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**Executive Board Annual Session**

**Rome, 27 - 29 May 1997**

**RESOURCE AND FINANCIAL MATTERS**

**Agenda item 4 a), b), d), e) and f)**



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20 May 1997

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**COVERING NOTE TO THE REPORT OF THE ADVISORY COMMITTEE ON ADMINISTRATIVE AND BUDGETARY QUESTIONS (ACABQ)**

The Executive Director is pleased to submit herewith the report of the ACABQ on WFP resource and financial matters.

The report covers the following:

- Agenda item 4 a) - Strategic and Financial Plan, 1998-2001
- Agenda item 4 b) - Budgetary Performance Report for 1996
- Agenda item 4 d) - Funding and replenishment of the Operational Reserve
- Agenda item 4 e) - Funding of WFP's after-service medical liabilities
- Agenda item 4 f) - Progress report on the implementation of the External Auditor's recommendations, 1992-93 and 1994-95
- The proposed WFP Financial Regulations, discussed also in the report, will be considered by the Board at its Third Regular Session, from 20 to 24 October 1997.

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REFERENCE

AC/1317

Advisory Committee on Administrative and Budgetary Questions

15 May 1997

Dear Ms. Bertini,

Enclosed please find two copies of the report of the Advisory Committee on Administrative and Budgetary Questions on the World Food Programme Strategic and Financial Plan for 1998-2001, the WFP Budgetary Performance for 1996, the Funding of WFP's After-Service Medical Liabilities, the Proposed WFP Financial Regulations, the Funding and Replenishment of the Operational Reserve and the Progress Report on the Implementation of the External Auditor's Recommendations, 1992-1993 and 1994-1995. I should be grateful if you would arrange for this to be reproduced in-verbatim and placed before the Executive Board at its forthcoming session as a complete and separate document. A printed version (in all languages) of the document should be provided to the Advisory Committee at its earliest possible opportunity.

**Yours sincerely,**

  
**C.S.M. Mselle**  
**Chairman**

Ms. Catherine Bertini  
Executive Director  
World Food Programme  
Via Cristoforo Colombo, 426  
00145 Rome  
Italy

WORLD FOOD PROGRAMME

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered advance copies of the reports of the Executive Director of the World Food Programme on the WFP Strategic and Financial Plan for 1998-2001, the WFP Budgetary Performance for 1996, the Funding of WFP's After-Service Medical Liabilities, the Proposed WFP Financial Regulations, the Funding and Replenishment of the Operational Reserve, and the Progress Report on the Implementation of the External Auditor's Recommendations, 1992-1993 and 1994-1995. During its considerations of the reports, the Advisory Committee met with the Executive Director and her representatives, who provided additional information.

Strategic and financial plan for 1998-2001

2. The Executive Director submits the WFP Strategic and Financial Plan for 1998-2001 to the Executive Board pursuant to WFP Financial Regulation 6.2. As indicated in paragraphs 5 and 9 of the Executive Director's report, for the period 1998-2001, the rolling Plan retains the five major strategic priorities of the previous Plan for the period 1996-1999. Moreover, for the period 1998-2001, The Plan's strategic priority for a people-centered approach to programming food aid is further categorized in six programmatic priorities and WFP's strategic priority for organizational capacity and resources is subdivided into four organizational priorities, as indicated in paragraph 10 and annex III of the report.

3. The Advisory Committee welcomes the efforts made by WFP to improve the format and content of the document, in particular in providing information on the activities foreseen under the various programmatic priorities of WFP. However, in the view of the Committee, a number of problems still persist. The Committee recognizes that the strategic plan is a broad outline against which the budget will be prepared. Nonetheless, since the Executive Board is requested to endorse the plan, it is essential for the objectives and priorities to be clearly defined and identified to enable the Executive Board to hold the Administration accountable for their implementation. Narratives should be more specific and there should be more of a linkage between the programme of work and resource requirements. Attention must be drawn to where the Administration is proposing policies or objectives which will change practices approved by the Board. The report should explain the implementation of the previous plan, including progress attained in the implementation of activities in relation to set targets, as well as any lapses in implementation and reasons for it.

4. The narrative of the plan should be more concise. In the Committee's opinion, the overall presentation of the Plan will be further improved by eliminating repetitious information (e.g., the discussion on institutional building in the least developed countries which appears in paras. 15-16 and 36-37), by cross-referencing various sections of the Plan and by making references to information already contained in other documents (e.g., the Annual Report). Plans should follow a standard format to allow comparison. Information should also be given on implementation of previous recommendations and/or decision of the FAO Finance Committee, the Advisory Committee and the Executive Board.

5. With reference to WFP's focus on countries with the greatest need for food aid, the Advisory Committee welcomes the initiatives explained in paragraphs 15-20 of the Plan. The Committee also endorses WFP's effort to engage more actively at the field level with other United Nations agencies, multilateral financial institutions, regional development banks and non-governmental organizations to strengthen its capacity to deal with country-specific requirements. Due to WFP's limited resources, the Committee trusts that WFP's vulnerability analysis will be carried out in close collaboration with its partners and will rely to the largest extent on the work done by other agencies. The Committee recommends that WFP also collaborate closely with the United Nations Department of Humanitarian Affairs, particularly in complex humanitarian assistance operations.

6. The Advisory Committee notes from paragraph 22 of the Plan that WFP proposes to follow a systematic approach to cost-sharing with recipient governments. The purpose is to formalize counterpart contribution arrangements in development activities, based on the principle of increase cost-sharing in line with the recipient government's capacity to pay. Upon inquiry, the Committee was informed that this arrangements will be negotiated on a country-by-country basis and will be mainly focused on WFP's collaboration with non-LDCs.

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7. The Advisory Committee notes from paragraphs 68 and 76-78 of the Plan that WFP plans to develop a three-year training programme in support of WFP's strategic priorities. The programme will separate skills requirements of WFP staff into management, professional and technical and administrative support. The Committee notes that funds will also be allocated at the country level for capacity building and training of government counterparts and implementing partners. The Committee welcomes this approach. In this connection, the Committee recalls that, in the context of its report A/51/533 on the reports of the Board of Auditors of the United Nations on United Nations funds and programmes, it had recommended the training of personnel of implementing and executing partners as means to increase the capacity for execution, implementation and supervision of the assistance being provided. The scope and level of such assistance should be agreed upon first, in the context of completing project implementation and execution agreements (A/51/533, para. 27).

8. The Advisory Committee endorses the view expressed in paragraphs 83-86 on improving WFP's operational accountability, including strengthening its internal audit and inspection and investigation machinery. The Committee is of the opinion that steps taken by WFP to enhance its accountability to the Executive Board on all aspects of its operations would raise the level of donors' confidence in the management of WFP's operations.

9. Section II of the Plan shows WFP's resource projection and planned utilization for operations and support for the period 1998-2001 (see annex I and II). WFP receives resources in the form of commodities and cash on a voluntary basis. As indicated in paragraph 108, WFP uses for its Plan a medium-range projection of its level of operations expressed in terms of tonnage of commodities to be delivered. For the period 1998-2001, the volume of operations is expected to be approximately 8.475 million tons of commodities (para. 111) or approximately \$5,176 million (annex II). The Advisory Committee notes that in estimating the value of the contributions, the current price level of the food basket of the various programme categories was assumed to continue throughout the four year-planning period. Also, the proportion of different elements of operational and direct support cost was assumed to continue for the plan period, as well as the rates of recovering indirect support costs (para. 96).

10. With respect to the level of projected resources, the Advisory Committee notes that, as indicated in paragraph 109, there has been a steady decline in the availability of food aid for development in recent years and that, for the period of the Plan, and it is assumed food aid resources will continue to decline at the rate of five percent per year. Furthermore, the Committee notes that the volume of food aid resources for humanitarian relief operations, including both emergency and protracted relief operations has been projected at a conservative level, which is lower than the average level of operations over the five preceding years (para. 110).

11. In accordance with WFP's procedures, the Programme Support and Administrative (PSA) budget is funded from recovery rates charged for indirect support costs. The Advisory Committee notes that, because the PSA includes elements of fixed costs and of variable costs that fluctuate with changes in the level of WFP's operations, recovery of indirect support costs may not fully cover the total costs of the PSA budget. In such cases, WFP utilizes a portion of interest income to meet the shortfalls in the recovery of indirect support costs (para 104). The Committee sought clarification as to the current level of recovery rates for indirect support costs shown in paragraph 7 of the Budget Performance report for 1996. The Committee was informed that changes in the rates resulted from changes in (a) the proportional share of different programme categories, (b) the distribution of workload of WFP staff for the different programme categories and (c) the level of the PSA budget approved. The Committee was provided with a table comparing the indirect support cost rates for 1996 and 1997 and the reasons for the changes (see annex below). The Committee reiterates its view that all contributions to WFP must be on a full cost recovery basis. Thus, each donor's contribution should include the value of commodities, as well as ocean transport, landside transport, storage and handling (LTSH) and all direct and indirect support costs.

12. In paragraph 129, the Executive Director proposes that the Executive Board approve the preparation of a consolidated budget for 1998-1999 of approximately \$2.6 billion based on a projection of 4.305 million tons of commodities and a PSA budget of \$205 million. In paragraph 112, WFP estimates that \$192 million will be available to finance the PSA budget from indirect support cost recovery and \$13 million from interest income. The Committee notes that the PSA estimate of \$205 million will be a reduction of about 12.3 per cent from the 1996-1997 PSA budget.

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13. In this connection, the Advisory Committee was informed that the treatment of interest income is yet to be addressed by the Executive Board. The Committee recommends that, taking into account the view of the Committee, as noted in paragraph 12 above, the Executive Director make proposals to the Board on the treatment of interest income in the context of WFP's budget submission for 1998-1999, should the issue not be settled at the Executive Board's session of May 1997.

14. The Committee will revert to the subject of the appropriateness of the level of the PSA budget and the method of funding when it examines the estimates for 1998-1999. With regard to the PSA budget format, the Committee was informed that WFP, taking into account the nature of its operations, will follow as much as possible the format presentation endorsed by the ACABQ in its report DP/1997/10, E/ICEF/1997/AB/L.6 with regard to the budget harmonization of UNDP, UNFPA and UNICEF.

Budgetary performance report for 1996

15. The Advisory Committee notes from paragraphs 9 and 10 of the Executive Director's report that for 1996 the resource availability was 2.7 million tons of which 2.1 tons were utilized. In 1996, availability in aggregate was 94 percent of the original estimate. In terms of value, availability amounted to \$1,336 million, against which, \$1,185 million were utilized. A detailed expenditure breakdown by programme and cost categories is shown in annex I of the report.

16. As indicated in paragraph 37 and annex II of the performance report, PSA expenditure in 1996 amounted to \$107.4 million against allotments of \$113.8 million in 1996. Resources available to cover PSA expenditure amounted to \$106.9 million, comprising \$105.3 million from recovery of indirect support costs and \$1.6 million from recipient governments' contributions towards local operating costs (paras. 11 and 12 of the performance report). The Committee notes with concern that from the indirect support cost recoveries of \$105.3 million, donors actually paid only \$80.3 million. The shortfall, the Committee understand, was temporarily covered from interest income funds. The Committee urges the Executive Director to negotiate with all donor governments the early payments of support costs during the implementation phase of the operations rather than upon their completion.

17. The Advisory Committee appreciates the efforts made to prepare a performance report for 1996 on all the operations of WFP; however, the Committee is of the opinion that the format and the content of the report are not very useful at this stage. The discussion on the financing system in paragraphs 5-7 of the report is a repetition of what was discussed in the Strategic and Financial Plan and other information on operational initiatives in 1996, contained in paragraphs 25-35, are covered extensively in the Annual Report. The Committee recommends that a full performance report be prepared for all the activities of WFP, including detailed explanations on the PSA expenditures, in a format that would permit the ACABQ and the Executive Board to assess how the original proposals were implemented and the reasons for deviations from the original estimates, including explanations on shortcomings or slips during the implementation phase of the operations. This report would be submitted in the off-budget year if there is a pressing need to request a supplementary appropriation; if not, the information on budget performance should be provided together with the proposal of the Executive Director for the forthcoming budget.

Funding of WFP's after-service medical liabilities

18. The Advisory Committee has considered the request that a fund should be established to finance after-service medical liabilities of WFP. The proposal is that this be set up and funded from future surpluses. The Committee was subsequently informed that as the result of discussions with the Committee, the Executive Director has confirmed that these surpluses would be at the full disposal of WFP and not earmarked for special purposes. The Committee notes, however, that the Executive Director's recommendations are not accompanied by precise financial implications and that other options for funding have not been presented.

19. As indicated in paragraph 16 of the report, according to the FAO commissioned actuarial study, WFP's share of the after-service medical benefits accrued liability amounts to \$37.75 million of a total of \$212.5 million, and WFP's after-medical service projected future liability amounts to \$14.5 million of a total of \$81.6 million. Furthermore, as indicated in paragraph 18, the actuaries estimated that WFP's share of the service cost (i.e., the present value of the after-service medical entitlements accrued each year) amounts to \$1.5 million of the total service cost of \$8.4 million.

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20. Taking into account the need for precise financial implications and bearing in mind the projected decline in reserves available for food aid, the Committee is of the view that the proposal needs to be carefully assessed and all options considered, including the possible adjustment of premiums.

Proposed WFP financial regulations

21. The Advisory Committee recommends that the Executive Board approve the proposed WFP financial regulations as submitted, subject to the following clarifications:

(a) Definitions: The definition of multilateral contribution should indicate that the donor will "undertake to accept reports" submitted to the Board as sufficient to meet its requirements. This means that the donor will agree in advance that the submission of such reports will be acceptable.

(b) Proposed Financial Regulation 4.6: Instead of the last sentence, it should be stated that "the Board shall establish guidelines to delineate the respective responsibilities of the WFP, the donor, and the recipient government in the management of the Funds."

(c) Proposed Financial Regulation 4.7: The text should be replaced with "The Government shall contribute to the costs of WFP country offices in a manner agreed between it and WFP."

(d) Proposed Financial Regulation 7.1: Add "and recommendations" to the end of the text.

(e) Proposed Financial Regulation 9.1: Add "and submit it to the Advisory Committee on Administrative and Budgetary Questions and the FAO Finance Committee in accordance with the General Regulations of WFP."

(f) Proposed Financial Regulation 9.6. The Committee is not convinced that part (a) of the regulation is truly necessary. The Committee is of the opinion that, as formulated, this regulation is potentially misleading.

(g) Proposed Financial Regulation 13.1: Clarification is needed as to who determines when it is necessary to depart from UN Common Accounting Standards.

(h) Proposed Financial Regulation 14.1 and 14.2: The Committee endorses these proposals which represent current Financial Regulation 11.1 and 11.2 without change. In this connection, the Advisory Committee points out that although, up to now, WFP and FAO have both utilized the same external auditor, this need not be a requirement. The Advisory Committee understands that there has been discussion of broadening the field for the selection of External Auditors to include the private sector. The Advisory Committee recommends against any change of the current procedure. In the opinion of the Advisory Committee, to audit a public institution like WFP and in order to respond to the concerns of Member States, it is most appropriate to continue to use the External Auditors of State Members of the UN or FAO. Moreover, the Advisory Committee points out that recourse to the private sector will likely prove more costly, since it is the experience of the Advisory Committee that the contribution of audit resources by Member States is often far in excess of the amount of reimbursement that they receive.

Funding and replenishment of the operational reserve

22. The Advisory Committee takes note of the report and has no objection to the recommendation of the Executive Director as indicated in paragraph 18 of the report.

Progress report on the implementation of the External Auditors's recommendations, 1992-1993 and 1994-1995

23. The Advisory Committee welcomes the report and notes the response of WFP. The Advisory Committee intends to follow-up in the context of the WFP budget proposals for 1998-1999.

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ANNEX

Indirect Support Costs Recovery Rates

Programme	1996 rates	1997 rates	Reason for change
Development	14.5	13.9	8% increase in projected operational expenditures with 2% increase in indirect support costs
Protracted Relief	7.2	7.1	
Emergencies	4.8	6.0	11% reduction in projected operational expenditures with 7% reduction in indirect support costs
Special Operation	15.3	11.9	Four-fold increase in projected operational expenditures (to 32 million) and three-fold increase in indirect support costs