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For approval

Executive Board documents are available on WFP's website (<https://executiveboard.wfp.org>).

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/2020/6-K/1), the Board approves the allocation from the Programme Support and Administrative Equalization Account of USD 30 million to the Immediate Response Account.

Introduction

1. The Programme Support and Administrative Equalization Account (PSAEA), established in 2002, records the difference between WFP's indirect support costs (ISC) revenues and the programme support and administrative (PSA) expenses for the financial period. The PSAEA can be used for the following purposes:¹
 - a) to cover any difference between ISC income and approved PSA expenditures;
 - b) as a reserve to underwrite risk of decreases in ISC income or underfunding of the PSA budget;

* 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.

¹ WFP/EB.A/2015/6-C/1.

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- c) for critical corporate initiatives or thematic support funds; and
- d) for strengthening WFP's reserves.

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

2. In 2006, the Executive Board established that the PSAEA balance should be linked to the annual PSA appropriation approved by the Board. In 2015, the Board set a target balance of five months of PSA expenditures and a "floor" of two months of approved PSA expenditures (to cover the period needed to adjust to a longer-term reduction in ISC income and implement the associated PSA cost reductions).

PSAEA projections for 2020

3. WFP's audited financial statements as at the end of 2019 showed a PSAEA balance of USD 249.5 million; the balance has consistently grown in recent years, mainly due to the increasing amount of funding received by WFP (generating higher ISC revenue), while the PSA budget was planned based on forecasted contributions, often lower than actuals.
4. Some significant drawdowns on the PSAEA have taken place over the years, particularly for critical corporate initiatives, the Wellness Fund (for which a USD 8 million drawdown from the PSAEA is to be considered at the 2020 annual session of the Board) and for the Immediate Response Account. Further uses of the PSAEA have been approved for 2020 within the Management Plan (2020-2022).
5. WFP's Management Plan (2020-2022) forecasts contribution revenue of USD 7.45 billion for 2020, resulting in a projected ISC revenue of USD 446 million. The forecast is periodically updated, but based on the estimate of USD 7.45 billion contribution revenue, the projected PSAEA closing balance at the end of 2020 is USD 171.1 million, as illustrated in table 1 below:

TABLE 1: PSAEA PROJECTIONS FOR 2020 (USD million)

Account balance on 31 December 2019	249.5
2020 ISC projected revenue <i>(based on forecasted income of USD 7.45 billion)</i>	446.0
2020 approved PSA budget	(423.6)
Ongoing critical corporate initiatives (year 2), approved in Nov-18	(30.6)
2020 critical corporate initiatives	(39.7)
2020 Transfer to the Immediate Response Account	(22.5)
2020 Transfer to the Wellness Fund (to be considered by the Board at the 2020 annual session)	(8.0)
Projected closing balance at 31 December 2020	171.1

The Immediate Response Account

6. Established in 1991, the Immediate Response Account (IRA) is an advance financing mechanism that enables WFP to provide immediate assistance in life-threatening situations² in the absence of forecasted contributions.³

² WFP/EB.3/2004/12-A.

³ WFP/EB.A/2015/6-J/1.

7. The IRA has proven to be critical in allowing WFP to respond to emerging humanitarian requirements. In 2019, a total of USD 161 million was allocated to 67 crisis response activities, with an average monthly allocation of USD 13.4 million; the largest requests were made by Mozambique and Zimbabwe (totalling USD 55 million) to enable the response to the cyclone Idai emergency.
8. Since the beginning of 2020, IRA allocations increased significantly, essentially due to worsened situations in ongoing emergencies and the COVID-19 outbreak, reaching an average of USD 20 million per month. The largest allocations thus far in 2020 were made to Yemen (USD 32 million), Burkina Faso (USD 11 million), South Sudan (USD 10 million) and Zimbabwe (USD 10 million).
9. The level of donor contributions directed to the IRA remains very low compared with the increasing demand for allocations. A further increase in requests is foreseen, due to the impact of the COVID-19 outbreak on WFP operations. While WFP continues to seek additional donor contributions to the IRA, its timely replenishment from WFP's reserves will help address concurrent requests for funding needed for life-saving activities.

Request for a transfer from the PSAEA to the IRA

10. In order to mitigate the risk of WFP not being able to accommodate concurrent requests for IRA funds during this global pandemic, it is proposed to transfer USD 30 million from the PSAEA to the IRA. Based on the average monthly demand for IRA allocations in 2020, this replenishment – added to the current availability – would allow covering requests during the latter part of 2020.
11. Such allocation falls within one of the purposes foreseen for the PSAEA and it would also contribute to meeting the annual IRA target level of USD 200 million.
12. If this request is approved, the forecasted PSAEA closing balance for 2020 would total USD 141.1 million, equivalent to 4 months of PSA expenditure. This is well within the range of the floor of two months but slightly lower than the target of five months.