

# FINANCIAL FRAMEWORK REVIEW



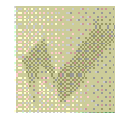
Executive Board Consultation  
March 11, 2010

# OBJECTIVE

**A financial framework for WFP that maximizes the availability and impact of funding for beneficiary needs**

## Goals of the Review:

1. **Improve Predictability and Stability of funding**  
**Why?** Better project planning leading to more efficient resource usage and improved timeliness in meeting beneficiary needs
2. **Achieve a higher level of Flexibility in resource usage**  
**Why?** To direct resources to where they are most needed at the moment
3. **Reinforce Transparency in allocation of resources**  
**Why?** Increase donor confidence leading to higher levels of contributions and less restrictions on funds usage



# Objectives for Today

1. Review of issues considered to date
2. Update on progress made
3. Present options for framework changes
4. Present preliminary recommendations
5. Agree consultation process & way forward



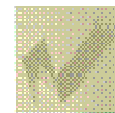
# Areas Identified for Review

## Elements of Framework:

- A. Review of Programme Categories**
- B. Review of the Tonnage-Based Model**
- C. Review PSA stability**

## Related Issues

- E. Advance Financing and Forward Purchasing**
- F. Prioritization**





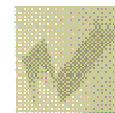
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**DEV**

**SO 2**

Prevent acute hunger and invest in disaster preparedness and mitigation measures

**SO3**

**SO4:Reduce chronic hunger and under-nutrition**

**SO5**

Strengthen the capacities of countries to reduce hunger, including through hand-over strategies and local purchase

**PRRO**

**SO1**

**SO3:Restore and rebuild lives and livelihoods in post-conflict, post-disaster or transition situations**

**EMOP**

**SO1: Save lives and protect livelihoods in emergencies**

# Emergency Operation - EMOP

- SO 1: Save lives and protect livelihoods in emergencies
- *Goal 1 – to save lives in emergencies and reduce acute malnutrition caused by shocks to below emergency levels*
- *Goal 2 – to protect livelihoods and enhance self-reliance in emergencies and early recovery*
- *Goal 3 – to reach refugees, internally displaced persons, and other vulnerable groups and communities whose food and nutrition security has been adversely affected by shocks*



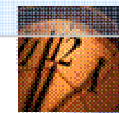
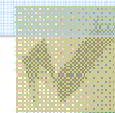
# EMOP - Save lives and protect livelihoods in emergencies

## Summary programme indicators

- Prevalence of acute malnutrition
- Crude or age specific mortality rate (CMR)
- Household food consumption score

## Contextual Highlights

- Shock threatening lives and livelihoods
- Conflict and displacement
- Dynamic, unpredictable situation
- Seriously disrupted community and market infrastructure limiting availability, access or utilization of food
- Government request/ inadequate capacity to respond



# Protracted Relief and Recovery Operation

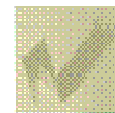
**SO 1: Save lives and protect livelihoods in emergencies**

**SO 3: Restore and rebuild lives and livelihoods in post-conflict, post disaster or transition situations**

*Goal 1 – to support the return of refugees and IDPs through food and nutrition assistance*

*Goal 2 – to support the re-establishment of livelihoods and food and nutrition security of communities and families affected by shocks*

*Goal 3 – to assist in establishing or rebuilding food supply or delivery capacities of countries and communities affected by shocks and help to avoid the resumption of conflict*



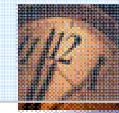
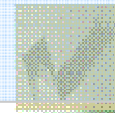
# Protracted Relief and Recovery Operation

## Summary programme indicators

- Household food consumption score
- Coping strategy index
- Community asset score
- Retention rate

## Contextual Highlights

- Protracted impact of conflict/shock on low-resilient communities
- Recurring shocks or persistence of aggravating factors
- Sufficient predictability
- Restart of economic activity
- Poor food availability/accessibility
- High rate of environmental destruction
- Inadequate government capacity



# Development - Country Programme/Development Project

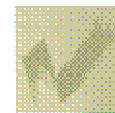
SO 3: Restore and rebuild lives and livelihoods in post-conflict, post disaster or transition situations

SO 4: Reduce chronic hunger and under nutrition

***Goal 1. to help countries bring under nutrition below critical levels and break the intergenerational cycle of chronic hunger.***

***Goal 2. to increase levels of education and basic nutrition and health through food and nutrition assistance and food and nutrition security tools.***

***Goal 3. to meet the food and nutrition needs of those affected by HIV/AIDS, tuberculosis and other pandemics***



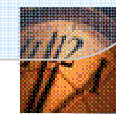
# Development - Country Programme/Development Project

## Summary programme indicators

- Prevalence of child stunting, underweight, anemia
- % TB and HIV/AIDS patients under treatment
- Coping strategy index
- School enrolment and attendance

## Contextual Highlights

- LIFDC
- Possibility of sustainable hunger solutions
- Low Government capacity
- Presence of large multilateral donors
- High chronic malnutrition, micronutrient deficiencies, low dietary diversity
- Environmentally fragile and poor market environment





# Cross Cutting Objectives

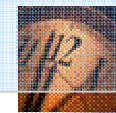
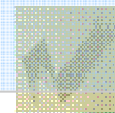
## SO 2: Prevent acute hunger and invest in disaster preparedness and mitigation measures

***Goal 1. Support and strengthen capacities of governments to prepare for, assess and respond to acute hunger***

***Goal 2 . Support and strengthen resiliency of communities to shocks through safety nets or asset creation, including adaptation to climate change***

### Summary Programme indicators

- Disaster preparedness index
- Household Food Consumption Score
- Household/Community Asset Score
- Coping Strategy Index



# Cross Cutting Objective

## SO 5: Strengthen the capacities of countries to reduce hunger, including through handover strategies and local purchase

**Goal 1.** to use purchasing power to support the sustainable development of food and nutrition security systems, and transform food and nutrition assistance into a productive investment in local communities.

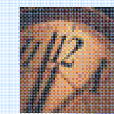
**Goal 2 .** to develop clear hand-over strategies to enhance nationally owned hunger solutions.

**Goal 3.** to strengthen the capacities of countries to design, manage and implement tools, policies and programmes to predict and reduce hunger

### Summary

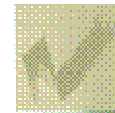
#### Programme indicators

- Food purchased locally, as % of food distributed in-country
- Hand-over strategy developed and implemented
- % increase in Government's funding for hunger solution tools in national plans of action



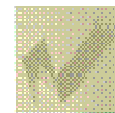
# Interpretative guidance

- Needs
- Opportunity
- Comparative advantage
- Cost efficiency



# Fast track working group on definitions – RELIEF (i)

- Relief is assistance that saves lives and protects livelihoods in emergencies. Relief enables people to meet their nutritional and related needs (saving lives) with dignity and without resorting to activities that undermine their future food security (protecting livelihoods).
- *Current working definition*



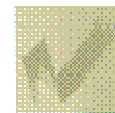
## Fast track working group on definitions – RELIEF (ii)

- Relief is assistance that saves lives and protects livelihoods in emergencies. Relief enables people to meet their nutritional and related needs with dignity and *protects people's capacity to address their future food security.*



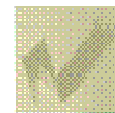
# Fast track working group on definitions – RECOVERY (i)

- Recovery is assistance that aims to return crisis-affected people to their pre-crisis situation in terms of food security. Recovery generally begins after the acute phase of a crisis, when households begin to make investments and undertake their usual livelihood activities again; it ends when they have regained what was lost, in terms of access to food.
- *Current working definition*



## Fast track working group on definitions – RECOVERY (ii)

- Recovery is the restoration -- *and improvement where appropriate* -- of the food security situation and livelihoods of crisis-affected people. Recovery activities may include efforts to reduce disaster risk, *prevent and prepare* for future emergencies, and *support the capacity* of government and communities.



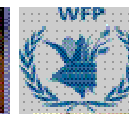
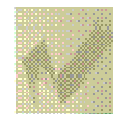
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## Related Issues

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# Tonnage-based model: Background\*

Each donor...shall cover the full operational and support cost of its contribution, as follows (Gen. Rule XIII.4(a)):

COMMODITY	Actual or estimated actual cost
EXT. TRANSP	Estimated actual cost
LTSH	Average <u>per ton rate</u> for the project
ODOC	Pro-rata share of the budgeted amount for the project, <u>based on tonnage</u>
DSC	Pro-rata share of the budgeted amount for the project, <u>based on tonnage</u>
ISC/PSA	Percentage of direct costs as determined by the Board (7%)

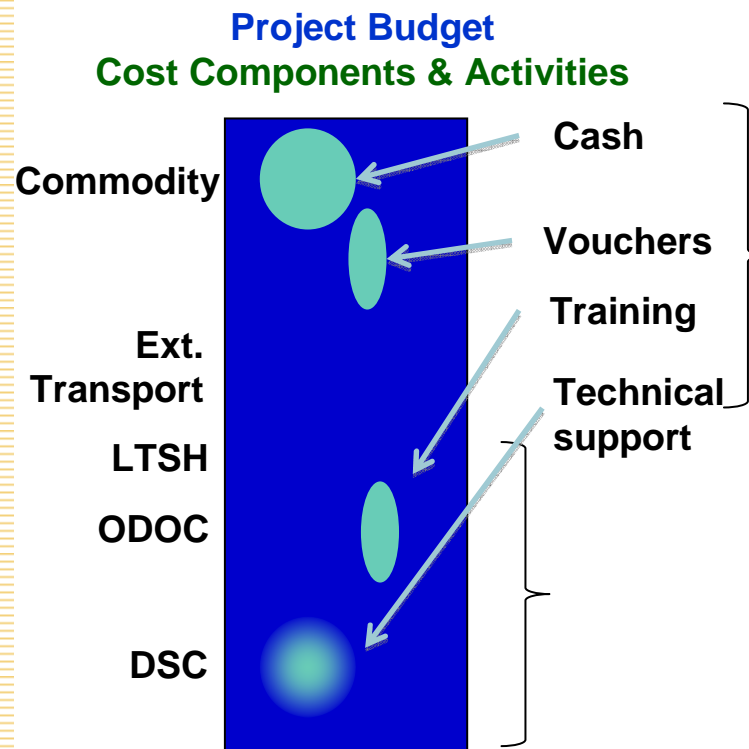
\*Also see Annex slides 46&47



# Review of Tonnage-Based Model

## **ISSUE 1:** Lack of a specific model for non-commodity activities.

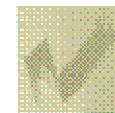
Non-commodity activities have been forced to fit existing commodity cost structure.



Various non-commodity inputs (cash, vouchers, technical support etc.) are not properly categorized

Ton is the metric used:

- To evaluate project efficiency
- Benchmarking across projects
- To fund LTSH, DSC and ODOC



# ISSUE 1: Lack of a specific model for non-commodity activities

## Issue 1 – Options:

**OPTION A:**

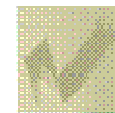
**Continue with current model: non-commodity activities embedded in existing structures**

**OPTION B:**

**Segregate non-commodity activities within projects**

**OPTION C:**

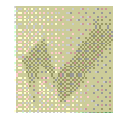
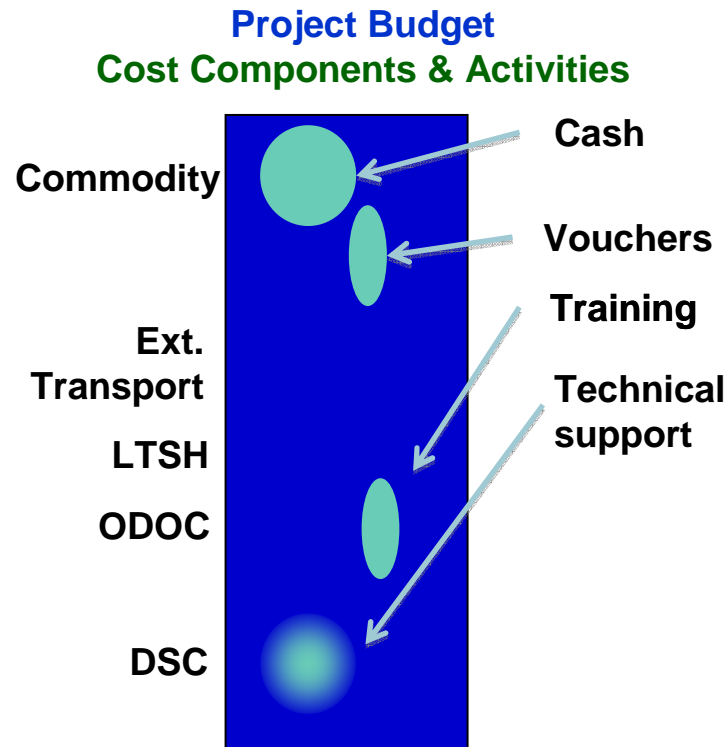
**Segregate non-commodity activities in separate projects**



# ISSUE 1: Lack of a specific model for non-commodity activities

**OPTION A:**

**Continue with current model: non-commodity activities embedded in existing structures**

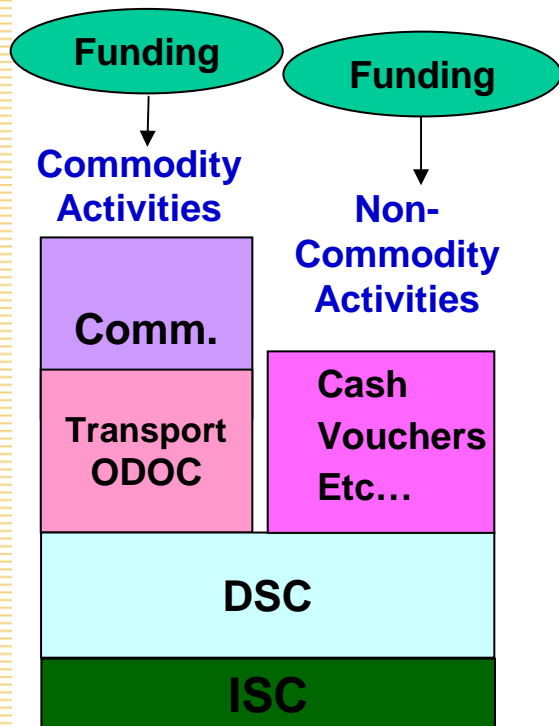


# ISSUE 1: Lack of a specific model for non-commodity activities

**OPTION B:**

**Segregate non-commodity activities within projects and fund them separately**

*i.e. Two streams of funding for a project: a) commodity related activities funded by 'cost per MT' & b) non-commodity activities funded separately, by direct appeals*

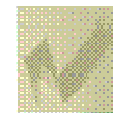


## PRO's

- More transparent
- Better budgeting and control for non-commodity activities
- Reduction in perceived cost of commodity activities
- Separate set of performance indicators for non-commodity activities
- Potential to resource non-commodity activities separately

## CON's

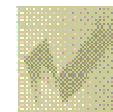
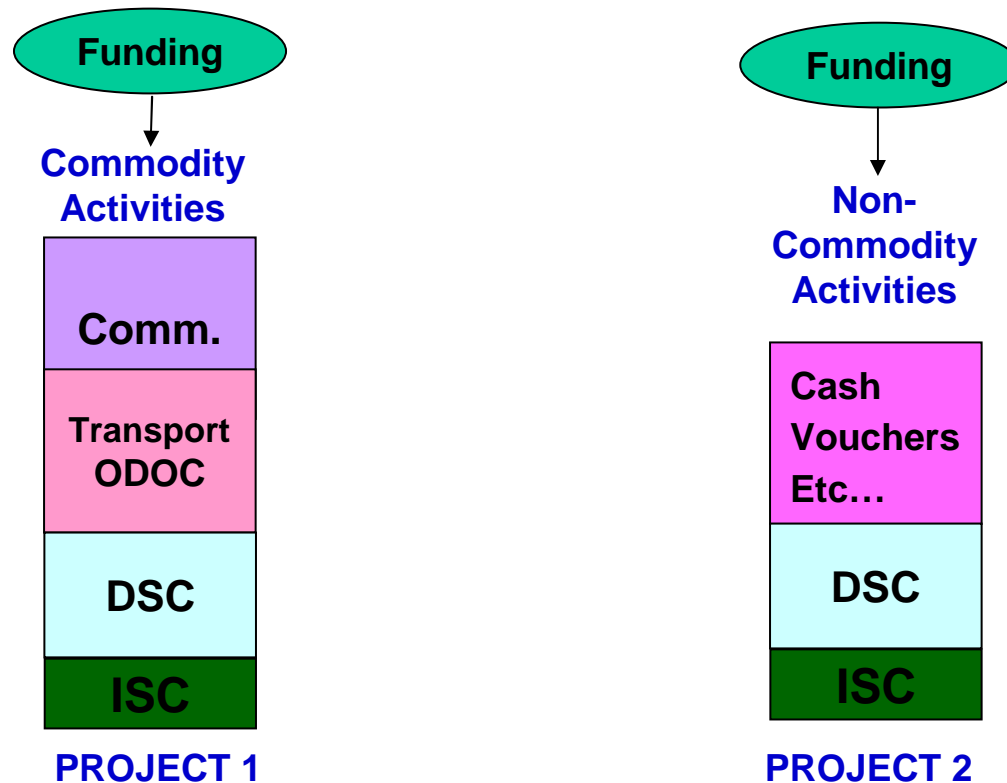
- Processes and systems changes
- Potential Funding difficulties for some activities



# ISSUE 1: Lack of a specific model for non-commodity activities

**OPTION C:**

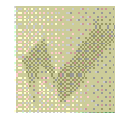
**Segregate non-commodity activities in a separate project**



# ISSUE 1: Lack of a specific model for non-commodity activities

	Predictability Stability	Flexibility	Transparency
Option A: Current model (base)	X	—	X
Option B: Segregate non-commodity activities within projects and fund them separately	↑	—	↑
Option C: Segregate non-commodity activities in a separate project	↑	↓	↑

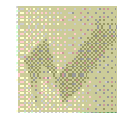
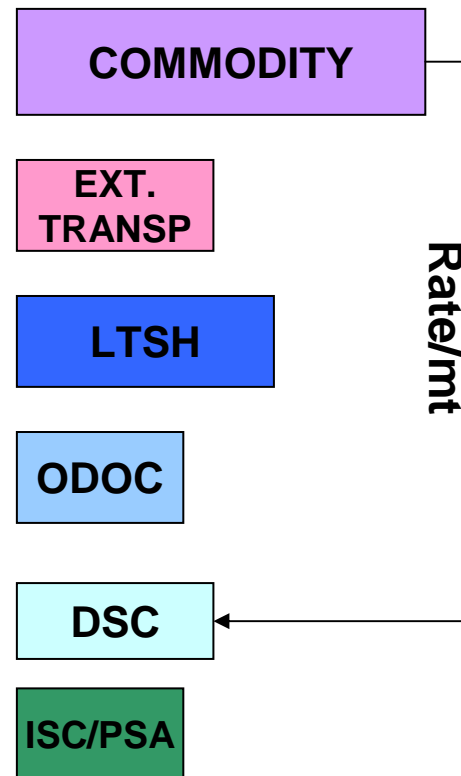
**Recommendation 1:** Segregate non-commodity activities within a project with separate categorization and funding (**Option B**)



## ISSUE 2: Funding of country-specific support costs ('The Direct Support Costs Issue')

**OPTION A:**

**Continue with current model: DSC funded as a rate per MT)**

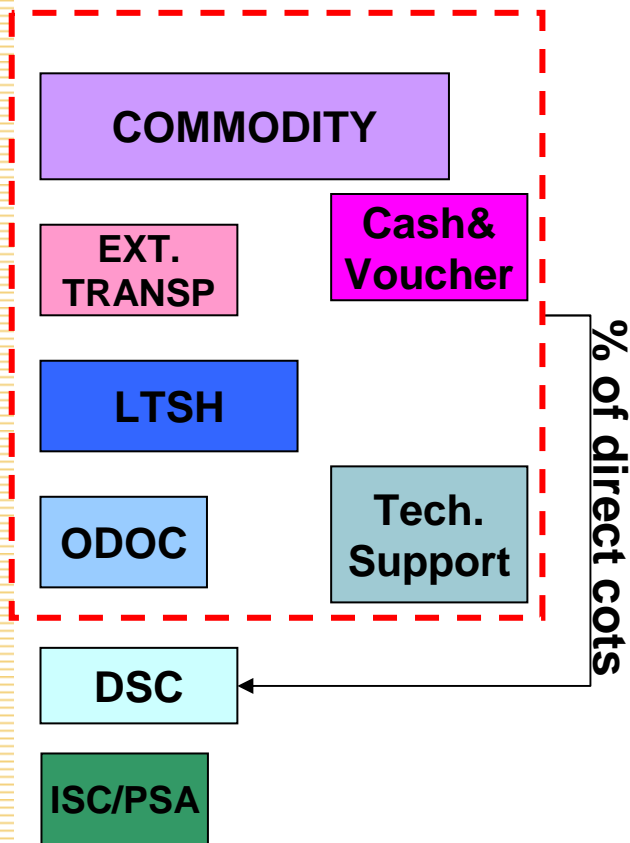




# ISSUE 2: Funding of country-specific support costs ('The DSC Issue')

OPTION B:

Modify current model, i.e. use % of DOC value

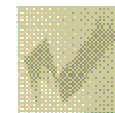


## PRO's

- Limited structural changes to current costing framework
- Removes MT incentive
- More adapted to non-commodity activities

## CON's

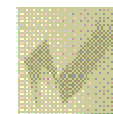
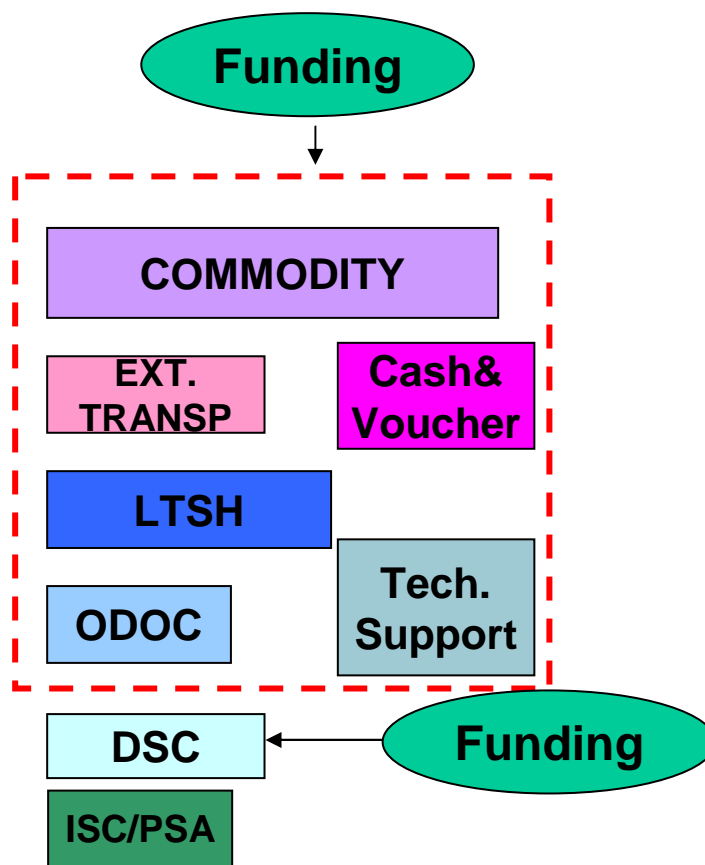
- Variable funding for relatively fixed costs



# ISSUE 2: Funding of country-specific support costs ('The DSC Issue')

**OPTION C:**

**Fund Support Costs separately within project, i.e. Direct Appeals for DSC**



## ISSUE 2: Funding of country-specific support costs ('The DSC Issue')

	Predictability Stability	Flexibility	Transparency
<b>Option A:</b> Continue with current model (i.e. rate per MT)	X	✓	✓
<b>Option B:</b> Modify current model, i.e. use % of DOC value	—	—	↑
<b>Option C:</b> Exclusively fund Direct Support Costs separately within project, i.e. Direct Appeals for DSC	↓	—	↓

**Recommendation 2:** Modify current DSC funding model to a percentage of direct costs rather than a rate per MT (**Option B**)

**Recommendation 3:** allow donations for 'DSC only' more transparently and with greater flexibility ('Champion Donors' - **modified option C**)



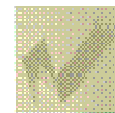
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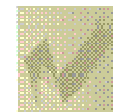
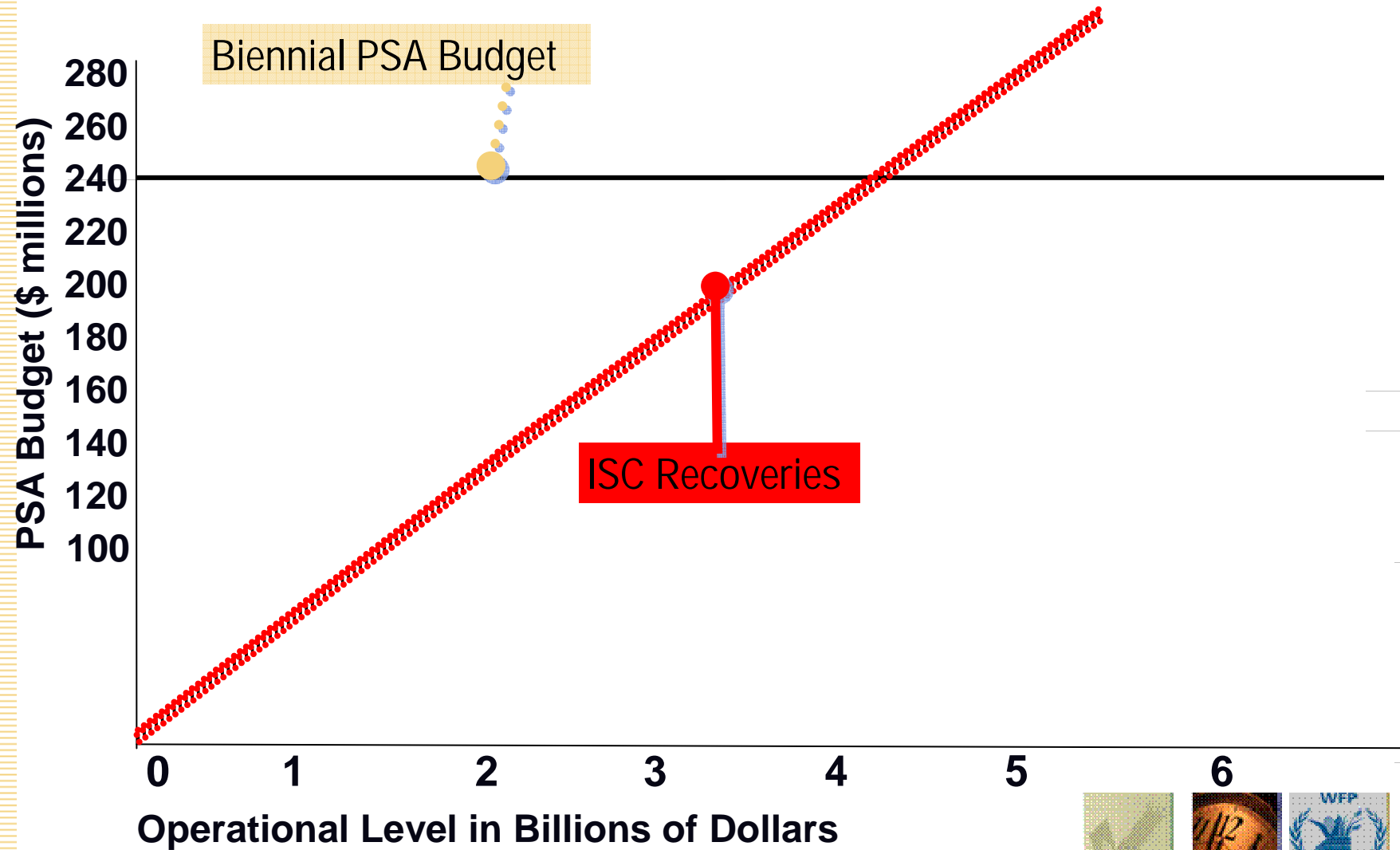
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- C. Review PSA stability**

## Related Issues

- E. Advance Financing and Forward Purchasing
- F. Prioritization



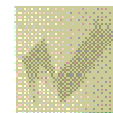
# PSA / ISC Management



# PSA Budgeting and Funding: Background

- **PSA (ISC) income** – highly volatile and difficult to predict as WFP is 100% voluntary funded organization
- **PSA expenditures** - relatively fixed in its nature<sup>1</sup>. Expenditure variations can primarily be attributed to the adjustments sometimes required to accommodate the immediate needs of the organization or to address certain corporate risks or funding issues.
- **PSA Equalization Account Reserve** is used to capture shortfalls and/or surpluses between PSA income and expenditures.
- PSA budget is approved every two years in the **Management Plan** and is usually based on:
  - the funding projections,
  - the needs for changes in the overhead structure of the organization, and
  - the latest biennium budget as a baseline reference.

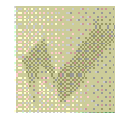
1 - 2002 ISC rate study established that approximately 75% if PSA expenditures were fixed.



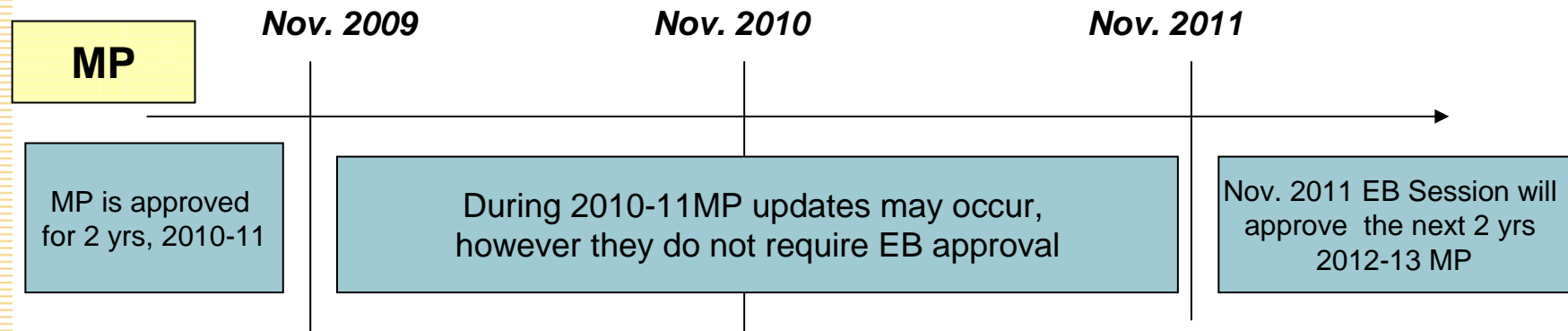
# Issues linked to stability and predictability of PSA funding

## OPTIONS (not mutually exclusive):

- A. Current model
- B. Rolling Management Plan budgets
- C. PSA funded exclusively by direct appeal

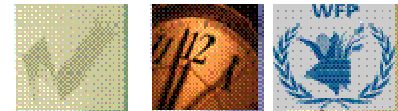


# PSA Planning Cycle: Option A (current model)



## Current approach results in:

- Difficult long-term planning as the planning horizon shortens towards the end of the biennium
- Many updates during a biennium
- Potentially limited multi-year contributions (currently 2% only)
- Inconsistent with other WFP documents which have an annual outlook: projected operational needs, financial statements (IPSAS), Annual Performance Report etc.
- Decisions on structural changes made with a two year planning horizon and resource based





# OPTION B: Rolling PSA budgets

- **illustrative** - A 3 year Management Plan which is reviewed at the end of each year and “automatically” rolled up / extended to one further year

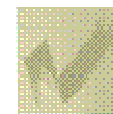


## PROs:

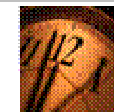
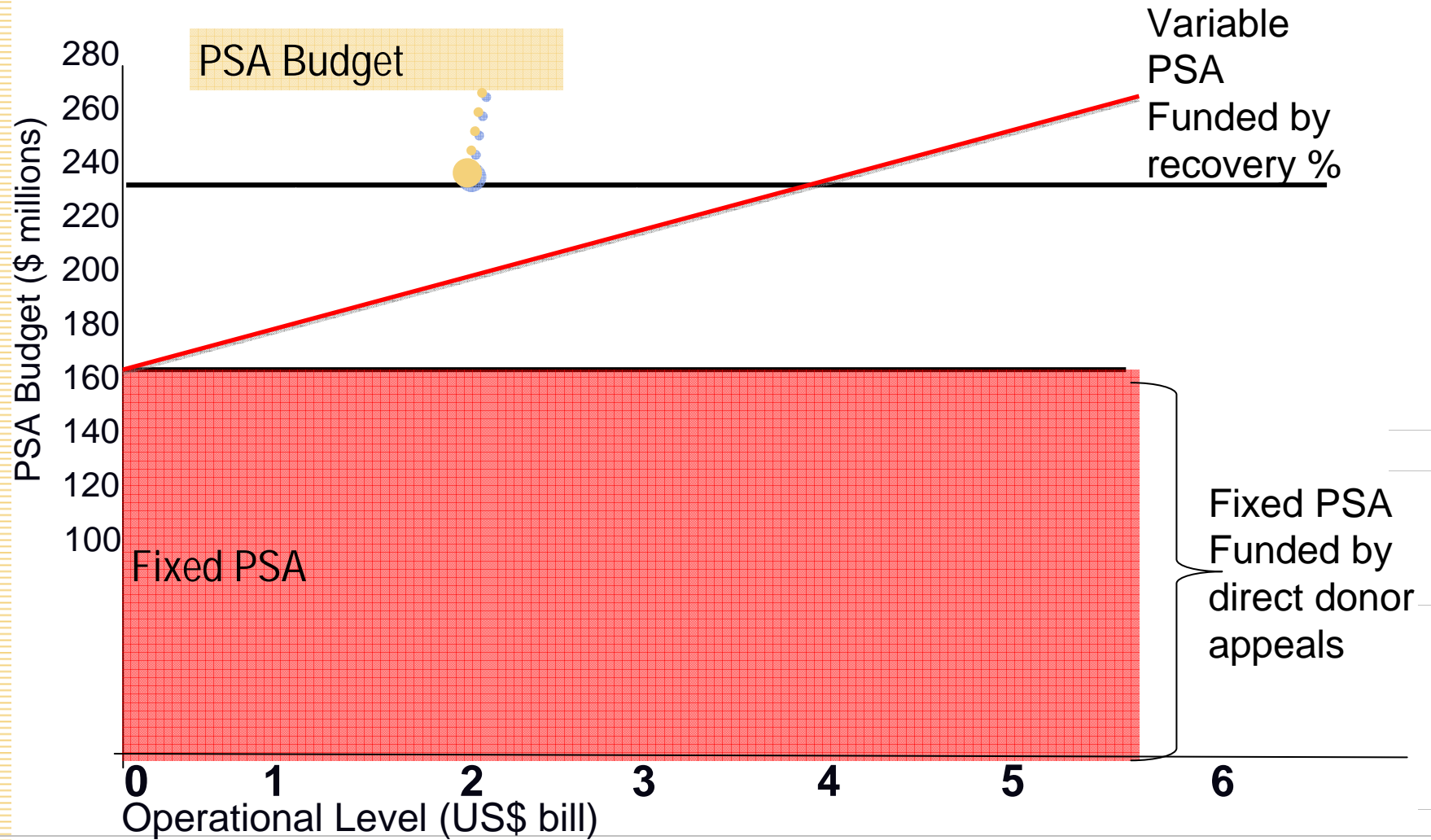
- Provides a more stable planning base
- Allows the organization to scale up or down in a more organized manner;
- Easier compliance with IPSAS requirements;
- Potential increase in multiyear contributions

## CONs:

- ~~Requires annual Board approval~~
- Requires amendment to Financial Regulations



# Option C: Direct contributions for PSA



# Issues linked to stability and predictability of PSA funding – Option C

## OPTION C:

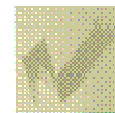
### Fund PSA exclusively by direct appeal

#### PRO's:

- Matches funding to nature of expenditure (fixed versus variable)
- Allows the organization to scale up or down in a more organized manner
- Potential increase in multiyear contributions

#### CON's:

- Would break principle of full cost recovery (unless direct appeal for fixed element of PSA is based on past years funding by donor)
- Would result in donors covering unequal shares of PSA costs
- May prove more difficult for donors to fund current year support costs based on level of activity of past years
- PSA funding becomes even less predictable



## Issue 2: PSA Budgeting and Funding - Proposals

	Predictability Stability	Flexibility	Transparency
Option A: Current model	X	--	--
Option B: Rolling PSA budgets	↑	--	↑
Option C: PSA funded exclusively by direct appeal	↓	↑	↓

**Recommendation 4:** Move to rolling 3-year Management Plan (Option B)

**Recommendation 5:** Allow direct contributions to PSA on a case-by-case basis more transparently and flexibly (modified Option C)

**Recommendation 6:** Maintain current ISC model for funding PSA



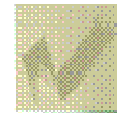
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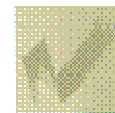
## Related Issues

- E. **Advance Financing and Forward Purchasing**
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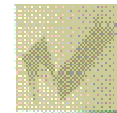
# BPR: Advance Financing

- **Working Capital Financing** - \$180 million advance financing facility:
  - Allows projects to request loans for food transport and associated costs
  - Can be used to pre-fill project pipeline
  - Loans are secured against (conservative) income forecasts and expected contributions
  - Forward purchase special account created in 2008 (\$60 million)
- **Also available:**
  - DSC/ODOC Advance Financing for support cost advances
  - Immediate Response Account (IRA) for preparedness activities and emergency loans



# Forward Purchase: Way Forward

- In future consultations Secretariat will present:
  - Lessons learned from forward purchase
  - Proposals to enhance the facility
  - Proposals to enhance and increase advance financing
  - Updates on collaboration efforts with the World Bank



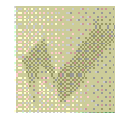
# Areas Identified for Review

## Elements of Framework:

- A. Review of Programme Categories
- B. Review of the Tonnage-Based Model
- C. Review PSA stability

## Related Issues

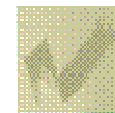
- E. Advance Financing and Forward Purchasing
- F. **Prioritization**





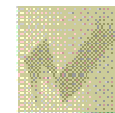
# Prioritization in WFP

	% of 2009 Resources	Secretariat (HQ)	Donor	Secretariat (CO's)
<b>Allocation</b>				
Multilateral	7%	<input checked="" type="checkbox"/> A	X	
Directed Multilateral	93%	X	B <input checked="" type="checkbox"/>	X
	100%			
<b>Utilization</b>				
Project Implementation	100%	X	X	<input checked="" type="checkbox"/> C



# Multilateral Prioritization – Area A

	% of 2009 Resources	Secretariat (HQ)	Donor	Secretariat (CO's)
<b>Allocation</b>				
<b>Multilateral</b>	<b>7%</b>	<b>A</b>		
<b>Directed Multilateral</b>	<b>93%</b>			
	100%			
<b>Utilization</b>				
<b>Project Implementation</b>	<b>100%</b>			



# Multilateral Prioritization – Area A

- Prioritization by Strategic Resource Allocation Committee (SRAC)
- SRAC resource allocation decisions have first focused on multi-lateral funding to:
  - Enhance senior management attention to multilateral resource usage
  - Increase visibility and transparency in allocating multilateral funds
  - Increase confidence of multilateral donors that allocations align to WFP priorities



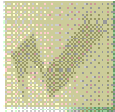
# Allocation model for Multilateral funds

- Model designed to allocate multilateral funds to project shortfalls based on objective and transparent criteria
- Preliminary criteria used (from Nov 2009):
  - **Quantitative:** Size of project shortfall, contribution forecast, advance financing etc.
  - **Qualitative:** Urgency and criticality of needs, corporate/regional attention etc.
- Outcome: Regular list of all projected shortfalls with quantitative and qualitative indicators



# Directed Multilateral Prioritization – Area B

	% of 2009 Resources	Secretariat (HQ)	Donor	Secretariat (CO's)
<b>Allocation</b>				
Multilateral	7%			
<b>Directed Multilateral</b>	<b>93%</b>		<b>B</b>	
	100%			
<b>Utilization</b>				
Project Implementation	100%			



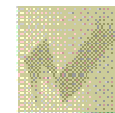
# Directed Multilateral Prioritization – Area B

- SRAC focus now turning to Directed Multilateral
- Secretariat already discusses prioritization with many Directed Multilateral donors
- Above model will be used as a basis for more structured discussions with Directed Multilateral donors on prioritization



# Implementation Prioritization – Area C

	% of 2009 Resources	Secretariat (HQ)	Donor	Secretariat (CO's)
<b>Allocation</b>				
Multilateral	7%			
Directed Multilateral	93%			
	100%			
<b>Utilization</b>				
Project Implementation	100%			<b>C</b>



## Implementation Prioritization – Area C

- 2009 Programme of Work exceeds funding and implementation level by \$ 2.6 billion ('2009 shortfall')
- A review of the projects with largest shortfalls in 2009 has been initiated to determine impact
- Results of this review will be presented and discussed with membership





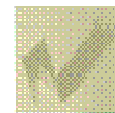
# Conclusion: Recommendations

- Recommendation 1:** Segregate non-commodity activities within a project with separate categorization and funding (**Option B**)
- Recommendation 2:** Modify current DSC funding model to a percentage of direct costs rather than a rate per MT (**Option B**)
- Recommendation 3:** allow donations for 'DSC only' more transparently and with greater flexibility (**modified option C**)
- Recommendation 4:** Move to rolling 3-year Management Plan (**Option B**)
- Recommendation 5:** Allow direct contributions to PSA on a case-by-case basis more transparently and flexibly
- Recommendation 6:** Maintain current ISC model



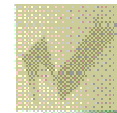
# Conclusion: Next Steps

- Further discussion and definition of options and recommendations
- Options for enhancement of Advance Financing and Forward Purchase facilities
- Prioritization: review of 2009 shortfall to be discussed
- Other issues will also be reviewed

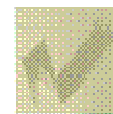


## Conclusion: Timeline

- Informal EB consultation – April 9<sup>th</sup>, 2010
- Finance Seminar – May 2010
- Annual Executive Board – June 2010
- Summer/Fall 2010 – Further consultations
- Second Executive Board Session 2010 – Decisions formalized
- *The Secretariat welcomes proposals for bilateral and List consultations at any time*



# Annexes



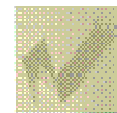
# Tonnage-based model: Background

## ***General Regulations Article XIII: Contributions***

1. “All contributions to WFP shall be on a voluntary basis...”

2. Full Cost Recovery

“...each donor shall provide cash contributions sufficient to cover the full operational and support costs of its contributions”



# Tonnage-based model: Background

## 1. DEFINITIONS

### COMMODITY

Food donated in-kind or purchased.

### EXT. TRANSP

Costs of bringing the commodities from their port of origin to the port nearest to the recipient country.

### LTSH

Costs arising from the reception of commodities in the nearest port until the final distribution point.

### ODOC

Any other input provided by WFP to beneficiaries, the government of the recipient country or other implementing partners.

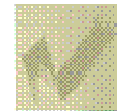
### DSC

Costs directly linked with the provision of support to an operation

### ISC/PSA

Costs that arise in the support of projects and activities, but cannot be directly linked with their implementation

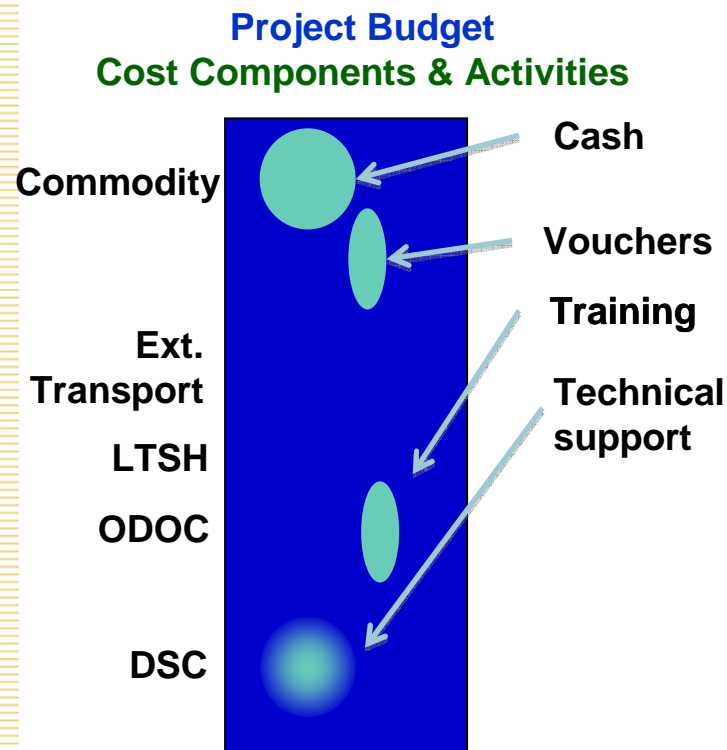
Additional Background to Slide 17



# ISSUE 1: Lack of a specific model for non-commodity activities

## OPTION A:

**Continue with current model: non-commodity activities embedded in existing structures**



### Pro's

- No structural changes - low operational complexity

### Con's

- Cost of non-commodity activities embedded in commodity activities
- Increases perceived cost of commodity interventions
- Not transparent
- Difficulty to resource activities separately

Additional Background to Slide 20

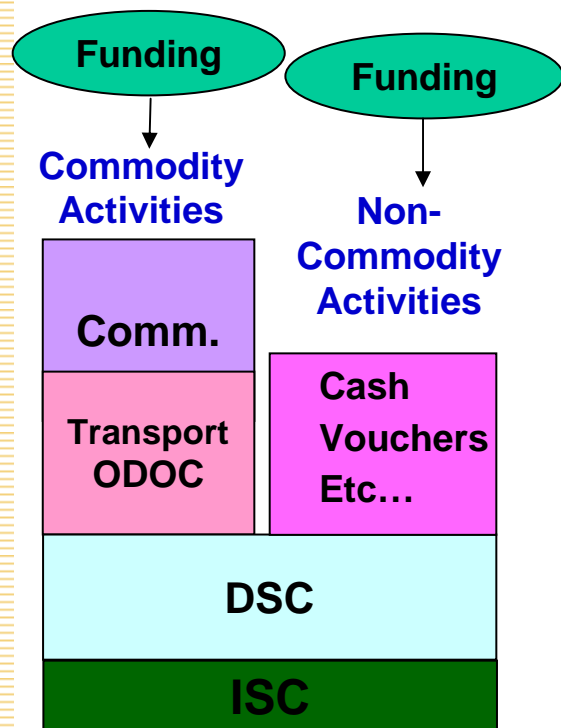


# ISSUE 1: Lack of a specific model for non-commodity activities

**OPTION B:**

**Segregate non-commodity activities within projects and fund them separately**

*i.e. Two streams of funding for a project: a) commodity related activities funded by 'cost per MT' & b) non-commodity activities funded separately, by direct appeals*

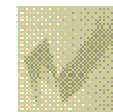


## PRO's

- More transparent
- Better budgeting and control for non-commodity activities
- Reduction in perceived cost of commodity activities
- Separate set of performance indicators for non-commodity activities
- Potential to resource non-commodity activities separately

## CON's

- Processes and systems changes
- Potential Funding difficulties for some activities



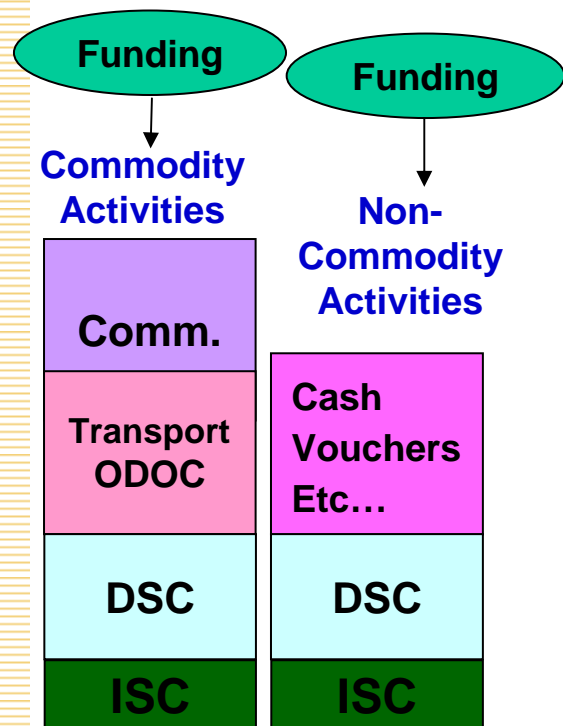
Additional Background to Slide 21



# ISSUE 1: Lack of a specific model for non-commodity activities

OPTION C:

Segregate non-commodity activities in a separate project



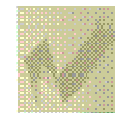
PRO's

- As per Option B

CON's

- These activities are usually integral to the project
- Not practical for small value/volume activities
- Activities are usually inter-related with commodity activities

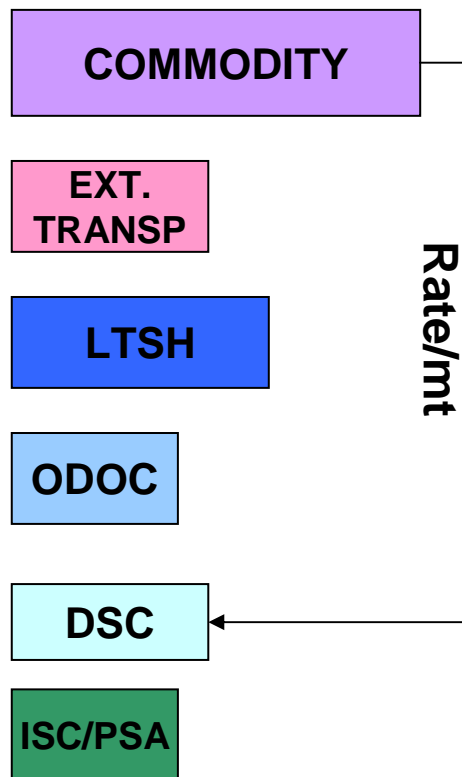
Additional Background to Slide 22



## ISSUE 2: Funding of country-specific support costs ('The DSC Issue')

### OPTION A:

**Continue with current model: DSC funded as a rate per MT)**



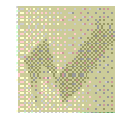
### PRO's

- Maintain the same budgeting and accounting practises
- No structural changes to current costing framework

### CON's

- Variable funding for relatively fixed costs
- Planning in-efficiencies

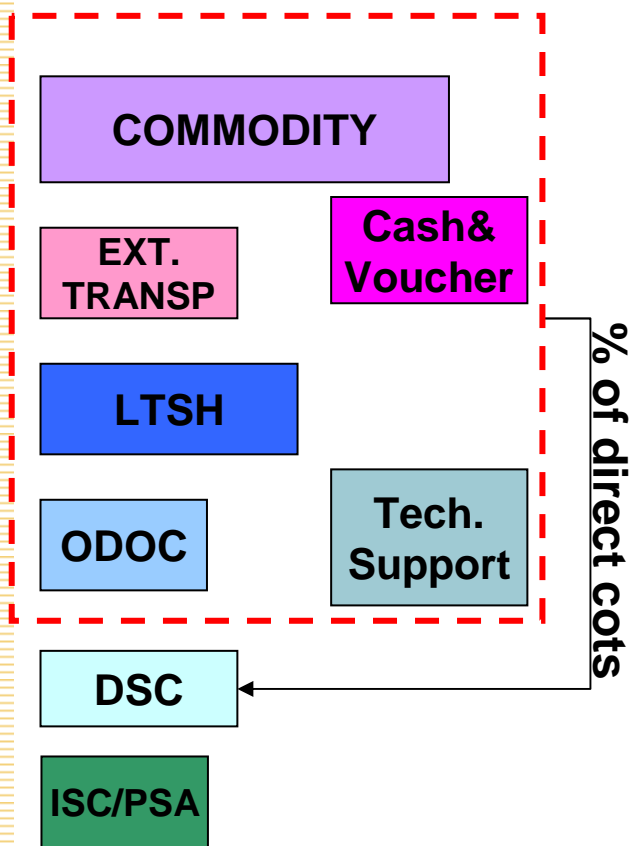
Additional Background to Slide 25



## ISSUE 2: Funding of country-specific support costs ('The DSC Issue')

OPTION B:

Modify current model, i.e. use % of DOC value



### PRO's

- Limited structural changes to current costing framework
- Removes MT incentive
- More adapted to non-commodity activities

### CON's

- Variable funding for relatively fixed costs continues
- Planning inefficiencies continue

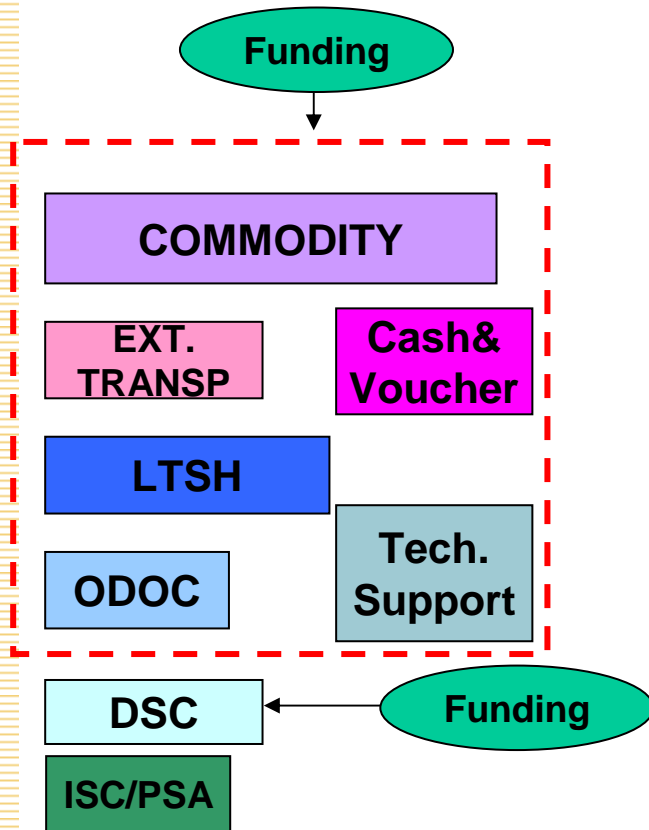
Additional Background to Slide 26



# ISSUE 2: Funding of country-specific support costs ('The DSC Issue')

**OPTION C:**

**Fund Support Costs separately within project, i.e. Direct Appeals for DSC**



## PRO's

- Maintain the same budgeting and accounting practises
- No changes to costing framework structure
- More flexibility

## CON's

- Breaks FCR and principle of "fairness among donors"
- Support Costs might not be adequately funded
- Cultural shift within WFP and Donor community

Additional Background to Slide 27

