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FUNDING AND REPLENISHMENT OF THE OPERATIONAL RESERVE

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NOTE TO THE EXECUTIVE BOARD

This document contains recommendations for review and approval by the Executive Board.

Pursuant to the decisions taken on the methods of work by the Executive Board at its First Regular Session of 1996, the documentation prepared by the Secretariat for the Board has been kept brief and decision-oriented. The meetings of the Executive Board are to be conducted in a business-like manner, with increased dialogue and exchanges between delegations and the Secretariat. Efforts to promote these guiding principles will continue to be pursued by the Secretariat.

The Secretariat therefore invites members of the Board who may have questions of a technical nature with regard to this document, to contact the WFP staff member(s) listed below, preferably well in advance of the Board's meeting. This procedure is designed to facilitate the Board's consideration of the document in the plenary.

The WFP focal point for this document is:

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Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact the Documentation and Meetings Clerk (tel.: 5228-2641).



1. At its Third Regular Session of 1996, the Executive Board requested that a policy document be prepared, detailing the funding and replenishment modalities of the Operational Reserve. This document outlines the original policies with respect to the Operational Reserve, and explains the changes that are necessitated as a result of modifications to WFP's accounting standards and subsequent decisions by the Committee on Food Aid Policies and Programmes (CFA) and the Executive Board.

THE OPERATIONAL RESERVE

2. WFP's Financial Regulation 7.4 provides for an Operational Reserve, the purpose of which is "to ensure continuity of operations in the event of a temporary shortfall of cash."
3. At the Thirty-eighth Session of the CFA (December 1994), it was decided to fund the Operational Reserve in order to finance regular budgetary appropriations, pending the receipt of donors' cash contributions, and to be able to initiate urgent refugee projects and emergency operations while awaiting the necessary funds. The funding level was set at 57 million dollars.¹

FUNDING AND REPLENISHMENT OF THE OPERATIONAL RESERVE

4. The Operational Reserve was originally funded by:
 - A cash carry-over from 1992-93 of 6.9 million dollars
 - Recoveries from the PRO subset
 - A transfer of one million dollars from the Working Capital Fund (which was consequently abolished)
5. It was foreseen that:

"the operational reserve would have first call on those incoming cash pledges against which drawdowns from the reserve had been made. The replenishment would be made as soon as the relevant contributions were received".
6. At the Third Regular Session (October 1996) of the Executive Board, a decision was made to transfer further surpluses of income over expenditure to the Operational Reserve, bringing it up to its maximum level of 57 million dollars.

¹ All monetary values are expressed in United States dollars.



THE ORIGINAL USES OF THE OPERATIONAL RESERVE

7. The report of the Thirty-eighth Session of the CFA (document CFA: 38/18) contained the following guidelines on the use of the Operational Reserve:

“The operational reserve will be used to:

- i) finance the implementation of approved projects in progress and other continuing multilateral operations for which firm pledges had been announced, pending receipt of pledged contributions;
- ii) finance the approved programme support and administrative budget for which firm pledges or other firm sources of income had been identified;
- iii) make reimbursable advances for the Emergency Logistics Authorization within the limit of 1.5 million dollars for a single operation and up to 4.5 million dollars in any one year, as set by the CFA; and
- iv) make reimbursable advances to other multilateral funds as might be established by the CFA for which firm pledges or other firm sources of income had been identified, up to a limit of five million dollars or not exceeding 10 percent of the operational reserve, whichever was less.

CHANGES SINCE THE THIRTY-EIGHTH SESSION OF THE CFA

8. Since the Thirty-eighth Session of the CFA, several changes have affected the use of the Operational Reserve:

BILATERAL, DIRECTED AND TIED CONTRIBUTIONS

9. For some time, as well as receiving contributions for multilateral operations, WFP has received:

- Bilateral contributions—for specific operations by donors
- Directed contributions—for selected projects according to donors’ directions
- Tied contributions—either for the procurement of specific goods or services or for use in specific countries.

10. At the time of the CFA’s Thirty-eighth Session, WFP’s financial reporting practices did not provide for the separate reporting of income and expenditure for all operations. Compliance with United Nations Accounting Standards has changed this, and it is clear that the surplus of income over expenditure for bilateral, directed multilateral, or tied operations cannot be used to replenish the Operational Reserve, as these contributions have been entrusted by donors to WFP for specific purposes.

11. At its Third Regular Session of 1996, the Executive Board therefore decided that only the surplus of income over expenditure *that is at the full disposal of the Programme* should be used to bring the Operational Reserve to the required level.



THE EMERGENCY LOGISTICS AUTHORIZATION (ELA)

12. The CFA's Fortieth Session implicitly put an end to the use of the Operational Reserve to fund the ELA. Noting that the ELA was to be funded from regular resources (which were not retained in the long-term resourcing and financing model), it increased the target level of the Immediate Response Account (IRA) to include non-food requirements and logistics. This makes the original clause on the use of the Operational Reserve (to make advances to the ELA—see above) redundant.

REPLENISHMENT

13. It should be noted that the surplus can only be known with certainty after the approval of the Biennial Audited Financial Statements, so the assignment of part of the surplus to the Operational Reserve should only be made at that time.

PROPOSED USE AND REPLENISHMENT OF THE OPERATIONAL RESERVE

14. As a result of the changes outlined above, the Operational Reserve should be used and replenished as outlined in the following sections.

LEVEL

15. The Operational Reserve currently has a maximum level of 57 million dollars. To the extent that this maximum level is not reached, any surplus of income over expenditure that is at the full disposal of the Programme shall be transferred to the Operational Reserve following approval of the Biennial Audited Financial Statements.

USE AND REPLENISHMENT

16. The Operational Reserve will be used to:
- i) finance the implementation of approved projects in progress and other continuing multilateral operations (including directed multilateral operations) for which firm pledges have been announced, pending receipt of pledged contributions;
 - ii) finance the approved Programme Support and Administrative budget for which firm pledges or other firm sources of income have been identified; and
 - iii) make reimbursable advances to other funds as may be established by the Executive Board for which firm pledges or other firm sources of income had been identified, up to a limit of five million dollars or not exceeding 10 percent of the Operational Reserve, whichever is less.
17. The Operational Reserve will be replenished as soon as the relevant contributions are received.



RECOMMENDATION

18. It is recommended that the Executive Board approve the description, use and replenishment of the Operational Reserve as outlined in paragraphs 13 to 15 above.

