

WFP Executive Board

Informal Consultation on the Financial Framework Review

21 September 2015



World Food Programme



Financial Framework Review

Agenda

Part 1: Overview of Financial Framework Review

- Key Dates of Financial Framework Review in 2014 and 2015
- Drivers of Change
- Objectives of the Financial Framework Review
- Summary of work-streams
- Timeline and Cost Estimates for Financial Framework Review in 2015 and 2016

Part 2: Review of the PSA Equalization Account Target Level

- Purpose of Review
- Overview of PSA Equalization Account and Analysis
- Adequacy of Current Target Level
- Optimizing the PSA Equalization Account

Draft Decision

Next Steps

Part 1: Overview of Financial Framework Review

- Key Dates of Financial Framework in 2014 and 2015
- Drivers of Change
- Objectives of the Financial Framework Review
- Summary of work-streams
 - *Resource Based planning*
 - *Macro Advance financing*
 - *Budgeting for Operational Effectiveness*
- Timeline for Financial Framework Review in 2015 and 2016

Key Dates of the Financial Framework Review in 2014 and 2015

2014

- 11 Feb** Formal discussion on “Financial Framework Review: Working Capital Financing Facility”
- 2 April** 1st Informal Consultation on Working Capital Financing Facility
- 24 April** 2nd Informal Consultation on Working Capital Financing Facility
- 8 May** Informal Consultation on Resource Management issues at EB.A/2014
- 4 June** Annual Session of the Executive Board
Financial Framework Review, Restructuring of the WCFF
WFP/EB.A/2014/6-D/1

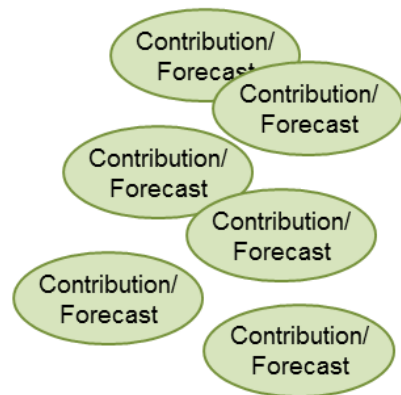
2015

- 17 March** Informal Consultation on the Financial Framework Review (including ISC)
- 4 May** Informal Consultation on Resource Management issues at EB.A/2015
- 26 May** Annual Session of the Executive Board
Progress on the FFR, including ISC
WFP/EB.A/2015/6-C/1
- 8 Sept** Circulation of Draft Paper
- TODAY** Informal Consultation on the Financial Framework Review
- 14 Oct** ACABQ
- 27-28 Oct** FAO Finance Committee
- 10 Nov** 2nd Regular Session
Update on the Financial Framework Review

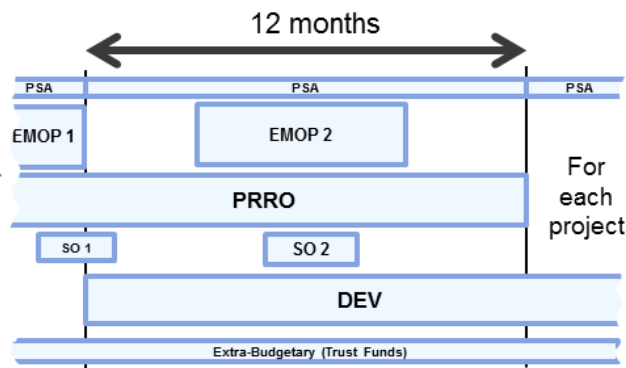
The Secretariat is committed to an intensive consultative approach in 2016

Challenging internal structures are driving change within WFP's financial framework

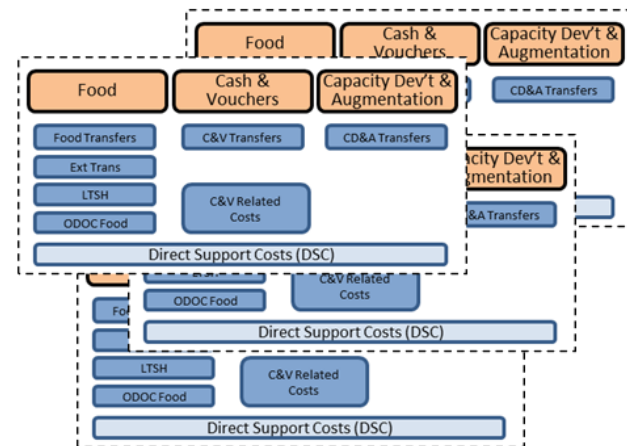
Budget Authority



Budget Entity



Budget Structure



Three workstreams prioritized to reform WFP's financial framework

I

**Resource Based Planning
(RBP)**

Standardize resource-based plans at the country office level to improve planning and performance management

II

**Macro Advance Financing
(MAF)**

Provide aggregated budget authority for country offices earlier in the process to de-fragment funding streams, increase predictability of resources and enhance efficiency and effectiveness

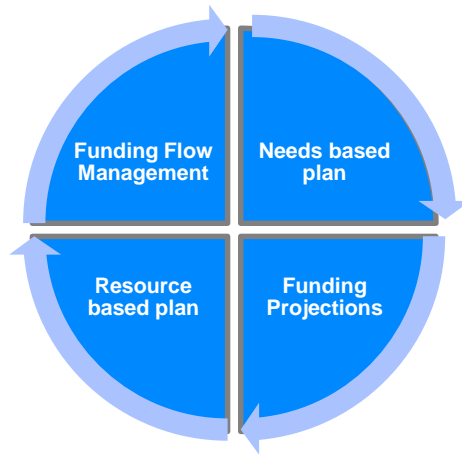
III

**Budgeting for Operational Effectiveness
(BOE)**

Revise WFP's budget structure to reduce internal fragmentation, simplify processes and maximize transparency and accountability

I WORKSTREAM: RESOURCE BASED PLANNING

Resource-based planning creates a realistic planning layer to distinguish between ‘needs’ and ‘plans’



- **Managers will use resource-based plans to prioritize activities or beneficiary groups and adjust the level or duration of assistance to match projected funding**
- **WFP will continue to advocate for full funding of all beneficiary requirements and needs assessments will remain the basis for programme design and intervention**
- **Adding an operational planning layer aligned to projected resources enables:**
 - Better comparison between original plans and operational results
 - Project implementation planning on a rolling 12-18 month basis to optimize resource usage
 - Assessment of performance in terms of value for money
 - Clearer articulation of funding shortfall impacts

Resource-based plans are not a new concept and experience will feed into pilot approach

Existing Practices

- Provisional prioritized plan of work in the Management Plan
- Existing informal models at the country office level
- Pipeline Management processes

Pilot Approach

- A diverse set of country offices will test various platform models in 2016
- Managers develop a resource-based plan based on:
 - Defined annual project plan
 - Projected annual funding
 - Prioritization of activities etc. aligned to funding
- Results evaluated

Implementation

- Roll out of standardized platform to country offices
- Integrate country level resource-based plans and Management Plan prioritized plan of work

WORKSTREAM: MACRO ADVANCE FINANCING

Macro advance financing for country offices to improve project continuity and operational effectiveness

Objective

- Increase operational effectiveness through greater predictability of timing and level of resourcing

Concept

- Provide aggregated budget authority to country offices to incur costs based on historical funding trends, projected cash funding, risk assessment and other relevant variables
- Builds on project lending experience and lessons learned from non-donor specific advance and multilateral guaranteed advances

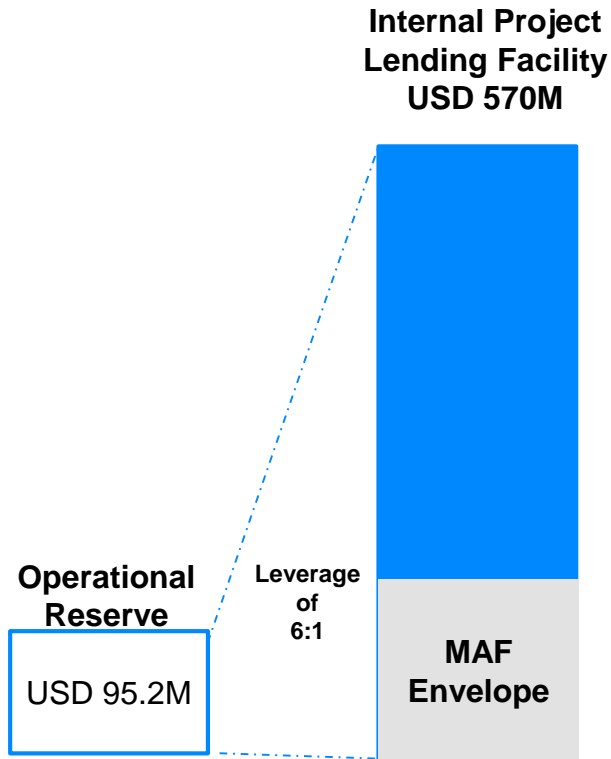
Pilot Approach



Testing in the field will improve concept and demonstrate operational value

Criteria	Provisional Pilot Country Offices	Oversight
<ul style="list-style-type: none">➤ Resource-based plan➤ Relatively predictable and stable needs and resources➤ Commitment and capacity in CO➤ Accountability Compact	<ul style="list-style-type: none">➤ Ethiopia➤ Kenya➤ Lesotho➤ Mali➤ Pakistan➤ Sudan➤ Zimbabwe	<ul style="list-style-type: none">➤ Regular review of forecasts and confirmed contributions➤ Lessons learned incorporated➤ Clear governance and accountability framework


Pilots will be managed through the Internal Project Lending facility



- Envelope of ~ USD 150 – 200 million proposed to be set aside within the Internal Project Lending facility
- Advances may be allocated in revolving tranches to reduce the total advance balance at any one time

Assessments during and at the conclusion of the pilot will quantify realized gains in operational efficiency and effectiveness

The Boston Consulting Group will conduct a baseline assessment to enable a benchmarking exercise of the potential of quantifiable and qualitative benefits



Examples
of areas to
be analyzed

- Reduced transaction costs
- Fewer unplanned breaks in delivery
- Quicker response time
- Continuity in delivery of nutrition treatments
- Continuity of capacity development activities
- Long-term planning and longer commitments
- Lower recruiting and training costs for staff
- Lower capital costs due to economies of scale in purchasing

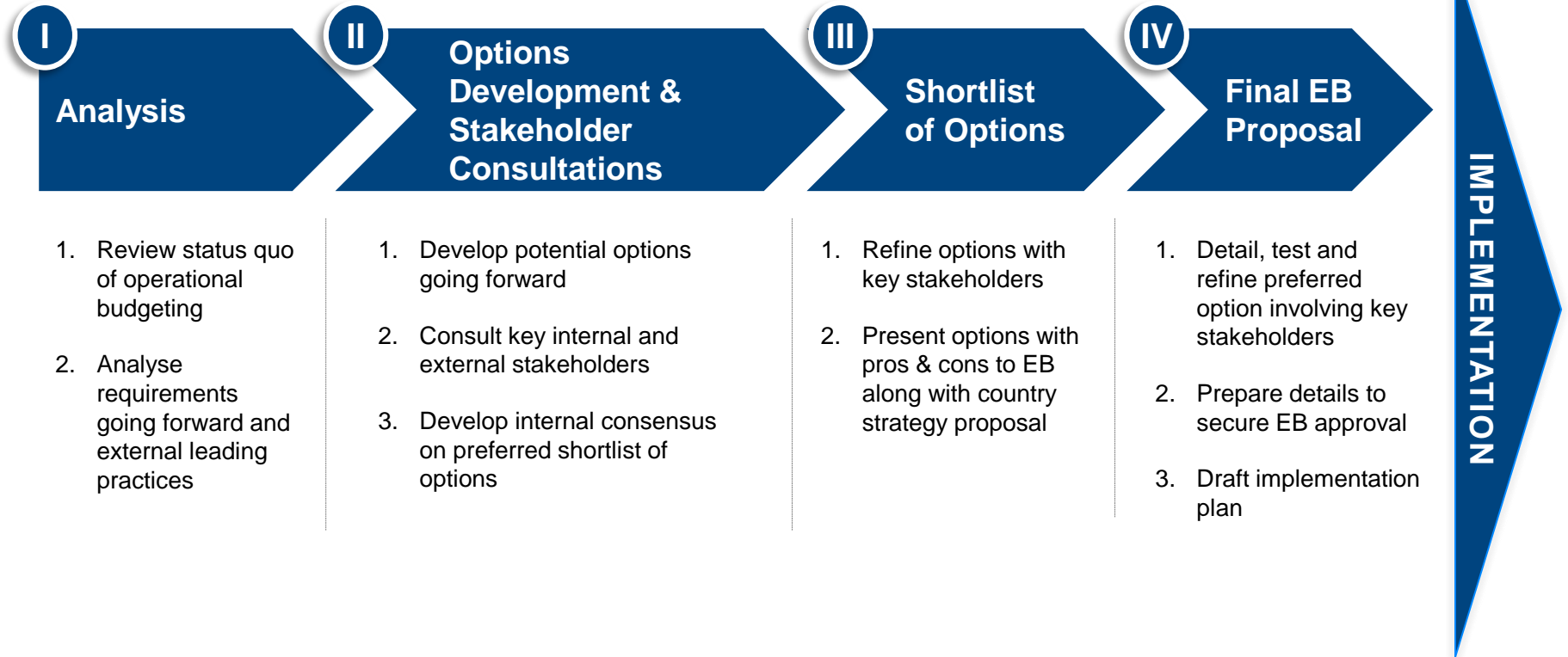
III WORKSTREAM: BUDGETING FOR OPERATIONAL EFFECTIVENESS

Budgeting for operational effectiveness addresses internal challenges to improve the operational budget structure

Requirements for revised budget structure

- **Improved operational and programmatic effectiveness**
 - Support rapid resource mobilization in emergencies
 - Increase resource flexibility to achieve Strategic Objectives
 - Strengthen strategic impact through alignment to Country Strategic Plan process
- **Maximum transparency**
 - Alignment of resources and the results framework to better understand operational effectiveness and demonstrate value for money
 - Enhanced reporting to donors regarding contribution usage and results
- **Simplified budgeting**
 - User-oriented with greater focus on the Country Office level
 - Reduce internal fragmentation of resources
 - Streamlined processes

Phased review in 2015 and 2016 incorporates extensive consultation opportunities



Part 2: Review of the PSA Equalization Account Target Level

- Overview of PSA Equalization Account
- Purpose of Review
- Adequacy of Current Target Level
 - *Review of ISC Income and PSA Expenditure*
 - *Established Practices in UN organizations and NGOs*
- Optimizing the PSA Equalization Account
 - *Setting a Target Level*
 - *Establishing a Floor*

What is the PSA Equalization Account?

Overview

The PSA Equalization Account is a multi-purpose reserve to record the difference between indirect support costs revenue and PSA expenses for the financial period

Uses

Subject to the Executive Board's approval, the balance of the PSA Equalization Account may be used for the following purposes:

- to cover any difference between ISC income and approved PSA expenditure;
- as a reserve to underwrite the risk of decreased ISC income or under-funding of the PSA budget;
- for critical corporate initiatives or thematic fund transfers; and
- for strengthening WFP's reserves

Target Level

Current target level is equivalent to four months of PSA expenditure

To ensure financial resilience to income fluctuation WFP undertook a review of the PSA Equalization Account target level

Purpose of Review

- Target level has remain unchanged since 2006
- Periodic validation of the robustness of financial safety nets proactively manages financial risk and ensures that fluctuations in overall funding do not impact the provision of PSA-funded support and services
- Determine where harmonization or integration of best practices from other UN agencies and NGOs WFP is feasible in line with the QCPR
- ‘Stress test’ various ISC income level projections to estimate impact on PSA and potential drawdown of PSAEA

A desk review was conducted of current reserve policies in UN organizations and NGOs



- UN organizations that are comparable to WFP in size, objectives, geographic scope and are primarily voluntarily-funded
- NGOs that are key implementing partners for WFP
- None have an existing reserve solely to mitigate risk of income fluctuation to cover indirect support costs
- Most organizations have a reserve policy in place to “guarantee...financial viability and integrity” and mitigate risk of resource shortfalls and uneven cash flow
- Exact purpose and level of reserves varies between organizations

WFP's management of the PSA Equalization Account is in line with established practices of 3 to 6 months of expenditure



- **Maintains a minimum threshold equivalent to three months of expenditures for its year-end balance of regular resources**
- **2014 Annual Review of the Financial Situation recommends a prudent level of reserves equivalent to three to six months of expenditures**
- **2014 year-end position was equivalent to 3.10 months of working capital**



- **Strategic Plan recommends a prudent level of reserves equivalent to expenditure for three to six months**
- **Projected 2015 cash balance at year-end for the reserve is roughly equivalent to four to five months of disbursement**

WFP also has other specific-purpose reserves (e.g. Operational Reserve)

Increased target level of the PSAEA optimizes the reserve as an underwriting tool for PSA management and its use for other purposes

Today's Practice

- **Conservative income forecasts are utilized to project ISC income and develop the annual PSA budget**
- **Frequently underestimate contributions**
- **Current target level constrains WFP to a short-term view of the PSA budget**

Optimization

- **Less conservative forecasting would enable medium-term PSA planning:**
 - Enhanced PSA stability
 - Avoid short-term staff reductions
 - Maintain emergency response capacity
- **Provide greater stability for ISC rate**

The target level of the PSA Equalization Account should be set equivalent to 5 months of PSA expenditures

A stress test analysis was performed to assess the financial resilience of the PSA Equalization Account

Two primary functions

Purpose is to determine what PSAEA balance might be needed to cover:

1. Any difference between ISC income and approved PSA Expenditure
2. The risk of decreased PSA income or underfunding of the PSA budget

The results indicate a minimum “floor” to be maintained in the PSAEA to ensure the account’s two primary functions are met

Stress test scenario 1: Income level of USD 4,071 M vs. forecast of USD 4,400 M (-7.5%)

Reduced ISC income of USD 262.6 M projected vs PSA budget of USD 281.1 M

Approved PSA Budget	USD 281.8 million
Option A: Alignment of ISC Income and PSA Expenditure	
Reduce PSA by	(USD 19.2 million)
Revised PSA Budget	USD 262.6 million
If No Action Taken:	
Drawdown PSAEA	USD 19.2
PSA Budget Maintained	USD 281.8 million

Option A could be achieved over a period of 3-6 months with minimal one-time costs

No action would utilize the equivalent of 0.8 months of PSA expenditure annually from the PSA Equalization Account

Stress test scenario 2: Income level of USD 3,597 M vs. forecast of USD 4,400 M (-18.25%)

Reduced ISC income of USD 232.0 M projected vs. PSA budget of USD 281.1 M

Approved PSA Budget	USD 281.8 million
Option A: Two-Stage Reduction to Align of ISC Income and PSA Expenditure	
1) Immediate Action	
Reduce PSA over 3-6 months by	(USD 19.2 million)
Revised PSA Budget	USD 262.6 million
2) Permanent income reduction realized	
Further reduce PSA over 6-18 months by	(USD 30.2 million)
Final PSA Budget	USD 232.0 million
No Action Taken	
Drawdown PSAEA	USD 49.8
PSA Budget Maintained	USD 281.8 million

Option A could be achieved over a period of 3-18 months with associated PSAEA drawdown and one-time costs

Two Stage Reduction would cost:

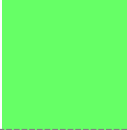


- Up to USD 32.0 million to maintain PSA expenditure above ISC income over the 18 month cost-reduction period
- USD 15 million in one-time costs
- Up to USD 47 million PSAEA Equivalent to 2 months of reserves

No action would utilize the equivalent of 2.1 months of PSA expenditure annually from the PSAEA

To enable all Board-approved uses of the PSA Equalization Account two levels are appropriate

PSA Equalization Account

Potential Actions

Target		<ul style="list-style-type: none">- Available for reserve transfers and critical corporate initiatives- ISC rate review if sustained
Floor		<ul style="list-style-type: none">- Available for restricted drawdowns for reserve transfers and critical corporate initiatives- Tactical overspend of PSA expenditure versus ISC income considered (e.g. because of confident that future contributions will rise)
		<ul style="list-style-type: none">- No drawdowns for critical corporate initiatives or reserve transfers- Immediate PSA reductions- ISC rate review if sustained

The Financial Framework Review will consider ways to maximize the value of the PSA Equalization Account reserve balance above the floor level

NEXT STEPS

Next Steps

Following today's consultation:

- **Incorporate views of the Membership**
- **Finalize Paper and Circulate**

Present Paper in the following fora for consideration:

- **ACABQ**
- **FAO Finance Committee**
- **2nd Regular Session of Executive Board**

THANK YOU