

## Informal consultation on Resource Management Items for EB.A/2015

*Progress on the Financial Framework Review including ISC, Strategic  
Utilization of the PSAEA, Report on Utilization of Advance Financing  
Mechanisms*

4 May 2014: Part I



**World Food Programme**

# Agenda

- Progress on the Financial Framework Review, including Indirect Support Costs
- Strategic Utilization of the WFP PSA Equalization Account
- Report on the Utilization of WFP's Advance Financing Mechanisms (1 January - 31 December 2014)

# Review of linkages between policy and governance documents

## Progress on the FFR, including ISC

- Elaboration of key work streams within the Financial Framework Review
- Establishment of principles and criteria for proposed allocations and transfers from the PSA Equalization Account
- Proposes a review of PSA Equalization Account target

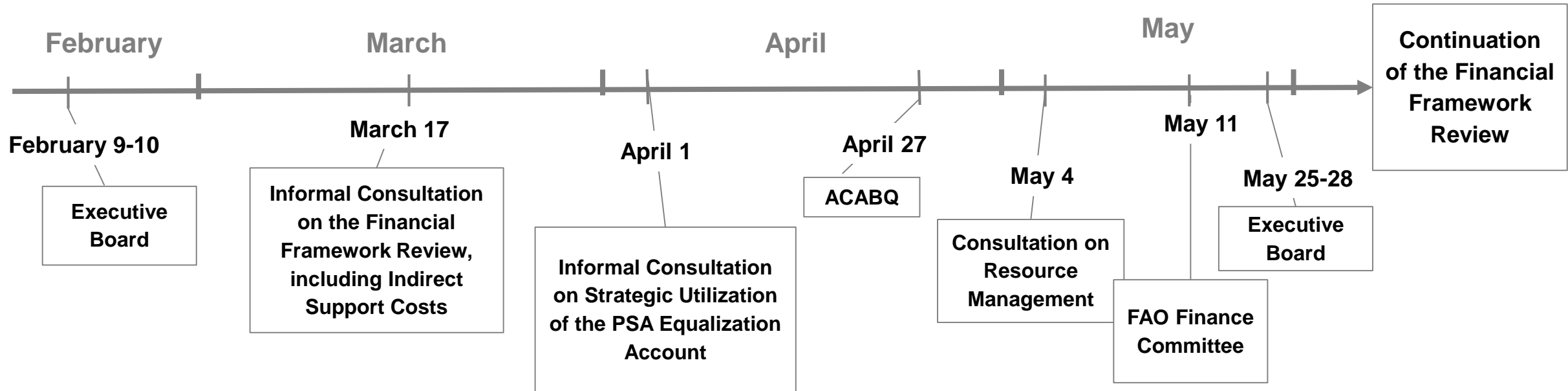
## Strategic Utilization of the PSAEA

- Proposes utilizing the current surplus balance of the PSA Equalization Account – in line with agreed upon principles – for strategic and sustainable initiatives that improve the delivery of services to beneficiaries

## Report on Utilization of Adv. Fin. Mechanisms

- 2014 report provides additional details on the functioning of the IRA and the rationale for establishing a minimum revolving/lending capacity of USD 50 million
- Future annual reports will provide greater detail on IRA grants provided and IRA loans that have been converted to grants

# Overview of Consultative Process



# Progress on the Financial Framework Review, including Indirect Support Costs (WFP/EB.A/2015/6-C/1)

# Financial Framework

## **Objective:**

Improve financial processes, strengthen the funds management structure and enhance overall accountability of resources for greater operational effectiveness and cost transparency.

## **Key goals:**

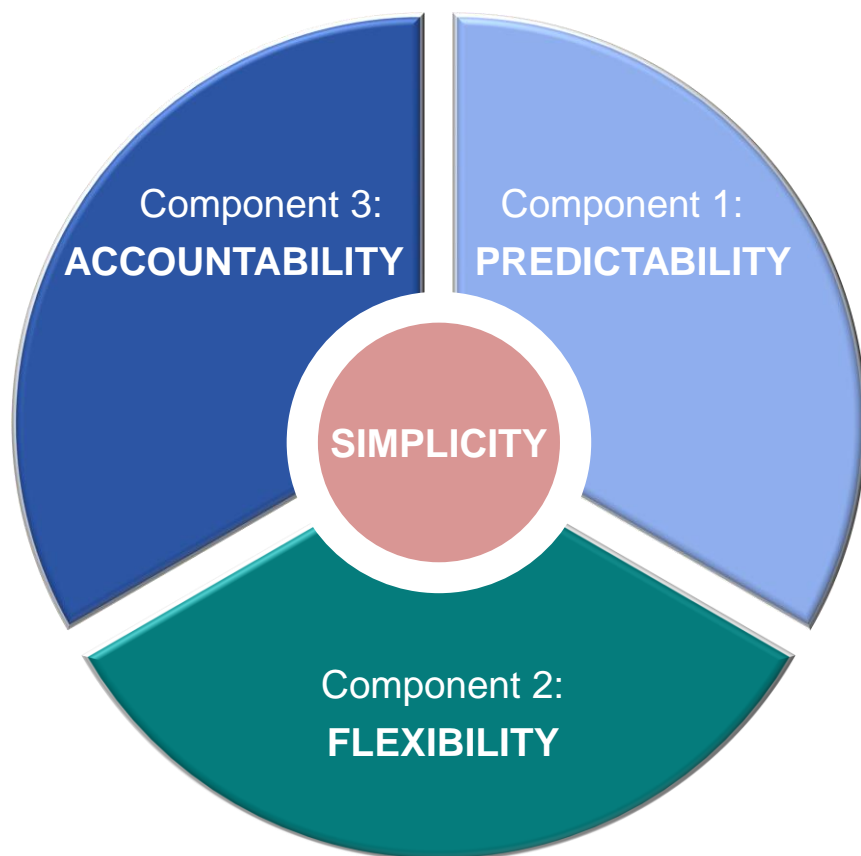
- Improve planning and cost management practices
- Enhance transparency to increase donor confidence
- Enhance accountability for results achieved
- Achieve more predictable and flexible funding
- Create more autonomy over resource usage
- Ensure faster utilization of resources

# Today's financial architecture

While the current architecture is currently under review, results from Executive Board consultation on both the ISC review and the Financial Framework underscore three underlying principles that should remain in place:

- Voluntary funded nature of WFP
- Principle of full cost recovery (although how it is applied may need to be reviewed)
- Contribution-specific expenditure tracking (although how it is applied may need to be reviewed)

# Financial Framework Review components and work streams



## Priority work streams from 2015:

- Resource Based Planning
- Macro Advance Financing
- Review of operational budget structure, including Country Portfolio Budgeting
- Simplification initiatives, including in the short term



# ISC Review – Question 4

## ***EB.2/2014***

The fourth question of the ISC review, proposed at the Board’s 2014 Second Regular Session, underpins the approach for the finalization of the ISC review and supporting analysis:

*“As some costs related to support and administration are covered from sources other than the ISC recovery rate, WFP should undertake a detailed analysis of its indirect costs and review the PSA Equalization Account, which serves as a safety net for unplanned fluctuations in ISC recovery. Should WFP continue to consider multiple sources of funding for costs such as security and non-recurring investment?”*

The Secretariat presented the following analysis in the informal consultation document *“Progress on the Financial Framework Review, Including Indirect Support Costs.”* The following slides summarize the conclusions presented in the document for approval.

# Revised conclusions

## Conclusion 1

- As part of the Financial Framework Review, it would be appropriate to undertake further review of the optimal target level of the PSA Equalization Account. This may result in consideration being given to changing the current target level, established in 2006, of four months of PSA expenditure.

## Conclusion 2

- All uses of the PSA Equalization Account balance will continue to be approved by the Board. Such approval should take into consideration the following priority uses:
  - to cover any difference between ISC income and approved PSA expenditure;
  - as a reserve to underwrite risk of decreases in ISC income or underfunding of PSA, with an established target level;
  - for critical corporate initiatives or thematic support funds; and
  - for strengthening WFP's reserves, through reserve transfers.

# Revised conclusions (continued)

## Conclusion 3

- WFP should in future use the term “critical corporate initiatives” for non-recurring investments from the PSA Equalization Account, and routinely report on results in the Annual Performance Reports.

## Conclusion 4

- Corporate trust funds are a suitable source of funding for non-recurring investments for innovation and changes to operations and processes, and for critical corporate initiatives.

# Revised conclusions (continued)

## Conclusion 5

- Interest income – net of the costs of managing the related investment portfolio – that accrues to the un-earmarked portion of the General Fund should be used first to strengthen WFP’s reserves and management of financial risk; and second to fund critical corporate initiatives where there are insufficient funds available in the PSA Equalization Account. Interest income should be used to fund recurring costs only as a last resort.

# Revised conclusions (continued)

## Conclusion 6

- Where possible, security costs should be charged to individual projects. Where security expenditures cannot be charged to an individual project, and when no other funding source is available, these costs should be included in the PSA budget or – exceptionally – be funded from the PSA Equalization Account. This is in line with the indirect nature of the costs, which are not directly related to delivering food assistance.

## Conclusion 7

- Similar to security costs, proposed investments for improving staff wellness, including in supportive infrastructure, health services and other staff wellness priorities, should be charged to individual projects. Where such expenditures cannot be charged to an individual project, and when no other funding source is available, these costs should be included in the PSA budget or – exceptionally – be funded from the PSA Equalization Account. This is in line with the indirect nature of the costs.

# Actions in response to feedback from Informal Consultation on 17 March

## Issue Raised

## Secretariat's Action

### Results of work on cost driver analysis

- Results of the 2014 cost benchmarking study are presented in the document. The Financial Framework Review will identify opportunities for data automation/integration to link financial and operational performance to establish a basis for comparison across operations.

### Clarity on criteria for use of the PSA Equalization Account

- Conclusion 2 in the document outlines the priority uses of the PSA Equalization Account.
- All uses of the PSA Equalization Account balance will continue to be approved by the Board.

### Other corporate funding sources

- Additional information was provided on funding sources for corporate costs and investments in critical corporate initiatives. Further background on corporate trust funds and use of interest income accruing to the un-earmarked portion of the General Fund are also included.

# Draft Decision

**Taking note of “Progress on the Financial Framework Review, including Indirect Support Costs” (WFP/EB.A/2015/6-C/1) and the consultations to finalize the indirect support cost review, the Board:**

- i. welcomes the update on the Financial Framework Review, and looks forward to further regular updates;
- ii. takes note of the conclusions of the indirect support cost review contained in this document;
- iii. endorses the use of the balance on the Programme Support and Administrative Equalization Account for the following purposes:
  - i. to cover any difference between indirect support cost income and approved Programme Support and Administrative expenditure;
  - ii. as a reserve to underwrite risk of decreases in indirect support cost income or underfunding of the Programme Support and Administrative budget;
  - iii. for critical corporate initiatives or thematic support funds; and
  - iv. for strengthening WFP’s reserves;
- iv. endorses the use of net interest income that accrues to the un-earmarked portion of the General Fund: i) to strengthen WFP’s reserves and enhance the management of financial risk; ii) to fund critical corporate initiatives if funds in the Programme Support and Administrative Equalization Account are insufficient; and iii) to fund recurring costs only as a last resort; and
- v. looks forward to the further review of the Programme Support and Administrative Equalization Account target level.

# Strategic Utilization of the WFP PSA Equalization Account (WFP/EB.A/2015/6-D/1)



# What is the PSA Equalization Account?

## Overview

The PSAEA is a reserve to record the differences between indirect support costs revenue and PSA expenses for the financial period

## What does it do?

Serves as a safety net when approved PSA expenditures exceed the ISC income derived from donor contributions

## Terms of Use

- Any utilization of the PSAEA requires the approval of the Board. Generally, it is limited to support costs, such as capital and capacity building costs
- The current target level (determined by the Board) is four months of PSA expenditure

# Current balance of the PSA Equalization Account provides strategic opportunity to improve services

(Figures in USD millions)	2014 Financial Statements
PSAEA balance as at 1 January 2014	121.3
ISC Income in 2014	357.7
PSA Expenditure in 2014	280.5
Critical Corporate Initiatives	8.7
PSAEA Balance at 31 December 2014	189.8
<b>Current PSAEA Target Level</b>	<b>93.9</b>
<b>PSAEA Surplus Over Current Target</b>	<b>95.9</b>

**Target level** (four months of PSA expenditure) is **USD 93.9 million**

The balance exceeds the target level by **USD 95.9 million**

# Recall the proposed principles from the policy discussion for utilizing the PSA Equalization Account

## Progress on the Financial Framework Review, including Indirect Support Costs (WFP/EB.A/2015/6-C/1)

The Board:

Endorses the use of the balance on the Programme Support and Administrative Equalization Account for the following purposes:

- a) To cover any difference between indirect support cost income and approved Programme Support and Administrative expenditure;
- b) As a reserve to underwrite risk of decreases in indirect support cost income or underfunding of the Programme Support and Administrative budget;
- c) For **critical corporate initiatives or thematic support funds**; and
- d) For **strengthening WFP's reserves**

# A 2015 allocation of USD 78 million is proposed for approval in three areas

Use	Description	2015	2016	Total
<i>(USD millions)</i>				
1 <b>Immediate Response Account</b>	<ul style="list-style-type: none"> <li>Provide timely and predictable funding, allowing quick response to life-threatening situations</li> </ul>	<b>50</b>		<b>50</b>
2 <b>Wellness Programme Fund</b>	<ul style="list-style-type: none"> <li>Support employee wellness initiatives in field locations over a number of years where other sources of funding may not be assured</li> </ul>	<b>10</b>		<b>10</b>
3 <b>Critical Corporate Initiatives</b>	<ul style="list-style-type: none"> <li>Invest in capacities across four of the six focus areas aligned to support Fit-for-Purpose</li> </ul>	<b>18</b>	<b>17 *</b>	<b>35</b>
<b>Total</b>		<b>78</b>	<b>17</b>	<b>95</b>

\* 2016 proposals to be considered in the Management Plan (2016-2018)

# Recall basics of IRA utilization



The IRA allows WFP to make a flexible, timely and efficient response in emergency situations and to prevent critical shortfalls in life-threatening situations. It may also pre-invest in preparedness activities when there is no alternative and viable funding source.

The IRA:

- ✓ is deployed in the absence of project-level donor forecasts which would allow internal project lending to be used
- ✓ makes **loans** to projects (satisfying above criteria)
- ✓ **revolves** loans when recipient projects receive funding which allows the loan to be repaid
- ✓ is **replenished** with direct donor contributions



A loan may be converted to a **grant** if a project does not receive sufficient contributions to repay the IRA loan.

# Improving functioning of the IRA

- Transfer of USD 50 million from PSAEA **will not change the way the IRA works**; it will maintain its revolving and replenishable features;
- Lending capacity of the IRA **will** be enhanced. WFP's intention is to ensure that at all times the IRA has capacity to provide a minimum of USD 50 million in loans, independent of the level and timing of donor contributions to the IRA;
- Minimum level will be guaranteed by
  - ✓ Clear parameters applied to evaluate the eligibility of an IRA loan request;
  - ✓ Risk assessment of non-repayment at the time of loan application;
  - ✓ Active pursuit of repayment, including use of tentative repayment schedules.

# Expected benefits of USD 50 million for the IRA

- ✓ Reinforce the IRA as a mechanism for responding to life-threatening situations, **improving its capacity** to provide loans and grants
- ✓ **Improved stability** of account balance due to better revolving practices
- ✓ **Formal recognition for donors**, with more visibility on recent operations and assistance provided through both loans and grants
- ✓ **Stronger linkages with performance and accountability** for revolving funds

## Improve employee wellness in field-duty stations (I/II)

### Proposal

A Wellness Programme Fund to improve employee wellness in field duty-stations where full financial repayment from a country portfolio cannot be assured

### Rationale

- Employee services are inadequate in many places where WFP works
- In some cases, employees lack access to basic health services and facilities
- Employee wellness is crucial for working in emergency settings and serving some of the most needy communities

**Improving employee wellness will ensure WFP is better equipped to carry out programming in emergencies and hardship duty stations in today's demanding operational environments**



## Improve staff wellness in field-duty stations (II/II)

### Expected Benefits

- Improved access to basic health services and facilities to help mitigate security incidents and address epidemics and disease outbreaks
- Better overall staff wellness and morale in emergencies and hardship duty stations through better staff well being

### Proposed Amount

Transfer of USD 10 million from the PSA Equalization Account to serve as seed money to start up activities in 2015

## Critical Corporate Initiatives – Accelerating Fit for Purpose

### Proposal

Non-recurring strategic investments in key areas in 2015 will accelerate WFP's organizational strengthening effort

- The proposals are aligned to support 'Fit for Purpose', the organizational strengthening effort launched in 2012
- The funds will help accelerate the achievement of key deliverables across six focus areas' for the rest of 2015 and throughout 2016
- The proposed initiatives are non-recurring and their conclusion would represent the final milestone of the original 'Fit for Purpose' effort initiated in 2012

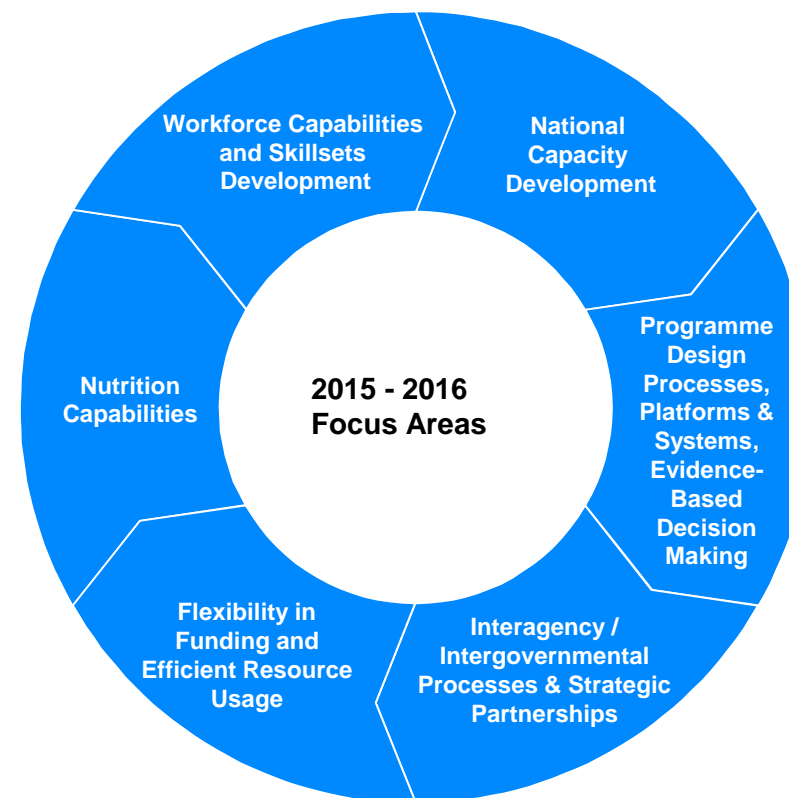
**Only the most urgent requirements are proposed for approval at the 2015 Annual Session. Remaining requirements will be considered within the Management Plan at the Second Regular Session.**

# Focus areas for 2015 – 2016 defined to accelerate ‘Fit for Purpose’ effort going forward

## Context and Circumstances

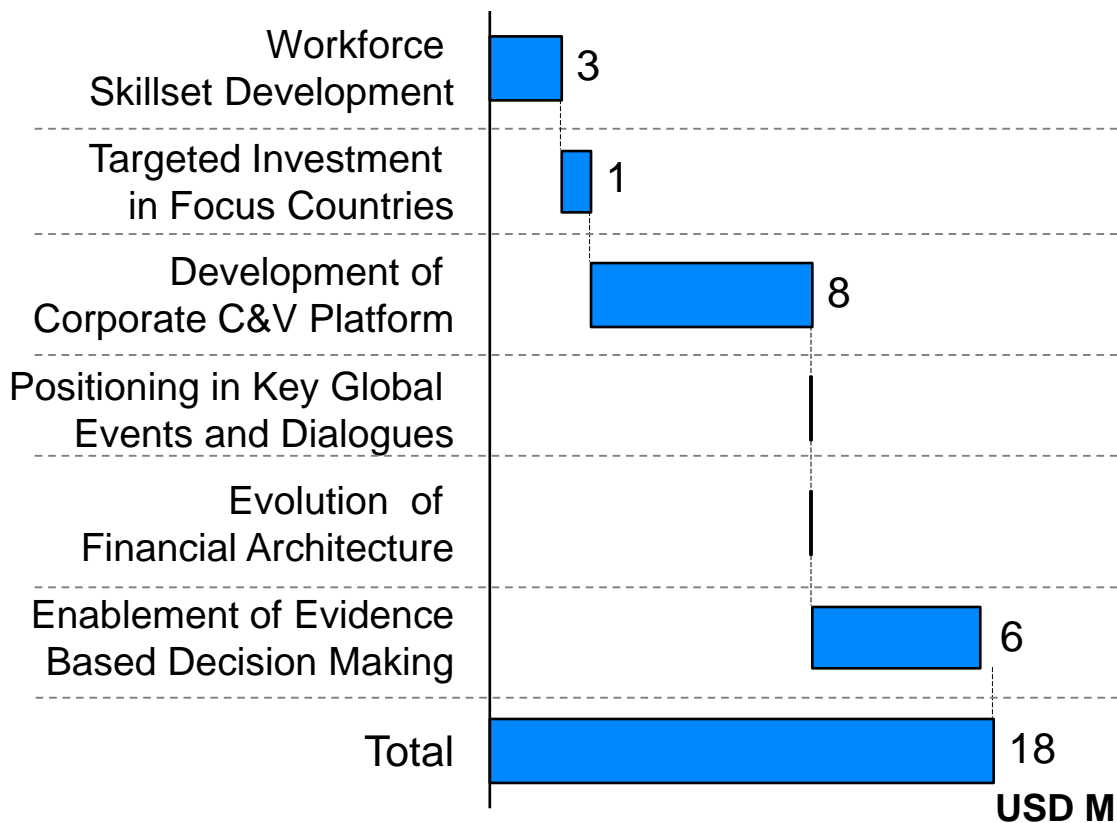
- Demands placed on the organization by unprecedented number of L3 emergencies
- Continued shift in WFP programming (e.g. increasing role of Cash and Vouchers)
- Challenge of supporting middle income countries in which pockets of hunger persist
- Several critical global events, dialogues, and processes coming up over next few years

## Six Focus Areas (2015 – 2016)



## Proposed additional 2015 Critical Corporate Initiatives to accelerate Fit for Purpose changes

### 2015 Funding Request



### Initiative Overview

- Cross-functional C&V training, tailored Humanitarian Leaders Programme, and access to targeted skill development content
- Assisting WFP COs to support national capacities with building evidence-base and programme approaches for eradicating hunger
- Advancing the development and scale-up of a corporate Cash & Voucher platform to enable better delivery of C&V interventions
- Communication / advocacy to ensure that nutrition & hunger are well-positioned in key global events, dialogues, and processes
- Standardized approach to resource-based planning, country portfolio based budgeting and communication & advocacy to improve flexibility & predictability of funding
- Development / completion of critical systems to manage info. systematically and support outputs & outcomes analysis

**Proposals for 2016 Critical Corporate Initiatives to be presented as part of the Management Plan discussions**

# Action in response to feedback from Informal Consultation April 1st

## Issue Raised

## Secretariat's Action

**Clarity on IRA  
Loan Capacity**

- Greater detail provided in document and “Report on the Utilization of Advance Financing Mechanisms (1 January – 31 December 2014)”
- Bilateral discussions

**3 year  
Implementation of  
Wellness  
Programme Fund**

- Amended proposal to transfer all USD 10 million in 2015 to initiate activities for improving employee wellness at duty stations with limited funding from country operations

**Sustainable funding  
source for wellness  
services**

- Recognizing employee wellness is a priority, the Secretariat will propose a sustainable funding solution in the Management Plan (2016-2018) from the PSA and project budgets

# Strategic Utilization of the PSA Equalization Account

## Draft Decisions for Board Approval

**Having considered document WFP/EB.A/2015/6-D/1, the Board approves transfers from the PSA Equalization of:**

- USD 50 million to the Immediate Response Account;
- USD 10 million for the creation of a Wellness Programme Fund; and
- USD 18 million for critical corporate initiatives in 2015.

**Report on the Utilization of WFP's Advance Financing Mechanisms  
(1 January – 31 December 2014)  
WFP/EB.A/2015/6-J/1**

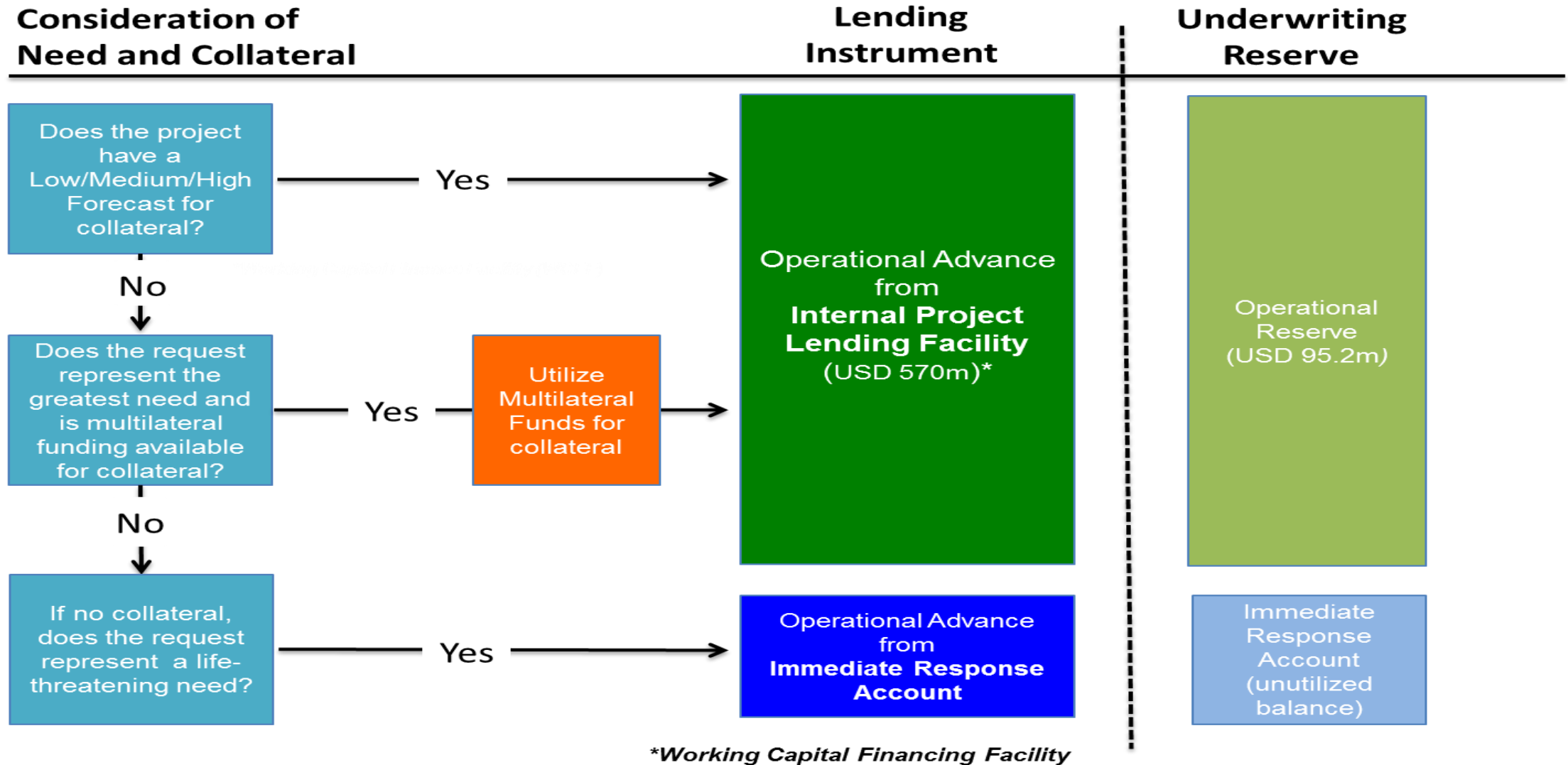
# Annual report informs the Board on how and where advance financing tools are utilized

## Recall changes to the composition of the Working Capital Financing Facility (WCFF) approved by the Board in 2014:

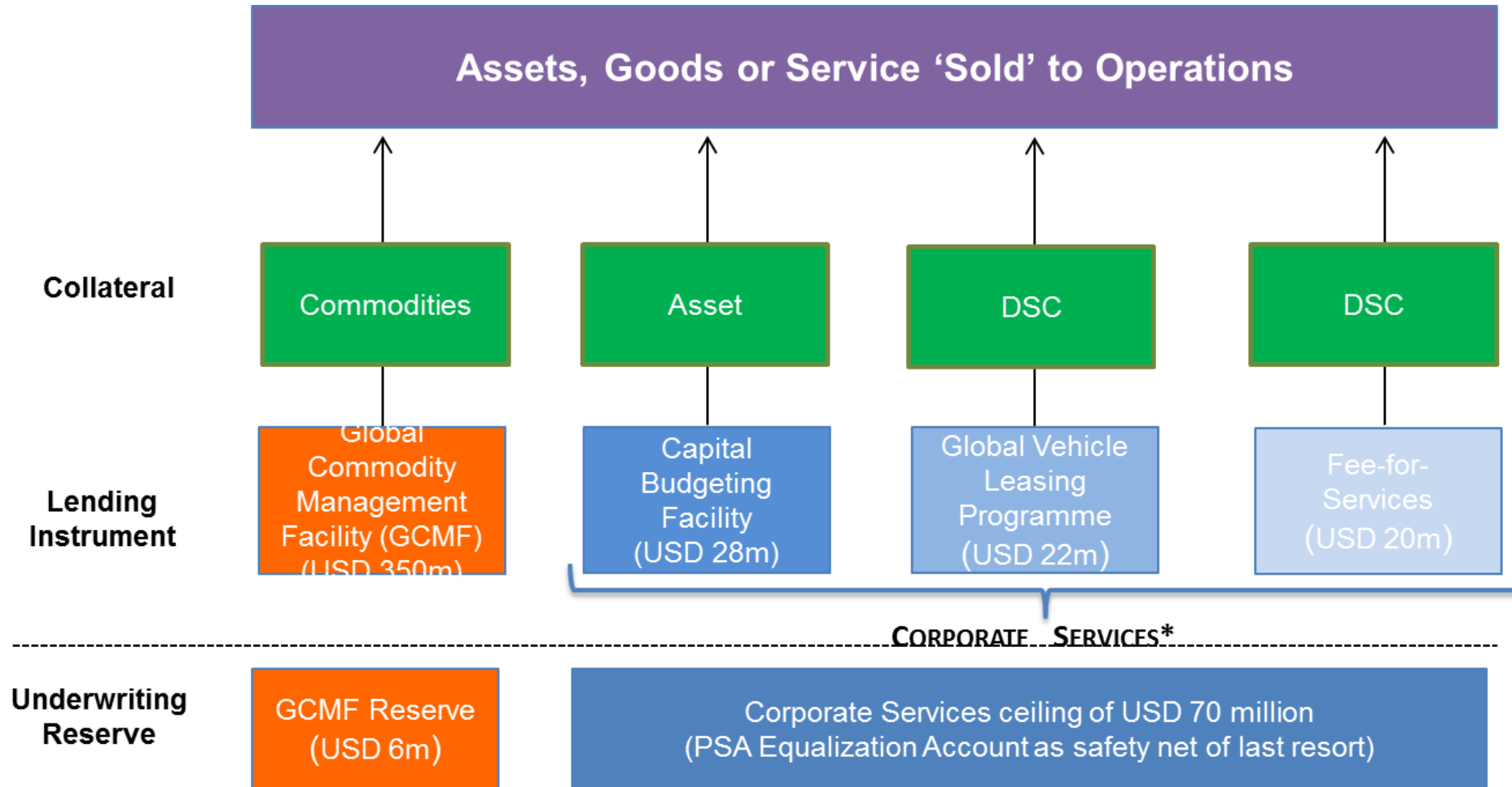
- 1) Separation of the Global Commodity Management Facility (GCMF) and corporate services from the WCFF;
- 2) Increase in the GCMF to USD 350 million;
- 3) Increase in the internal project lending (IPL) ceiling from USD 207 million to USD 570 million;
- 4) A USD 70 million ceiling for corporate services advances.



# Primary mechanisms for providing advances to projects are internal projection lending and the IRA



# GCMF and corporate services enables WFP to leverage efficiency opportunities and exploit economies of scale



# Key 2014 figures from IPL, IRA, GCMF and Corporate Services

## IPL

- 161 advances
- Total of USD 1,092.8 million
- 58 operations
- 73.5% EMOPs
- 17.5% PRROs
- 2.4% DEVs & CPs
  - 6.6% SOs

## IRA

- USD 53.1 million in new contributions
- Total of USD 182 million allocated
  - 62% EMOPs
  - 32% PRROs
  - 6% SOs
- 2014 year end balance: USD 17.8 million
- Loans of USD 30.5 million converted to grants

## GCMF

- Purchased 726,000 mt
- Food value of USD 390 million
- 40 country offices purchased 814,000 mt
- Average lead-time of 27 days Saved USD 38 million on food purchases

## Corporate Services

- **Capital Budgeting Facility:**  
Advances approved for LESS and field-based capital schemes
- **Global Vehicle Leasing Programme:**  
Credit line of USD 22 million
- **Fee-for-Services:**  
15 advances totaling USD 33.9 million

# **Report on the Utilization of WFP's Advance Financing Mechanisms (1 January – 31 December 2014): Draft Decision**

**The Board takes note of “Report on the Utilization of WFP's Advance Financing Mechanisms (1 January – 31 December 2014)” (WFP/EB.A2015/6-J/1).**

# Review of linkages between policy and governance documents

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Thank you!