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Programme
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de Alimentos

**Executive Board
Third Regular Session**

Rome, 20–24 October 2003

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda items 4 & 5



Distribution: GENERAL
WFP/EB.3/2003/[4-A, 5(A,B,C,D)]/2
13 October 2003
ORIGINAL: ENGLISH

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:

- WFP Biennial Management Plan (2004–2005) (WFP/EB.3/2003/5-A/1);
- Strategic Plan (2004–2007) (WFP/EB.3/2003/4-A/1);
- Report of the External Auditor on the Review of the World Food Programme's Human Resources Strategy (WFP/EB.3/2003/5-B/1);
- Second Progress Report on the Implementation of the Recommendations in the 2000–2001 Audit Report of the External Auditor (WFP/EB.3/2003/5-C/1); and
- Best Practices in Oversight Mechanisms (WFP/EB.3/2003/5-D/1).

COPY OF LETTER RECEIVED FROM THE UNITED NATIONS—NEW YORK

Reference: AC/1525

Advisory Committee on
Administrative and Budgetary Questions

10 October 2003

Dear Mr. Morris,

Please find attached a copy of the report of the Advisory Committee on the reports entitled “Biennial Management Plan, 2004–2005” (WFP/EB.3/2003/5-A/1), “Strategic Plan, 2004–2007” (WFP/EB.3/2003/4-A/1), “Report of the External Auditor on the Review of the World Food Programme’s Human Resources Strategy” (WFP/EB.3/2003/5-B/1), “Second Progress Report on the Implementation of the Recommendations in the 2000–2001 Audit Report of the External Auditor”(WFP/EB.3/2003/5-C/1) and “Best Practices in Oversight Mechanisms”(WFP/EB.3/2003/5-D/1).

I should be grateful if you could arrange for the report to be reproduced *in verbatim* and placed before the Executive Board at its forthcoming session to be held 20–24 October 2003, as a complete and separate document. A printed version (in all languages) of the document should be provided to the Advisory Committee at the earliest possible opportunity.

Yours sincerely,

(Signed) C.S.M. Mselle
Chairman

Mr. James T. Morris
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WORLD FOOD PROGRAMME

Financial and Budgetary Matters

Report of the Advisory Committee for Administrative and Budgetary Questions

1. The Advisory Committee has considered the World Food Programme's biennial management plan for 2004–2005 (WFP/EB.3/2003/5-A/1). The Committee also had before it the reports entitled "Strategic Plan, 2004–2007" (WFP/EB.3/2003/4-A/1), "Report of the external auditor on the review of the World Food Programme's human resources strategy" (WFP/EB.3/2003/5-B/1), "Second progress report on the implementation of the recommendations in the 2000–2001 audit report of the external auditor" (WFP/EB.3/2003/5-C/1), and "Best practices in oversight mechanisms" (WFP/EB.3/2003/5-D/1). During its consideration of the reports, the Advisory Committee met with representatives of the Executive Director of WFP, who provided additional information and clarifications.

The Strategic Plan (2004–2007)

2. The Strategic Plan is one of the new governance tools submitted to the Executive Board, replacing the previous Strategic and Financial Plan. The Committee notes that the Plan, which articulates the four-year strategic direction for WFP (2004–2007), will be updated every two years, and that this year it is submitted concurrently with the biennial management plan, which reflects the resources necessary to implement the activities of the first two years (2004–2005) of the Strategic Plan (see WFP/EB.3/2003/5-A/1 and paragraphs 5–33 below).
3. The Committee considered the document in its draft form. The Committee notes that the Plan reflects a results-based approach and includes a resource mobilization strategy, as well as other measures to attain effective operational capacity. Furthermore, while incorporating an analysis of strengths, weaknesses, opportunities and threats, it also lays out a results-based performance matrix. The Committee further notes from paragraphs 107–110 that a risk management initiative will be introduced during this Strategic Plan period, with a view towards developing a policy and, ultimately, a strategy in this regard.
4. The four-year Plan focuses on five strategic priorities, enumerated in paragraph 10 of the report, which fall within the framework of the mandate and mission statement of the Programme, with the goal of contributing towards meeting the Millennium Development Goals. Nine management priorities are identified, in order to strengthen the operational effectiveness and capacity of the Programme (see section VI) and address the weaknesses in section III of the report. Within the results-based framework, a set of expected results and performance indicators is indicated for each strategic priority, against which progress will be monitored over the planning period.



The WFP Biennial Management Plan (2004–2005)

5. The World Food Programme has several mechanisms to fund its activities:
- direct operational costs (DOC), which covers the costs of commodities, ocean transport, and related costs, and landslide transport, storage and handling and other input provided by WFP to beneficiaries, the government of a recipient country or other implementing partners;
 - support costs, which consist of direct support costs (DSC), i.e., the variable cost of managing operations in a country office, and indirect support costs, the costs that supports the execution of projects and activities but cannot be directly linked with their implementation—the latter are the main source of funds for the PSA budget (programme support and administration budget);
 - the Special Account and the General Fund.
6. The total budget by fund category for 2004–2005, compared to 2002–2003 is shown below in US\$ thousand:

Cost category	2002–2003	% of total	2004–2005	% of total
1. DOC	3 630 761	82	3 900 858	82
2. Support costs				
DSC	443 237	10	461 094	10
PSA	231 000	5	305 337	6
Other support costs	35 000	1	101 000	2
Total support costs	709 237	16	867 431	18
3. Special Account, General Fund	64 000	2	16 000	0
Total	4 403 998	100	4 784 289	100

7. The Committee notes that, for the biennium 2002–2003, the total estimated volume of delivery has been revised from 5.471 million metric tons to 8.716 million tons (excluding the Iraq Oil-for-Food Programme), an increase of 59 per cent over the original estimate, as shown in table 1. Expenditures are estimated at \$4.404 billion, an increase of \$1.473 billion, or 50 per cent, compared to the original estimate of \$2.931 billion.
8. The biennial management plan for 2004–2005 (WFP/EB.3/2003/5-A/1) covers all the fund categories mentioned above. The budget, which is “zero-based”, is “needs driven”, thereby reflecting the resources considered necessary to implement approved activities over the first two years of the strategic plan period for 2004–2007, instead of focusing, as in the past, on estimated levels of fund-raising. Paragraphs 111–118 of the Strategic Plan document (WFP/EB.3/2003/5-A/1) summarize the resource implications of the strategy for the Biennial Management Plan.
9. The presentation of the biennial management plan for 2004–2005, while retaining the format of the harmonized consolidated budget, includes results indicators from WFP’s organizational units, which should provide a tool for evaluation of progress. The Committee commends WFP for the presentation, which links the strategic priorities, management priorities, and weaknesses indicated in the Strategic Plan, with the biennial management plan. The Committee believes that the new format could be further refined by further streamlining the presentation in order to avoid repetition and provide a more



user-friendly document. The Committee welcomes the inclusion of information on the follow-up to recommendations made by the Committee, as requested in paragraph 3 of its report WFP/EB.3/2001/5 (A,B,C,D)/2. However, the Committee is of the opinion that this type of information could be included within the context of the issue it relates to; the annex to the document should include a checklist with cross-reference to the discussion in the main body of the text.

10. Total resources for the biennium 2004–2005 are estimated at \$4.784 billion, an increase of \$380 million over the revised budget for 2002–2003 of \$4.404 billion (see paragraph 6 above and table 2 of the report and changes in table in paragraph 12 of the executive summary). The amount is expected to fund the delivery of 8.967 million tons of food and related support costs, as compared to the estimated delivery of 8.716 million tons for 2002–2003 (paragraph 7 above). The resource projection of \$4.784 billion for 2004–2005 includes the value of commodities estimated at \$1.954 billion, cash contributions of \$2.713 billion, interest and miscellaneous income of \$96 million, and trust funds of \$21 million.
11. The projected volume of operations of 8.967 million tons (see table 3 of the Management Plan) consists of estimated levels of contributions of 1.420 million metric tons for development, 3.190 million metric tons for emergency operations (EMOP) and 4.357 million metric tons for protracted relief and recovery operations (PRRO). The estimated value of those contributions, indicated in table 4 of the Management Plan, is \$640 million for development, \$1.493 million for EMOP and 2.382 million for PRRO.

Direct operational costs

12. The Committee notes that the projection for direct operational costs of \$3.9 billion for 2004–2005 (see paragraph 6 above) does not include a provision for major emergencies and that if such major emergencies were to occur, the funds would be raised incrementally. Furthermore, WFP indicates that if it were not able to fund 100 per cent of its approved programmes at \$3.9 billion, contingency measures would be taken by management to reduce spending by 5–10 per cent, bringing the resource requirements in line with the 2002–2003 estimates of \$3.6 billion.
13. The Committee notes that of the \$3.901 billion indicated under the operational budget, an amount of \$3.135 billion is related to programmes approved through WFP's Third Regular Session of 2003, by the Executive Board or the FAO Director-General and the WFP Executive Director, under his delegated authority. The remaining \$0.8 billion are for foreseen logical extensions of approved programmes. The projected \$3.9 billion represents a 7.4 per cent increase from the previous biennium. As indicated in paragraph 113 of the Strategic Plan, direct operational costs have grown at an average annual rate of 8 per cent between 1998 and 2003 (a 51 per cent increase).

Direct support costs

14. The direct support costs (DSC), the variable cost of managing operations in country offices, amount to \$461 million for 2004–2005. It includes a provision of \$15 million for security cost sharing and insurance. As indicated in paragraphs 88–93 of the management plan, the latest United Nations security management census set WFP's share of common security costs at \$13 million or 15 per cent of the total costs for 2004–2005, compared to the 12.12 per cent for 2002–2003. WFP's subscription to a Malicious Act Insurance Policy requires an additional provision of \$2 million for the biennium. The Committee notes, however, that these are not the only security related resources included. Additional resources of \$10 million are also requested to upgrade security in country offices (see



paragraph 20 below). As indicated in paragraph 157 of the Management Plan, a security assessment is being carried out by UNSECOORD and WFP. When completed, a report will be submitted to the Executive Board, and a revision of the funds requested, if necessary. While the Committee fully understands the necessity for security in the field offices, it stresses the need to ensure, that to the maximum extent possible, actions taken are in concert with other United Nations partners in the region concerned.

15. The Committee also notes from paragraph 100 that requests to the Direct Support Cost Advance Facility (DSCAF), which allows WFP to meet start-up costs of new operations, have steadily increased over the past biennium. Moreover, WFP's Secretariat is proposing to raise the facility's capacity to \$60 million (three months' coverage of needs or 13 per cent of the Programme's overall DSC requirements for 2004–2005) (see paragraphs 94–101 and operative paragraph (g) of the draft decision). The Advisory Committee, stresses that care should be taken to ensure amounts advanced are reimbursed. Upon its request, the Committee was informed that an amount of \$70 million has been advanced since then and that reimbursements of \$57 million had been received as of September 2003. The Committee does not object to the proposal to raise the capacity of the DSCAF to \$60 million.

Indirect support costs or PSA budget

16. The Committee recalls that the original PSA budget for 2002–2003 had been approved at \$210 million. It was reduced in 2003 to \$200 million in the context of the financial policy review and discussions on the ISC rate. The Executive Director, in view of the large increase in the operational level in 2003, and within his authority to adjust the PSA budget (the portion of the WFP budget that pertains to providing direct support to WFP's activities) when the volume of operations varies by more than 10 per cent from the planned level, revised the PSA budget to \$231 million for 2002–2003 (a \$31 million increase or 15.5 per cent) (Overview, para. 14).
17. The use of the additional PSA is summarized in table 33 of the biennial plan document. The Committee is of the opinion that some of these items, such as the establishment of the results based management unit and decentralization review should have been planned in the context of the original PSA budget. The Committee believes that increases in the PSA budget during the course of a budget period should be directly related to an increase in delivery.
18. The projected PSA budget for 2004–2005, which funds both programme support and management and administration, amounts to \$305 million, compared to the \$231 million for 2002. The increase is due to the shift of resources previously funded from extrabudgetary resources to PSA (\$20 million) and to capacity building initiatives (\$54 million).
19. The amount of \$54 million related to capacity building addresses 10 out of the 12 weaknesses indicated in the Strategic Plan. They are enumerated in the table in paragraph 106 of the management plan, along with the corresponding responsible division. The table in paragraph 107 shows the break-down of the capacity building resources by initiative, related amount and number of staff assigned.
20. The Committee notes, however, that other support costs of \$117 million are also included in the management plan. These "other" support costs include: \$10 million related to financial strengthening and results-based management (paras. 147–156), \$19 million for capital investment (WINGS) (see table 46), \$10 million for security upgrades in WFP offices mentioned in paragraph 14 above (para. 157), \$41 million for exchange rate



variance on staff costs (paragraph 39 and annex IV) and \$37 million related to trust funds, Special Accounts, and General Fund. The Committee points out that most of these would normally be regarded as PSA costs, which would bring the PSA costs to a total of \$422 million instead of \$305 million.

21. Upon enquiry, the Secretariat informed the Committee that it was not including these “other” support costs under PSA since it was proposing to fund these from the available surpluses in the General Fund and the PSA Equalization Fund. In fact, the first three, which are non-recurrent costs, would be funded from the General Fund, while the exchange rate variance would be funded from the PSA Equalization Account (see paragraphs 20 and 39).
22. The proposal for funding the other support costs is explained in paragraphs 17–21 of the Management Plan. As stated therein and shown in table 10, the change in income recognition to accrual basis became reflected as income of \$122.8 million, as of 1 January 2002, in the PSA Equalization Account, which was created in 2002. It is therefore proposed to proceed as follows with the PSA Equalization Account:
 - WFP is seeking approval for the transfer of \$86.4 million from that positive balance back to the General Fund, in order to compensate for the use of the General Fund to meet PSA deficits in 1996–1997 (\$43.7 million), in 1998–1999 (\$8.3 million) and in 2000–2001 (\$34.4 million) (paragraph 18 and operative paragraph (f) of the draft decision)
 - It is projected that the Equalization Account will show a positive balance of \$66.1 million at the end of 2003, with the addition of an estimated surplus of \$29.7 million for the current biennium. WFP is therefore proposing to meet the exchange rate variance mentioned in paragraph 20 above (\$41 million) from this Account
 - A remaining balance as of 31 December 2005 of \$25.1 million is projected.
23. As to the General Fund, WFP is projecting a surplus of \$119.1 million at the end of 2003 (\$86.4 million reimbursement from the Equalization Account and \$32.7 million estimated income in the current biennium). WFP is proposing to proceed as follows as regards the General Fund:
 - The Executive Director is requesting approval to utilize \$35 million in order to increase the DSC Advance facility to \$60 million, as indicated in paragraph 15 above (see also paragraph 20 and operative paragraph (g) of draft decision)
 - Authorization is also sought to allot \$29 million for the capital expenditures and capacity building projects and \$10 million for security upgrades in WFP offices mentioned in paragraph 20 above (see also paragraph 20 of the Management Plan and operative paragraphs (h) and (i) of the draft decision).
 - Proposals for the use of the balance of \$45 million will be presented to the Executive Board at its annual session in May 2004.
24. The Committee was informed that the transfer between accounts did not create any problems.
25. The Committee notes that WFP is therefore requesting approval of an indirect support cost rate of 7.0 per cent for 2004–2005 (operative paragraph (c) of draft decision), the same as 2003. In paragraph 13 it is indicated that “a review of approved programmes, a zero based budget process and evaluation of WFP’s technical and administrative capacities give the management reason to believe that the support budget required for 2004–2005 can be contained by using this rate, and that this is the appropriate level”.



26. The Advisory Committee notes, therefore, that it is only possible to retain the ISC rate of 7 per cent for 2004–2005 because the additional expenditures can be financed from the large amount of income and savings achieved during the 2002–2003 biennium. The Committee cautions however that problems may emerge later on and that the adequacy of the ISC rate of 7 per cent may have to be revisited in future. The Committee commented on the ISC rate in the context of the analysis of the report on the Indirect Support Cost rate (see WFP/EB.3/2002/5–C/1 and WFP/EB.3/2002/5(A, B, C, D, E)/2).
27. Major organizational changes took place in 2003, which are summarized in paragraphs 123–124 and shown in the organizational chart in annex VI. The staffing changes are contained in table B of Annex II. The Committee notes that WFP has been re-organized into 4 main pillars or Departments through the movement of units from one section to another one: Operations Department, Fund-raising, Policy and External Relations, and Administration. Two divisions, Division of Oversight Services, and a Division for Results–Based Management, have also been established.
28. The Committee enquired as to the costs associated with the new Results Based Management Division. The Committee notes from the information provided in pages 104–5 that it is in the order of \$6.1 million. There is also a provision for \$4.1 million (part of the \$10 million mentioned in paragraph 20 above) for one-time costs of a reporting system, baseline studies, training shown in table 48. In addition, there are costs associated with the placement of a P–4 level results-based management officer in each regional bureau and costs related to the WINGS system upgrade.
29. The Committee believes that care should be taken to avoid duplication among the activities of the Fund-raising and Communications Department and the Policy and External Relations Department, as well as by the two divisions dealing with such matters as oversight, inspection, evaluation, performance measurement and reporting.
30. The Committee notes that the number of PSA staff in 2004–2005 is proposed to increase by 377 posts to 1,618 posts, compared to 1,241 for the biennium 2002–2003. Of the additional 377 posts, 218 are posts being regularized, while 159 relate to capacity building. An additional Assistant Secretary General post is requested, as shown in paragraph 135, to manage the administration functions. The Executive Director is proposing that all four Departments be managed by an ASG-level executive, bringing the count of such level posts from three to four positions. The Committee notes that an ASG level post was transferred from Administration to Fund-raising in 2003, when the Department of Fund–raising was created. In addition, the Executive Director is seeking authority from the Board for ten post upgrades for 2004–2005 (paragraph 113), compared to 20 approved for 2002–2003. Annex I show that 17 upgrades, out of the 20, were implemented. The Committee recommends that the next budget contain full information on the implementation of this authority.
31. The Committee does not object to the proposal for the ASG level post for the Administration Department. However, the Committee is of the opinion that the current request should have been for an ASG post for the new fund-raising and communications department, instead of proceeding in a round-about manner which does not promote transparency.
32. The Committee notes that a total of 7,179 posts (DSC and PSA) for 2002–2003 and of 5,637 posts for 2004–2005 is indicated in table B of annex II. Paragraph 15 of the Executive Summary indicates that full time employees are expected to decrease from 9,852 at 30 June 2003 to an average annual level of 9,411 in 2004–2005.



33. The report of the External Auditor on the review of the World Food Programme's human resources strategy (WFP/EB.3/2003/5-B/1) indicates that complete information on the staff costs associated with programmes and projects is not available at present without an analysis at the individual transaction level (see paragraphs 25–27). Only information regarding PSA staff is available in WINGS. The External Auditor recommends that WFP consider the merits of identifying and disclosing staff costs on a comprehensive and systematic basis, and review whether current and future informational needs are being fully met by WINGS as presently configured.
34. The Committee took note of the report entitled “Second progress report on the implementation of recommendations in the 2000–2001 audit report of the external auditor” (WFP/EB.3/5-C/1). Of the 36 recommendations made, 23 have already been implemented and 13 are expected to be completed before the end of 2003. Moreover, of the 9 considered “fundamental”, five have been implemented and four are in progress.
35. The Committee also took note of the report entitled “Best practices in oversight mechanisms” (WFP/EB.3/2003/5–D/1), submitted in response to the Executive Board's request for a paper outlining best practices in the area of internal oversight mechanisms. The report presents information on best practices in oversight mechanisms in the public, private sectors, other bodies of the United Nations system, as well as current practices at WFP, focusing on the main areas of codes of conduct, reporting, internal oversight committees and risk management and presenting an analysis of possible directions for WFP's Executive Director.

