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BUSINESS PROCESS REVIEW: PROGRESS REPORT ON IMPLEMENTATION

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NOTE TO THE EXECUTIVE BOARD

This document is submitted for information to 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 points indicated below, preferably well in advance of the Board's meeting.

Chief of Staff and Director, Office of the
Executive Director (OED):

Mr M. Stayton tel.: 066513-2002

Director, Programme Management Division (ODM): Mr T. Due

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EXECUTIVE SUMMARY

In March 2003, WFP began a business process review designed to improve organizational efficiency. Its two objectives were (i) to maximize the utilization of resources destined to projects and (ii) to improve on-time availability of food aid. The recommendations arising from this review were tested at the field level in a series of pilot projects starting in January 2004.

In February 2005, the Executive Board endorsed the Secretariat's plan to continue implementing the recommendations of the business process review and approved two financial policy changes. This document provides an update on the roll-out of these improvements, including further implementation of working-capital financing. Since January 2005, the new business model has been rolled out to four additional major country operations. The benefits of the new approach – including working-capital financing and the single project account – are improvements in on-time availability and better use of resources. As a result, WFP has been able to provide more timely and complete food aid rations to about 6 million additional beneficiaries from January through April 2005.

DRAFT DECISION*

The Board takes note of the information contained in “Business Process Review: Progress Report on Implementation” (WFP/EB.A/2005/6-D/1).

* 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. In February 2005, the Board endorsed the Secretariat's plan to continue implementing the recommendations of the business process review (BPR) and approved two financial policy changes: (i) the authorization to finance operations on the basis of forecast contributions and (ii) approval for expenditures to be incurred during project preparation in order to fill the food pipeline in advance of the start date. The Board also agreed to limit further roll-out of working-capital financing to seven operations in 2005 and requested regular reporting on the implementation of WFP's business reforms (see WFP/EB.1/2005/13).
2. The purpose of this short report is to provide an update on progress to date, including further roll-out of the new business model, working-capital financing and pre-filling of the pipeline.

IMPLEMENTATION TIMEFRAME

3. In addition to the five pilot projects – protracted relief and recovery operations (PRROs) in Democratic Republic of the Congo (DRC), Indonesia and the West Africa Coastal region, an emergency operation (EMOP) in the Occupied Palestinian Territory and the China country programme – the new business model has been implemented in four additional country operations since January 2005. These include PRROs in Ethiopia, southern Africa and Uganda, and EMOPs in the Darfur and southern regions of Sudan. In all of these countries, operations will be managed according to the new model. For example, a PRRO will soon replace the EMOP in the Occupied Palestinian Territory; it too will reflect the business reforms.
4. In these countries, WFP has put building blocks in place, including improved project closure and resource transfer, more refined budgeting using the multiple scenario approach, improved financial and supply-chain planning, and regional oversight. With these important components in place, the operations have been able to plan more effectively and take advantage of working-capital financing and the flexibility of managing resources in the single project account.
5. WFP plans to roll out working-capital financing to three more country operations in 2005, as approved by the Board. Selection criteria for these countries will continue to be based on the realities of matching funding to needs, size and geographic diversity. WFP will continue to phase in other business improvements to its operations, prioritizing the ten largest operations in 2005 and 2006 in order to maximize value to beneficiaries.

UPDATE ON WORKING-CAPITAL FINANCING

6. One of the main recommendations of the BPR was to authorize spending against forecast contributions instead of confirmed contributions to maximize on-time availability of food aid. Four country operations – in Ethiopia, southern Africa, Sudan and Uganda – have implemented the building blocks of eligibility for working-capital financing. In April 2005, the southern Sudan EMOP received US\$34.7 million in working-capital financing. Working-capital financing has not been required in the other three country operations, however, because they have carry-over resources from previous operations and



internal working capital through the single project account. These operations are likely to require external working-capital financing later in 2005.

7. DRC received an additional loan of US\$15.8 million in 2005.
8. Working-capital financing continues to be managed prudently. By the end of April 2005, US\$83 million in working-capital financing loans had been granted to six country operations. A total of US\$28 million has been repaid; three working-capital loans have already been repaid in full; and only some recently granted loans are still outstanding.
9. No losses as a result of working-capital loans have yet been incurred; there has been prudent management of working-capital financing and most projects are still in an early stage of implementation. The only operation scheduled to end in the coming months is the Occupied Palestinian Territory EMOP; the working-capital loan is expected to be repaid within weeks.
10. As requested by the Board, working-capital financing has not exceeded 80 percent of forecast income for any project.
11. Results to date have been summarized:
 - Over 11 million additional beneficiaries have been fed on time, including pilot countries and recent implementation.
 - Country offices have better knowledge of requirements and forecast income, and have been able to plan their operations more effectively.
 - Improved planning benefits WFP and its implementing partners and government counterparts, who count on WFP to provide food aid and cash resources on time.
 - It is expected that no balances will be left over because (i) commodities will have been purchased and distributed in anticipation of contributions that would have arrived during operations and (ii) all available resources are fully utilized as a result of single-project account flexibility.
 - The history of working-capital loans in active operations at the end April 2005 is shown in the following table.

| WORKING-CAPITAL DATA AS OF 30 APRIL 2005 (US\$) | | | | | |
|--|--------------|-----------------------|---------------|--------------------|--------------------------------|
| Project | Loans | Dates of loans | Repaid | Outstanding | Expected full repayment |
| DRC | 4 100 000 | June 2004 | 4 100 000 | 0 | Repaid in full |
| | 15 800 000 | January 2005 | 5 800 000 | 10 000 000 | End q3 2005 |
| Occ. Pal. Terr. | 9 600 000 | July 2004 | 9 400 000 | 200 000 | End q2 2005 |
| West Africa Coastal | 6 100 000 | Oct 2004 | 0 | 6 100 000 | End q3 2005 |
| | 4 150 000 | Dec 2004 | | 4 150 000 | End q3 2005 |
| Indonesia | 4 800 000 | Oct 2004 | 4 800 000 | 0 | Repaid in full |



| | | | | | |
|--------------|-------------------|------------|-------------------|-------------------|----------------|
| China | 4 070 000 | Dec 2004 | 4 070 000 | 0 | Repaid in full |
| Sudan | 34 700 000 | April 2005 | 0 | 34 700 000 | End q4 2005 |
| Total | 83 320 000 | | 28 170 000 | 55 150 000 | |

PREFILLING THE PIPELINE

12. During its last session, the Board approved a change in WFP's financial regulations to allow expenditures during project preparation in order to fill the food pipeline in advance of project start dates.
13. The current income forecast for the EMOP in the Occupied Palestinian Territory indicates sufficient income to cover all requirements through project completion on 31 August 2005. In order to avoid the unnecessary carry-over of resources, and to ensure that the successor PRRO has adequate start-up resources, a contribution of US\$950,000 has been confirmed. Of this amount, approximately US\$520,000 has been expended during project preparation to pre-fill the pipeline in order to facilitate on-time distribution from the start and avoid pipeline breaks.

SINGLE PROJECT ACCOUNT FLEXIBILITY

14. In previous reports to the Board, it was estimated that operating in a single project account environment would reduce expected working-capital financing requirements by over 50 percent. As WFP expands implementation of this approach, its benefits have become more apparent. Since January 2005, both the southern Africa PRRO, and the Darfur operation have been able to draw on temporary surpluses to purchase food aid and have reduced the need for other financing by about US\$33 million; an estimated 4 million additional beneficiaries were fed on time.
15. The southern Africa and Darfur operations were selected for roll-out because they appeared to be good candidates for working-capital financing, but as a result of the single-pot approach their financing needs have been met through internal resources. It is expected that the single-pot approach will significantly reduce the need for any other form of financing such as external working-capital financing, especially for longer operations with some initial funding in the form of either new contributions or carry-over resources.
16. This highlights again the fact that the tools developed in this new business model are complementary: depending on the situation, one or more tools can be used. In Ethiopia and Darfur, external working-capital financing has not been required because the flexible use of internal resources was sufficient. In the Occupied Palestinian Territory, the pipeline has been pre-filled. In other countries however, working-capital financing has been required; this continues to be the option of last resort after all other measures have been exhausted. These tools help WFP to improve on-time availability and utilization of resources, and to increase its value to beneficiaries.



WORKING-CAPITAL FINANCING AND IN-KIND DONORS

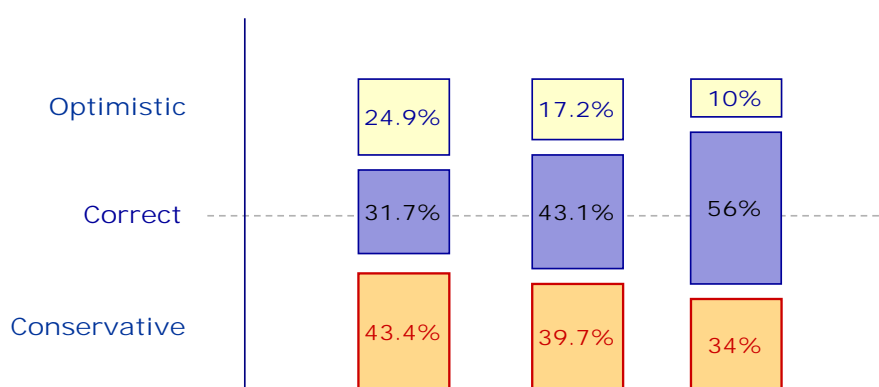
17. As previously reported, working-capital financing will only be effective in the long run if WFP can secure working-capital loans against in-kind contributions, because in-kind contributions represent half of WFP's funding.
18. WFP continues to collaborate with many of its main in-kind donors, including Australia, Canada, Italy and the United States, on ways to incorporate in-kind contributions into working-capital financing. Possible solutions include increased pre-positioning, streamlining donors' granting procedures and pre-purchasing forecast in-kind contributions at WFP's own risk.
19. Pre-purchasing involves procuring in-kind commodities in advance in countries of origin on the basis of recast contributions. Several in-kind donors have responded positively to this approach.
20. The United States has agreed to the pre-purchase by WFP of a significant amount of commodities; details are to be announced. Canada has also expressed its support and over US\$4 million in wheat has been pre-purchased in Canada for one pilot operation.

IMPROVING WFP'S FORECASTING ABILITY

21. Spending against forecast contributions is one of the fundamental business process improvements WFP has introduced. The full potential of the new business model cannot be achieved, however, without reliable forecasting.
22. Donor input is crucial to WFP's development of contribution forecasts. With strengthened cooperation in forecasting, country offices can call forward resources when needed and more beneficiaries can be fed on time. These forecasts are WFP's internal estimates and donors are not bound by the information presented in them.
23. The Fundraising and Communications Department provides contribution forecasts for country offices to enable them to plan better and avoid shortfalls. WFP is committed to working with donors in order to improve its forecasting ability. In April 2005, for example, an informal consultation with donors was held to discuss forecasting results and jointly explore ways to improve forecasting.
24. Although analysis of forecasts has shown a steady improvement through 2004, some forecasts remain over conservative and there is room for improved accuracy. For more information about forecasting, see the graph below.

Forecasting

Forecasting in 2004:
Steady progress but still too conservative



DONOR CONSTRAINTS

25. Conditions set by donors continue to limit the positive impact of the new business model. For example, the latest forecast for the Occupied Palestinian Territory indicates that 74 percent of the total confirmed and forecast cash contributions still require bag markings. This makes it difficult to use any of these contributions for working-capital financing and ultimately diminishes WFP's ability to provide food aid on time.
26. Some donors have increased their flexibility and have agreed to use standard bag markings. WFP continues to work with all donors to develop alternative means of ensuring donor visibility. It is hoped that more donors will be able to support WFP in its efforts to guarantee on-time availability of food aid. WFP is working on a comprehensive analysis of the effects of donor constraints, including bag markings and utilization limits on contributions. This analysis will focus on countries where the new business model has been implemented; the results will soon be shared with donors.

MAINSTREAMING IMPLEMENTATION OF BPR RECOMMENDATIONS

27. As the new business model is phased into additional operations, WFP has taken steps to ensure that BPR recommendations are properly mainstreamed. Implementation of the new business model, and especially decentralized resource management, is being driven by the functional groups, especially Operations and Fundraising Departments. This has necessitated some reorganization, particularly in the Operations Department and will likely result in further reorganization as resource management progressively shifts to field operations.
28. WFP will continue to report to the Board on the progress of implementation, including the use of working capital to fill the pipeline pending project approval. Results of implementation during 2005 will reported to the Board in 2006.



ANNEX

IMPLEMENTATION TO DATE

Current Status of New Business Model Roll-Out:

| Implementation Category | Operation | Implementation Status | | | |
|----------------------------|----------------------------------|--------------------------------|-----------------|-----------------------------------|---------------------------|
| | | Building Blocks in Place | WCF | Single Project Account Adjustment | Beneficiaries Fed on Time |
| Original Pilot Countries | DRC | Implemented for All Operations | \$19.9 million | US\$ 5.2 million | 700,000 |
| | Occup Palestin Territories | | \$9.6 million | | 480,000 |
| | Indonesia | | \$4.8 million | | 1,600,000 |
| | West Africa Coastal | | \$10.25 million | | 620,000 |
| | China | | \$4.1 million | | 1,300,000 |
| New Roll-Out Countries/Ops | Ethiopia | | | US\$ 10 million planned | |
| | Sudan (South Sudan & Darfur ops) | | \$34.7 million | US\$ 28 million | 5,500,000 |
| | Uganda | | | | |
| | Southern Africa | | | US\$ 5.6 million | 800,000 |

11 MILLION PEOPLE FED ON TIME!

