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EVALUATION REPORTS

Agenda item 7

For consideration

SUMMARY REPORT OF THE EVALUATION OF THE BUSINESS PROCESS REVIEW

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NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for consideration.

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 2003, the Secretariat implemented a Business Process Review of WFP's business processes and procedures designed to improve organizational efficiency, maximize the use of resources and respond better to the needs of beneficiaries by improving the on-time availability of food aid. This was to be achieved through:

- controlling project expenditures in a single Project Cash Account, rather than by expenditure component, to enable managers to shift funds as needed, including advancing funds not immediately required for other more urgent purposes;
- utilizing WFP's temporary cash surplus or working capital to finance loans to projects to enable them to start operations before contributions are announced, maintain commodity pipelines or meet other immediate requirements, committing the Operational Reserve should it become impossible to repay the loans;
- advancing funds against forecast contributions and providing project managers with detailed forecasts of the donations expected to be available for repaying the funds advanced or loaned;
- improving WFP's planning and budgeting process through the introduction of planning tools; and
- reducing the balance of cash and commodity resources held in projects at closure and facilitating the transfer of resources to successor projects.

The Board approved changes to the Financial Regulations, committing the Operational Reserve and allowing expenditures to be incurred on the basis of forecast contributions. These elements were implemented in 2004–2005 in nine pilot projects selected by the Secretariat. A commitment was made to the Board to evaluate the implementation of the Business Process Review prior to its extension to other projects.

DRAFT DECISION*

The Board (i) notes the recommendations contained in "Summary Report of the Evaluation of the Business Process Review" (WFP/EB.A/2006/7-B), (ii) notes the management action taken so far as indicated in the Annex and (iii) encourages further action on the recommendations, taking into account the considerations raised during discussion.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations (document WFP/EB.A/2006/16) issued at the end of the session.

KEY EVALUATION FINDINGS

1. The Business Process Review has enabled pilot projects to accomplish two major goals: maximizing the utilization of contributions, and ensuring that food is available to beneficiaries on time.

2. The following were the key findings:

- The Business Process Review (BPR) has improved the timely provision of commodities to beneficiaries. Using a new methodology, the team reviewed the additional beneficiaries served and the commodity savings made for three major pilot projects — Uganda, West African Coastal and Southern Africa regional protracted relief and recovery operations. This review confirmed that an additional 18 to 30 percent of beneficiaries had been served in a timely way and that cost savings had been achieved in these projects. Using this alternative methodology developed by the evaluation team, these benefits were estimated to have been somewhat smaller than those reported earlier.[1] The evaluation team recognizes that its methodology could be refined further. Details of the methodology used are included in Annex I of the full report.
- The Working-Capital Financing loan facility has revolved US$167.5 million of US$185.5 million in authorized loans. Use of the Operational Reserve may total about US$6.2 million, i.e., less than 3.3 percent of the total amount loaned and less than 1 percent of the total budgets of the nine pilot projects, which is well within the risk guideline originally proposed.[2]
- US$74 million has been advanced using the Project Cash Account; US$53.3 million of this has been repaid. Pilot project managers have indicated that advancing from the Project Cash Account may have repercussions on operations and create delays or difficulties in the repayment of some remaining balances, especially if the loans are drawn against landside transport, storage and handling funds, thus affecting the future availability of funds for food transport. No funding has been provided to cover any potential losses on Project Cash Account advances.
- Although the new project planning tool developed during the pilot stage has helped to ensure that information on project operation and status is available in a consistent format — thereby bringing the availability of financing and commodities to the attention of relevant parties — its regular (monthly) updating is reported as being complex and demanding.
- The forecasting of donations helped managers to improve their estimates of the resources available to the pilot projects and to repay Working-Capital Financing loans and Project Cash Account advances. The accuracy of the forecasts varies considerably, however, highlighting the need for improved communications between forecasting and operational staff in order to minimize the risk of lending decisions being based on an incomplete understanding of the determinants of forecasts, particularly the conditions imposed by donors.

[1] The evaluation team recognizes that its methodology could be refined further. Details of the methodology used are included in Annex I of the full report.

[2] This was the situation in April 2006, when this report was being drafted. The anticipated loan default was from the Democratic Republic of the Congo loan; it is understood that this outstanding loan is being reduced in the meantime.

- The available guidelines to the use of loan facilities and repayment procedures are limited and lack consistency. Pilot project managers expressed concern regarding the lack of information about relevant policies.
- Information from the three pilot projects that have been closed indicates a reduction in outstanding balances compared with the average for all projects. This sample is probably too small, however, to indicate the likely level of closing balances in the remaining projects.
- It is felt that there could be overlap among the various advance/loan facilities available to WFP project managers, including the Immediate Response Account, the Direct Support Costs Advance Facility, Working Capital Financing, the Project Cash Account and the United Nations Central Emergency Response Fund.[3] Field office managers expressed some confusion about which facility to utilize, the priorities for repaying outstanding debt and the status of outstanding loans when projects end.[4]

3. Although the evaluation did not cover the planned expansion of the BPR, the team reviewed current efforts to include the participation of additional operations. The Operations Department's assumption of responsibility for the BPR has increased the resources available for its expansion. The Operations Department has already developed a simplified prototype to replace the current project planning tool. The BPR exercise is labour-intensive both at headquarters — in the Operations and Fund Raising Departments — and in the field. WFP's ability to sustain the staffing levels necessary to expand the processes to a substantially larger number of countries and operations needs to be explored carefully before such a step is taken.[5]

EVALUATION APPROACH

4. This report responds to a commitment made to the Board to carry out an independent evaluation of the results of BPR pilot projects, before taking a decision on expanding the BPR. It provides information on whether and to what extent the BPR has accomplished the objectives set by the Secretariat, and whether there are lessons to be reviewed and other issues requiring attention.

5. The evaluation team conducted interviews at Headquarters, visited four of the nine pilot projects in the field, held telephone interviews with representatives of another four pilot sites, interviewed representatives of most major donors and visited two WFP liaison offices in donor capitals.[6]

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[3] The Central Emergency Response Fund (CERF) has recently increased its target from US$50 million to US$500 million, of which US$450 million (90 percent) should be in grants and US$50 million in loans. The full evaluation report provides more details. According to a joint Operations Department/ Administration Department (OD/AD) e-mail of 16 March 2006, "During this interim period, all requests for CERF loans or grants should be channelled through the Programming Service (ODMP)". The Sudan has its own Common Humanitarian Fund (CHF), which at March 2006 stood at US$121 million. This is managed by the Office for the Coordination of Humanitarian Affairs (OCHA) and serves similar purposes to the CERF, but at a national level.

[4] During the evaluation process, a joint OD/AD e-mail of 16 March 2006 explained to staff that "ODMP and OEDB have initiated a comprehensive review of the various funding mechanisms, which will cover their historical use and effectiveness in different situations, in order to recommend opportunities for further simplification and improvement."

[5] In the longer term, the New Business Model (NBM) should allow field offices to streamline their internal work processes and distribution, resulting in improved project management and financial and workload savings.

[6] The Terms of Reference for this evaluation are in the Annex to the full report.

Overall Perceptions of Staff and Donors

6. WFP staff and donor representatives hold generally positive views of the BPR, feeling that it has responded to a clear need.

Staff Perceptions

7. Many staff members are convinced that the BPR has enabled operations to reach more beneficiaries on time and has improved planning, which should lead to management improvements.

8. Most operational staff have a limited understanding of the whole BPR process, however, and need comprehensive guidelines on borrowing options such as the Working Capital Financing (WCF), the Project Cash Account (PCA), the Immediate Response Account (IRA), the Direct Support Costs Advance Facility (DSCAF) and CERF and on priorities for reimbursement.

9. There is a perceived lack of communication between field offices and the Fund Raising and Communications Department – Donor Relations (FDD) regarding the forecasting of donations and some aspects of donor conditionality accepted by WFP that may impinge on the capacity to repay loans. There is also concern about the accuracy of FDD forecasts.

10. Some staff members interviewed are concerned that the BPR may generate negative consequences in the final months of an operation when loan replenishment possibilities have been exhausted and resource options are limited. There is also concern that the existence of BPR resources at earlier stages of an operation may have a negative impact on the level of subsequent donations, owing to WCF and PCA borrowings creating an over-optimistic perception of the resources and pipeline situation.

11. Some staff members expressed concerns that the BPR may favour operations that are relatively better supported by donors, and not help less popular operations.[7]

Donor Perceptions

12. All the donors interviewed felt that the objectives of the BPR are appropriate and that the BPR process is an essential element of WFP efforts to improve resources management and provide food to more people on time. Donors perceived that response to emergencies and overall performance had both improved.

13. Several donors emphasized their desire to support WFP as much as possible to achieve BPR objectives. Donor interviews revealed considerable trust in WFP's ability to implement the BPR. Concerns related to the financial risk inherent in the BPR and to some scepticism that the level of risk is really as low as the publicized 1 to 2 percent. Donors' strong support for the BPR is based on the positive results reported. Some donors emphasized the need for reporting to be as accurate and transparent as possible in order to sustain this high level of confidence.

Project Planning and Budgeting

14. There is no corporate comprehensive project planning tool used by all projects and offices. Each country or region has customized the WFP pipeline management programme

[7] The new CERF may allocate up to one-third of its resources to underfunded relief operations.

to its own needs and designed its own financial reporting solutions using spreadsheets; some offices use a combination of manual reports prepared by project staff and information downloaded from one of the corporate database systems.

15. Each of the pilot projects participated in a new project planning and budgeting exercise, improving project management's planning of the pipeline and commodity purchases. The current information also enabled management to monitor ongoing operations more closely.

16. Difficulties with the existing "prototype" project planning tool have been reported, including the need to re-enter data from other corporate databases and the lack of control over the formulae that generate reports. Training and manuals were oriented to completion of the spreadsheet rather than to its use for project planning purposes. No process maps have been produced on how to change process management. Field staff sometimes viewed the spreadsheet solely as a requirement for external quarterly reporting, and did not integrate the information it produced into project operations.

17. Although WFP has created a Regional Financial Analyst (RFA) post in each regional bureau, the BPR has not been completely successful in training field staff to manage its various elements. As a consequence, some country offices and regional bureaux have not adjusted and standardized the project management. The Programme Management Division (ODM) is addressing these problems and has prepared an updated project planning tool into which data may be downloaded from corporate databases. This should be completed during 2006 and will help to reduce workloads and data transfer errors. The new tool is an untested prototype, and training will be necessary to ensure its success. A subsequent step will be the integration of information from the spreadsheet directly into the corporate systems to be included in the design for WFP Information Network and Global System (WINGS) II, which is expected to be operational in 2008.

MULTIPLE SCENARIO BUDGETING

18. One of the proposed BPR elements was the preparation of different budgets and operational plans to reflect the different requirements of specific events that require an immediate response. Budgets would also be based on a range of scenarios reflecting different rates per metric ton for commodity purchases, external transport, landside transport, storage and handling (LTSH), direct support costs (DSC) and other direct operational costs (ODOC). Donors would be informed of the ranges and reporting would be based on the actual rates achieved.

19. These approaches proved to be too complex when manually prepared spreadsheets are used, however, and have been abandoned. They are not included in the updated project planning tool for implementation in 2006.

REGIONAL FINANCIAL ANALYSTS (RFAS)

20. As noted earlier, RFA posts were created in each of the six regional bureaux[8] to: (i) monitor the budgetary performance of operations within the region; (ii) analyse data and make forecasts for operations; (iii) monitor and manage the cash pipeline; and (iv) support BPR pilot projects in the region. It is planned that the RFAs will be involved in the eventual roll-out of the BPR.

Recommendation

The functional responsibilities and reporting relationships of the RFAs vary considerably. For WFP to make the best use of this new resource there is need to clarify RFAs' responsibilities and reporting relationships to headquarters, within regional bureaux and to country offices.

PROJECT CLOSURE

21. The Second Progress Report on the BPR indicated that the BPR would reduce the size of operational closing balances by using the PCA, WCF, multiple scenario budgeting and enhanced project planning and monitoring.

22. To date, only a few BPR projects have been closed and there is no conclusive evidence to determine whether the BPR has had any impact on reducing project balances. In 2004, two BPR projects were closed — the China country programme, leaving a balance of 4.6 percent, and the Occupied Palestine Territory emergency operation (EMOP), leaving a balance of 2.8 percent. In 2005 the Democratic Republic of the Congo protracted relief and recovery operation (PRRO) used up almost all of its contribution income, leaving a balance of less than 0.1 percent. These balances were lower than the average balance of 5.0 percent left by projects. Although the evidence is limited, the preliminary information indicates that closed BPR projects have smaller outstanding balances than do non-BPR projects.

PROJECT CASH ACCOUNT (PCA)

23. As part of the BPR, the Board approved a change that would continue to apply full cost recovery to donations, and provide for the control of individual contributions at the project level, rather than the individual cost component level, unless donors imposed restrictions. The allocation of contributions among the cost components of a project would be determined by the changing requirements of the project itself.

24. A total of US$74.1 million was advanced using the PCA mechanism for four operations, of which US$53.3 million had been repaid by 31 March 2006, leaving a balance of US$20.8 million or 28.1 percent. The funds advanced were utilized to purchase commodities (US$59.5 million) and to cover associated costs such as transport (US$8.9 million) and other direct operational and support costs (US$5.7 million). Most of the funds were advanced from surplus or temporarily surplus LTSH funds (US$62.3 million) or ODOC (US$7.3 million). Details are shown in Table 1.

[8] A regional bureau has been established for the Sudan in view of the scale of WFP operations there.

TABLE 1. BPR PILOT PROJECTS: SUMMARY OF PCA LOANS (US$)			
COMPONENT	**ADVANCED**	**REPAID**	**OUTSTANDING**
LTSH	62 277 737	44 668 745	17 608 992
Commodity	1 273 131	0	1 273 131
DSC	2 610 949	1 435 751	1 175 198
External transport	620 243	0	620 243
ODOC	7 334 848	7 171 626	163 222
Subtotal borrowed from	**74 116 908**	**53 276 122**	**20 840 786**
Commodity	59 491 493	46 040 347	13 451 146
External transport	5 683 620	3 985 774	1 697 846
LTSH	3 231 794	0	3 231 794
ODOC	1 360 000	850 000	510 000
DSC	4 350 000	2 400 000	1 950 000
Subtotal used	**74 116 907**	**53 276 121**	**20 840 786**

25. A significant issue raised by some pilot project staff was the lack of risk management guidance for managers, and the lack of PCA guidelines. This may help to explain the limited number of pilot projects utilizing this facility. Better guidelines might have been helpful in the pilot stage, but they will be essential if the authority to make PCA advances is extended to more countries and operations during the roll-out. ODM has indicated that the planned guidelines and policies will provide far more than the present instructions for utilizing the project planning tool in relation to the PCA.

Recommendation

To limit potential risks, ODM should consider the following issues when preparing PCA policies and guidelines:

- ➢ A limit should be established on advances from the funds of a single operation, expressed as either a dollar amount or a percentage of the operation’s size.
- ➢ PCA advances to purchase commodities should be subject to the same review as WCF loans.
- ➢ Advances involving the purchase of commodities should be based on full cost recovery and/or ensured available funding to cover related transport costs.
- ➢ Internal loans for DSC and ODOC should not be approved if funding from the DSCAF is available.
- ➢ WCF or IRA loans should not be granted to projects that have outstanding PCA advances before the overall exposure to risk has been assessed; such projects should not be authorized to accept external CERF loans unless covered by valid collateral.
- ➢ An order of priority for repayment needs to be established, because the operations that face difficulties repaying PCA advances have also had WCF, IRA and/or CERF advances.

Risk Management of the PCA

26. The Boston Consulting Group (BCG) made a detailed estimate of the risks involved in the operation of the WCF scheme, but not for the PCA. The Board has not been asked to approve a financial provision to underwrite losses in connection with operations' potential inability to repay PCA advances, although there is such a provision for WCF loans, which are guaranteed by the Operational Reserve. There should be similar control, declarations of collateral and negotiations for PCA advances as there are for WCF loans.

Recommendation

The Secretariat should analyse the risks involved in the operation of the PCA and approach the Board to approve a financial provision, similar to that for WCF loans, to cover potential PCA default problems.

WORKING-CAPITAL FINANCING (WCF)

27. Perhaps the most significant single element of the BPR, and the one by which it is best known, is the opportunity for operations to receive advance funding based on forecast contributions. The Executive Board established a ceiling of US$180 million on such loans.[9] The Board also amended Financial Regulation 10.6 to provide financial coverage from the Operational Reserve — currently standing at US$57 million — for any shortfall that might result when a forecast contribution expected to repay an advance does not materialize.

28. The concept presented to the Board was that of utilizing the temporary cash surplus resulting from the receipt of contributions from donors before expenditures have been incurred. This cash, held in WFP's treasury, would be loaned to eligible pilot projects based on their demonstrated need and ability to repay the funds on receipt of donor contributions. This would not be a funded reserve like the IRA or the DSCAF.

Loan Summary

29. A total of US$185.1 million in loans was authorized under the facility from its inception in 2004 up to 31 March 2006. Of this total, US$167.6 million has been repaid, leaving a balance of $17.5 million or 9.5 percent. Table 2 shows the loan situation.

[9] Document WFP/EB.1/2005/5-C/1.

LOANS (AS OF 24 MARCH 2006) (US$)				
Project	**Approval Date**	**Loan**	**Repaid**	**Outstanding**
CHA CP 10050.0 ACT 1	4 December	4 069 425	4 069 425	0
DRC PRRO 10288.0 (Loan 1)	4 June	4 092 555	4 092 555	0
DRC PRRO 10288.0 (Loan 2)[1]	5 January	15 846 928	9 644 837	6 202 091
INS PRRO 10069.1	4 October	4 800 000	4 800 000	0
INS SO 10498.0	5 December	3 000 000	3 000 000	0
NER PRRO 10509.0	6 March	3 599 954	0	3 599 954
ODJ PRRO 10310.0 (Loan 1)[2]	5 July	13 072 607	13 072 607	0
ODJ PRRO 10310.0 (Loan 2)[3]	5 July	21 437 851	21 437 851	0
OPT EMOP 10190.2	4 July	9 595 725	9 595 725	0
OPT PRRO 10387.0	5 June	13 198 196	13 198 196	0
SDN EMOP 10048.3	5 April	34 700 000	34 700 000	0
SDN EMOP 10503.0	5 December	25 000 000	25 000 000	0
UGA PRRO 10121.1 (Loan 1)	5 June	9 324 715	9 324 715	0
UGA PRRO 10121.1 (Loan 2)	5 October	7 745 371	7 745 371	0
WAC PRRO 10064.3 (Loan 1)	4 December	4 494 274	4 494 274	0
WAC PRRO 10064.3 (Loan 2)[4]	5 October	11 135 726	3 405 623	7 730 103
Total		**185 113 327**	**167 581 179**	**17 532 148**

[1] Includes US$1,307,446 carry-over from DRC Loan 1

[2] Includes US$11.9M directed to Zimbabwe alone

[3] Includes US$3,220,970 carry-over from non-Zimbabwe portion of ODJ Loan 1

[4] Includes US$5,755,726 carry-over from WAC Loan 1

30. All the loans outstanding are scheduled for repayment in 2006, with the possible exception of the loan to the Democratic Republic of the Congo PRRO 10288.0. This may not be repaid, thereby becoming the first WCF default and thus the first charge against the Operational Reserve. Assuming that this transpires, the write-off of US$6.2 million would represent about 3.3 percent of the loans issued.[10] Although this is significant in dollar terms, it may be considered reasonable, given that the BPR is new to both field managers and headquarters administrators. A pilot provides a learning period during which problems are analysed and lessons for the future documented.

[10] The outstanding loan may now be lower, according to verbal information given to the evaluation team as this report was being finalized.

Recommendations

- Given that the loan to the Democratic Republic of the Congo PRRO may be the first — partial — WCF default, WFP should investigate the causes of the default in order to determine whether there are lessons that could help avoid similar defaults in the future.
- Loans should be made only on the basis of full cost recovery, so as to reduce the risk of purchasing commodities and then having insufficient resources for associated costs.
- When other loans are outstanding — IRA, DSCAF, PCA and/or CERF — WCF loans should not be made until the risk and future contributions have been fully assessed. The overall debt balance of a specific operation should be factored into the WCF loan decision. A sequence for the repayment of each of the available advance facilities should be established.
- If PCA loans are subordinate to WCF, a policy should be established for cases when a PCA loan must be repaid first to meet immediate requirements.
- Debt may be carried forward between the phases of one operation, but not to successor operations.
- Given the higher likelihood of default if loans are granted in the last few months of an operation, there should be an additional assessment of risk for such loans.
- Before the pilot phase is extended to more countries or operations, there is a need for written guidelines to the BPR that are understood by headquarters-based staff involved in loan approval and by project managers and field operational staff.
- In the interests of transparency and accountability, a formal written record of the Credit Committee's deliberations should be maintained and circulated to concerned staff.

Risk Management Relating to the WCF

31. BCG analysed the risks inherent in the WCF on the basis of estimates from nine significant projects. This analysis determined that the maximum risk for an individual project was 7 percent of the operation's total budget, and for the group of projects 1 to 2 percent of their total budgets.

32. The potential write-off of the balance outstanding on the advance made to the Democratic Republic of the Congo PRRO 10288.0 represents 3.1 percent of the operation's total approved budget of US$190 million and less than 1 percent of the total budgets of all nine pilot projects. Assuming that no further defaults take place, it appears that the risk management analysis was reasonable.

Recommendation

Now that the pilot projects have been implemented, it is important to provide an update of the risks inherent in the process, including a detailed analysis of experiences with donation forecasting and loan repayments. This analysis should take into consideration the PCA and WCF facilities, along with other loans provided to operations eligible for participation in the BPR.

DONATION FORECASTING

33. Both the WCF and the PCA advance funds to operations based on the anticipated receipt of contributions, which are forecast by FDD. With the exception of certain other financing mechanisms, such as the DSCAF, this is a significant departure from WFP's usual procedures, which allow expenditures to be incurred for operations only on receipt of donors' written confirmation.

34. Information provided by FDD on the results of forecasting for the operations included in the BPR — other than the China country programme, for which no forecasts were prepared — show that at the time of the first forecast an average of 32.5 percent of contributions were confirmed, rising to 55.4 percent by the time of the last forecast. Some 50 percent of contributions were confirmed for at least 25 percent more than originally forecast, thus showing the generally conservative nature of the forecasting. Average results for the first, middle and last forecasts for all eight projects are shown in Table 3.

TABLE 3. BPR COMPARISON OF FORECAST AND ACTUAL CONTRIBUTIONS FOR ALL PILOT PROJECTS EXCLUDING CHINA

	First Forecast	Percent	Mid-range Forecast	Percent	Last Forecast	Percent
Confirmed as forecast	285 743 218	32.5	372 339 795	42.4	486 080 599	55.4
Confirmed lower than forecast						
10–25% variance	16 147 375	1.8	20 172 258	2.3	14 809 632	1.7
> 25% variance	132 518 409	15.1	140 981 468	16.1	198 333 969	22.6
Total	**148 665 784**	**16.9**	**143 668 254**	**16.4**	**213 143 601**	**24.3**
Confirmed higher than forecast						
10–25% variance	107 622 307	12.3	93 304 266	10.6	74 771 830	8.5
> 25% variance	335 913 690	38.3	251 147 213	28.6	103 633 605	11.8
Total	**443 535 997**	**50.5**	**344 451 479**	**39.2**	**178 405 435**	**20.3**

35. These are average results for all eight projects. Contributions confirmed at first forecast varied from a low of 8.8 percent for the Democratic Republic of the Congo — which was the first pilot — to a high of 73.7 percent for the Indonesia PRRO. Contribution forecasting is a major factor in the success of the BPR and the use of the IRA, which is a revolving as well as a replenished fund. Improvements are necessary to ensure that the risk of default on the repayment of advances remains at a reasonable level. Although the overall average may appear acceptable, the variances among individual operations are significant.

36. Staff at a number of the country offices and regional bureaux operating pilot projects expressed concern about inadequate communications between field implementation staff and headquarters donor relations staff regarding the forecasting process. Specific areas of concern included the context in which forecasts are made, how forecasts should be utilized and donor conditionality.

37. Media and other pressures may encourage operational managers to take loans when the forecasts for contributions are weak and to make procurement decisions that run counter to the conditions attached to forecasted contributions.

38. Concern was also expressed that FDD had sometimes accepted in-kind contributions from emerging donors without full cost recovery, obliging the field offices to use cash from other donor sources — which they may have been counting on to repay WCF or PCA loans — for transport and distribution.

Recommendation

A more formal communications structure on forecasted contributions should be established with the field. The relatively new practice of posting resources mobilization staff to regional and some larger country offices should help to ensure regular dialogue between field offices and headquarters-based resources mobilization staff.

Donor Conditionality

39. WFP must take into account the conditions that donor governments impose as a result of their legislative or regulatory requirements. These conditions limit the flexibility for using donations to repay advances made under the BPR, or from other facilities such as the IRA and DSCAF.

40. Donor conditionality has a serious impact on project managers’ ability to use contributions to repay loans. Discussions with donor representatives did not encourage much hope that restrictions can be eliminated easily, as many are the product of donor government legislation or regulations, which are likely to be modified only gradually.

Recommendation

FDD should develop a matrix of donor conditions and update it regularly, so that contributions can be graded according to WFP's ability to utilize them for the repayment of loans or advances. Such a matrix would also improve understanding of donor conditionality among field staff.

OTHER WFP PROJECT ADVANCE FACILITIES

41. Prior to the initiation of the BPR, two WFP facilities provided advances to projects: the IRA was established in 1991, and the DSCAF in 1999.

42. The IRA is administered by the Operations Department, which allocates IRA resources.[11] Under their delegated authority, country directors can approve an Immediate Response EMOP (IR-EMOP) for up to US$500,000. The IRA is revolving – loaning funds to relief operations that may be repaid from later contributions – and replenished by donors. Insurance settlements and transfers from the WFP General Fund may also be used to replenish the IRA, as authorized from time to time by the Executive Board.

43. Operations that used WCF and PCA advances — excluding the China country programme — could have been eligible for loans from the IRA or DSCAF, had sufficient funds been available.

44. Assuming that the WCF and PCA are approved for the longer term, WFP should determine whether there is added value in maintaining four distinct facilities to advance funds.

45. In addition to its own internal loan facilities, WFP also has access to grants or loans from the United Nations CERF, managed by OCHA. This facility has recently been transformed from a revolving loan fund to primarily a replenishment fund that provides grants. Guidelines on its use are being finalized, after which WFP is expected to develop internal guidelines on how WFP operational managers can apply for CERF loans or grants.

46. This number of facilities has caused confusion among some field managers as to which facility should be utilized for which purpose. There is no easily accessible central register of loans on a consolidated spreadsheet for each of the BPR pilot projects. It seems that there is no single unit responsible for screening requests for advances and referring them to the most appropriate source. Some of the features of the BPR such as the interdepartmental credit committee and quarterly reviews might benefit non-BPR facilities such as the IRA and DSCAF.

[11] For more details on the functioning of the IRA see the full evaluation report. New donor contributions — replenishments — to the IRA have been rather low over the past nine years, averaging only US$18 million per annum, according to figures in the February 2006 edition of the "Yellow Pages".

Recommendations

Assuming that the BPR becomes more than a pilot programme, it is important to consider whether there are advantages to maintaining separate internal loan facilities with different approval authorities and different financial guarantees.

If the BPR is rolled-out to more countries and operations, it may also be useful to consider whether the IRA should be reserved for new sudden onset emergencies and for grants to longer-running “forgotten emergencies”.

BENEFITS

47. The progress reports provided to the Board on the benefits stemming from the BPR include statistics on additional beneficiaries served and savings generated through commodity procurement at lower cost. The latest information presented at the Board meeting in February 2006 is shown in Table 4.

TABLE 4. BENEFITS FROM THE BPR

Project	Beneficiaries	Direct savings (US$)	Reason for savings	Percentage of 2005 income financed by loans
Democratic Republic of the Congo	1 000 000	1 500 000	Lower transport costs	31
Indonesia	170 000	None		11
Occupied Palestinian Territory	90 000	None		41
West Africa coastal	670 000	None		11
China	540 000	None		96
South Sudan	350 000	None		21
ODJ	4 500 000	6 100 000	Lower commodity price	14
Uganda	850 000	12 800 000	Lower commodity price and transport costs	13
Total	**3 179**	**20 400 000**		

48. The evaluation team reviewed the approach used to compute these statistics and raised a number of concerns. Benefits related to advances from the PCA are not included in the calculations. OEDSP computed the number of beneficiaries using a formula related to the additional number of metric tons procured with WCF financing. Multiple loans granted to the same operation were assumed to have treated different beneficiaries. The amounts shown for commodity procurement savings were based on information provided by the three regional bureaux involved, which used different approaches to generating information.

49. The evaluation team proposed an alternative methodology for verifying the benefits from BPR by quantifying the number of additional rations made available for distribution, by commodity, from funding provided by BPR advances for three of the BPR projects.[12] This approach produced the results shown in Table 5.

TABLE 5. BENEFITS OF THE BPR ACCORDING TO ALTERNATIVE ASSESSMENT METHOD		
Project	**Beneficiaries: evaluation estimate (%)**	**Cost savings: evaluation estimate (US$)**
West Africa coastal	18	Not computed
Southern Africa	30	3 200 000
Uganda	20	890 000

50. Although the estimated savings using this evaluation methodology are lower than those reported in the BPR progress reports, they substantiate the claim that the availability of BPR financing enabled these pilot projects to achieve significant savings in commodity procurement and feed more beneficiaries on time.

Recommendation

For future reporting to the Executive Board, it is recommended that the methodology used to calculate the number of WFP food recipients benefiting from the availability of BPR financing should be modified; the collection of data should be the responsibility of the office in charge of the operation concerned and built into the project planning tool.

CONCLUSION

51. The evaluation of the nine pilot projects has confirmed that the principal elements of the BPR — advances to projects based on donation forecasting and improved tools for project management and budgeting — can assist projects to use resources better and increase the number of beneficiaries served on time. The increase in beneficiaries reached on time is significant and justifies the efforts undertaken so far in BPR implementation.

52. Before expanding the BPR, the Secretariat should carefully consider the number of countries and operations that can reasonably be covered and managed, including their training requirements. The continued use of spreadsheet-based information, until WINGS II is operational in 2008, needs to be taken into account, as does the ability of the Credit Committee, OEDSP and ODM to review loan applications adequately and handle quarterly reviews for a significantly expanded number of operations.

[12] There is a significant difference between the OEDSP methodology and that of the evaluation team in calculating additional beneficiaries assisted: the evaluation team attempted to annualize beneficiary figures to avoid double-counting, whereas OEDSP estimated the figures on a per-loan basis, accepting that the same additional beneficiaries could be counted more than once during a year if they had received more than one loan.

ANNEX: MANAGEMENT RESPONSE MATRIX – BUSINESS PROCESS REVIEW EVALUATION

Recommendations (April 2006)	Action by	Management response (measures taken or to be taken)
1. Project Cash Account (PCA) policies and guidelines Detailed policies and procedures for the PCA should be prepared taking the following into consideration: ➢ A limit should be established on the amount advanced to a single operation, either as a dollar amount or as a percentage of the operation's size. ➢ PCA advances should be subject to scrutiny similar to that for WCF loans. ➢ Advances involving the purchase of commodities should be based on full cost recovery or demonstrate how funding will be available to cover transport and other costs. ➢ A decision needs to be taken and a procedure formalized regarding draw-downs under PCA for ODOC and DSC when funding from DSCAF can still be available. It is suggested that internal loans should be considered only after DSCAF is exhausted. ➢ WCF and/or IRA loans not should be granted to projects with outstanding PCA advances before the overall exposure to risk has been assessed. ➢ An order of priority for repayment among different financing facilities should be established, given the current difficulties experienced in repaying PCA and other advances. In addition, the Secretariat should prepare an analysis of the risks involved in operating the PCA and consider approaching the Board to endorse a financial provision, similar to that for the WCF, to cover potential PCA default problems.	ODM	Guidelines for internal and external advances are being prepared and will be delivered in conjunction with the project planning tool (PPT) roll-out. This is scheduled for the latter half of 2006. The new design of the PPT facilitates the identification of collateral for repayment and is an essential component for establishing related procedures and guidance. Decisions regarding thresholds, priority for repayment and the overall advance mechanisms will be taken as part of the Advance Review announced jointly on 13 March 2006 via e-mail from the Senior Deputy Executive Director and the Deputy Director/Administration. It is understood that the results of the evaluation, based on analysis of the pilot results, will assist the design of guidelines, procedures and the review mentioned above.
2. Working Capital Financing (WCF) The following recommendations should be considered before any expansion of the BPR takes place: ➢ Loans should be made only on the basis of full cost recovery, so as to reduce the risk of purchasing commodities and then having insufficient resources for associated costs. ➢ When other loans – IRA, DSCAF, PCA and CERF – are outstanding, WCF loans should be made only after full assessment of risks and future contributions. The overall debt balance of a specific operation should be factored into the WCF loan decision. A sequence for repayment to each of the available advance facilities should be established. ➢ If PCA loans are subordinate to WCF, a formal procedure should be defined for repaying PCA advances to meet immediate obligations. ➢ A debt can be carried forward between phases of an operation, but not from one operation to successor operations. ➢ Given the higher likelihood of default towards the end of an operation, there should be an additional assessment of risk and a strict timetable for reimbursement when loans are granted toward the end of an operation.	OEDSP	Loans should take into account all the resources available to the regional bureau or country office. Lending at full cost recovery is only necessary if regional bureaux and country offices are not able to manage their PCA. Where this is the case, only full cost recovery loans will be made. The second bullet point is now current practice. Regarding the third bullet point, PCA adjustments are now monitored by WCF and factored into repayment plans. Regarding the fourth bullet point, operational needs determine project duration. When WCF values are at risk — likely write-offs are estimated throughout to set the risk level — write-offs occur only at financial closure. The fifth bullet point is now current practice.

ANNEX: MANAGEMENT RESPONSE MATRIX – BUSINESS PROCESS REVIEW EVALUATION

Recommendations (April 2006)	Action by	Management response (measures taken or to be taken)
➢ Expenditure from a WCF loan should be in accordance with the loan application and adjusted as needed – e.g., when prices change – only after full scrutiny similar to that for a loan application. In addition, given that the loan to the Democratic Republic of the Congo PRRO may be the first — partial — WCF default, WFP should examine the causes to determine whether there are lessons that could help avoid similar defaults in the future.		We agree with the sixth bullet point. Scrutiny similar to that for loan application will be applied; full Credit Committee review will be sought in only extreme cases. Regarding the last issue, the evaluation team did not take the Democratic Republic of the Congo pilot as one of its four field case studies, so it did not study the WCF loan situation there in depth. The likely write-off is now down to about US$2 million, which is well within risk parameters.
3. Regional financial analysts (RFAs) The functional responsibilities of the RFAs vary considerably and their reporting relationships are not clearly defined. For WFP to make the best use of this new resource, RFAs' reporting relationships to headquarters, within regional bureaux and to country offices need clarification, as do their responsibilities.	ODM, in consultation with OEDSP, the West Africa Regional Bureau (ODD) and the Finance Division (ADF)	The responsibilities and reporting lines of RFAs are defined in their common terms of reference. Initially, in ODD and ODJ, where there are regional operations, the RFA was also involved in the regional operation. These distinctions have now been addressed, and other resources are assigned to regional operations. The RFA role will be reviewed at mid-year 2006.
4. Business Process Review (BPR) guidelines Before the pilot is extended to additional countries or operations, the BPR needs written guidelines that are understood not only by the headquarters staff involved in loan approval but also by project managers and field operational staff.	ODM, in consultation with OEDSP	Guidelines are being prepared and will be delivered in conjunction with the PPT roll-out. This is scheduled for the latter half of 2006.
5. Risk management update Now that nine pilot projects have been implemented, it is important to provide an update on the risks inherent in the process, including detailed analysis of experience with donation forecasting and loan repayments. This analysis should take into consideration both the PCA and WCF facilities, along with other loans provided to projects eligible for participation in the BPR	ODM, in consultation with OEDSP	Potential risks were identified in the NBM Concept Paper. It was anticipated that some risks would be measured by the evaluation team, so that tools, practices and roll-out could be aligned accordingly, but the evaluation team did not have an expert in risk analysis. The office of the Executive Director will conduct a further review before requesting changes to financial parameters. The largest risk is felt to be income forecasting.

ANNEX: MANAGEMENT RESPONSE MATRIX – BUSINESS PROCESS REVIEW EVALUATION		
Recommendations (April 2006)	**Action by**	**Management response (measures taken or to be taken)**
6. Communication of donor forecasting A more formal structure should be established for the regular communication of forecast contributions to the field. The current, relatively new, practice of posting resources mobilization staff to regional offices and some larger country offices should help to ensure regular dialogue between the field offices and headquarters-based resources mobilization staff.	The Fundraising and Communications Department (FD), in consultation with ODM	FD fully concurs with the recommendation. It has been working to improve income forecasting processes and tools, so as to enhance the usefulness of information. Regarding the communication of data, an upgrade of the system, completed in March 2006, now permits Donor Relations Officers to carry out global and operational income forecasting within the Resource Mobilization System (RMS), rather than in separate spreadsheets. Read-access will soon be rolled out to field offices. FD has also worked with those designing the PPT, so the enhancements introduced to RMS will permit the automatic download of forecast data from the RMS forecast module into the PPT, once it is rolled out. Periodic reviews of forecast data by regional bureau, country office and FD staff will certainly enhance the process. It is clear, however, that – as with any new undertaking – there is a need for better explanation to other staff of the methodology, assumptions and processes related to income forecasting. To that effect, FD staff make presentations at regional meetings, in CD and Finance Officers' training and in other fora.
7. Donor conditionality A matrix of donor conditions should be developed by FDD and regularly updated, so that contributions may be graded according to WFP's ability to utilize donations for the repayment of loans or advances. Such a matrix would also improve field staff's understanding of donor conditionality	FD	A matrix of donor conditions already exists and will be shared in a user-friendly form with the concerned stakeholders. Monthly income forecast spreadsheets include several fields that provide brief information on donor conditions. The RMS forecast module contains several fields with details and conditions, which will be downloaded into the PPT when it becomes operational. Until then, the monthly income forecast package includes a sheet providing abbreviated information on the details and conditions that apply.

ANNEX: MANAGEMENT RESPONSE MATRIX – BUSINESS PROCESS REVIEW EVALUATION

Recommendations (April 2006)	Action by	Management response (measures taken or to be taken)
8. Review of different loan facilities – BPR (WCF and PCA), DSCAF and IRA Assuming that the BPR is to become more than a pilot programme, it is important to consider whether there are advantages to maintaining separate facilities with different approval authorities and different financial guarantees. If the BPR is rolled out to more countries and operations, it may be useful to consider whether the IRA should be reserved for new sudden onset emergencies and as grants for longer-running "forgotten emergencies".	ODM, in consultation with ODD and OEDSP	Decisions regarding threshold priority for repayment and overall advance mechanisms will be taken as part of the Advance Review mentioned earlier
9. Record of the Credit Committee's deliberations In the interests of transparency and accountability, a formal written record of the Credit Committee's deliberations should be maintained and circulated to concerned staff	OEDSP	The Credit Committee's decisions are now recorded; country offices and regional bureaux are informed of them in writing.
10. Calculation of BPR benefits For future reporting to the Executive Board, it is recommended that the methodology utilized to calculate the number of WFP food recipients benefiting from the availability of BPR financing should be modified; data collection should be the responsibility of the office responsible for the operation concerned and should be built into the PPT	OEDSP	Agreed. It is felt, however, that the alternative methodology developed by the evaluation team does not reflect adequately the real experience nor relate closely to WFP's current beneficiary definitions. A further revision of the BPR methodology for estimating beneficiaries is under way.

ACRONYMS USED IN THE DOCUMENT

AD	Administration Division
ADF	Finance Division
BCG	Boston Consulting Group
BPR	Business Process Review
CD	Country Director
CERF	Central Emergency Response Fund (United Nations)
CHF	Common Humanitarian Fund
DSC	direct support costs
DSCAF	Direct Support Costs Advance Facility
EMOP	emergency operation
FD	Fundraising and Communications Department
FDD	Fund Raising and Communications Department – Donor Relations
IRA	Immediate Response Account
LTSH	landside transport, storage and handling
NBM	New Business Model
OCHA	Office for the Coordination of Humanitarian Affairs (United Nations)
OD	Operations Department
ODD	Regional Bureau for West Africa – Dakar
ODJ	Regional Bureau for Southern Africa – Johannesburg
ODM	Operations Department – Programming Management Division
ODMP	Programming Service
ODOC	other direct operational costs
OEDE	Office of Evaluation
OEDSP	Office of the Executive Director – Special Projects
PCA	Project Cash Account
PPT	Project planning tool
PRRO	protracted relief and recovery operation
RFA	Regional Financial Analyst
RMS	Resource Mobilization System
WCF	Working Capital Financing
WINGS	WFP Information Network and Global System