

DRAFT EXECUTIVE BOARD BRIEFING PAPER
STRATEGIC UTILIZATION OF THE
PSA EQUALIZATION ACCOUNT



Informal Consultation

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World Food Programme
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INTRODUCTION

Balance on PSA Equalization Account

- The PSA Equalization Account (PSAEA) is a reserve to record the difference between indirect support costs (ISC) revenue and Programme Support and Administrative (PSA) expenses for the financial period. It serves as a safety net for periods when the expenditure against the annual PSA appropriation approved by the Board exceeds the ISC income derived from donor contributions. It is also used for capital and capacity funding. Any utilization of the balance in the PSAEA requires the approval of the Board and is generally limited to support costs, including capital and capacity-building costs.¹
- The Financial Statements of WFP for 2014 show a substantial PSAEA balance, largely because of the unprecedented level of L3 emergencies in 2014 and the associated funding for them. Figures for the PSAEA are shown in the table below:

<i>(Figures in USD millions)</i>	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
Current PSAEA target level	93.9
PSAEA surplus over current target	95.9

- The Executive Board has determined that a PSAEA target level, currently set at four months PSA expenditure (i.e. USD 93.9 million), is desirable. Given the actual 2014 balance of USD 189.8 million is USD 95.9 million in excess of the PSAEA target, the Secretariat intends to present to the Executive Board a proposal for the strategic use of the PSAEA surplus. The proposals are focused on improving services to beneficiaries and total USD 95 million.
- The proposed uses of the PSAEA surplus are tabulated below.

<i>(Figures in USD millions)</i>	2015	2016	2017 and beyond	Total
Proposed use:				
a) Immediate Response Account (IRA)	50	0	0	50
b) Integrated Wellness Programme Fund	1	2	7	10
c) Critical corporate initiatives	18	17	0	35
Total proposed use	69	19	7	95

¹ WFP/EB.A/2006/6-C/1

5. The Immediate Response Account (IRA) is aimed primarily at improving programme effectiveness by enhancing the functioning of internal tools that can provide timely and predictable funding. The second area of proposed use (Integrated Wellness Programme Fund) would support employee wellness initiatives in field locations over a number of years where other sources of funding may not be assured. The third proposal (critical corporate initiatives), to be expended over 2015–2016 on strategic measures, would invest in capacities across six focus areas to accelerate the change that was launched in Fit for Purpose, in support of our vision for Zero Hunger.
6. In the case of the latter two proposals, the Executive Board would be asked to approve only the most urgent requirements for 2015 at the Annual Session, leaving the remainder to be considered together with the Management Plan at the Second Session in November.

Description of Proposed Uses of PSA Equalization Account Surplus Balance

a) Immediate Response Account: USD 50 million (2015)

7. The IRA as currently constructed receives donor contributions (around USD 50 million yearly) and deploys them to life-saving activities. Upon subsequent receipt of donor contributions, the IRA funds are ‘revolved’. In cases where subsequent contributions are not received, the funds are considered as a grant.
8. The IRA allows WFP to respond quickly to life-threatening emergencies and provides timely funding to projects, but the ability to assist projects is limited to the amount actually available in the IRA.
9. A USD 50 million addition of resources to the IRA is proposed to be used exclusively as a means of improving the loan-making ability of the account. This would effectively serve as the basis for the loan-making portion of the IRA, providing a *permanent* internal capacity to give loans (i.e. a ‘response floor’), without being bound by the timing and amount of donor contributions into the IRA.
10. This internal loan facility would complement donor contributions to the IRA, which would go into a grant-making portion of the IRA, disbursed as grants to projects requiring a quick response to emergency situations. As part of an increased emphasis on securing funds for the IRA from donors, the Secretariat will be submitting regular updates to donors regarding IRA allocations. Increasing visibility regarding the importance and impact of IRA funds will also receive greater emphasis from the Communications Division.

b) Integrated Wellness Programme Fund: USD 10 million (2015, 2016 and beyond)

11. The Strategic Plan (2014–2017) and our Enterprise Risk Management process recognize the increasingly challenging and evolving operational environment in which WFP works. Inevitably there are locations where WFP presence is required but where the facilities and employee services are inadequate (e.g. Ebola-affected countries). This calls for an appropriate level of duty of care towards WFP employees, not only to mitigate security incidents (e.g. South Sudan, Central African Republic) but also to address epidemics and disease outbreaks (e.g. yellow fever epidemics in Darfur; polio outbreaks in the Syrian Arab Republic, Iraq and Pakistan, etc.). A lack of access to basic supportive infrastructures, such as secure buildings and basic medical facilities contributes to inadequate employee wellness. For example, the WFP Medical Service Global Health Appraisal (2013) showed that in some locations almost all respondents had no access to health services (e.g. in the Sudan, 53 percent of respondents were not vaccinated or did not

know their yellow fever vaccine status). Furthermore, staff have reported high stress levels (e.g. in Yemen; Democratic Republic of the Congo) with consequences to their health.

12. The Capital Budgeting Facility (CBF) currently includes a provision of USD 8 million for field-based capital projects to finance, purchase, construct or upgrade WFP premises in the most challenging locations. However, a key requirement of the CBF is *full financial cost recovery* over a period of years. High costs related to land rental/acquisition and construction activities can heavily impact the ability of a country office to justify the financial return on security, occupational safety and health investments on infrastructure under the CBF process. The financial rigour required from the CBF therefore makes it an incomplete tool to respond to security and staff wellness issues.
13. In response to these constraints, we propose to create a process allowing proposals to be submitted to a Wellness Programme Fund. This would provide the means to improve staff wellness in field duty stations for reasons of health, safety or poor living conditions where a full financial repayment from a country programme cannot be assured.
14. In 2015, we propose to allocate USD 1 million to the new fund to support the most immediate and urgent requirements at field level. At the November session of the Executive Board, the initial experiences of the fund would be reviewed and a proposal for a further allocation would be presented to the Board for approval.

***c) Critical Corporate Initiatives – Accelerating The Change:
USD 35 million (2015 and 2016)***

15. Fit for Purpose has helped WFP emerge as a stronger organization, reinforcing our organizational capacity to respond to emergencies, support resilience-building, and improve food and nutrition security. In addition, we launched the People Strategy, completed the move of our local staff to WFP rules and regulations, reviewed our country office and donor capital presence, improved our supply chain organization and initiated a review of our Financial Framework, among others.
16. In November 2014, the Executive Board approved USD 9.2 million for critical corporate initiatives aimed at supporting the Fit for Purpose journey and these are well underway. However, we recognize that we must continue and accelerate the Fit for Purpose effort to maximize WFP's impact on achieving a world with zero hunger. At the same time, the unprecedented level of operational response over the last twelve months has highlighted several areas where our organizational capacity needs to be strengthened, particularly around the robustness of our programmes and systems. Addressing these organizational needs is urgent to enable WFP to better tackle the challenges of global hunger, now and in the future.
17. This means that WFP needs to maintain and strengthen its existing emergency response capacity, while at the same time, expand its capacity to address hunger (including chronic hunger) in medium and long-term contexts. Over the course of 2015 and 2016, this will require WFP to leverage its strong operational experience and footprint, while investing in efforts to further develop its capacities across six focus areas, including:
 - Workforce capabilities and skillsets;
 - Nutrition capabilities;
 - National capacity development;
 - Inter-agency/Intergovernmental processes and strategic partnerships;
 - Programme design, platforms and systems, and evidence-based decision-making; and
 - Flexibility in funding and efficient resource usage.

18. Many of these organizational strengthening initiatives will continue to rely on generous extra-budgetary contributions from donors. In immediate support of the six focus areas, we propose to use USD 35 million of the PSAEA to support and accelerate the achievement of several key deliverables that follow the trajectory set by Fit for Purpose over the remainder of 2015 and throughout 2016, a timeframe that is vital for providing continuity in activities. The expenditures would be non-recurring in nature, and applicable to both Headquarters and field offices.
19. A short description of the deliverables for 2015/2016 and high-level estimate of required resources for 2015 follows:
- i) Equipping our workforce with the capabilities and skillsets to support emergency surge response and longer-term hunger approaches by graduating a significant number of our leaders through a leadership programme, providing training for our staff (including national staff) in specific programming (such as nutrition, cash and vouchers (C&V) transfers, etc.) and extending access to learning and skills development throughout the organization. (USD 2.6 million)
 - ii) Assisting a number of country offices in identifying areas where investments are required for supporting national capacities to eradicate hunger, through the development of country-specific action plans, implementation plans, and specific programming (including areas such as emergency preparedness and response, nutrition, and resilience). (USD 1.0 million)
 - iii) Communication and advocacy by WFP is well-positioned so that hunger and nutrition are appropriately reflected in key global dialogues, events, and processes by the end of 2016. (No funding requested in 2015)
 - iv) Evolving the financial architecture, including communication and evidence-based advocacy to improve flexibility and predictability of funding, a standardized approach to resource-based planning and a concept for a future “Country Portfolio Budget”. (No funding requested in 2015)
 - v) Advancing the development and scale-up of the Corporate C&V platform through a customizable menu of tools and services, deployment of the platform to at least 10 countries, and augmentation of capacity to provide post-deployment support. (USD 7.9 million)
 - vi) Strengthening our ability to collect and use evidence for improved decision-making by further developing or completing critical systems that allow us to manage information systematically, and support analysis on outputs and outcomes. (USD 6.5 million)
20. The amounts indicated above, totaling USD 18 million, are estimates for each deliverable for 2015 only. A further estimated USD 17 million will be necessary to complete the deliverables by end 2016. However, the proposed 2016 requirements will be presented for approval along with the overall Management Plan (2016–2018) at the November session of the Executive Board.