FINANCE COMMITTEE

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Utilization of the Programme Support and Administrative Equalization Account reserve

Queries on the substantive content of this document may be addressed to:

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Documents can be consulted at www.fao.org

NM219/e
EXECUTIVE SUMMARY

- The Programme Support and Administrative Equalization Account (PSAEA), established in 2002, records the difference between WFP’s indirect support cost income and programme support and administrative expenses for the financial period. The PSAEA can be used to strengthen WFP’s reserves subject to approval of the Executive Board.

- The PSAEA balance at the beginning of 2023 was significantly higher than projected in the management plan (2023–2025) due to the exceptionally high level of contributions in 2022. Consequently, WFP proposes to strengthen the Immediate Response Account with a transfer of USD 100 million from the PSAEA and requests the Board to take note of the situation in Sudan and the potential for a future request to replenish the self-insurance special account from the PSAEA.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to review the document “Utilization of the Programme Support and Administrative Equalization Account reserve” and to endorse it for approval by the Executive Board.

Draft Advice

- In accordance with Article XIV of the General Regulations of WFP, the FAO Finance Committee advises the WFP Executive Board to approve the draft decision as outlined in the document “Utilization of the Programme Support and Administrative Equalization Account reserve”.

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/2023/6-J/1), the Board:

i) approves a transfer from the Programme Support and Administrative Equalization Account to the Immediate Response Account in the amount USD 100.0 million; and

ii) takes note of the situation in the Sudan and notes the potential for a future request to approve a replenishment of the self-insurance special account.

* 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.

Focal points

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Introduction

1. The Programme Support and Administrative Equalization Account (PSAEA), established in 2002, records the difference between WFP’s indirect support cost (ISC) income and its programme support and administrative (PSA) expenses for a given financial period. The PSAEA may 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 the risk of decreases in ISC income or underfunding of the PSA budget;
   c) for critical corporate initiatives or thematic support funds; and
   d) to strengthen WFP’s reserves.

2. Any use of PSAEA funds requires the approval of the Executive Board.

3. In 2006 the Executive Board decided that the PSAEA balance should be linked to the annual PSA appropriation approved by the Board. In 2015 the target PSAEA balance was set at the equivalent of five months of PSA expenditures, and a “floor” of two months of approved PSA expenditures was adopted to cover the period needed to adjust to a long-term reduction in ISC income and implement associated PSA cost reductions.

PSAEA projections for 2023

4. The PSAEA balance at the beginning of 2023 is significantly higher than projected in the management plan (2023–2025) due to the exceptionally high level of contributions in 2022. Taking into consideration the projected ISC revenue in 2023 and the approved PSA budget, the balance of the PSA will be well above the target of five-months’ PSA expenditure. Consequently, WFP proposes to strengthen the Immediate Response Account with a transfer of USD 100 million from the PSAEA. An update of the projected PSAEA balance will be provided and the utilization of a surplus will be proposed in the management plan (2024–2026).

<table>
<thead>
<tr>
<th>TABLE 1: PROJECTIONS OF THE PROGRAMME SUPPORT AND ADMINISTRATIVE EQUALIZATION ACCOUNT FOR 2023 (USD million)</th>
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<tbody>
<tr>
<td>PSAEA balance at 1 January 2023*</td>
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<td>2023 projected movements</td>
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<td>ISC projected revenue (based on global contribution forecast income of USD 11.0 billion)</td>
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<td>Approved PSA budget</td>
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<td>Proposed transfer to Immediate Response Account</td>
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<td>Projected PSAEA balance at 31 December 2023</td>
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<td>PSAEA floor (equivalent to two months of 2023 PSA expenditures)</td>
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</table>

* PSAEA beginning balance refers to the end balance as at 31 December 2022 on a budgetary basis less approved 2023 PSAEA drawdowns of USD 106.5 million (2022–2024 management plan).

¹ “Progress on the Financial Framework Review, including Indirect Support Costs” (WFP/EB.A/2015/6-C/1/Corr.1).
Immediate Response Account

5. The Immediate Response Account is WFP’s reserve for the immediate allocation of flexible, replenishable, revolving multilateral funding to critical life-saving activities. It is replenished by directed contributions (i.e., contributions designated by their donors specifically for the purpose of replenishing the account). The term “revolving” means that funds allocated from the account to an operation may subsequently be reimbursed with donor contributions received for that operation. Contributions that are used for this purpose are reported under the operations to which they are directed. In 2022, funds totalling USD 385 million were allocated to 36 country strategic plans (CSPs). Further details on the use of the Immediate Response Account are found in the 2022 annual report on the use of WFP’s strategic financing mechanisms.  

6. A yearly revenue target of USD 400 million for the Immediate Response Account has been established, with donor contributions and the repayment of account advances from contributions to CSPs being the primary source of revenue. To that end, WFP continues to advocate that donors make direct contributions to the Immediate Response Account to ensure its long-term sustainability and regularly allocates multilateral resources to the account. Other sources of funding, such as transfers from unearmarked general funds, the PSAEA and surplus balances, have also been used to fund the Immediate Response Account on an ad-hoc basis with the approval of the Executive Board.

7. With WFP’s 2023 operational requirements projected at USD 23.1 billion and a global contribution forecast of USD 11 billion, the demand for Immediate Response Account funds as a last resort in the absence of contributions is expected to increase in 2023. To mitigate the risk of being unable to accommodate requests to fund life-saving activities, it is proposed that USD 100 million be transferred from the PSAEA to the Immediate Response Account.

Self-insurance special account

8. WFP manages an internal self-insurance scheme for commodities through a self-insurance special account. Insurance coverage is provided from the time WFP takes delivery of commodities to the time they are handed over to cooperating partners, beneficiaries or governments and includes loss types excluded from commercial insurance coverage, such as losses resulting from war on land. The account records all receipts of premiums, income, loss adjustment and underwriting expenses and all assets and liabilities as well as interest and other income generated from insurance activities.

9. The recent outbreak of violence in the Sudan has resulted in widespread looting of humanitarian stocks and facilities across the country. WFP food stocks valued at approximately USD 50 million are stored in various locations. While the current security situation does not allow for a full assessment of the status of food stocks, at least one location has been looted of 4,000 mt of food valued at USD 2 million. Any loss would need to be replenished through the self-insurance scheme to meet urgent humanitarian need.

10. The most recent Executive Director circular on WFP’s self-insurance arrangements states that the funds in the self-insurance special account can be used for insurance-related expenses. Due to the current volatile situation in the Sudan, transporting humanitarian personnel to support critical humanitarian operations in and around the country may need to be done by air. In view of the situation, insurers would charge a premium rate to insure such operations, and it is difficult to accurately predict how the risk would be assessed and the premiums set. Based on the experience in Afghanistan, where rates increased five-fold and some insurers refused to provide coverage, the premiums will depend in part on the value and size of aircraft used.

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2 “Report on the utilization of WFP’s strategic financing mechanisms (1 January–31 December 2022)” (WFP/EB.A/2023/6-B/1).
11. At the end of 2022 the self-insurance special account had a balance of USD 90.0 million. In the WFP management plan for 2021–2023\(^3\), management informed the Board that the self-insurance scheme required capital of USD 47 million per year for 2020, 2021 and 2022 to meet its obligations. Under normal circumstances a similar amount would have been required for 2023, but given the extraordinary situation in the Sudan the account may need to be replenished from the PSAEA. Should that occur, management will seek approval from the Executive Board.

\(^{3}\) “WFP Management Plan (2021–2023)” (WFP/EB.2/2020/5-A/1/Rev.1).