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FUNDING OF EMPLOYEE TERMINATION PAYMENTS



NOTE TO THE EXECUTIVE BOARD

This document is submitted to the Executive Board for approval.

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

WFP requires funding to cover certain potential future employee-termination payments for internationally recruited professional staff, local General Service staff at Headquarters in addition to locally recruited national staff. These payments are currently unfunded.

This paper seeks the Board's approval to create an employee Termination Reserve for these unfunded staff liabilities and to initially fund this reserve with moneys from the Self Insurance Account.

This paper will seek the Board's approval for financial authority to the Executive Director to authorize use of the reserve within the framework of termination payments.

DRAFT DECISION*

The Board:

- i) takes note of the issue of unfunded termination payments;
- ii) approves the creation of a Termination Reserve for termination payments to employees;
- iii) approves that the employee Termination Reserve will be initially funded by US\$15 million released from the Self Insurance Account;
- iv) authorizes the Executive Director to approve utilization of the reserve within the framework of employee-termination payments;
- v) requests the Executive Director to make proposals for the replenishment of the employee Termination Reserve to the approved level of US\$15 million.

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document (document WFP/EB.A/2007/15) issued at the end of the session.



BACKGROUND

1. WFP staffing has been expanding considerably since 2002. Because of the acquired seniority potential, termination payments are posing an increasing risk to WFP. Up to now, termination payments paid by WFP have been financed by either the Programme Support and Administrative (PSA) budget or the budgets of operations to which staff have been attached. Prudent management would dictate that funds be set aside to meet potential termination payments which cannot be met from current budgets.
2. The proposals in this document relate to payments to employees resulting from their termination from WFP. The funding and accounting for employee-termination payments are distinct from benefits payable on separation that have accrued to employees during their employment with WFP – such as after-service medical benefits or repatriation travel and grants. These entitlements are discussed in the document “Fourth Progress Report on the Implementation of International Public-Sector Accounting Standards (IPSAS)” (WFP/EB.A/2007/6-A/1).
3. Therefore, the present document makes proposals on employee-termination entitlements that result from budgetary or organizational considerations requiring employee separations.
4. The forecast programme of work and the potential levels of PSA resources for 2008–2009 indicate that WFP may need to reduce staff numbers. Such a reduction would affect all WFP staff and employees in field offices and Headquarters.

TERMINATION BENEFITS

5. Local staff working in country offices are currently employed under five types of contracts. All are subject to United Nations Development Programme (UNDP) rules and regulations. Benefits and entitlements for each type of contract vary greatly. In decreasing order of staff job security, benefits and entitlements these contracts are: (i) Continuing/Permanent (C); (ii) Fixed-Term (FT); (iii) Assignment of Limited Duration (ALD); (iv) Service Contracts (SC); and (v) the Special Service Agreements (SSA). WFP also employs a number of casual labourers.
6. Because of the nature of WFP operations, which have constantly fluctuating personnel requirements in terms of number and competencies, SC/SSA categories of staff constitute the greatest number of human resources in WFP.
7. In accordance with their contracts, FT and C contract holders receive a termination indemnity if they are separated in the interest of WFP and do not find alternative employment in another United Nations agency. The indemnity, which is progressive and linked to the years of service, is capped at 12 months' salary. When staff are separated because of office reduction or an office closure, WFP has consistently increased this benefit by 50 percent, as provided by the UNDP regulations.
8. Since the introduction of SC and ALD contracts in 1998, WFP has consistently recognized these employees' importance to the Programme's success, and has voluntarily made termination payments to SSA, SC and ALD contract holders in those instances where country offices or sub-offices were either re-profiling, reducing or closing. While not legally bound, the termination payments have been an acknowledgement of a moral liability and an image-driven responsibility. They are also a post-facto recognition that



many of our SSAs have worked for WFP “continuously” for many years, under a contract type that was envisaged for a maximum duration of 11 months.

9. Even though their contract type does not specify a termination indemnity, it is proposed, exceptionally, to continue to make these separation payments to the SC/SSA field staff in cases of office reductions.
10. Payments would be made to SC/SSA field staff affected by the budget reduction, re-profiling, office closures, etc. and to Headquarters staff affected by either the budget reduction or by other administration actions, comprising termination indemnities and agreed separations for long-serving staff. It is proposed that the following payments be made:
 - less than one year of service: no payment;
 - between one and fewer than five years of service: one half-month of net-base salary for each full year completed plus up to 50 percent; and
 - five years or more: one month of net-base salary plus up to 50 percent for each full year completed, up to a maximum of 18 months’ pay.

ESTIMATED LIABILITIES AND FUNDING

11. Unfunded employee-termination payments for all of WFP’s staff and employees is estimated to be in the range of US\$90 million. The Secretariat proposes the establishment of a “Termination Reserve” with an initial funding of US\$15 million to meet potential employee terminations anticipated in the foreseeable future.
12. The proposed funding source for the reserve is the release of monies recently made by the Captive Insurance Scheme. This scheme was established to cover pre-delivery and transit commodity losses involving international cargo; its transactions are recorded in the Self Insurance Account. Despite a discounted premium and payment of WFP’s losses, litigation with transporters produces a high recovery rate, enabling the scheme to generate surplus reserves.
13. The last distribution approved by the Board in 2002 was based on the principle that there should always remain a prudent reserve. Based on loss experiences over the last several years the Secretariat believes that the scheme should retain a balance of US\$18 to US\$20 million to maintain as a prudent reserve to cover future claims against it. As at 31 December 2006, the scheme had a balance of US\$33.7 million. A recommendation was therefore made to the Executive Director to distribute a US\$15 million dividend.
14. In view of the above, the Secretariat requests that the Board recognize the need for WFP to begin to set aside a Termination Reserve for these inevitable payments. Given the increasing need that some termination payments will be required almost immediately, the Secretariat requests that the Board (i) approve the establishment of a reserve for employee termination payments (ii) approve its initial funding by the US\$15 million distribution from the Self Insurance Fund and (iii) authorize the Executive Director to use this sum for employee-termination payments.
15. Further proposals will be made in 2008 on possible sources of funding to replenish the Termination Reserve. This will ensure that WFP has the flexibility to respond to changes in activity and funding levels, and to take steps to reduce staff levels when necessary and in line with Staff Rules and Regulations.