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RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 5



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REPORT OF THE ADVISORY COMMITTEE ON ADMINISTRATIVE AND BUDGETARY QUESTIONS (ACABQ)

The Executive Director is pleased to submit herewith the report of the ACABQ pertaining to WFP. The report covers the following agenda items:

- WFP Management Plan (2014–2016)
(WFP/EB.2/2013/5-A/1)
- Work Plan of the External Auditor for the Period
July 2013 to June 2014 (WFP/EB.2/2013/5-B/1)

COPY OF LETTER RECEIVED FROM THE UNITED NATIONS — NEW YORK

Reference: AC/1832

Advisory Committee on Administrative
and Budgetary Questions

29 October 2013

Dear Ms. Cousin,

Please find attached a copy of the report of the Advisory Committee on your submissions concerning:

For approval:

- WFP Management Plan (2014–2016) (WFP/EB.2/2013/5-A/1)

For information:

- Work plan of the External Auditor for the period July 2013 to June 2014 (WFP/EB.2/2013/5-B/1)

I should be grateful if you could arrange for the Committee's report to be placed before the Executive Board at its forthcoming session, as a complete and separate document. I would appreciate it if a printed version of the document could be provided to the Advisory Committee at the earliest possible opportunity.

Yours sincerely,

Carlos G. Ruiz Massieu
Chairman

Ms. Ertharin Cousin
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Encl.

WORLD FOOD PROGRAMME

Resource, Financial and Budgetary Matters

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee on Administrative and Budgetary Questions has considered the report of the World Food Programme (WFP) on the Management Plan for the period 2014–2016 (WFP/EB.2/2013/5-A/1), which is submitted to the Executive Board of WFP for approval. The Committee also had before it the Work plan of the External Auditor for the period July 2013 to June 2014 (WFP/EB.2/2013/5-B/1), which is submitted for the information of the Board.
2. During its consideration of the reports, the Advisory Committee met with the Assistant Executive Director, Resource Management and Accountability Department, and Chief Financial Officer, as well as the Director of the Budgeting and Programming Division, who provided additional information and clarification concluding with written responses received on 15 October 2013.

II. WFP Management Plan and Budgetary Requirements (2014–2016)

3. The WFP Management Plan (WFP/EB.2/2013/5-A/1), which covers the budgetary requirements for the period up to 31 December 2014, is the third instalment to follow the annual budget cycle as part of a three-year rolling plan. The 2014 budget proposal for operational and all other requirements amounts to \$6,596.0 million, comprising \$5,857.0 million for operational requirements; \$281.8 million for the regular programme support and administrative budget; \$9.2 million for non-recurring programme support and administrative investments; \$10 million for security; and \$438 million under special accounts and trust funds. The Advisory Committee notes from table 2 of the report that, in the management plan 2013-2015, projected contributions for 2014 and for 2015 had amounted to \$3.8 billion, and that WFP forecasts that contributions are now projected to increase to \$4.2 billion in 2014, and to level off at an amount of \$4 billion per annum in 2015 and 2016.
4. The 2014 Management Plan contains a refined method for calculating the average monthly cost per beneficiary in place of the annual average cost previously used, reflecting the fact that the duration of an operation affects its cost structure (see WFP/EB.2/2013/5-A/1, para. 12). The application of the new metric, which factors in the duration of support to the operation, indicates that average monthly costs per beneficiary will fall from \$8.50 in 2013 to \$8.10 in 2014 (*ibid*, para. 121). The Committee was informed, upon enquiry, that the decrease in the average monthly cost per beneficiary in 2014 is due mainly to the anticipated reduction in the monthly food costs by 14.5 percent from the previous year, not including the cost of Syrian operations.

5. According to the report, the projected number of beneficiaries of WFP in 2014 is 75.9 million, a 7 percent increase over 2013. The Advisory Committee was informed that WFP will provide assistance to an average monthly total of 52 million beneficiaries. The Committee notes that WFP intends to develop a more inclusive definition and measurement of beneficiaries to take account of a broadened portfolio of assistance modalities, which will include capturing the economic and social benefits accruing from its operations, market development and resilience-building supported by WFP assistance and a clearer determination of the impact of WFP's capacity development (see WFP/EB.2/2013/5-A/1, para. 13). **The Advisory Committee considers that a revision to the definition of beneficiaries may have an impact on the reported cost per beneficiary, and it therefore expects that the next management plan will include information on the number of beneficiaries calculated using both the current and subsequent methodologies to allow a comparison of trends over time.**
6. The Advisory Committee, in its previous report, noted that WFP was studying the feasibility of integrating a resource plan into its planning process, pursuant to a recommendation of the External Auditor (WFP/EB.A/2013/6-H/1), in view of the fact that WFP's budget was essentially a work plan based on identified needs, while implementation of projects depended on the availability of resources. WFP had indicated that, subject to approval by senior managers, the Management Plan (2014–2016) would reflect the steps needed to fully integrate the resource plan into the various elements of the Management Plan (WFP/EB.A/2013/6-H/1, p. 51).
7. In this regard, the Committee notes that the 2014–2016 Management Plan includes the results of an exercise carried out across WFP that shows how resource allocations would be prioritized in the event that only two thirds of operational requirements are actually funded (see WFP/EB.2/2013/5-A/1, paras. 18-19 and paras. 127-146). The report describes the potential impact of such a shortfall on planned activities and on the attainment of the Strategic Objectives, which may require WFP to implement core activities at reduced funding levels, or reduce or terminate certain activities. The Committee notes that the exercise provides a basis for reviewing the actual prioritization of resources described in the Annual Performance Report (ibid, para. 130). **The Advisory Committee welcomes the progress made by WFP in forecasting anticipated funding levels, and it expects that further information on the implementation of the recommendation of the external Auditor regarding the need for a resource plan will be included in the proposed management plan for 2015-2017.**

8. The operational requirements for 2014 are described in paragraphs 74 to 150 in Section II of the report. The projected operational requirement of \$5,857 million, inclusive of direct support costs, is an aggregation of active projects approved by the Board or by the Executive Director under delegated authority and their foreseen extensions, (ibid, para. 75). The increase in operational requirements of \$880 million, or 17.9 per cent, compared to 2013, is due mainly to WFP's response to the needs of populations affected by the Syrian and Sahel crises (ibid, para. 76). The operational requirements are presented in terms of the four new Strategic Objectives: (i) save lives and protect livelihoods in emergencies (\$3,248 million); (ii) support or restore food security and nutrition and establish or rebuild livelihoods in fragile settings and following emergencies (\$907 million); (iii) reduce risk and enable people, communities and countries to meet their own food and nutrition needs (\$670 million); and (iv) reduce under-nutrition and break the intergenerational cycle of hunger (\$1,032 million). In addition, the report presents the operational requirements by programme category: protracted relief and recovery operation (\$3,354.0 million); emergency operations (\$1,407.0 million); development projects and country programme (\$788.0 million); and special operations (\$308.0 million).
9. Direct support costs are estimated at \$697 million in 2014, equivalent to 11.9 percent of operational requirements. A total of 7,154 staff are proposed to be financed from direct support costs in 2014, an increase of 703 posts, or 10.9 per cent compared to 2013. Direct support costs will finance a total of 964 professional posts and above and 6,190 national staff deployed in country offices.

⇒ *Cash and vouchers*

10. It is indicated in the report that WFP will continue to expand its use of cash and vouchers, which will account for \$1.02 billion in projected value in 2014. The increase of \$600 million, or 59 per cent, from the original 2013 planning figures is due mainly to WFP's response to crises in Syria and the Sahel (ibid, para. 100). The Advisory Committee notes that project budgets approved or pending approval as of August 2013 included cash and voucher transfers of \$833 million for 2013. The Committee was informed, upon enquiry, that the projected value of the cash and voucher programme related to the Syrian crisis amounts to \$480 million in the year 2013 and \$474 million in the first six months of 2014.
11. The Advisory Committee recalls that, in its previous report on the management plan, it reiterated its recommendation that, given the risks inherent in the expanded use of cash transfers, the External Auditor should monitor this activity closely, and requested that the relevant findings of the External Auditor be reported on in the next management plan (WFP/EB.2/2012/5(A,B,C)/2 WFP/EB.2/2012/4-A/2 WFP/EB.2/2012/13-A/2, para.10). The Committee recalls from its subsequent report that the External Auditor had made 11 recommendations regarding the use of cash and vouchers, all of which had been accepted by WFP management (WFP/EB.A/2013/6(A,B,C,D,E,F,G,H,I,J,K)/2 WFP/EB.A/2013/5-A/2, para. 29). The Committee was informed, upon enquiry, that WFP would report to the Executive Board on the progress of implementation of these recommendations in June 2014. Among the recommendations of the external auditors was that, as the cash and voucher delivery modalities were in the process of being scaled up, that corporate guidance and tools for standardization and risk mitigation be developed, as a priority (recommendation 9). **Given the inherent risk and the projected increase in the volume of the cash and vouchers programme in 2014, the Advisory Committee encourages WFP to continue to closely monitor the programme and to implement the related recommendations of the External Auditor as a matter of priority.**

III. Programme Support and Administrative Budget

12. The requirements under the programme support and administrative (PSA) budget are described in paragraphs 151 to 242 of the report. The PSA budget, financed from indirect support costs, is projected to amount to \$291 million, inclusive of \$9.2 million in non-recurrent requirements in the year 2014, reflecting an increase of \$14.5 million, or 5.2 per cent, compared to 2013. The regular PSA budget level for 2014 of \$281.8 million, net of non-recurring investments, represents an increase of \$25.3 million, or 9.8 per cent, compared to 2013. The PSA budget, commencing in 2014, will include the costs associated with private-sector fundraising, which had previously been reflected under special accounts, and which are projected to amount to \$7.4 million in 2014. According to the report, the WFP Secretariat is proposing a separate appropriation in 2014 of \$9.2 million from the PSA Equalization Account for non-recurring investments needed to achieve the goals of the Fit for Purpose process; whereas the associated allocation in 2013 was \$20 million (*ibid.*, para. 204–211).
13. The PSA budget is proposed to finance a total of 1,598 staff in WFP Headquarters in Rome, regional bureaus and country offices in 2014, an increase of 71 posts, or 4.6 per cent compared to 2013. The PSA posts financed from indirect support costs comprise 674 professional posts and above, 581 national posts and 343 General Service posts. The proposal reflects an increase of 61 international posts, including the establishment of 28 new international posts and 4 General Service posts related to the transfer of resources for private sector fundraising to the PSA budget.

⇒ *Indirect support costs recovery rate*

14. WFP proposes that the indirect support costs recovery rate be maintained at 7 per cent in 2014 (*ibid.*, para. 239). According to the report, the WFP Secretariat proposes to review the indirect support cost recovery rate by identifying a method for calculating a new rate and seeking the approval of the Board at its 2014 First Regular Session. The review would be carried out in consultation with the Board with a view to incorporating an updated recovery rate in the Management Plan (2015–2017) (*ibid.*, para. 159). WFP notes that a harmonized indirect cost recovery rate of 8 per cent has been adopted by the United Nations Development Programme, the United Nations Children's Fund, the United Nations Population Fund and UN-Women. The Advisory Committee points out that, while the Executive Board of the United Nations Development Programme, the United Nations Population Fund and the United Nations Office for Project Services, in its decision 2013/9, set the harmonized cost recovery rate of 8 per cent for non-core funding sources, the Board maintained the rate of 7 per cent for core funding sources. In addition, WFP will recover separately those costs that can be directly linked with the provision of support to an operation, at an average rate of 11.9 per cent in 2014. The Committee notes that the United Nations Secretariat charges 13 per cent for the recovery of programme support provided to extrabudgetary activities.

⇒ *Capital budgeting facility*

15. WFP proposes the creation of a capital budgeting facility (CBF), at an initial ceiling of \$20 million, which would be a revolving fund to be capitalized initially with seed funding from WFP's working capital financing facility (WCFF). A ceiling for the facility would be included in the Management Plan each year, with new project proposals and a summary of the repayments for each capital project (ibid, para. 224). The facility would provide the capital for projects that can demonstrate quantifiable economic benefits and that contain a repayment plan to replenish the facility. Such plans would include charging operations, making administrative savings or seeking reimbursement from third parties for services such as managing a WFP-constructed facility used by non-WFP personnel (ibid, para. 225). **The Advisory Committee has no objection to the capital budgeting facility at the proposed ceiling of \$20 million for 2014, and it looks forward to receiving details on the functioning and viability of this new facility in future WFP Management Plans.**

IV. Conclusion and Recommendation

16. **Taking into account the observations and recommendation in the present report, the Advisory Committee recommends approval of WFP's proposals regarding the management plan for the period 2014–2016.**