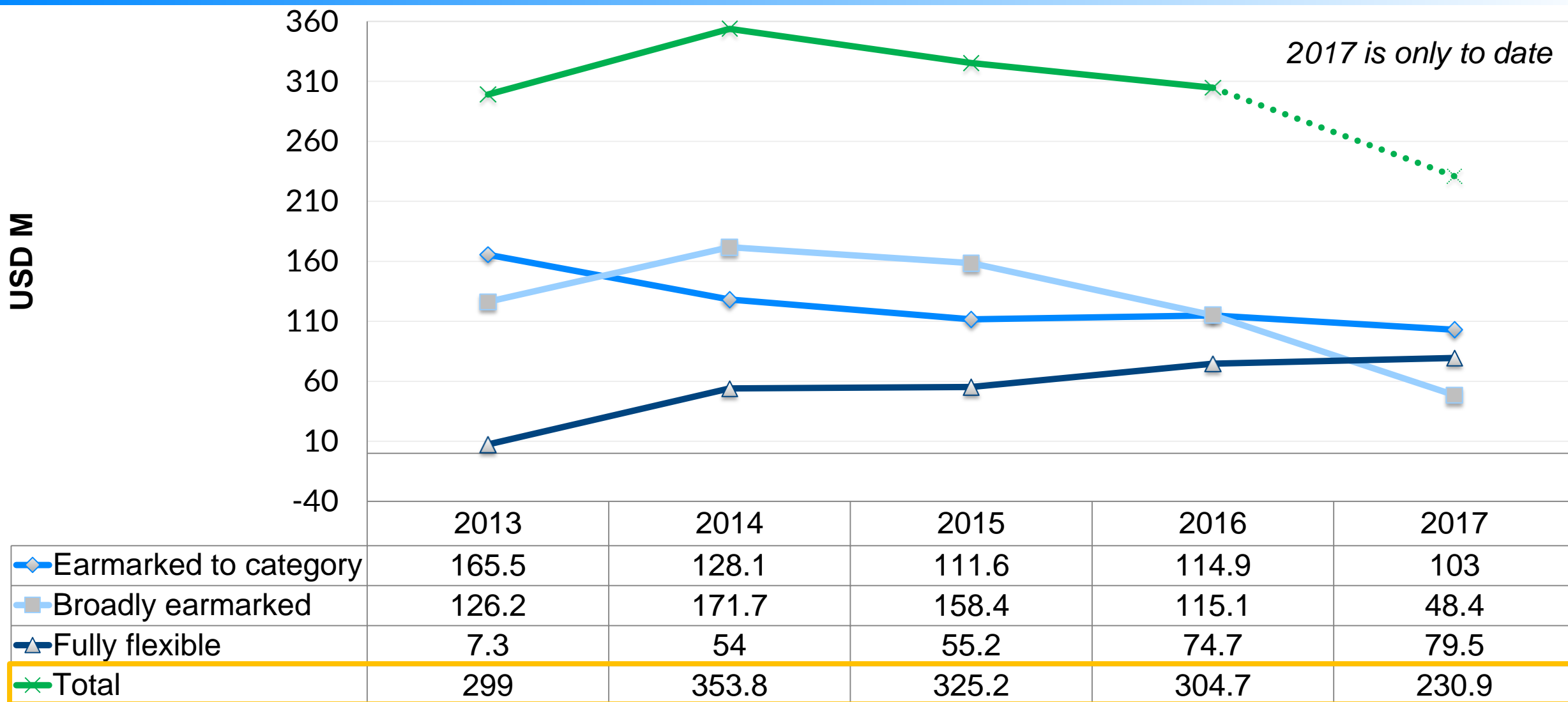
Resources over which management has discretion, including multilateral and extra-budgetary funds, PSA, and the Capital Budgeting Facility



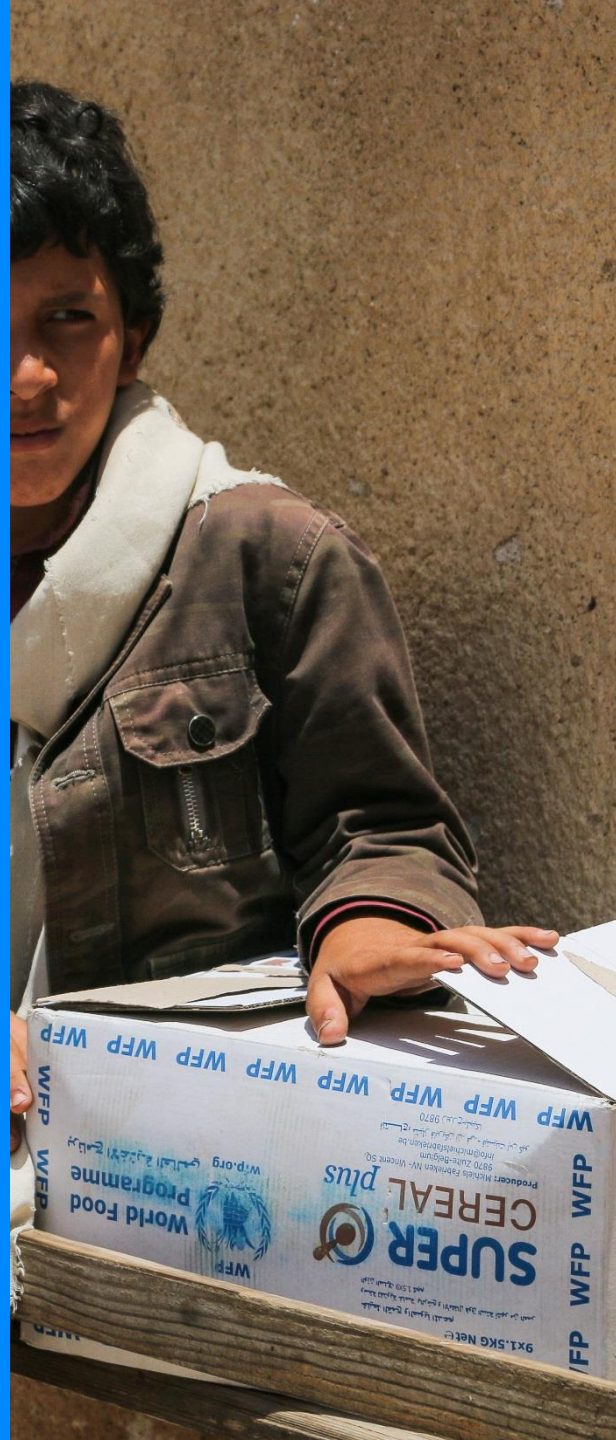
How does it work...

SRAC meets roughly every other month. The Committee then provides recommendations to the Executive Director. If urgent decisions are needed, the group can make electronic endorsements.

Look at the five year trend for multilateral contributions



Reviewing multilateral funding



The SRACs main functions are:

01

Review of earmarked, broadly earmarked and fully flexible multilateral funding availability

02

Prioritize broadly earmarked and fully flexible multilateral funds among:

- *Projects (Relief and DEV/CP)*
- *IRA*
- *Extra Budgetary Activities*

03

Review multilateral funding allocation proposals to prioritized projects and extra budgetary activities' requests

SRAC Prioritization Overview: EMOPs and PPROs

Prioritization and Proposed Allocation

SRAC Review & Approval

1 Quantitative Analysis:

Projected Net Funding Requirements

= 6 month pipeline shortfall

+ Outstanding advance

- Un-programmed contributions

- Forecast expected within 6 months



2 Qualitative Analysis:

- Food security indicator (1-5)
- Corporate/regional attention (1-6)
- Global Hunger Index (GHI) (1-5)



3 Result: Criticality Matrix

Qualitative Score	Medium	High	Very High
	Lower	Medium	High
	Lower	Lower	Medium
	Quantitative Score		

4 Regional Director Review

5 SRAC Meeting and Decision

6 Final SRAC allocation

SRAC Prioritization Overview: DEVELOPMENT/Country Programmes

Prioritization and Proposed Allocation

SRAC Review & Approval

- 1 Quantitative Analysis:**
Projected Net Funding Requirements
 = Pipeline shortfalls for Calendar year
 + Outstanding advance
 - Un-programmed contributions
 - Forecast expected within calendar year



- 2 Qualitative Analysis:** “At least 90 percent of the undirected multilateral resources from traditional donors used for development should go to concentration countries (CC):

- LDC or equally low income (<US\$1,045);
AND
 - Under-five child stunting > 25 %.
- Max 10% for Non Concentration Countries (NCC)

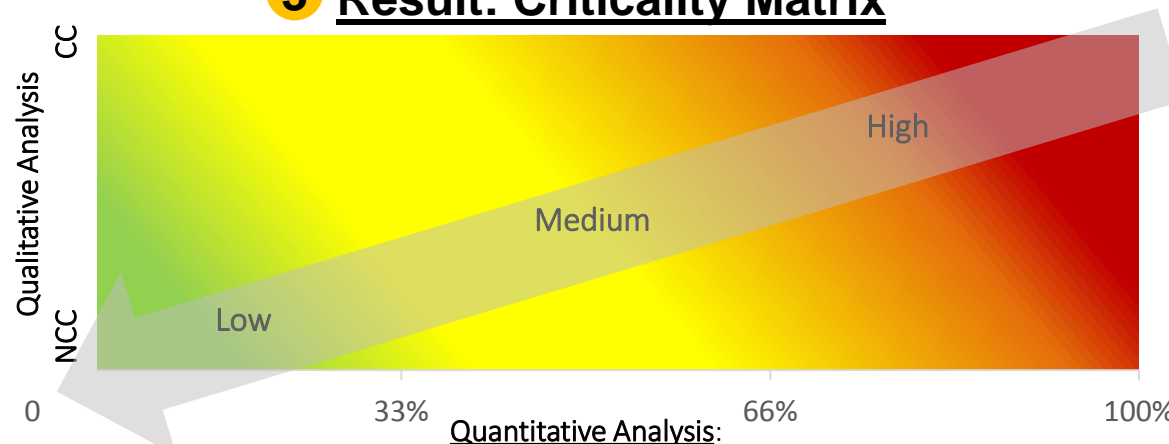


- 4 Regional Director Review**

- 5 SRAC Meeting and Decision**

- 6 Final SRAC allocation**

3 Result: Criticality Matrix



SRAC Prioritization Example (I/III): Quantitative Analysis

	Ethiopia (PRRO)	Yemen (EMOP)	Kenya (PRRO)
6 m. pipeline shortfalls	183.3	395.5	33.8
+			
Outstanding advances	0.0	26.6	1.2
—			
Unassigned funds	4.0	24.4	3.7
—			
Contributions expected w/in 6 months	37.2	56.8	22.1
Projected Net Funding Requirements	142.1 (60%)	340.9 (62%)	9.2 (13%)
<i>6 month pipeline requirements</i>	237.6	546.3	69.9

SRAC Prioritization Example (II/III): Qualitative Analysis

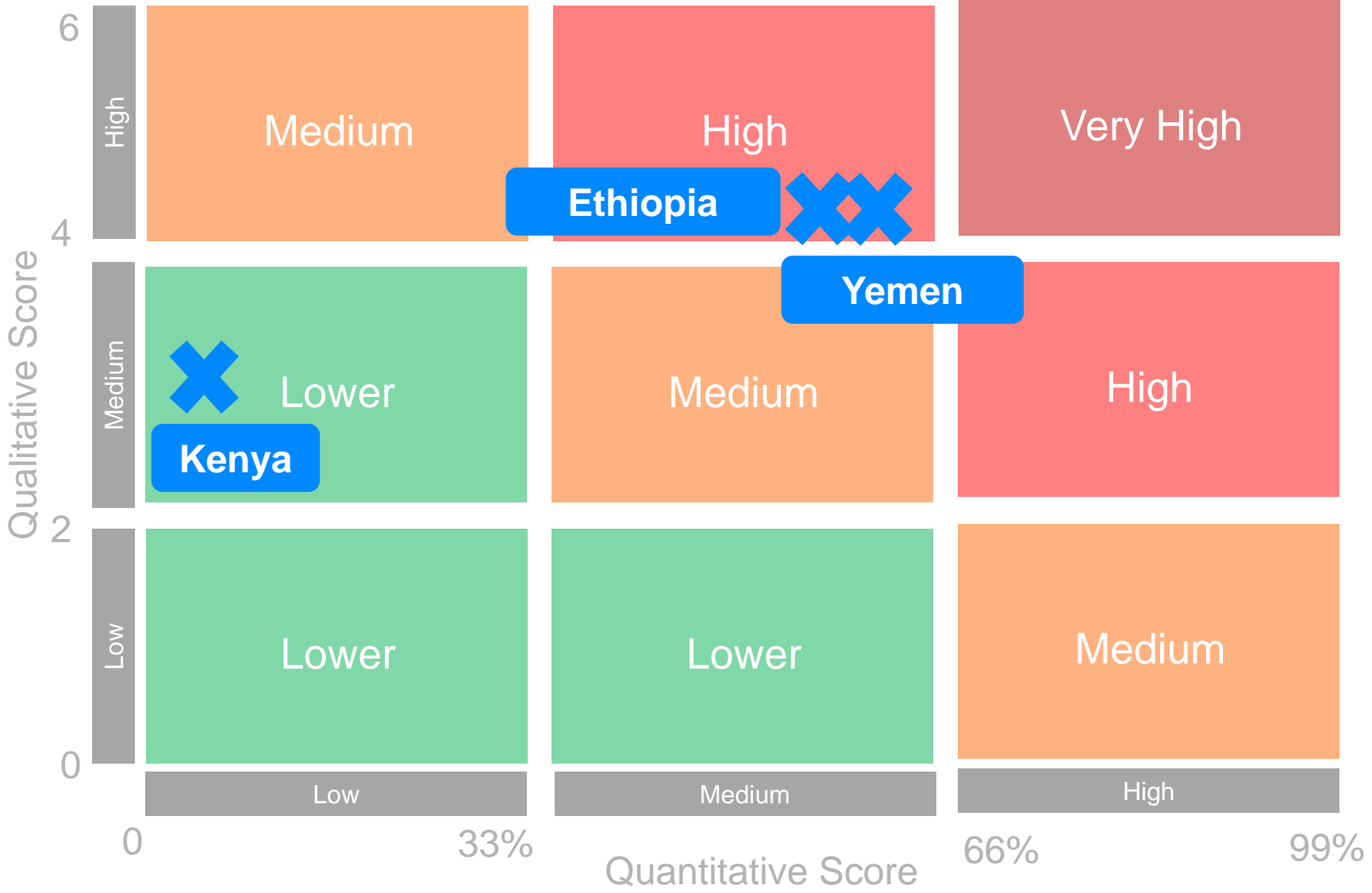
Corporate/Regional Attention: Priority level of specific operations within the region. A score of 6 is given to all L3s

Food Security Indicator: Season price pattern to reflect markets and food access conditions. A 5 is given to all operations w/ majority of refugees or IDPs

Global Hunger Index: long-term measure of food insecurity by incorporating food access and utilization

	Ethiopia (PRRO)	Yemen (EMOP)	Kenya (PRRO)
Corporate/ Regional Attention (6 max)	5	6	5
Food Security Indicator (5 max)	5	4	2
Global Hunger Index (5 max)	3	3	3
Qualitative Score (avg.)	4.3	4.3	3.3

SRAC Prioritization Example (III/III): Placement



Ethiopia PRRO
High
QL: 4.3 QN: 60%
Yemen EMOP
High
QL: 4.3 QN: 62%
Kenya PRRO
Low
QL: 3.3 QN: 13%

B. Report on the Utilization of WFP's Advance Financing Mechanisms

WFP's Advance Financing Tools



01

Advance financing for release of funds to projects

A facility that provides internal project lending and Macro-Advance Financing, and the Immediate Response Account based on qualification criteria

02

Advance financing for food purchase prior to requests from projects

The Global Commodity Management Facility (GCMF) allows WFP to make food purchases in advance of requests from projects

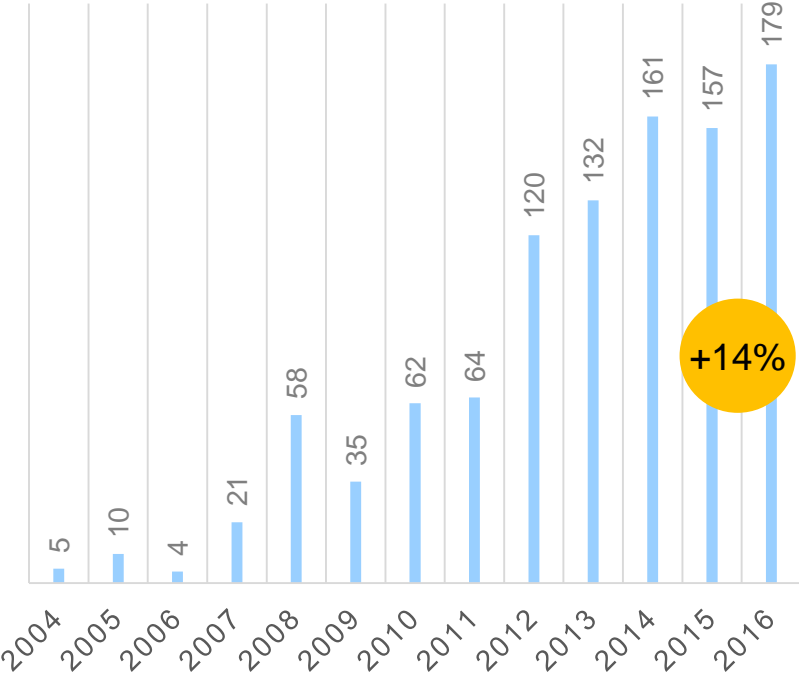
03

Advance financing for corporate services

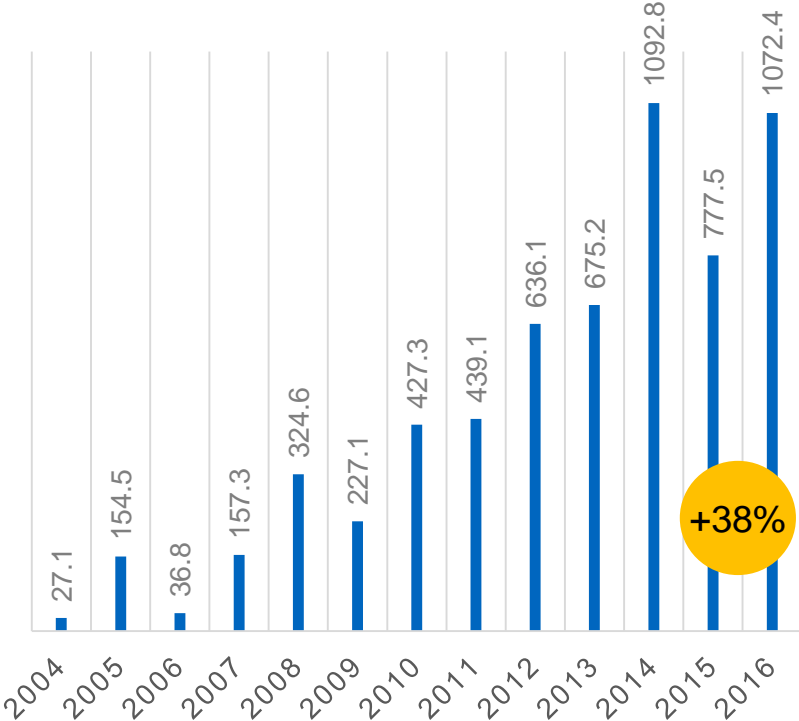
The Capital Budgeting Facility allows WFP to make investments in the efficiency and quality of corporate services when they need larger upfront investments

Internal Project Lending (IPL) trends

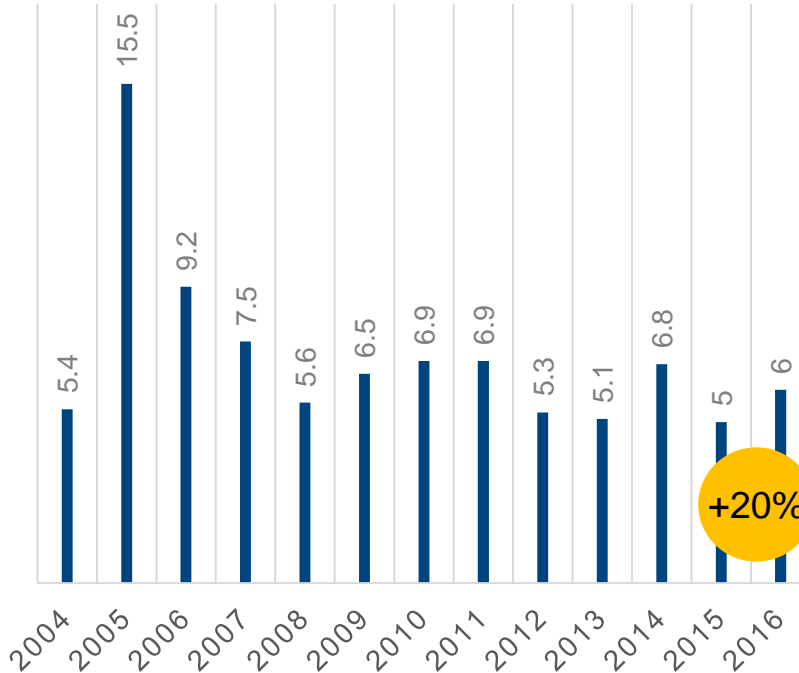
NUMBER OF LOANS



AMOUNT ADVANCED

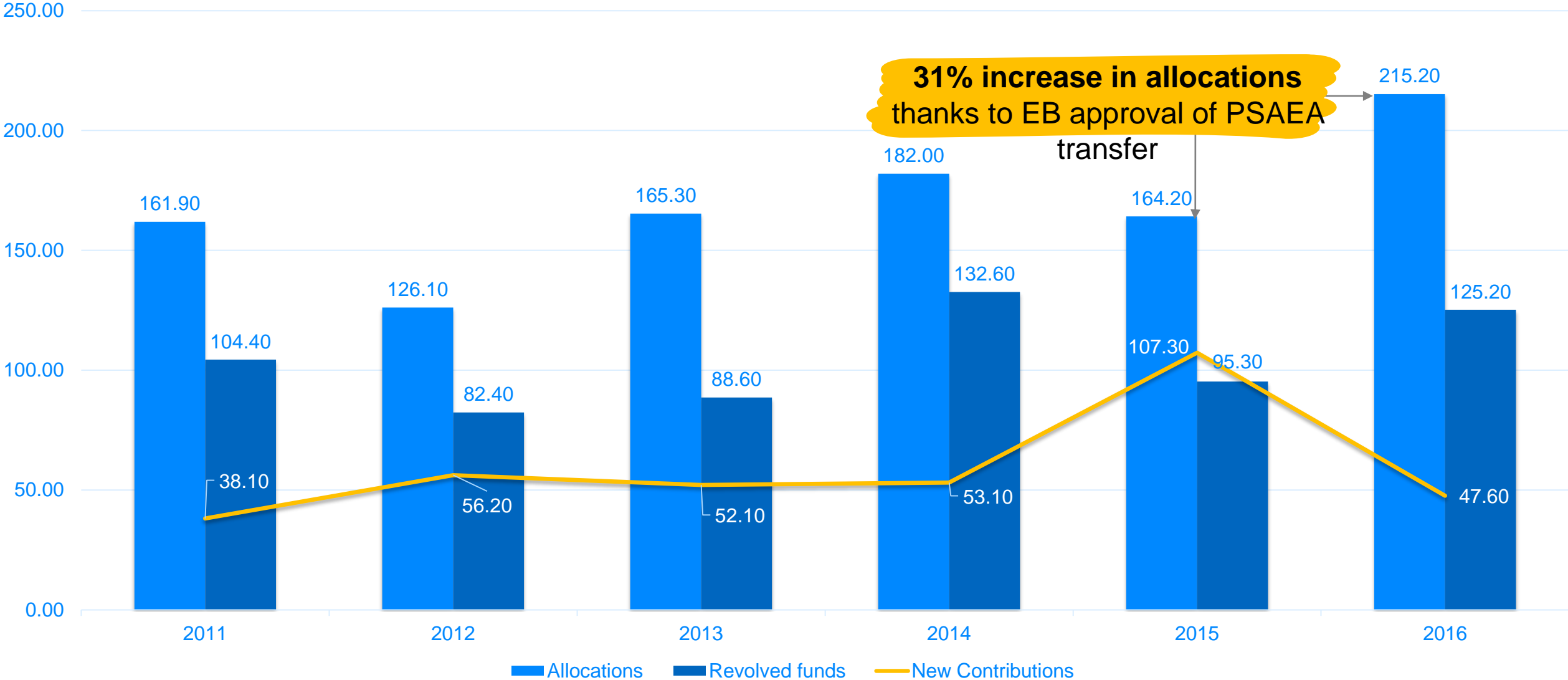


AVG. LOAN AMOUNT



WFP’s internal project lending capacity proved useful in 2016 to minimizing gaps due to pipeline breaks and financial transfers

Immediate Response Account: A lifeline for operations



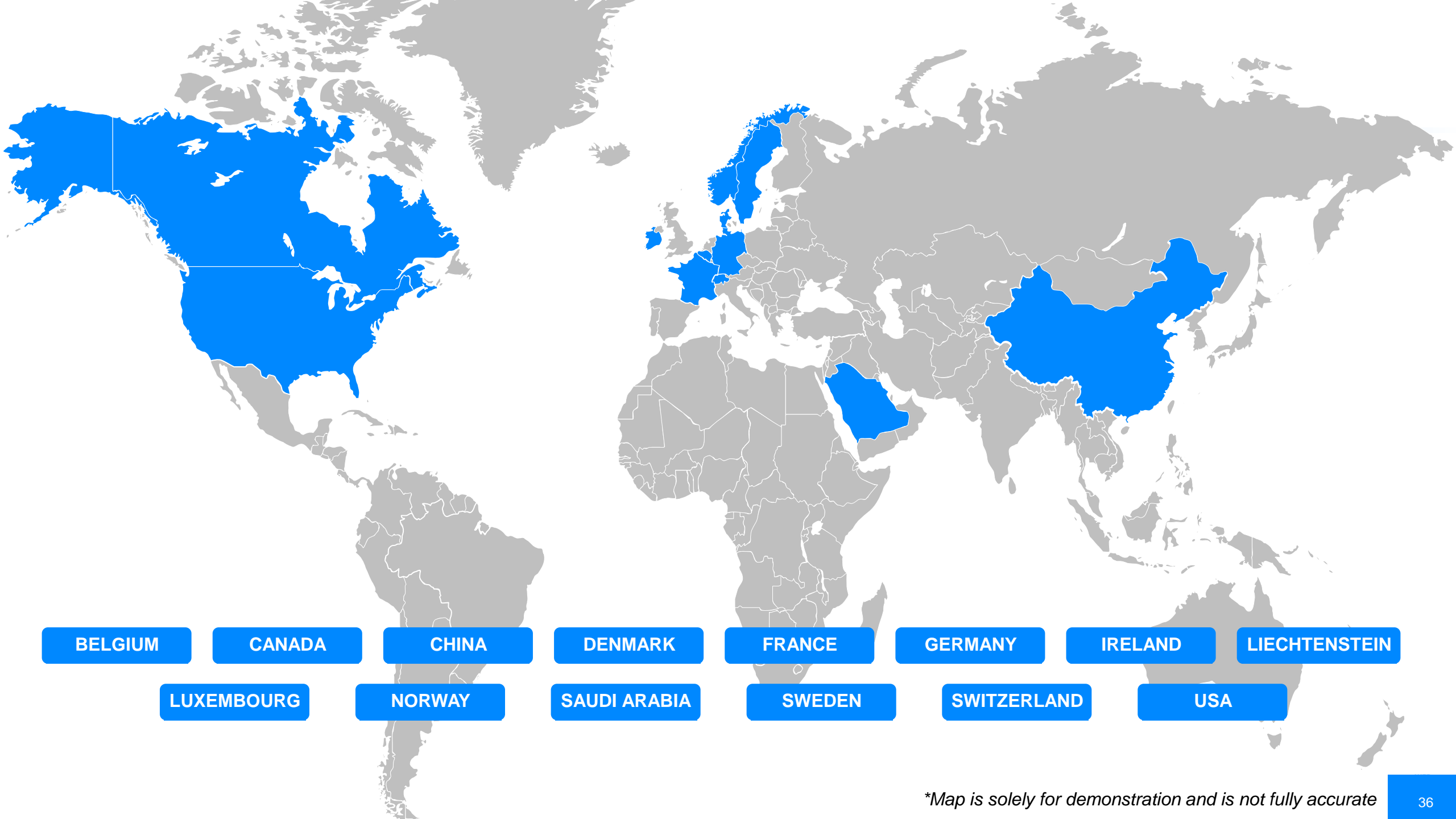
IRA Stories: Somalia

“Since January we have been rapidly scaling up our response to the emergency in Somalia. We have the means to do it and have gone from supporting 500,000 people in January to 2.3 million in April. The needs are rising, and we are in a race against time to avert famine in Somalia.”

- Laurent Bukera

WFP Representative for
Somalia





BELGIUM

CANADA

CHINA

DENMARK

FRANCE

GERMANY

IRELAND

LIECHTENSTEIN

LUXEMBOURG

NORWAY

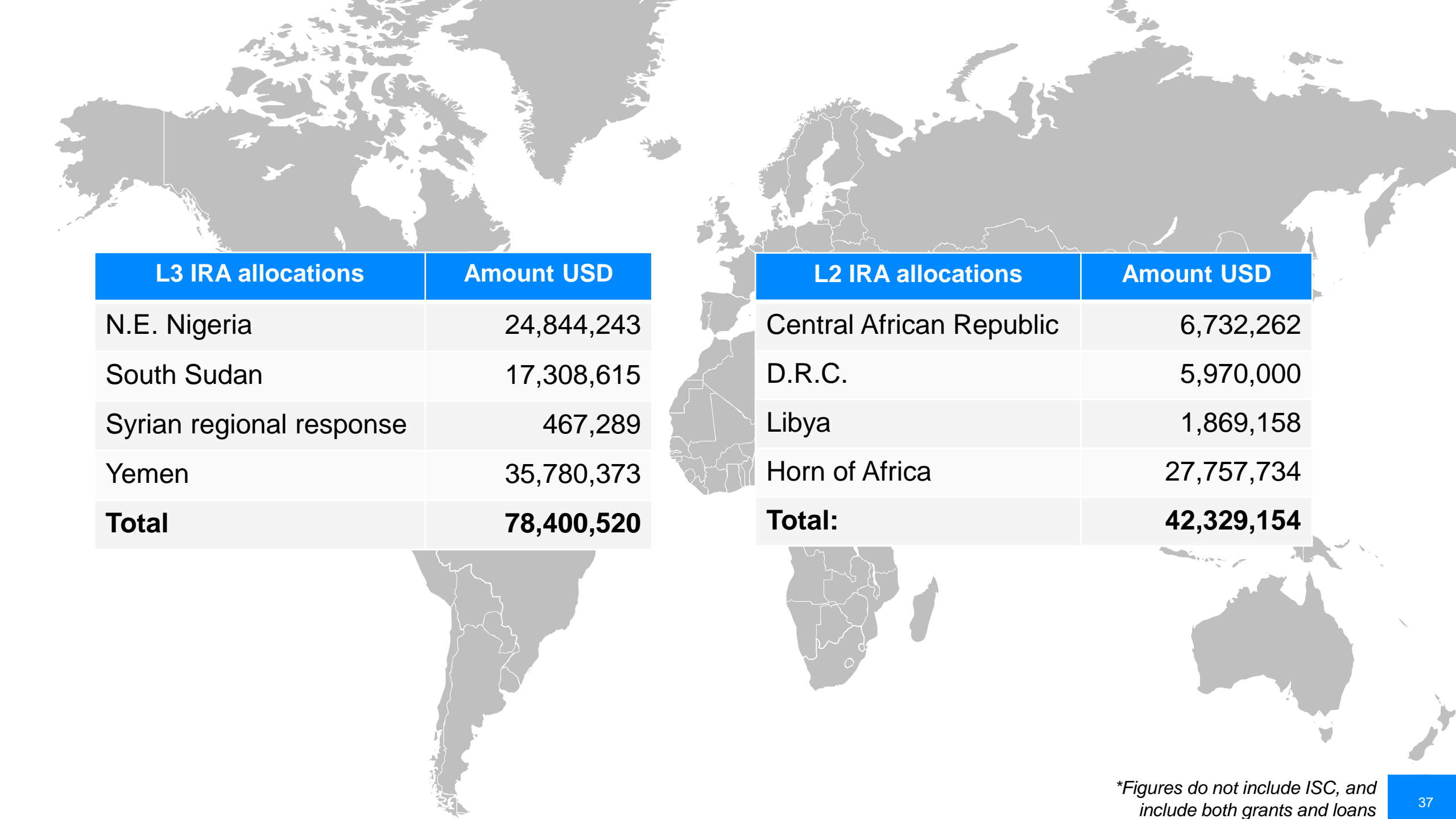
SAUDI ARABIA

SWEDEN

SWITZERLAND

USA

**Map is solely for demonstration and is not fully accurate*



L3 IRA allocations	Amount USD
N.E. Nigeria	24,844,243
South Sudan	17,308,615
Syrian regional response	467,289
Yemen	35,780,373
Total	78,400,520

L2 IRA allocations	Amount USD
Central African Republic	6,732,262
D.R.C.	5,970,000
Libya	1,869,158
Horn of Africa	27,757,734
Total:	42,329,154

**Figures do not include ISC, and include both grants and loans*

C. Macro-advance Financing (MAF)



Impact of MAF—Taking it to the Next Level

RM Seminar

Rome, 16 May 2017

THE BOSTON CONSULTING GROUP

Summary

Advance Financing (AF) mechanisms have evolved over time

- Starting with \$180M in 2005 to \$1B in 2016 with several pools (CS, GCMF, IPL)
- IPL today is covering about 19% of programmes

All AF mechanisms have proven high impact and low risk exposure

- Forecasts (IPL) or assets (CS, GCMF) as collateral

Beyond IPL significant potential to further enhance impact of programmes

- Better timing and predictability of funding as levers
- In 2016 first pilots of \$100M as MAF giving spending authority without a collateral

BCG assessment (March-May 2017) of MAF pilots shows strong positive impact

- Mitigation of pipeline breaks
- Reduced commodity cost

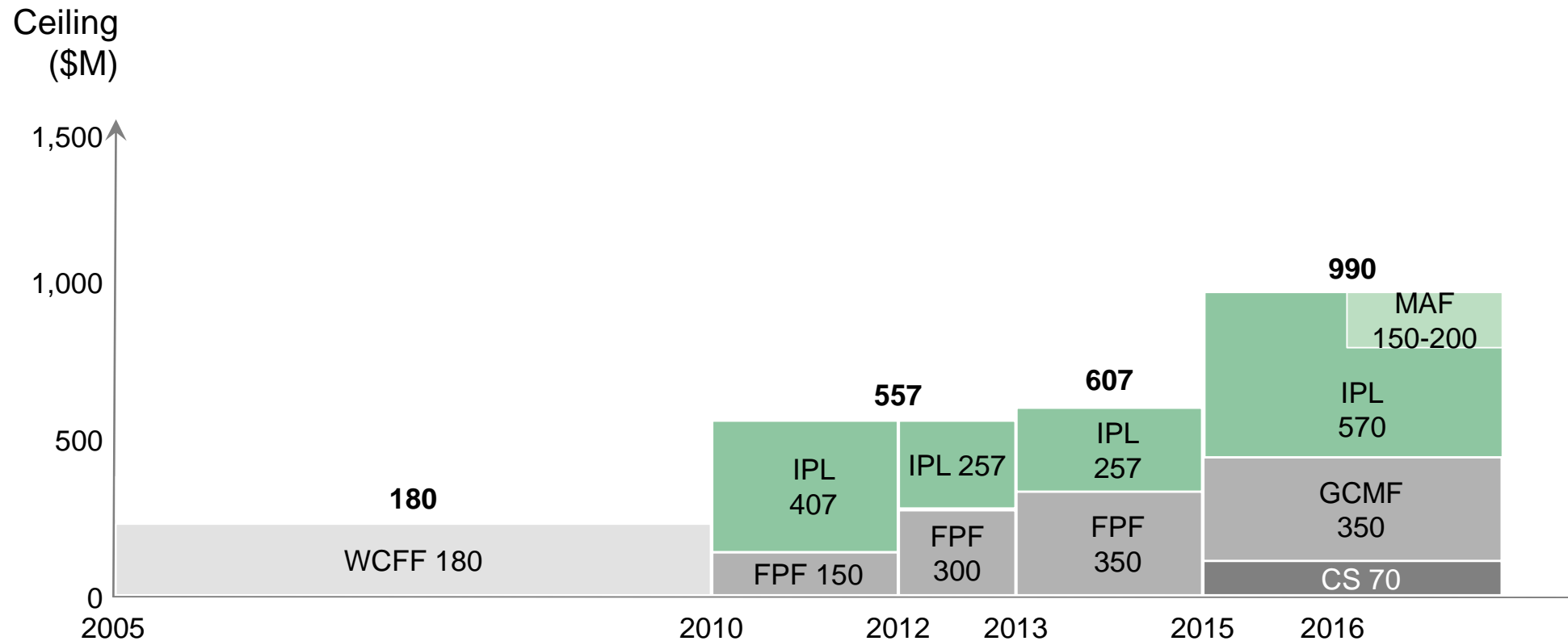
Limitations exist today preventing significant expansion

- Donor restrictions regarding earmarking and lack of availability for AF
- Additional internal operational efforts, especially in repayment process

Recommendation: Develop a Strategic Programme Lending (SPL) facility

- Estimate the impact of earlier spending authority for the majority of programmes (>50%), especially those with highest impact of AF and a broad donor base (lower repayment risk)
- Design a SRAC architecture as decision and risk management body

History of WFP's Advance Financing (AF) mechanisms



Note: Furthermore the IRA (Immediate Response Account) is targeted at \$200M to finance specific activities in emergencies. The IRA is replenished by direct donor contributions

Source: RMB; BCG analysis

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All AF pools with high impact

AF mechanisms	Ceiling 2016 (\$M)	Collateral	Impact
Macro Advance Financing (MAF)	150-200 ¹	None	<ul style="list-style-type: none"> Smoothing pipeline breaks & reducing commodity costs if locally procured in season MAF gives spending authority to COs earlier compared to IPL
Internal Project Lending (IPL)	570	Forecast by project and donor	<ul style="list-style-type: none"> Smoothing pipeline breaks & reducing commodity costs if locally procured in season
Global Commodity Management Facility (GCMF)	350	Commodities	<ul style="list-style-type: none"> Significant reduction in food supply lead time Increased steadiness of supply More purchasing from developing countries Better pricing
Corporate Services (CS)	70	Assets	<ul style="list-style-type: none"> Optimized central vehicle procurement (GVLP) Large long-term investments in corporate services (CBF) Centralized mgmt. & delivery of corporate services

Excluded from further discussion

1. Managed as part of the \$570M IPL ceiling
 Source: Report on the Utilization of WFP's Advance Financing Mechanisms 2016
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BCG Assessment of MAF

€100M advanced in 2016, repayment rate of 99%

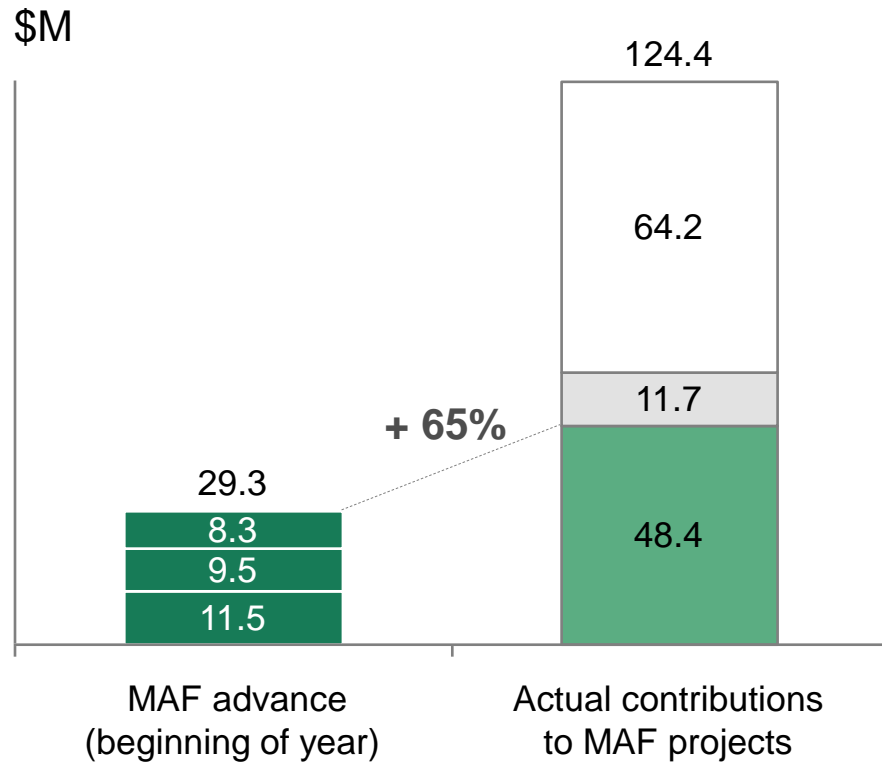
Country	Project	Advance (\$M)	Repayment (\$M)	Repaid (%)
Sudan	PRRO 200808	13.0	13.0	100
Mali	PRRO 200719	15.0	15.0	100
Ethiopia	PRRO 200700	42.1	42.1	100
Kenya	CP 200680	9.5	8.5	89
Kenya	PRRO 200736	8.3	8.3	100
Kenya	PRRO 200737	11.5	11.5	100
Nicaragua	CP 200434	1.3	0.9	72
Grand Total		100.6	99.3	99

Deep dive
CO visits

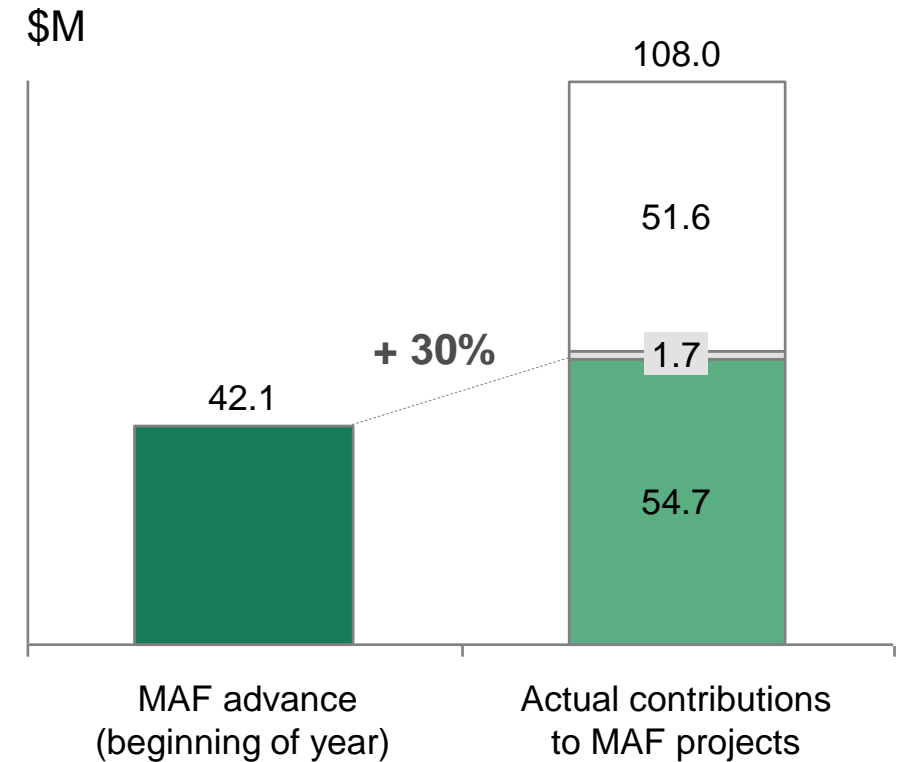
Note: Kenya total MAF advance \$29.3M
 Source: RMB, data as of 10 April 2017
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Actual cash contributions well above MAF advances

Projects receiving MAF in Kenya



Projects receiving MAF in Ethiopia

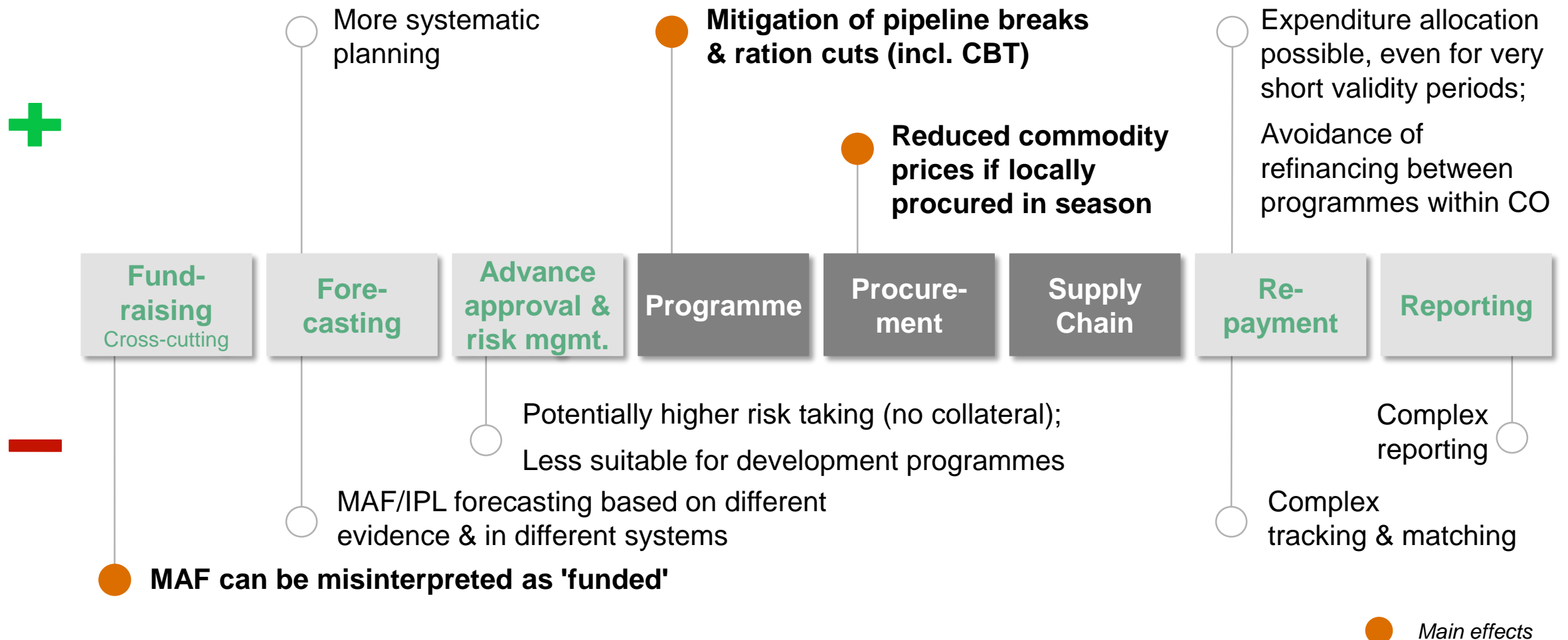


In-kind contributions
 Cash contributions not eligible for MAF¹
 Cash contributions eligible for MAF

1. Due to specific donor restrictions
 Note: Incl. ISC
 Source: RMB; BCG analysis
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MAF with strong benefits for operations ...

... but also internal complexity



MAF helped mitigate pipeline breaks for up to two months

PRRO 200700

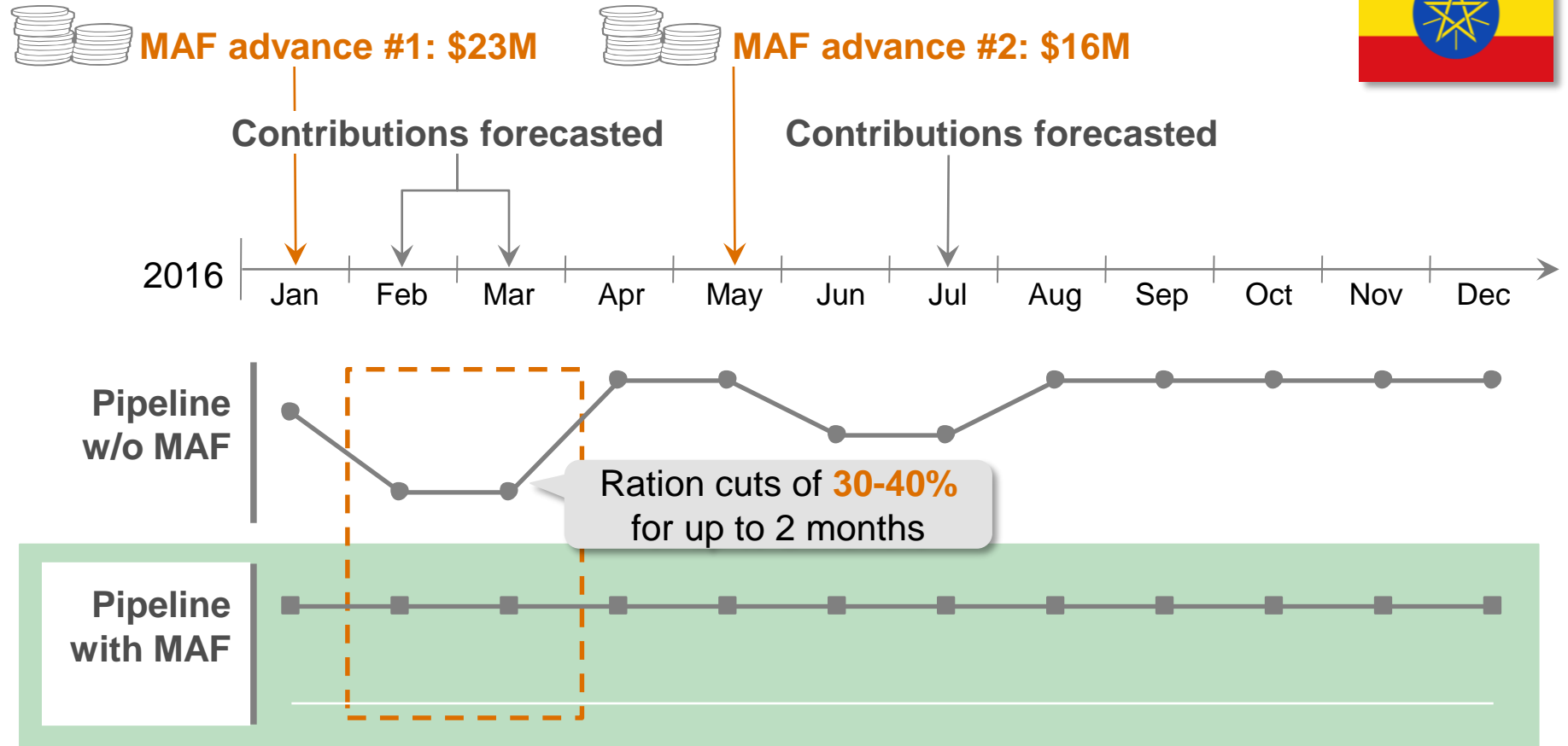
Assistance to refugees from Eritrea, Somalia, South Sudan & Sudan in Ethiopia

MAF use

General food distribution (in-kind)

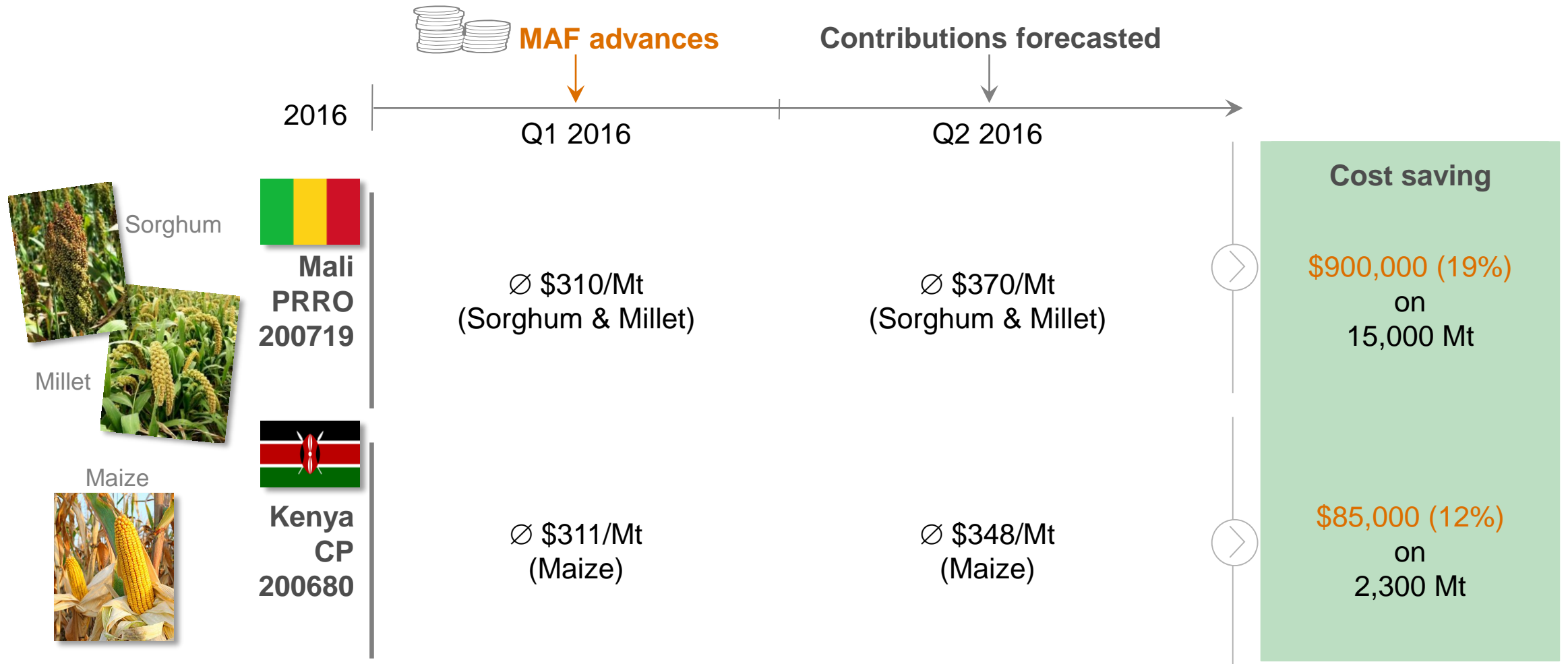
Beneficiaries

~ 500K



Note: MAF advance excl. ISC; pipeline illustrative; contributions indicated represent those used to repay MAF advances
Source: CO Ethiopia; RMB and BCG analysis
20170516 EB_RM Seminar_MAF_vfwide slide 8 20170516T1031+02.pptx

MAF facilitated procurement savings in harvest time



Source: CO Mali, CO Kenya; RMB and BCG analysis
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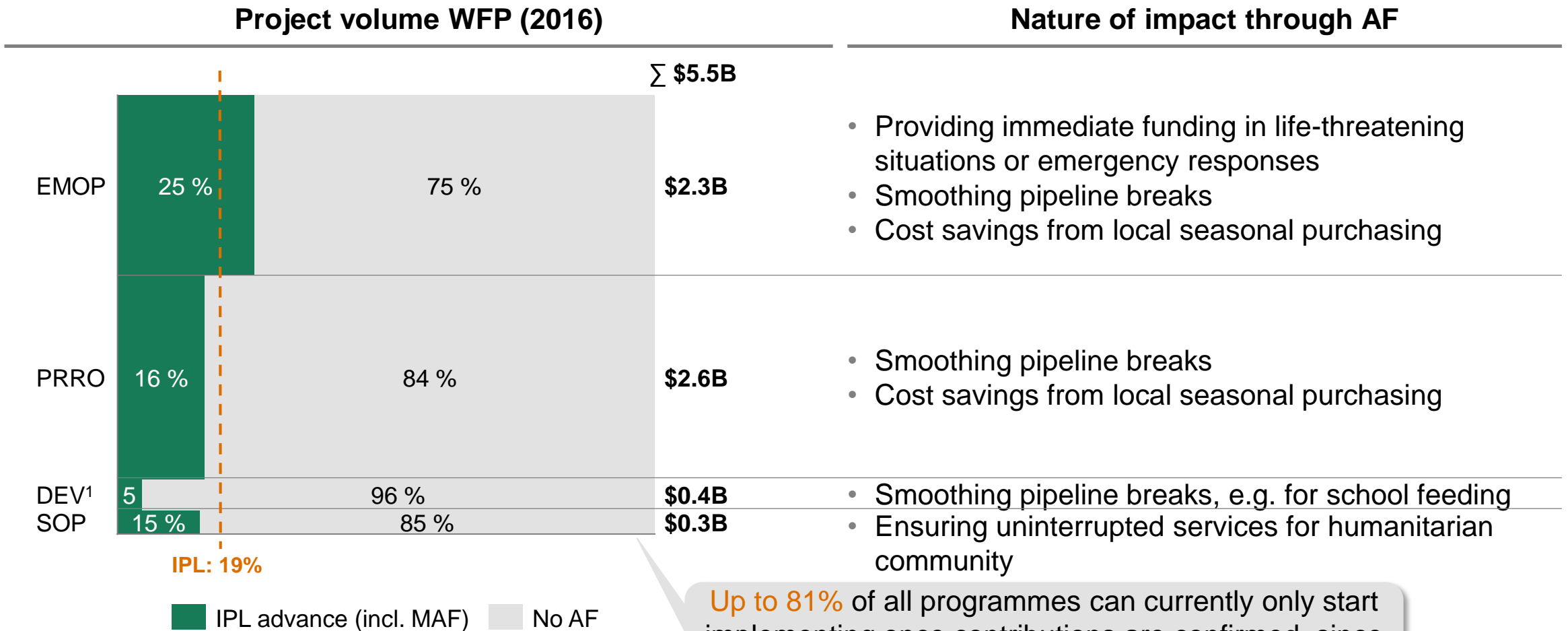
Learnings from MAF impact assessment

- During the pilot, the **risk of MAF advances without collateral has been well managed** (repayment rate of ~ 99% in 2016) – a broad donor base for the selected projects as key driver
- **Main benefits** of MAF lie in significant mitigation of pipeline breaks & ration cuts (incl. CBT) as well as some procurement savings for commodities
- **Main limitations** are donor restrictions, additional internal operational effort in the repayment process, and potentially a misinterpretation of advances as 'funded'
- For a broader rollout, **a comprehensive AF concept is needed**, incl. clear criteria for advance allocation, a risk management model and a tailored process

Recommendation:

Develop Strategic Programme Lending (SPL)

Today 19% of programmes receive AF via IPL



1. DEV including CPs

Note: AF values for IPL can exceed ceilings due to revolving facilities

Source: Report on the Utilization of WFP's Advance Financing Mechanisms 2016, WFP The Factory (Status 8 May 2017), BCG analysis

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What if ...

... **for pre-famine situations**, the timing gap between the emergence of acute needs and the confirmation of actual contributions was **FULLY bridged by an SPL**

... **for other priority programmes**, for which earlier spending authority avoids pipeline breaks or reaps cost efficiencies, **funds from the SPL were also available**

... the **SRAC** had **full transparency on the impact** of all potential advances and the **multilateral funds** were used on programmes with **high impact of SPL**, for which no other funding becomes available

... the **SRAC oversaw** a prudent and continuous assessment of the **repayment risk** of all advances

... the **safety net** was determined (with a leverage factor) by the **Operational Reserve AND the IRA** - allowing for a **higher SPL ceiling** and therefore higher risk taking

... those **donor restrictions** limiting the use of SPL **were relaxed** while still in line with minimum donor requirements

Charter the SRAC with balancing demand & risk for SPL



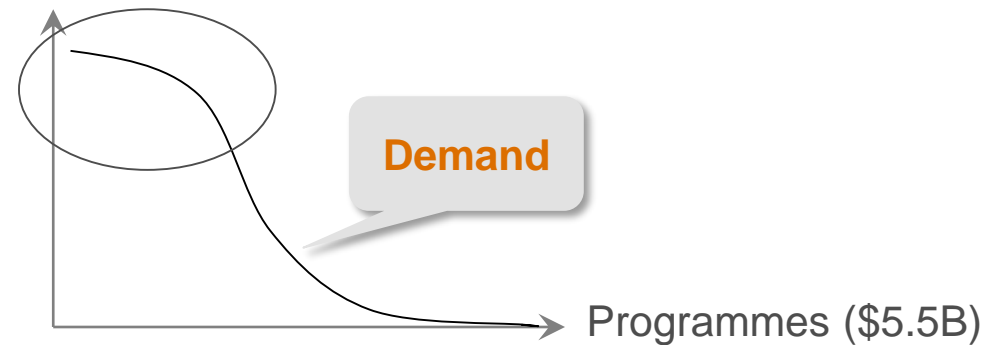
SRAC as the decision body managing all advances

IPL & MAF to be folded into SPL



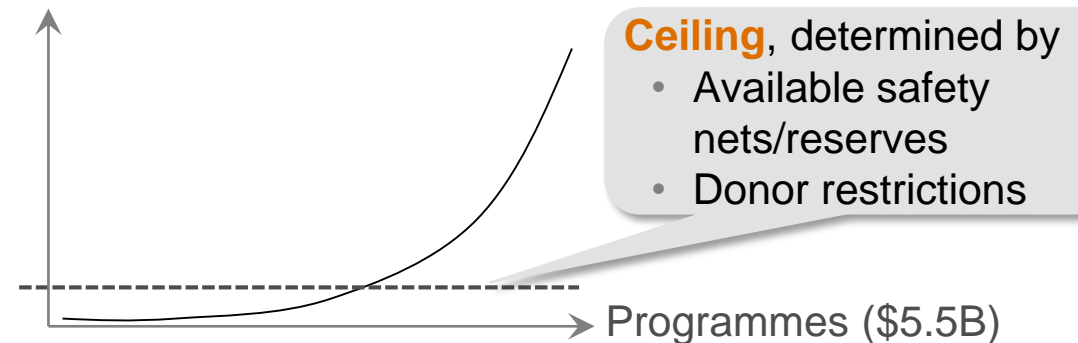
Prioritizing programmes by impact of Advance Financing

Impact of AF



Overseeing overall repayment risk

Repayment Risk



Next steps

WFP to develop comprehensive proposal on Strategic Programme Lending for further discussion with member states

- Derive SPL ambition level based on impact for programmes and repayment risk
- Test some of the “what if’s” for one of the impending famines
- Specify the SPL concept
- Define governance around the SRAC

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Thank you

Thank you!