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Programme Alimentaire Mondial
Programa Mundial de Alimentos
برنامج الأغذية العالمي

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# Utilization of the programme support and administrative equalization account reserve

## Draft decision*

Having considered the document "Utilization of the programme support and administrative equalization account reserve" (WFP/EB.A/2018/6-C/1/Rev.1), the Board approves the allocation from the programme support and administrative equalization account of USD 35 million to the immediate response account and USD 30 million to the emerging donor matching fund for the purposes described in the document.

* 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. The programme support and administrative equalization account (PSAEA) was established in 2002. The account records the difference between WFP's indirect support cost (ISC) revenue and programme support and administrative (PSA) expenses for the financial period. The account can be used for the following purposes:[1]

   a) to cover any difference between indirect support cost income and approved Programme Support and Administrative expenditure;

   b) as a reserve to underwrite risk of decreases in indirect support cost income or underfunding of the PSA budget;

   c) for critical corporate initiatives or thematic support funds; and

   d) for strengthening WFP's reserves.

2. Any use of the balance in the PSAEA requires the approval of the Executive Board.

3. WFP's audited financial statements as at the end of 2017 showed a PSAEA balance of USD 256.8 million. Despite some significant drawdowns, the balance has grown consistently in recent years because of the very high levels of ISC revenue from contributions received while the PSA budget was kept at a level consistent with forecast contribution levels.

| TABLE 1: MOVEMENTS IN THE PROGRAMME SUPPORT AND ADMINISTRATIVE EQUALIZATION ACCOUNT DURING 2017 | |
|---|---|
| **2017 financial statements** | ***USD million*** |
| Account balance on 1 January 2017 | 212.4 |
| ISC revenue in 2017 | 401.2 |
| PSA expenditure in 2017 | 328.7 |
| Critical corporate initiatives | 13.5 |
| Transfer to the immediate response account | 15.0 |
| **Account balance on 31 December 2017** | **256.8** |

4. In 2006, the Executive Board decided that the PSAEA balance should be linked to the annual PSA appropriation approved by the Board. The target balance was set at the equivalent of four months of indirect PSA expenditures (adjusted to a floor of two months and a target of five months in 2015) to cover the period needed to adjust to a longer-term reduction in ISC income and implement the associated PSA cost reductions.

5. The WFP Management Plan (2018–2020) sets out Executive Board approvals for use of the PSAEA as follows:

   - transfer of USD 9 million to the immediate response account (IRA) reserve;
   - transfer of USD 8 million to the staff wellness special account; and
   - allocation of USD 35.6 million for critical corporate initiatives.

[1] WFP/EB.A/2015/6-C/1.

6. Based on the closing balance of the PSAEA on 31 December 2017 and the uses for 2018 already approved in the Management Plan, in January 2018 the adjusted PSAEA balance was as follows:

| TABLE 2: ADJUSTED PSAEA BALANCE | |
|---|---|
| | ***USD million*** |
| Account balance on 31 December 2017 | 256.8 |
| 2018 transfers to reserves and special accounts | (17.0) |
| 2018 critical corporate initiatives | (35.6) |
| **Adjusted PSAEA balance on 1 January 2018** | **204.2** |

7. The WFP Management Plan (2018–2020) projects WFP 2018 income of USD 5.7 billion, resulting in projected ISC revenue of USD 242.9 million. The latest income forecast for 2018 of USD 6.5 billion results in a projected PSAEA 2018 closing balance of USD 259.8 million, as follows:

| TABLE 3: PSAEA PROJECTION FOR 2018 | |
|---|---|
| | ***USD million*** |
| Account balance on 31 December 2017 | 256.8 |
| 2018 ISC revenue based on income of USD 6.5 billion | 391.0 |
| 2018 approved PSA budget | (335.4) |
| 2018 transfers to reserves and special accounts | (17.0) |
| 2018 critical corporate initiatives | (35.6) |
| **Projected closing balance at 31 December 2018** | **259.8** |

8. The projected closing balance of USD 259.8 million for 2018 exceeds the target balance of USD 139.8 million by USD 120.0 million. This surplus presents an opportunity for further strategic investment.

## Proposed uses of the PSAEA surplus

9. The Secretariat proposes that part of this surplus be allocated to the following uses, which will contribute to improved operational ability:

| TABLE 4: PROPOSED USES OF THE PROGRAMME SUPPORT AND ADMINISTRATIVE EQUALIZATION ACCOUNT SURPLUS | |
|---|---|
| | ***USD million*** |
| Immediate response account | 35 |
| Emerging donor matching fund | 30 |
| **Total** | **65** |

10. Allocation of USD 35 million to the IRA would contribute to meeting the annual target of USD 200 million, while providing the emerging donor matching fund (EDMF) with an additional USD 30 million would facilitate increased contributions by national governments to the achievement of the Sustainable Development Goals (SDGs), particularly SDG 2.

### ***Immediate response account: USD 35 million***

11. The IRA was established in 1991. It is a flexible, replenishable, revolving multilateral funding mechanism available to address emergency situations and prevent critical shortfalls in life threatening situations.[2] It gives WFP the ability to provide immediate assistance when forecast or actual contributions to a project are absent.[3] This is critical in allowing WFP to be proactive in responding to emerging humanitarian requirements while the processes of donor decision- making and negotiation and confirmation of contributions take their course. The IRA therefore in effect provides a form of internal project lending for life threatening situations when WFP is unable to forecast contributions.

12. Since 2011, USD 1.17 billion has been allocated from the IRA to WFP operations worldwide – an average of USD 167 million annually.

13. IRA funds can be allocated up to the level of actual funds available in the account plus confirmed contributions not yet received. The IRA does not benefit from leveraging like that allowed under the internal project lending mechanism, whereby an operational reserve of USD 95 million serves as a safety net to allow up to USD 570 million of internal project lending.

14. To maximize the impact of the IRA, management proposes a transfer of USD 35 million from the PSAEA to the IRA to increase the capacity to allocate IRA funds to programmes while maintaining the account's essential revolving and replenishable characteristics. This proposal is allowed under the rubric of "strengthening WFP's reserves" as approved by the Board.

### ***Emerging donor matching fund: USD 30 million***

15. Paragraph (f) of General Rule XIII.4 allows governments of developing countries, countries with economies in transition and other non-traditional donors as determined by the Executive Board to make contributions to WFP of commodities or services only, provided that the full operational and support costs are covered by another donor or other donors.

16. The EDMF, established in 2003, serves as a funding source of last recourse for the operational and support costs associated with commodity contributions from eligible emerging donors who cannot provide the funds to cover such costs.

17. Since its inception, the EDMF has served as a key corporate facility for supporting twinning partnerships, facilitating the mobilization of substantial resources from least-developed, low-income and lower-middle-income countries (so designated in accordance with the classification of the Development Assistance Committee of the Organisation for Economic Co-operation and Development), by matching their in-kind contributions with cash funds and thereby facilitating full cost recovery. The EDMF has an annual expenditure ceiling of USD 4 million.

18. In the period between 2003 and 2016, the EDMF – with total funds of USD 47.5 million – made possible in-kind contributions totalling USD 76 million; thus, each dollar spent through the EDMF generated an additional USD 1.6 in support of 33 countries receiving WFP assistance.

19. The successful use of the EDMF facilitated the expansion of WFP's donor base, engaging 30 different governments and catalysing new resource partnerships.

20. The EDMF was drawn down completely by 2016, hindering opportunities for resource mobilization and partnerships with governments hosting WFP operations.

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[2] WFP/EB.3/2004/12-A.

[3] WFP/EB.A/2015/6-J/1.

21. Management is accordingly requesting Executive Board approval of the revitalization of the EDMF through an allocation from the PSAEA. The allocation would be used in line with the frameworks established by the 2030 Agenda for Sustainable Development, the WFP Strategic Plan (2017–2021) and the Policy on Country Strategic Plans.

22. It is management's intention to request, at the Board's 2018 second regular session, that paragraph (f) of General Rule XIII.4 be amended so that contributions from governments of developing countries, countries with economies in transition and other non-traditional donors may be received in cash as well as through the existing provision of contributions of commodities or services for matching with funds from other donors.

## Objectives

23. Achieving SDG 2 and reaching the 815 million people still affected by food insecurity requires the means to unlock the potential of least-developed, low-income and lower-middle-income countries to contribute to ending hunger and malnutrition.

24. The EDMF can serve as a corporate instrument for mobilizing complementary resources while also promoting core SDG objectives related to national leadership and capacity-building in recipient countries. A revitalized EDMF would be used to promote the following specific objectives:

    a) maximize the volume of resources available to meet beneficiary needs and implement WFP's programme of work through mobilizing complementary cash, commodities, goods and services not otherwise available;

    b) promote national ownership and leadership at the country level by providing incentives for the mobilization of domestic resources to meet the needs of programmes supported by WFP; and

    c) support national governments in implementing the SDGs through the promotion of technical cooperation and capacity strengthening initiatives, the facilitation of expert deployment in developing countries and access to expertise and technology through innovative means of implementation.

## Allocation criteria

25. The EDMF would continue to be used as a strategic tool available to eligible countries in supporting the objectives described above. Its primary goal is to provide incentives for countries to contribute cash, commodities, goods and expertise for operations with great potential while ensuring their greatest impact on implementation of the SDGs.

26. In this regard, funds from the EDMF would be allocated to match the contributions either in cash, commodities, goods, services or expertise from one of following categories:

    a) Contributions from host countries to WFP in-country operations;

    b) Contributions from developing countries classified by the Development Assistance Committee of the Organisation for Economic Co-operation and Development as least-developed, low-income and lower-middle-income to WFP operations in different countries.

27. Allocations would be limited to USD 1 million in any calendar year per country, while the total allocation should be limited to USD 10 million for each calendar year. The aim would be to allocate at least 60 percent of EDMF funds to the first category, ensuring that WFP provides a substantial contribution to the key SDG principle of national ownership and domestic resource mobilization.

## Conclusion

28. WFP will use a revitalized EDMF strategically to facilitate increased contributions by national governments to achievement of the SDGs, in particular SDG 2. The EDMF will in particular contribute to catalysing new resource partnerships with national governments, by enabling contributions that otherwise would have not been available for countries' SDG 2 agendas. WFP expects that successful results and the resources raised from national host governments will encourage more countries to join this initiative and increase contributions from existing participants. Consequently, the fund will also support SDG 17 by providing incentives for the use of domestic resources to meet the SDGs and broadening the range of external donors, including through South–South cooperation.

# ANNEX I

## Other potential uses of the PSAEA balance

1. The proposals outlined in the document, if approved, would draw down the PSAEA as follows:

| | ***USD million*** |
|---|---|
| Projected PSAEA closing balance at 31 December 2018 | 259.8 |
| Transfer to the immediate response account | (35.0) |
| Transfer to the emerging donor matching fund | (30.0) |
| **PSAEA surplus** | **194.8** |

2. Given that the PSAEA will have surplus funds even after implementation of the proposals outlined in the present document, the Secretariat may consider making additional proposals for use of the balance, mindful of the agreed PSAEA balance to be maintained, equivalent to five months of indirect PSA expenditure. Two such proposals are outlined in the following paragraphs.

## WFP 2030 investment fund

3. In the context of the implementation of the Integrated Road Map, it is essential that WFP continue to ensure adequate capacity to accompany its efforts to support the 2030 Agenda and SDGs 2 and 17 to address hunger and malnutrition and support enhanced partnerships. A recent internal audit of the Integrated Road Map pilot revealed, among other things that some country offices have adopted sub-optimal approaches to implementing country strategic plans (CSPs) and that there is a need for seed funding to support the effective design and implementation of new roles and activities under CSPs. Country offices are indeed in the process of changing how they work, which entails new areas of work not previously performed by WFP; changes in the size and type of operational portfolios; and the planning of exit strategies for activities to be handed over to other stakeholders such as governments.

4. The creation of a dedicated source of funding for transitions under the CSP process would be instrumental in enhancing WFP's ability to reshape its ways of working by providing the capacity to ensure full implementation of the relevant CSPs or interim CSPs. A transition fund would help bridge the gap between previous and new ways of working and ensure that WFP is able to reposition and operationalize its activities based on the outcomes of comprehensive national strategic hunger reviews, including through the efficient and effective deployment of support throughout all stages of the CSP process. A dedicated fund would not be intended to overlap with other existing funding mechanisms, but rather to support the CSP transition process in countries that meet minimum transitional criteria (e.g. transitioning to significant new roles and activities, including enhanced capacity strengthening, addressing short-term talent and skills gaps, developing partnerships, etc.). The fund would cover a maximum two-calendar-year period, and WFP management would consider only one application for transitional funding during the CSP cycle in any selected country.

## Private sector funding

5. As WFP develops a new private sector partnerships and fundraising strategy, a key objective is to make private sector fundraising activity self-financing over the medium to long term. The overall approach is that, within a portfolio of income streams (from foundations, companies and individuals), WFP will over time generate sufficient unrestricted income so that a portion of it can be invested in expanding the fundraising operation and thereby increasing future income. This is a standard approach employed by other United Nations agencies pursuing private sector fundraising, as well as by international non-governmental organizations. Although unrestricted income can come from any type of donor, it is much more likely to be generated through individual giving, particularly monthly giving, and therefore a portfolio of income streams that includes a significant individual giving component is critical to the success of this approach.

6. Individual giving cannot grow without investment and therefore an injection of "start-up" capital is needed to fund private sector fundraising operations and investment until sufficient contributions can be used to cover such costs and the operation becomes self-financing.

7. Implementation of the private sector strategy is expected to begin in 2018 and in terms of individual giving 2018 is a year of testing and capacity building, currently funded by the critical corporate initiative of USD 3 million allocated through the WFP Management Plan (2018–2020).

# ANNEX II

## The emerging donor matching fund

1. This annex provides additional information on the utilization of the emerging donor matching fund (EDMF) between 2003 and 2016 and management's proposal to revitalize the fund through the allocation of USD 30 million from the PSAEA.

2. The *2030 Agenda for Sustainable Development established a new global framework that puts national ownership and the mobilization and effective use of domestic resources at the centre of the efforts to achieve the Sustainable Development Goals (SDGs).* Achieving SDG 2 and reaching the 815 million people still affected by food insecurity requires that the potential of host governments and other developing countries to contribute to ending hunger and malnutrition be unlocked and that WFP employ its full scope of financing facilities and tools to mobilize resources.

### Twinning and the EDMF

3. The EDMF provides cash for "twinning", i.e., cash to cover the operational and support costs associated with in-kind contributions from eligible countries[1] who cannot provide the funds to cover such costs and thus achieve full cost recovery. Since the establishment of the EDMF, overall twinning (EDMF and non-EDMF) has grown significantly, generating in-kind resources worth close to a billion dollars between 2003 and 2016.

### Utilization of the EDMF

4. A total of USD 47.5 million has been disbursed through the EDMF, making it the fifth largest source of cash for twinning between 2003 and 2016.[2] Sixty-nine percent of the amount disbursed through the EDMF was used to leverage host country contributions to WFP for in-country operations. The remaining 31 percent facilitated contributions from eligible developing countries to WFP operations in other countries, promoting cooperation among countries in transition.

5. Although modest in size, the EDMF has proven to be an effective and innovative financing tool for least developed, low-income and lower-middle-income countries, providing incentives to mobilize domestic in-kind resources and strengthening national leadership and ownership. The EDMF has served as a significant multiplier of funding: for every dollar of EDMF funds invested, WFP has received in-kind contributions of USD 1.6, for a total of USD 76 million between 2003 and 2016. These contributions probably would not have been received in the absence of the EDMF.

[1] Eligibility is determined according to General Rule XIII.4 (f) and WFP/EB.3/2004/4-C that states: "To determine whether a member state that cannot provide for full cost recovery is eligible for special efforts and to ensure that objective criteria are applied, WFP proposes to use per capita gross national income as the criterion." Countries eligible for twinning will be designated as least-developed, low-income and lower-middle-income countries in accordance with the classification of the Development Assistance Committee of the Organisation for Economic Co-operation and Development.

[2] During this period, the EDMF had an annual expenditure ceiling of USD 4 million.

6. Eighty percent of the in-kind contributions for which the EDMF was employed for twinning have been used for humanitarian, recovery and resilience activities, mainly in least developed and low-income countries. Thirty-three recipient countries received assistance through the EDMF, with the main recipient countries being Bangladesh, Cameroon, Colombia, the Democratic Republic of Korea, Haiti, Kenya, Malawi, the Philippines, the Sudan and Zambia. Most recipient countries are least developed and low-income countries and some are lower-middle income countries.

7. In addition, as countries have evolved economically the EDMF has helped them to leverage domestic resources to support WFP food assistance programmes not only in their own territories but also in other countries. For example, during the 2011/2012 response to the Horn of Africa famine, EDMF resources were twinned with in-kind contributions from donors in the region such as Angola, Mozambique and the United Republic of Tanzania, thus promoting regional solidarity and cooperation.

8. In circumstances when bilateral twinning resources were either not immediately available or required a prohibitively lengthy process of negotiation, the EDMF provided a rapid and flexible response facility that allowed emerging donors to respond to humanitarian needs in a timely manner. For example, in the 2015 Malawi flood response EDMF funds supported the national emergency response, allowing for the timely distribution of 4,531 mt of maize from the Government's grain reserves.

## Expanding WFP's donor base

9. The successful use of the EDMF has helped to establish twinning as a mechanism for leveraging in-kind assistance from emerging donors and has facilitated the expansion of WFP's donor base, engaging 30 governments and catalysing new resource partnerships. The main in-kind donors between 2003 and 2016 were Algeria, Bangladesh, Brazil, Cuba, Kenya, Malawi, the Philippines, the Sudan, Thailand and Zambia. Almost half of EDMF donors are currently least developed countries and ten are lower middle-income countries, while seven have achieved upper-middle income status during this period and are no longer eligible for EDMF funding.

10. A number of countries – including Cuba, Malawi, Pakistan and Zambia – have provided predictable multi-year in-kind assistance facilitated by the EDMF and have continued to secure bilateral twinning funds from sources other than the EDMF. Others such as Cambodia and Malawi were paying part of the operational and support costs of their in-kind contributions with their own funds with the balance paid through the EDMF, while others (Algeria, Azerbaijan and Iraq) have achieved upper middle-income status and have begun to pay the full amount of the operational and support costs of their in-kind contributions with their own funds.

## Proposal to revitalize the EDMF

11. The proposed revitalization of the EDMF through the allocation of USD 30 million from the PSAEA will build on the positive experiences to date, align the EDMF with the WFP Strategic Plan (2017–2021) and provide new resource mobilization opportunities within the framework of WFP'S evolving business model.

12. A revitalized EDMF would continue to be a facility for eligible countries to support WFP activities in their own territories and in other countries as they evolve economically. It would, as it has to date, complement and augment existing twinning arrangements by providing resources of last recourse, available only when other twinning funds have been exhausted, and ensure that eligible countries have a facility that allows them to commit available resources in a timely manner in response to urgent humanitarian needs.

13. In addition to the allocation criteria outlined in paragraphs 26 and 27 of document WFP/EB.A/2018/6-C/1, it is proposed that the revitalized fund have a minimum duration of 3 years, from 2019 to 2021. During this period the EDMF would also be open for directed contributions from interested donors, similar to the WFP immediate response account. This timeframe would be sufficient to build further evidence and assess the EDMF's impact and longer-term benefits in the current global context, allowing the Executive Board to consider potential future support for the fund.

# Acronyms used in the document

| | |
|---|---|
| CSP | country strategic plan |
| EDMF | emerging donor matching fund |
| IRA | immediate response account |
| ISC | indirect support costs |
| PSA | programme support and administrative |
| PSAEA | programme support and administrative equalization account |
| SDG | Sustainable Development Goal |