Resources for Implementing the WWF Project & Programme Standards

Step 4.3
Analyze Operational and Financial Functions/ Performance
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Step 4.3 Analyze Operational and Financial Performance

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This document is intended as a guidance resource to support the implementation of the 
WWF Standards of Conservation Project and Programme Management. Although each step in these Standards must be completed, the level of detail depends on the circumstances of individual projects and programmes. Accordingly, each team will have to what level of detail they want to apply the guidance in this document.

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Analyze Operational and Financial Functions/ Performance

What is Analyzing Operational and Financial Performance?
Analyzing Operational and Financial Performance is essentially about converting management data that your project has collected into useful information. You can then use this information to make management decisions and inform your future actions. In that sense it is similar to the analysis that you do in Step 4.2 Analyze Results and Assumptions. As such it is important to regularly review your combined technical and operational/financial performance. The timings of the WWF project reporting cycle are designed to support a combined review, and the key outcomes of your analysis should be shared via these standard reports.

The basic process for analyzing operational and financial performance is more standardized than the process for analyzing technical performance and involves some standardized templates. It comprises an analysis of data resulting from implementation of your Operational Plan (Step 2.3), namely data related to your:

- **Financial Resource Requirements** – This will include an analysis of
  - **Financial results** – Actual income and expenditure. There is a standard “R3” template for reporting your income and expenditure, forecasting annual results, and analyzing any variances from the plan. This analysis should be done in conjunction with a review of your workplans.
  - **Full Term Forecast (FTF)** – A forecast of income and expenditure over the contracted lifetime of the project. Again there is a standard FTF template. Your full-term forecast is often the same as your project budget.
  - **Overall Financial Plan** – A broader, higher level plan that considers future needs and opportunities for leveraging funding.
  
  Note that, for some projects, the overall financial plan is the same as the plan for contracted funds (i.e., the full term forecast), so they would not have an overall financial plan to analyze. In addition, smaller shorter-term projects will not do full term forecasts because their funding period is so short.

- **Human Resource and Other Capacity Requirements** – Human resources and other capacities (e.g., political will, community support) required to implement your project.

- **Risk Assessment and Mitigation Strategy** – Your project’s risks and what you plan to do to reduce them.

- **Sustainability, Estimated Project Lifespan and Exit Strategy** – How long your project will last, when and how you will exit your project (if feasible to do so), and how you will ensure sustainability of your project’s achievements.

Once you have analyzed the planned versus actual performance and considered your results in the light of your current context, you can decide what actions are required to improve your plans and future performance.

Why Analyze Operational and Financial Functions/ Performance?
One thing is virtually certain about a financial (or any other) plan: it will not turn out to be 100% accurate. That’s because nobody can exactly predict the future, regardless of what process,
information, tools, or models are used. Therefore you need to **analyze** your operational and financial data to see whether you are on track, **forecast** your future expected results, and **adapt** your plans as a consequence of your analysis (see also basic guidance to [4.4 Adapt your Plans and Budgets](#)).

The analysis should be seen as a learning process for both technical and financial managers. Specifically a good financial and operational analysis will help you to:

- Assess how your project is performing in terms of project results achieved and the resources invested (cost-benefit)
- Assess the project’s capacity to achieve its objectives within its planned budget
- Identify misuse or inefficient use of financial resources, including the identification of errors in allocations of expenditure or income.
- Identify problems and opportunities in funding project activities.
- Assess whether the key risks have changed, and whether they are being managed effectively.
- Review whether human and other capacity is being built as necessary.
- Assess whether the project is currently financially sustainable and is progressing towards a sound financial footing.
- Assist in providing a clear rationale to donors and partners on what changes need to be made and why. For example, if your spending is behind plan, your financial forecast helps you to (i) negotiate funding extensions with your Donor(s) or (ii) communicate the excess of funds for a given period of time, so WWF can maximize the use of these funds in other projects in the short-term.
- Identify lessons and good practice that can be shared, especially in relation to improving the quality and efficiency of strategic plan implementation.

### When to Analyze Operational & Financial Functions/ Performance?

As is the case for [Step 4.2](#), analysis of operational and financial performance should be a continuous process, and it is important to find ways to fit this analysis into your workplan. In particular, you should have a clear idea about where budget variances are coming from on a monthly basis at least. This will allow you to react strategically and early enough to address difficulties or opportunities.

You also need to identify up front when formal (financial and technical) reports are required, when decisions will be made, and when revised workplans and budgets are required. You should then work back from these dates to identify when a formal analysis will need to be done. The WWF Standard Table of Project Reporting Cycle within the Operational Network Standards is the best starting point for this. See also the guidance for [Step 4.4 Adapt Your Plans and Budgets](#) for advice on how to adapt plans as a result of your analysis.

### Who Should Do the Financial Analysis?

An efficient and coherent analysis is a result of a continuous and open **collaboration between technical and financial staff**. In particular it is essential that technical staff participate in the financial analysis and fully understand the key messages coming from it. Too often, financial reports to donors are prepared by finance staff with no reference to or discussion with the project manager. This results in a lack of consistency with Technical Reports and sends a confused message to donors.

Much of the initial financial analysis is indeed carried out by the finance staff. However before they
start to get into the detail in the accounting records, the team should agree on what should be analyzed. It is useful for the project manager to understand how the finances work so that he/she can remain in control of the process and help guide the analysis.

For details on how financial responsibilities should be distributed among the project manager/project team members and the project administrator/finance staff, please refer to basic guidance for Step 2.3 Operational Plan (see Box 1).

NB: While we do not intend to make accountants out of technical managers, it is helpful to the analysis process if technical staff have a general understanding of how the WWF accounting systems work and what project data they are capable of providing. Technical managers are encouraged to ask their Finance Managers/Management Information System Managers to give them an in-depth overview of the financial accounting systems (e.g. ACCPAC/CASHBOOK for most Programme Offices). This overview should concentrate on the type and structure of information that the system can handle and its capacity to produce financial reports in a format that is useful to your project.

How to Analyze Operational & Financial Functions/ Performance?

The most important consideration is to ensure that the analysis is accurate and relevant, that the people using the findings understand them, and that results are available when they are needed. In particular for internal reporting in WWF: quarterly financial reports and forecasts are required at specific dates in the annual project cycle. Six monthly technical progress reports give you an opportunity to review and report on other operational aspects. Please refer to WWF Standard Table of Project Reporting Cycle on Connect for details of what is required when.

In the following pages, we highlight the key analyses you should undertake and provide some guidance and questions to consider. For financial performance, we have provided more detail because this is a very critical step with compulsory outputs.

1. Financial Performance and Resource Requirements

As discussed above, an analysis of financial resource requirements will include:

a) At a minimum, an analysis of financial results, and possibly also
b) An analysis of the Full Term Forecast, and

c) An analysis of the Overall Financial Plan.

We describe each of these in the following pages.

Whether a project includes b and c above will depend on its size and nature. As discussed earlier, an analysis of financial results looks at actual expenditure and income. A full-term forecast predicts income and expenditures over the contracted life of the project. An overall financial plan looks more broadly at what project needs will be and where additional funding might be secured.

Although we are discussing three separate financial reports, in practice, it is much more efficient to keep track of all of your financial information in one place and then produce different reports for different needs. Thus, you ideally update your financial data in one place and then all reports generated should reflect this update.
1a. Financial Results

The basic guidance below focuses on WWF’s reporting standards, namely a quarterly analysis/report of financial data. In some cases, reporting requirements may differ for external donors. A project manager should consider the project’s financial progress on about a monthly basis, in order to have a clear idea about what is causing the budget variances.

In WWF, the required outputs are:

- Actual income and expenditure – reported each quarter using the R3 template
- Forecast income and expenditure – reported at the end of Q2 and Q3 using the R3 template
- Variance Analysis – reported at the end of Q2 and Q3 using “Notes to the R3”

Links to the R3 template on Connect and related documents are provided here:

- WWF Standard Project Financial Quarterly Financial Report (“R3” and “Notes to the R3”)
- R3 Calculation: Budget versus Forecast
- R3 - Questions & Answers

The basic steps for analyzing financial results follow:

**Step 1: Provide draft financial results**

The project administrator/finance staff should provide the draft financial results (income, expenditure and forecast for the year, where applicable) to the project manager and other project staff at the end or each quarter (right after the quarter’s closing). The data should be summarised using the WWF Standard Project Quarterly Financial Report (R3). Raw data should also be available for review.

A forecast is a projection of the financial results of the project, covering a reporting period (in this case a financial year). This is usually compiled using actual figures for the period from the start of the year to the date of the forecast, plus an estimate of the figures for the period from the date of the forecast to the end of the year. A simple multiplication process may suffice at this stage (e.g. data for one quarter can be multiplied by 4, data for two quarters can be multiplied by 2, etc.).

**Step 2: Analyze financial performance**

The project manager and project administrator, together with other project and financial staff as necessary, should review the draft financial results.

*Actuals (R3)*

You should make the following checks:
- Check that payments charged and income received belong to the project
- Make any corrections to the accounts as necessary

*Forecast the full year (R3)*

Review the accuracy of the forecast figures.
Make sure that the forecast figures include any important expenditure timed to occur in a subsequent quarter or expenditure that has been high but is now reduced.

*Variances (“Notes to the R3”)*

Using the draft R3 report, and any more detailed reports, identify key variances between actuals and your budget. Consider them in light of your project’s workplan, staffing, and any changes encountered during the quarter under review.
Use the variance analysis spreadsheet (“Notes to the R3”) to help you consider the following points:

- Is the project spending funds as initially planned?
- If not, what are the budget lines that differ from the initial plan?
- Why do they differ? (e.g. change in timing, higher/lower unit costs, better utilization of resources, etc.)
- How will this affect your ability to deliver the expected results within the agreed budget?
- If necessary, what measures can you undertake to rectify the situation?
- Does the budget need to be revised and approval sought from donors?

Your analysis may raise further questions to be investigated before you finalize the reports. For example, you may want to discuss with your finance staff the suitability of a detailed assessment of cash flow in order to identify with greater precision the extent and timing of any cash flow problems.

Be aware also of the possibility of foreign exchange rates losses or gains, in the case where the contracting currency is different from the spend currency.

**Step 3: Agree on actions required (“Notes to the R3”)**

Based on your analysis, prepare a commentary which will complete the financial report. This should be expressed, as far as possible, in terms of project activities and management actions. It will generally contain:

- An explanation of the variances;
- A summary of the problems identified; and
- A plan setting out the proposed solutions to the problems, the person(s) who will initiate each proposed solution, and the date by which your team hopes it will be achieved.

The “Notes to the R3” worksheet provides an indicative format for this qualitative reporting.

**Step 4: Communicate with partners and donors**

You should submit your financial and technical reports by the required dates. Where relevant, make key issues clear to your partners and donors.

**1b. Full Term Forecast**

A Full Term Forecast of income and expenditure is a mandatory annual requirement in WWF (same timing as the Q3 financial report) for multi-year projects. The basic process is summarised below.

Click here for the [Full Term Forecasting Template](#) and the [Full Term Forecasting Standard](#).

The Full Term Forecast is designed to:

- Help plan and manage carry-forward balances;
- Support longer term funding across the network;
- Address donors’ information needs to plan fund allocations; and
- Enable implementers to plan and monitor progress against secured funding.

For projects funded on an annual basis: The full-term forecast is a forecast for the following financial year (i.e. effectively the same as a one year budget).

For projects funded by a multi-year contract (even if there is one year or less remaining): The full-term forecast is a forecast over the time period necessary to accomplish the contracted project activities. Note that a full-term forecast only shows the **contracted income** (as opposed to potential,
but not contracted, income).

You should submit your full term forecast by updating the "Secured" information in the funding screen of the WWF Project Database. Two documents are required:

- A completed **Full Term Forecasting Template** (a schedule with the same budget lines as the R3) displaying:
  - Actual income and expenditure for the preceding years;
  - Forecast income and expenditure for the current and following years; and
  - Totals for current full term forecast versus the initial full term budget.

- A narrative recording explanations and assumptions made to produce the forecast.

**NOTE**: remaining balances at the end of Q4 which were not planned through the Full Term Forecasting process at the end of Q3 may be lost.

### 1c. Overall Financial Plan

As noted above, your analysis of financial performance and your Full Term Forecast assess your situation only against contracted income.

Clearly it may also be important to periodically review your overall financial plan (if this is different from your contracted plan), taking account of future potential activities. Essentially this means you need to review your broad financial needs assessment (or financial model) from Step 2.3 and decide what action is required. Issues to be addressed may include:

- Funding gaps;
- Simplification of funding arrangements (e.g. simplifying management of restricted and unrestricted funds);
- Timeframe and sustainability of funding arrangements.

### 2. Human Resources and Other Capacity

You should have carried out an assessment of human and other capacity in Step 2.3, and developed plans to build capacity in Step 3.3. As with any other plan, you should monitor the progress of your capacity building actions and make any adjustments necessary. Periodically, perhaps once a year, you should review your capacity more formally, especially in cases where:

- You intend to make major changes to your action plan; or
- You are finding there are significant capacity issues.

You can carry out the same capacity assessment process as you did in Step 3.3. You may find that in the light of your implementation experience, your understanding of the capacity issues is different this time. For example, you will now know much more about the capacity of your project team, your office, your partners, and the WWF Network and how you are all working together. There may also be new opportunities to build capacity.

You should report any key points from your analysis in the technical progress report and elsewhere as necessary.
3. Risk Assessment and Mitigation Strategy

As you implement your project, you should monitor each risk, ranking and mitigation strategy that you identified in Step 2.3. You may be using the Risk Assessment and Mitigation Template to track your progress. Periodically (once or twice per year) you should formally review your risk assessment and mitigation strategy, and consider questions such as:

- Has the risk mitigation strategy been used/ followed? If not, why?
- Have any risks reduced to such an extent that they may now be removed from the list? (Is this based on evidence or opinion or both?)
- Have any risks increased to such an extent that new action is required?
- Are there any new risks that should be added to the list?

Again, you should report any key points from your analysis in the technical progress report and elsewhere as necessary.

4. Sustainability, Project Lifespan and Exit Strategy

Periodically, perhaps once a year or when coming up to key decision points, you should reconsider the long term future of the project in terms of sustainability, estimated project lifespan and exit strategy. You should review the guidance on this subject in Step 2.3 Operational Plan and ask the same questions as in your original assessment of these factors. In fact, you may now be able to answer these questions much better than before, due to the knowledge and experience you have gained from implementation.

You should then decide what action is required such as:

- Making the project results more sustainable;
- Stopping activities;
- Handing over activities to a partner; and/or
- Adjusting the expected lifetime of the project

To make such changes often requires clear and careful communication, in order to maintain positive relationships with project team members, partners and other key stakeholders. See also Step 4.4 Adapt Your Plans and Budgets for further guidance on this.

Examples

Click here for examples of R3s and Full Term Forecasts and here for examples of Technical Progress Reports. Many more examples may be found in the Project Database on Connect.

WWF Standards, Recommended Best Practices and Templates

Related Programme Standards

- 2.3 Operational Plan
- 3.1 Workplans and Budgets
- 4.2 Analyze Results and Assumptions
- 4.4 Adapt your Plans and Budgets
Operations Standards

- WWF Network Project Reporting Cycle Standard – Introduction
- WWF Standard Project Financial Quarterly Financial Report (“R3” and “Notes to the R3”)
- R3 Calculation: Budget versus Forecast
- WWF Network Full Term Forecasting Standard - Introduction
  o Full Term Forecasting Template
  o Full Term Forecasting Schedule
- WWF Network Standard Terminology (incl. Finance & Administration, Programme and GAA terms)