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Programme  
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de Alimentos

**Executive Board  
First Regular Session**

**Rome, 20–23 February 2006**

# **RESOURCE, FINANCIAL AND BUDGETARY MATTERS**

**Agenda item 6**

*For information\**

# **E**

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## **REPORT ON THE BUSINESS PROCESS REVIEW**



\* In accordance with the Executive Board's decisions on governance, approved at the Annual and Third Regular Sessions, 2000, items for information should not be discussed unless a Board member specifically requests it, well in advance of the meeting, and the Chair accepts the request on the grounds that it is a proper use of the Board's time.

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## NOTE TO THE EXECUTIVE BOARD

**This document is submitted to the Executive Board for information.**

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, OED:      Mr M. Stayton                      tel.: 06 6513 2002

Director, ODM:                              Mr T. Due                              tel.: 06 6513 2008

Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact Ms. C. Panlilio, Administrative Assistant, Conference Servicing Unit (tel.: 066513-2645).



## EXECUTIVE SUMMARY

Following the success of the business process review, WFP is building upon the lessons learned in the 2004 pilots and the 2005 roll-out countries to refine further its project planning and financial capabilities to achieve greater value for our beneficiaries. This report updates the roll-out strategy of the new business model and provides the status of the working-capital financing facility.

## DRAFT DECISION\*

The Board takes note of the information contained in “Report on the Business Process Review” (WFP/EB.1/2006/6-F).

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\* 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.



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## INTRODUCTION

1. In February 2005, the Board endorsed the Secretariat's plan to continue implementing the recommendations of the business process review (BPR) – henceforth the new business model (NBM) – and approved two financial policy changes: (i) authorization to finance operations on the basis of forecast contributions and (ii) the approval to incur expenditures during project preparation to fill the food pipeline in advance of the project starting date. The Board also agreed to implement working-capital financing (WCF) in a maximum of seven additional operations in 2005. The Secretariat outlined its corporate implementation strategy for NBM in its last progress report on the BPR (WFP/EB.2/2005/5-I/1).

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## BUILDING ON LESSONS LEARNED

2. The Programme Management Division (ODM) continues to support the initial pilot countries – the Democratic Republic of the Congo (DRC), the Occupied Palestinian Territories, Indonesia and the West Africa Coastal regional protracted relief and recovery operation (PRRO) – while strengthening the capacity of the 2005 NBM countries, which include Ethiopia, the Southern Africa Regional PRRO, the Sudan and Uganda.
3. Feedback from these projects has revealed significant improvements in project efficiency and helped to define the prerequisites for mainstreaming the NBM in WFP country offices and operations (see WFP/EB.2/2005/5-I/1). During the last quarter of 2005 and early 2006, WFP has been developing the tools, procedures and capacity to enable a phased roll-out of the NBM.

### Improved Project-Planning Tool

4. The project-planning tool linking the logistics and cash pipelines establishes a monthly forward-looking status of project needs and resources, and provides information on past performance and trends. It remains the foundation of the NBM. The project-planning tool is being enhanced to improve automation and the interface with WFP's corporate data-management systems.

### Improved Oversight and Management of Information

5. In addition, ODM is refining the control mechanisms and the reporting lines as part of NBM tools and procedures. This will improve the reliability of data, streamline work processes at the country office level, facilitate performance measurement and address risk-management issues, especially with regard to financing.

### Integrated Information Systems and Processes

6. The requirements of the NBM are fully taken into account in the current review of WFP's business processes undertaken by the WINGS II project. In this integrated effort to improve project-management and information systems, WFP is benefiting from the lessons learned from other corporate change management initiatives such as the Best Practices Project, the Common Monitoring and Evaluation Approach and Supply Chain Optimization.



## IMPLEMENTATION MODALITIES AND TIME FRAME

7. During the second quarter of 2006, WFP will train all regional bureau staff in competency in NBM. The regional bureaux will then implement a roll-out plan for their country offices on the basis of (i) specific criteria such as expected benefits, (ii) competency level and (iii) WFP's overall roll-out capacity. By the end of 2006, WFP country offices will be fully trained in NBM processes.
8. WFP will proceed with a phased introduction of the various building blocks for NBM. Once country offices demonstrate a capacity for adequate planning in the utilization of project resources, ODM will provide them with an enhanced planning tool that includes forecast income. Country offices will "graduate" once they have provided tangible evidence of accurate and effective planning of available and forecast resources. Graduating will enable greater financial and operational efficiency through the use of the Project Cash Account (PCA) and the WCF facility. Country offices can expect to achieve significant improvements in project planning and financial management, even in the early phases of implementation when they will not yet have access to the PCA or the WCF facility.
9. As countries become part of the quarterly review process, the discipline, transparency and accountability introduced through this initiative will improve operational capacity, financial management and decision-making throughout the operation while enhancing WFP's overall readiness and response to shifts in operational demand.

**TABLE 1. UPDATE ON WORKING-CAPITAL FINANCING AS OF  
14 FEBRUARY 2006 (US\$)**

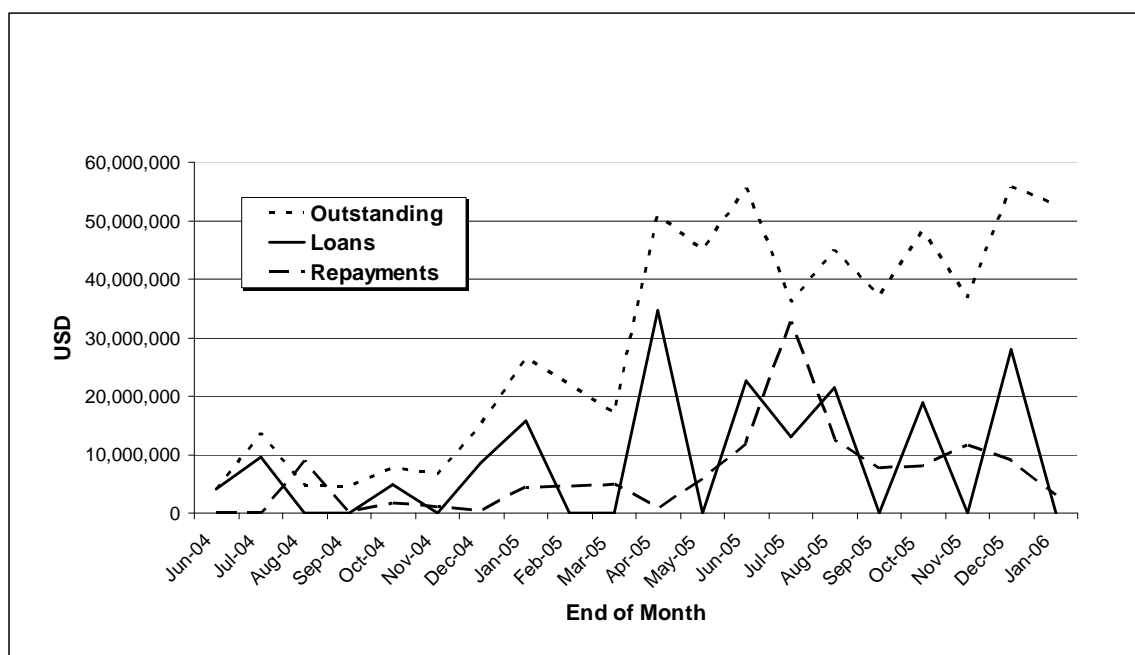
Project	Approval Date	Loan	Repaid	Outstanding
China CP 10050.0	December 2004	4 100 000	4 100 000	0
Democratic Republic of the Congo PRRO 10288.0	June 2004	5 400 000	5 400 000	0
Democratic Republic of the Congo PRRO 10288.1	January 2005	14 500 000	6 000 000	8 500 000
Indonesia PRRO 10069.1	October 2004	4 800 000	4 800 000	0
Indonesia SO 10498.0	December 2005	3 000 000	0	3 000 000
Southern Africa Regional PRRO 10310.0	July 2005	16 300 000	16 300 000	0
Southern Africa Regional PRRO 10310.0	August 2005	18 200 000	18 200 000	0
Occupied Palestinian Territories EMOP 10190.2	July 2004	9 600 000	9 600 000	0
Occupied Palestinian Territories PRRO 10387.0	June 2005	13 200 000	13 200 000	0
South Sudan EMOP 10048.3	April 2005	34 700 000	28 000 000	6 700 000
South Sudan EMOP 10503.0	December 2005	25 000 000	0	25 000 000
Uganda PRRO 10121.1	June 2005	9 300 000	9 300 000	0
Uganda PRRO 10121.1	October 2005	7 700 000	7 700 000	0
West Africa Coastal PRRO 10064.3	December 2004	4 500 000	4 500 000	0
West Africa Coastal PRRO 10064.3 <sup>1</sup>	October 2005	11 100 000	1 800 000	9 300 000
<b>Total</b>		<b>181 400 000</b>	<b>128 900 000</b>	<b>52 500 000</b>

<sup>1</sup>Includes US\$5,800,000 carry-over from the first WAC loan.



10. To date, WFP has approved US\$181.4 million in WCF, of which US\$128.9 million, or 71 percent, has been repaid, leaving an outstanding balance of US\$52.5 million. Chart 1 presents the monthly WCF flow of funds. The top line details the total outstanding balance on a month-by-month basis. The increase in outstanding balances at mid-year reflects additional operations coming on line.

**Chart 1. WCF Flow of Funds**



## VALUE TO BENEFICIARIES IN 2005

11. WFP continues to achieve significant value increases for its beneficiaries through the NBM. In 2005, the WCF facility enabled WFP to reach an additional 8.2 million beneficiaries on time.<sup>1</sup> In addition, through timely procurement facilitated by WCF, WFP was able to achieve direct savings of US\$20.4 million in transport and commodity prices.
12. Without WCF, an additional US\$75 million would have been required at the beginning of 2005 in the form of untied multilateral cash contributions<sup>2</sup> to achieve similar results. Below are the results achieved in 2005 for the operations receiving WCF.<sup>3</sup>

## DRC PRRO 10288.0 (on line since the second quarter of 2004)

13. Working capital of US\$14.5 million financed 31 percent of 2005 income, accounting for 78 percent of the food available during the financed period of Q1. This enabled the country

<sup>1</sup> Of the WCF-enabled increase in food availability, approximately 67 percent was distributed to beneficiaries on time. WCF hence improved on-time availability for 12.2 million beneficiaries, but only reached 8.2 million beneficiaries as a result of operational constraints.

<sup>2</sup> At its peak, WCF had an outstanding balance of US\$56 million. Assuming that an additional one third of this amount is required for contingencies, total upfront needs are US\$75 million.

<sup>3</sup> Ethiopia and Darfur have the building blocks in place to request WCF, but they were able to use internal resources to address timing gaps in funding.



office to reach an additional 1 million beneficiaries who would otherwise not have received their rations on time. In addition, direct savings resulting from the lower transport costs enabled through the financing amounted to US\$1.5 million.

**Note:** We expect a potential write-off of a maximum of US\$8.5 million in the DRC against the 2005 risk reserve; this is because of an unexpected and significant decline in donor interest in the country.

#### **Indonesia PRRO 10069.1 (on line since the third quarter of 2004)**

14. Working capital of US\$4.8 million financed 11 percent of 2005 income, accounting for 28 percent of the food available during the financed periods of Q1 and Q2 2005. This enabled the country office to reach an additional 170,000 beneficiaries on time. US\$3 million in working capital enabled WFP to start up the shipping service in the region.

#### **Occupied Palestinian Territories PRRO 10387.0 (on line since the third quarter of 2004)**

15. The initial pilot EMOP closed in mid-2005 and was followed by the PRRO, which began reporting in Q3 2005. Working capital of US\$13.2 million has financed 41 percent of 2005 income for the PRRO since Q3 2005, accounting for 53 percent of the food distributed during the financed period of September – December 2005. This enabled the country office to reach an additional 90,000 beneficiaries on time.

#### **West Africa Coastal PRRO 10064.3 (on line since the fourth quarter of 2004)**

16. Working capital of US\$7.3 million<sup>4</sup> financed 11 percent of 2005 income, accounting for 62 percent of the food available during the financed periods of Q1 and December 2005. This enabled the regional bureau to reach an additional 670,000 beneficiaries on time.

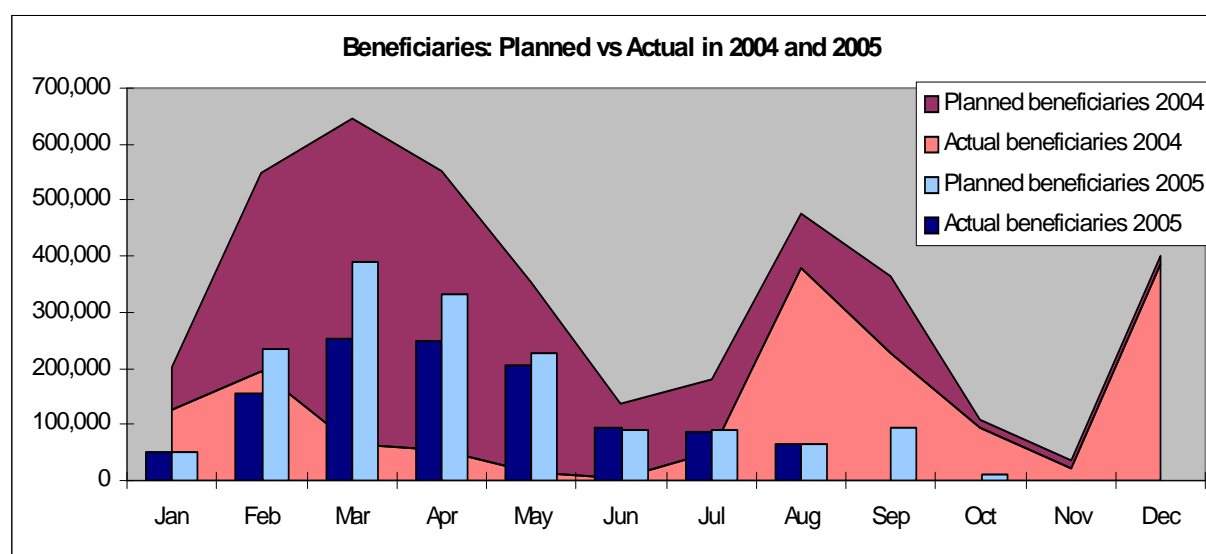
#### **China Country Programme 10050.0 (on line since the fourth quarter of 2004)**

17. Working capital of US\$4.1 million financed 96 percent of 2005 income, accounting for 44 percent of the food available during Q1 and Q2 2005. This enabled the country office to reach an additional 540,000 beneficiaries on time. The country office was able to address the seasonal fluctuations in beneficiary needs considerably better in 2005 than in 2004 (see Chart 2). This ensured a well orchestrated phase-out of operations in the country.

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<sup>4</sup> Annualized for 2005 financed period only.



**Chart 2. Beneficiaries: Planned vs Actual, 2004 and 2005****South Sudan EMOP 10048.3 (on line since the second quarter of 2005)**

18. Working capital of US\$34.7 million has financed 21 percent of 2005 income since Q2 2005, accounting for 21 percent of the food available during the financed periods of July-August. This enabled the country office to reach an additional 350,000 beneficiaries on time during the critical hunger period when nutritional conditions and coping mechanisms were at significant risk.

**Southern Africa Regional PRRO 10310.0 (on line since the second quarter of 2005)**

19. Working capital of US\$34.5 million has financed 14 percent of 2005 income since Q2 2005, accounting for 87 percent of the food available during the financed periods of June-October. This enabled the regional bureau to reach an additional 4.5 million beneficiaries on time. Given the low level of funds in the Immediate Response Account (IRA) at the time, Malawi would probably have faced a major hunger crisis without the WCF facility. In addition, direct savings resulting from lower commodity prices enabled through financing amounted to US\$6.1 million.

**Uganda PRRO 10121.1 (on line since the second quarter of 2005)**

20. Working capital of US\$11.3 million<sup>5</sup> has financed 13 percent of 2005 income since Q2 2005, accounting for 31 percent of the food available during the financed periods of June-December 2005. This enabled the country office to reach an additional 850,000 beneficiaries on time. WCF enabled the country office to procure commodities locally at harvest time. If WFP had not been able to continue to buy on a regular and predictable basis, as facilitated by the WCF facility since mid-2005, the volatility in the maize market would probably have discouraged farmers from continuing to plant maize. This timely procurement, coupled with reduced transport costs associated with local purchasing, allowed the country office to achieve direct savings of US\$12.8 million.

<sup>5</sup> Annualized for the 2005 financed period only.





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## CONCLUSION

21. The improved financial management and project planning facilitated by the NBM, along with effective management of the WCF facility, has enabled WFP to improve significantly the on-time availability of aid. Leveraging the US\$57 million equity in the WCF facility enabled WFP to provide on-time assistance to an additional 8.2 million beneficiaries – a result that would otherwise have required US\$75 million in untied cash contributions at the beginning of 2005 – and allowed country offices to achieve cost savings of US\$20.4 million through cost-effective procurement of commodities and transport without additional donor funds.
22. At the Board's Annual Session in 2006, the Secretariat will present an evaluation of the BPR. On the basis of the results of this evaluation and the above implementation strategy, the Secretariat will seek the Board's approval for further roll-out of the NBM, along with an expansion of the WCF facility as required.



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## ACRONYMS USED IN THE DOCUMENT

BPR	business process review
DRC	Democratic Republic of the Congo
IRA	Immediate Response Account
NBM	New Business Model
ODM	Programme Management Division
PCA	Project Cash Account
PRRO	Protracted relief and recovery operation
WCF	working-capital financing

