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

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

- Business process review: pilot financing paper (WFP/EB.1/2004/5-A/1); and
- Basis for calculation of indirect support costs (ISC) on ocean transport costs (WFP/EB.1/2004/5-B/1).

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Reference: AC/1531

Advisory Committee on
Administrative and Budgetary Questions

9 February 2004

Dear Mr. Morris,

The Advisory Committee on Administrative and Budgetary Questions has considered the reports entitled “Business Process Review: Pilot Financing Paper” (WFP/EB.1/2004/5-A/1) and “Basis for Calculation of Indirect Support Costs (ISC) on Ocean Transport Costs” (WFP/EB.1/2004/5-B/1).

The report “Business Process Review: Pilot Financing Paper” (WFP/EB.1/2004/5-A/1), summarizes in its annex the analysis and recommendations of the business process review undertaken in March 2003, with a view towards achieving a more efficient utilization of resources and ensuring that resources are made available to beneficiaries when needed. In the case of the first objective, several adjustments are proposed and in the case of the second, a new working capital model is being proposed and tested.

The framework for a new operational model, resulting from the review, is explained in section IV of the annex.

As further indicated in the report, the applicability of the new business process model in real situations is being tested by WFP in a series of five pilot projects, the first of which was launched in mid-December 2003, as shown in the timetable contained under paragraph 66 of the annex.

Mr. James T. Morris
Executive Director
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The Operational reserve, which currently amounts to \$57 million, would provide the advance financing needs for all pilot projects, estimated between \$14 and \$49 million, based on the 7 to 24 per cent financing need estimate related to previous experience. At completion, the potential shortfall, estimated at approximately \$6 million for single projects (7 per cent per project or 1 to 2 per cent overall) would be charged against the Operational Reserve and replenished in accordance with the regulations (paragraph 16 and 6 of annex II).

The Committee notes that completion of the business process changes has been targeted for October 2004 and that review of the progress of the pilot projects would take place in May and September of 2004 with a view towards recalibrating the financing model for final approval, based on data and experience obtained, at the October session of the Executive Board, and roll-over of improvements to EMOPs and PRROs in 2005.

In view of the above, the Advisory Committee has no objection to the recommendations made in paragraph 25 (i) and (ii) of the report (WFP/EB.1/2004/5-B/1). The Committee will revert to this issue in the context of the submission of the progress reports and evaluation of the pilot projects during 2004.

The report on the basis for calculation of Indirect Support Costs on Ocean Transport Costs (WFP/EB.1/2004/5-B/1) describes details of the agreement between the World Food Programme and its major donor, the basis for calculating indirect support costs (ISC) in relation to contributions from the major donor to ocean transport, and the accounting methodology for such contributions.

Effective 2002, with the accounting changes introduced by WFP, income and expenditures were recorded on the basis of the adjusted global freight estimates (actual United States global rates net of United States cargo preference premiums), and recognized in accordance with WFP's approved income and expenditure basis of accounting. However, in 2003, on the advice of WFP's External Auditors, it is proposed to reflect the United States cargo preference premiums in WFP's statement of income and expenditure.

The Committee was informed that, in disclosing the premiums in the financial statements, it would be indicated in a footnote that the premiums would not be subject to ISC levy. The Advisory Committee further notes that the United States cargo preference premiums have no budgetary impact on WFP's projected income and expenditure --hence no negative impact on forecast ISC levels, since the forecasts of operational activity included in the budgets for 2002-2003 and 2004-2005 are based on average international ocean freight rates. Based on this assumption, the Advisory Committee has no objection to this proposal.

The Committee appreciates your informing the Executive Board of the contents of this letter.

Yours sincerely,

(signed) Vladimir V. Kuznetsov

Chairman

