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**Executive Board  
Third Regular Session**

**Rome, 11–14 October 2004**

# **ADMINISTRATIVE AND MANAGERIAL MATTERS**

**Agenda item 12**

*For approval*

**E**

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## **REVIEW OF THE IMMEDIATE RESPONSE ACCOUNT (IRA)**



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## NOTE TO THE EXECUTIVE BOARD

**This document is submitted for approval by 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.

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## EXECUTIVE SUMMARY

In March 2003, the Secretariat began a business process review designed to improve efficiency in WFP, primarily to ensure maximum use of resources to meet the needs of the greatest number of beneficiaries. In considering document WFP/EB.A/2003/6-A/1 “Issues on Financial Policies”, in particular Section G, the Board supported further review of funding and financing mechanisms – the Immediate Response Account, the Direct Support Costs Advance Facility and the Operational Reserve.

The Secretariat plans to seek approval in February 2005 for a new financing facility, in particular for the recourse-type working capital financing of forecast donations, which requires repayment. To preserve WFP’s flexibility in responding to emergency situations, there will be a continued need for the Immediate Response Account within this new business model, to complement the working capital advance financing mechanism contemplated in the business process review.

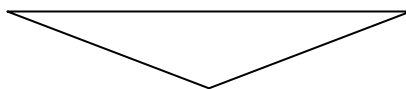
This document therefore contains a review of the Immediate Response Account with a view to enhancing its use and effectiveness in the context of the new business model.

The target level of and modalities for the use of the Immediate Response Account were established to accommodate a set of operational and funding assumptions that have evolved to a considerable extent. The reduced flexibility of resources and the increasing magnitude of humanitarian operations in recent years substantially increase the need for an adequately resourced and enhanced funding mechanism. In particular:

- The target level of the Immediate Response Account has been static and does not reflect the changing level of WFP’s operations and cash flow.
- The Immediate Response Account regulatory framework, in particular Financial Regulation 4.3, needs to be amended for consistency with the Financial Policy Framework and the Food Aid Convention.
- Efficiency in allocating sums from the IRA requires that the allocations be made without distinction in terms of food, non-food items or a combination of the two cost categories, whichever is critical for timely resourcing of relief operations; this use should be expanded to enable critical preparedness activities when there is no alternative and viable funding source.
- A flexible funding mechanism is needed to avert critical pipeline breaks, especially in life-threatening situations or to allow pre-positioning of food beyond the initial three months of an emergency situation while appeals and formal donation forecasts are being prepared.
- Predictable and sustained levels of multilateral, untied contributions such as contributions to the IRA are instrumental in enabling the Secretariat to optimize its response in emergency situations. An increased IRA target level and more flexible, enhanced allocation criteria need to be accompanied by increased contributions and flexibility by donors to enable the revolving of this funding mechanism.



## DRAFT DECISION\*



The Board, having considered the recommendations of the Secretariat in document WFP/EB.3/2004/12-A:

- i) endorses the annual IRA target level of a minimum of US\$70 million;
- ii) approves the amendment to Financial Regulation 4.3 as set out in Annex I to this document;
- iii) endorses the principle that IRA allocations may be made for food, non-food items or a combination of the two costs, whichever is most critical for a flexible, timely and efficient response in emergency situations, including those addressed through SOs;
- iv) endorses the use of the IRA to prevent critical shortfalls in life-threatening situations, mainly through local/regional purchases and pre-positioning of food, in order to avert critical shortfalls beyond the initial three months of an EMOP, while appeals and formal donations forecasts are being prepared;
- v) endorses the proposal that when there is a need for pre-investment in needs assessment and when there is no alternative and viable funding source, the IRA may be used for funding the following preparedness activities up to a limit of US\$2 million per year:
  - capacity assessments for logistics, ICT and procurement;
  - contingency planning and emergency preparedness;
  - needs assessments, including VAM, targeting and technical appraisal;
  - baseline analyses and surveys; and

Note: The Secretariat requests the Executive Director to issue a directive providing detailed instructions and guidance on related allocation, accounting and reporting procedures.

- vi) with a view to increasing the level of contributions to the IRA, encourages donors to:
  - agree up-front to revolving the IRA with directed contributions confirmed to an operation that has received an IRA allocation, even though the contribution might have been confirmed after the IRA allocation was made;
  - agree up-front to transfer to the IRA account any cash balances on directed contributions to EMOPs, PRROs or SOs of less than US\$10,000.

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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.



## SECTION A: INTRODUCTION

1. In considering document WFP/EB.A/2003/6-A/1 “Issues on Financial Policies”, in particular Section G, the Board supported further review of funding and financing mechanisms – the Immediate Response Account (IRA), the Direct Support Costs (DSC) Advance Facility and the Operational Reserve – and presentation of any conclusions or proposals in the 2004–2005 Management Plan or at subsequent Board meetings, as appropriate.
2. Having considered WFP’s Biennial Management Plan budget for 2004–2005 as submitted by the Executive Director in document WFP/EB.3/2003/5-A/1 + Corr.1, the Board:
  - took note of WFP’s preliminary Business Process Review (BPR) planning, including the need to improve programme throughput, optimize cash balances and improve availability of funds to operations to assist beneficiaries;
  - approved setting aside US\$60 million from the General Fund, including the current amount of US\$25 million, for DSC under the DSC Advance Facility and looked forward to a review of the IRA based on the BPR report in February; and
  - approved, on an exceptional basis, the reprogramming to the IRA of US\$20 million from the exceptionally high positive balance of the Programme Support and Administrative (PSA) Equalization Account;
3. As part of the business process re-engineering, this paper reviews the IRA, describes the proposed enhanced IRA mechanisms in the context of the relevant regulatory framework and summarizes the approval sought from the Board as WFP transitions to a new business model.

## SECTION B: REVIEW OF THE IRA

4. The IRA is a flexible, replenishable, revolving<sup>1</sup> multilateral funding mechanism that enables WFP to fund up to three months of initial food requirements in any one emergency operation (EMOP) or special operation (SO) or to react swiftly to a sudden change in the circumstances of ongoing EMOPs and protracted relief and recovery operations (PRROs) if there is a sharp increase in food requirements that constitutes in itself a new emergency situation.
5. The availability of a flexible funding mechanism such as the IRA is critical in allowing WFP to be pro-active in responding to emerging humanitarian requirements while the processes of donor decision-making and negotiation and confirmation of contributions take their course. There will be a continued need for the IRA in the new business model to minimize WFP’s exposure to a major risk of under-preparedness for new emergencies because it lacks the optimal financing mechanism to ensure sufficient up-front financing to support rapid response actions. The IRA complements the advance financing mechanism contemplated in the BPR, which will be a recourse-type working-capital financing of forecast donations that require repayment. In life-threatening situations, allocation of IRA

<sup>1</sup> The term “revolving” means that funds provided from the IRA to an operation may subsequently be reimbursed to the IRA account with directed multilateral donor contributions received for that operation.



funds is not subject to confirmation of contributions; repayment takes place if it does not lead to a life-threatening break in the pipeline.

6. The purpose of this document is therefore to review the IRA with a view to enhancing its use and effectiveness in the context of the new business model.
7. The following main aspects are analysed:
  - the relevance of the target level established in 1995;
  - scope for enhanced use of the IRA; and
  - increasing the efficiency and relevance of the existing regulatory framework.

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## THE IRA TARGET LEVEL

### Need for an Increased IRA Target Level

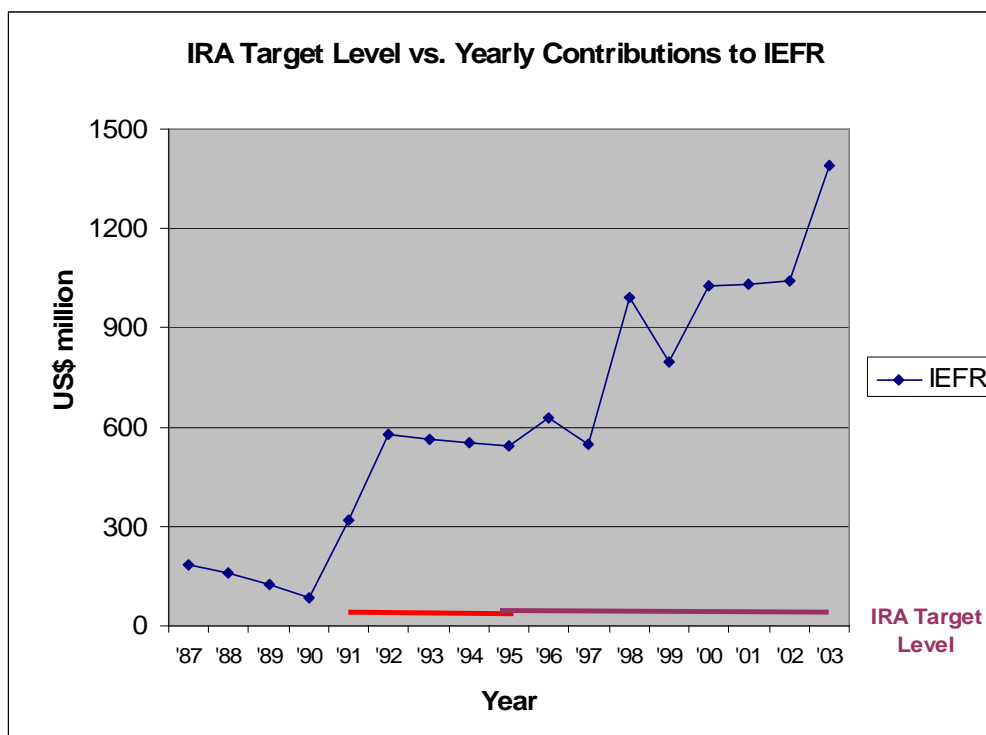
8. Adequate funding mechanisms to finance relief operations up-front and on a timely basis are essential in reaching the hungry poor. The IRA has been instrumental in enabling WFP to respond swiftly to emerging or rapidly increasing humanitarian needs. Since 2000, over US\$170 million have been allocated to 124 operations worldwide – about US\$38 million per year on average. During the same period, over 160 EMOPs were approved with a total value of US\$2.1 billion.
9. When the IRA target level was first set at US\$30 million in 1991, it represented approximately 20 percent of the value of the International Emergency Food Reserve (IEFR) at that time. Since then, the composition, complexity and magnitude of WFP activities have changed substantially. In comparison, the revised IRA target level<sup>2</sup> of US\$35 million represents only 3 percent of the average yearly contributions to IEFR over the last five years (see Figure); in the meantime, its use has been expanded to SOs and to ongoing PRROs where a sudden change in circumstances creates a new emergency situation that leads to a sharp increase in food requirements.

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<sup>2</sup> In 1995, the Committee on Food Aid Policies and Programmes (CFA) 40, the precursor of the WFP Executive Board, increased the target level of the IRA by US\$5 million to US\$35 million to accommodate the Emergency Logistics Authorization (ELA) mechanism.



Figure



10. To prevent depletion of the IRA, single IRA allocations rarely exceeded US\$3 million per operation, or about 10 percent of the annual target level. Although the IRA was established as a flexible resource facility to enable WFP to respond quickly to emergency needs and cover up to three months of initial food requirements in any one operation, an allocation of US\$3 million barely covers four days' worth of requirements for the Sudan Darfur EMOP, for example. The whole US\$35 million would allow WFP to provide the necessary food assistance to the same beneficiaries for just over one and a half months. For a major complex operation such as the initial southern Africa crisis response EMOP, US\$35 million would cover only two and a half weeks' worth of beneficiary needs.
11. WFP is hampered in responding optimally to new large and complex emergency situations and some smaller relief operations because of insufficient untied cash and unpredictable levels of future contributions.

**Conclusion 1:** The target level of the IRA has been static and does not reflect the changing level of WFP's operations and cash flow. The current IRA target level of US\$35 million per annum is not commensurate with the volume of operations. A considerable increase would be needed to maintain the levels of flexibility and responsiveness provided originally.



## THE SCOPE FOR ENHANCED USE OF THE IRA

### Need for Expanded Use

⇒ *Pre-positioning of food*

12. The use of the IRA is in principle limited to the first three months of a new EMOP or SO. In exceptional cases, it may be used when the needs of an ongoing EMOP or PRRO increase sharply. In all other situations, especially when commodities need to be pre-positioned at the beginning of an operation, for example to ensure uninterrupted food distribution during the rainy season or to avert an imminent pipeline break, the unavailability of sufficient untied cash<sup>3</sup> prevents WFP from responding swiftly – mainly through local or regional purchases – to avert critical resourcing shortfalls, especially in life-threatening situations.
13. WFP's relative effectiveness in responding to emergencies through its borrowing capacity from development activities has practically vanished as a result of dwindling contributions to the latter category.

**Conclusion 2:** More efficient resourcing of operations could be achieved by using the IRA to pre-position food if necessary beyond the first three months of an emergency.

**Conclusion 3:** Lack of a flexible funding mechanism to avert critical pipeline breaks, especially in life-threatening situations, is a serious drawback to WFP's ability to resource operations on a timely basis.

⇒ *Enhanced immediate-response delegated authority*

14. WFP needs a simple, rapid mechanism to be able to respond promptly to sudden emergencies. The delegated authority to country and regional directors to approve immediate-response EMOPs (IR-EMOPs) is being increased from US\$200,000 to US\$500,000, because it is generally considered that up to US\$200,000 is inadequate to provide the required assistance levels.
15. The amount of US\$200,000 does not usually cover more than a week or two weeks of requirements for a small emergency. In rough terms, US\$200,000 buys up to 1,000 mt **excluding any support costs** of a balanced food ration, sufficient to assist 10,000 people for three months, or 60,000 people for a fortnight.
16. There are about ten IR-EMOPs approved in any given year, of an average total value of US\$2 million. These operations are seldom followed by a larger emergency. Their short duration of up to three months and small volume do not lend themselves to IRA revolving.
17. With the increase in the delegated authority to approve these IR-EMOPs up to US\$500,000, US\$5 million or US\$6 million per year are expected to be approved under regional and country directors' delegated authority. This represents about 15 percent of the current IRA target level of US\$35 million.

<sup>3</sup> Only about 2 percent of contributions to IEFER are multilateral.





**Conclusion 4:** A higher and more predictable level of donor contributions to the IRA would enable WFP to provide more adequate funding for needs arising from sudden emergencies for which an IR-EMOP is the best response.

## INCREASING THE EFFICIENCY AND RELEVANCE OF THE EXISTING REGULATORY FRAMEWORK

### Need for a Revised Regulatory Framework

18. **Financial Regulation 4.3** stipulates: “The Board shall establish a target level for the IRA for each financial period. The target level should be maintained by annual replenishment contributions from donors and, when possible, by repayment of advances made for specific emergencies. Contributions for food and food-related costs will be distinguished clearly from contributions for non-food related costs to enable reporting to the Food Aid Committee of the International Grain Council.”
19. Taking the opportunity of the new resource and long-term financing (R&LTF) model, in 1995 the CFA 40 approved the merger of the ELA<sup>4</sup> mechanism into the IRA, thus endorsing the use of the IRA for “non-food-related costs” as well. Consequently, the target level of the IRA was increased by US\$5 million to US\$35 million to accommodate the ELA.
20. In 1996, the Secretariat attempted to adopt the practice of allocating one seventh of the IRA contributions received, based on the ratio of US\$5 million out of the US\$35 million, for non-food-related expenditures. Since implementation of the R&LTF model, however, all IRA allocations have been programmed on a full cost-recovery basis. As the information system at the time could not distinguish between non-food and food-related expenditure with the same reference number, the one seventh rule never worked in practice.
21. The modalities of the Food Aid Convention (FAC) changed as well. Article III (c) of the 1999 FAC stipulates that if members express their commitment in value terms or in a combination of tonnage and value, the value may include transport and other operational costs associated with the food aid operations.
22. There is no overlap between the IRA and the DSC Advance Facility or the use of the operational reserve. In the case of the DSC Advance Facility, the Board approved the use of the General Fund to advance DSC to ensure continued financing pending confirmation of contributions, including those for development activities, which are outside the scope of the IRA. Projects eligible to receive DSC funding from the IRA or the Operational Reserve do not qualify for DSC advances under the guarantee mechanism. Allotments authorized from the DSC advance mechanism are revolved as contributions are received for the financed activities. The Operational Reserve is an advance mechanism that allows expenditures to be incurred when a contribution has been confirmed but the actual contribution income has not yet been received.

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<sup>4</sup> ELA: an authorization to advance up to US\$4.5 million per year from regular resources, not exceeding US\$1.5 million per single operation, to meet the initial logistics requirements of a new emergency operation. Such advances required replenishment from specific donations when received.



23. The utilization of the IRA advance at the onset of the southern Africa drought emergency is an example of how IRA allocations against non-food costs can be instrumental in responding efficiently to a major crisis. IRA funds amounting to US\$4.5 million were advanced for the EMOP itself and for the SO to cover DSC costs exclusively. Food was needed less at the initial stage of the operation because it was not a rapidly evolving situation and stocks from ongoing operations could be used while the new regional operation was being prepared. These advances could easily be revolved with contributions confirmed to the EMOP.

**Conclusion 5:** The distinction between contributions for food and food-related costs to enable reporting to the Food Aid Committee of the International Grain Council is obsolete. The IRA regulatory framework, particularly Financial Regulation 4.3, needs to be amended for consistency with the Financial Policy Framework and the FAC.

**Conclusion 6:** Allocations from the IRA should be made, without distinction, for food, non-food or a combination of the two cost categories, whichever is critical for timely resourcing of relief operations.

### Need for Funding Preparedness

24. WFP's response strategy and capacity require adequate resources to be readily available at any time to carry out preparedness activities with a view to strengthening capacities and enhancing the readiness, appropriateness and effectiveness of the response.
25. If there is no WFP presence in a country or a new emergency situation appears to be unfolding or evolving, or when there is a need for pre-investment in emergency preparedness or needs assessment, WFP requires an appropriate funding mechanism for the following types of preparedness activities:
- response capacity assessments for logistics, information and communications technology (ICT) and procurement;
  - contingency planning and emergency preparedness;
  - needs assessments, including vulnerability analysis and mapping (VAM), targeting and technical appraisal; and
  - baseline analyses and surveys.

**Conclusion 7:** Most preparedness activities are being mainstreamed, but in exceptional and critical circumstances when there is no alternative and viable funding source, WFP must be able to engage in preparedness activities, whether or not they result in a food aid intervention. Under the revised regulatory framework, the scope of the IRA would be consistent with funding preparedness activities. Given their exceptional nature, the level of funding would be limited and thus could be supported through the IRA.



## Need for Enlarged Donor Response

26. Donor response to the IRA has been limited. The Board and its predecessor, CFA 40, urged the Secretariat on several occasions to seek to widen the current donor base (see table). Over the last five years, for example, only six donors have made contributions in every year, and only four donors have made continuous and substantial donations.
27. IRA allocations are normally made as “non-recourse loans” to an eligible operation in anticipation of receiving specific donor contributions for the same project. If no specific donations are received, the “loan” is deemed to be a permanent non-reimbursable allotment from the IRA. The advanced financing contemplated in BPR will be recourse working-capital financing of forecast donations that do require repayment.

IRA MOVEMENTS, 2000–2004 (US\$ million)					
	2000	2001	2002	2003	2004*
Balance at 1 January 2004					32.6
New contributions	25.5	12.4	12.5	19.4	16.6
Allocations	24.6	16.9	36.0	56.3	31.7
Revolved funds	9.3	1.2	8.1	37.4	12.8
Transfer from General Fund	N/A	N/A	N/A	N/A	20.0
Balance at 30 June 2004					50.3

\* As at 30 June.

**Conclusion 8:** The level of funds that WFP receives up-front and untied is too low. A predictable and sustained level of contributions to the IRA is instrumental in enabling the Secretariat to optimize its response in emergency situations. An increased IRA target level and more flexible and enhanced allocation criteria need to be accompanied by an increased contribution level and more flexibility on behalf of the donors to enable the revolving of the IRA.

## SECTION C: PROPOSED ENHANCEMENTS TO THE IRA MECHANISM

28. The Secretariat proposes to the Board the following enhancements to the IRA funding mechanism:
- **Recommendation 1:** In accordance with Financial Regulation 4.3, increase the IRA target level to a minimum of US\$70 million;
  - **Recommendation 2:** Approve the amendment to Financial Regulation 4.3 as set out in Annex I to this document;
  - **Recommendation 3:** Endorse the principle that IRA allocations may be made for food, non-food items or a combination of the two costs, whichever is most critical for a flexible, timely and efficient response in emergency situations, including those addressed through SOs;
  - **Recommendation 4:** Endorse the use of the IRA to prevent critical shortfalls in life-threatening situations, mainly through local/regional purchases and pre-



positioning of food, in order to avert critical shortfalls beyond the initial three months of an EMOP while appeals and formal donations forecasts are under preparation;

- **Recommendation 5:** Endorse the proposal that when there is a need for pre-investment in needs assessment and when there is no alternative and viable funding source, the IRA may be used for funding the following preparedness activities up to a limit of US\$2 million per year:
- capacity assessments for logistics, ICT and procurement;
  - contingency planning and emergency preparedness;
  - needs assessments, including VAM, targeting and technical appraisal; and
  - baseline analyses and surveys.

The Secretariat requests the Executive Director to issue a directive providing detailed instructions and guidance on related allocation, accounting and reporting procedures.

- **Recommendation 6:** With a view to increasing the level of contributions to the IRA, encourage donors to:
- agree up-front to revolving the IRA with directed contributions confirmed to an operation that has received an IRA allocation, even though the contribution might have been confirmed after the IRA allocation was made; and
  - agree up-front to transfer to the IRA account any cash balances on directed contributions to EMOPs, PRROs or SOs of less than US\$10,000.



## ANNEX I

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**PROPOSED AMENDMENTS TO FINANCIAL REGULATION 4.3**

<b>Present chapter heading and text</b>	<b>Proposed chapter heading and text</b>
<b>IV: Resources</b>	<b>IV: Resources</b>
<p>4.3: The Board shall establish a target level for the IRA for each financial period. The target level should be maintained by annual replenishment contributions from donors and, when possible, by repayment of advances made for specific emergencies. Contributions for food and food-related costs will be distinguished clearly from contributions for non-food related costs to enable reporting to the Food Aid Committee of the International Grain Council.</p>	<p>4.3: The Board shall establish a target level for the IRA for each financial period. The target level should be maintained by annual replenishment contributions from donors and, when possible, by repayment of advances made for eligible operations or activities.</p>



**ANNEX II****CHRONOLOGY OF MAJOR DECISIONS AND CIRCULARS REGARDING  
THE IRA**

<b>When</b>	<b>Who</b>	<b>What</b>
December 1991	CFA 32	Establishment of the IRA.
November 1995	CFA 40	Modifications and widening of the scope of the IRA to include logistics.
May 1997	OD Circulars OD97/002 and OD97/003	Delegated Authority to country and regional directors to approve IRA EMOPs; procedures for approval and processing in WIS.
August 1998	Executive Director's Circular ED98/007	Approval process for allocations from the IRA and reporting to the Board on the IRA.
November 1998	Executive Director's Circular ED98/007/Revised	Administrative processes to be followed when approving allocations from the IRA.
January 1999	EB 1	The use of the IRA expanded to ongoing EMOPs and PRROs where a sudden change in circumstances creates a new emergency situation that leads to a sharp increase in food requirements.
December 1999	Executive Director's Circular ED99/005 (amends ED98/007)	Criteria for approval and revolving of IRA funds.



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## ACRONYMS USED IN THE DOCUMENT

BPR	Business Process Review
CFA	Committee on Food Aid Policies and Programmes
DSC	direct support cost
ELA	Emergency Logistics Authorization
EMOP	emergency operation
FAC	Food Aid Convention
ICT	information and communications technology
IEFR	International Emergency Food Reserve
IRA	Immediate Response Account
IR-EMOP	immediate response emergency operation
PRRO	protracted relief and recovery operation
PSA	Programme Support and Administrative (budget)
R&LTF	Resource and Long-Term Financing (policies)
SO	special operation
VAM	vulnerability analysis and mapping

