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**Executive Board
Second Regular Session**

Rome, 8–11 November 2010

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 5



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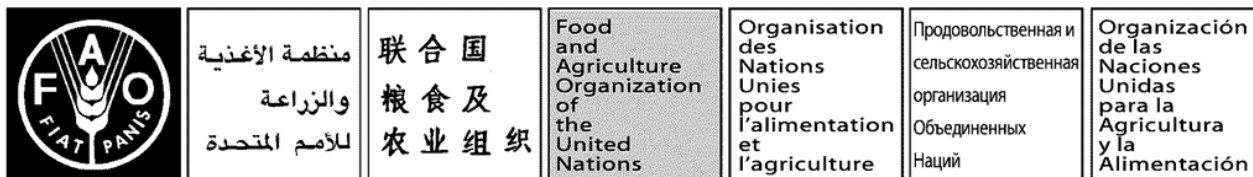
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REPORT OF THE FAO FINANCE COMMITTEE

The Executive Director is pleased to submit herewith the report of the FAO Finance Committee pertaining to WFP. The report covers the following agenda items:

- Policy for Disclosure of Internal Audit Reports to Members States
(WFP/EB.2/2010/4-B/1)
- WFP Anti-Fraud and Anti-Corruption Policy
(WFP/EB.2/2010/4-C/1)
- Financial Framework Review
(WFP/EB.2/2010/5-A/1)
- Review of the Working Capital Financing Facility
(WFP/EB.2/2010/5-B/1)
- Third Update on the WFP Management Plan (2010-2011)
(WFP/EB.2/2010/5-C/1)
- Second Update on WFP Management Actions in Somalia
(WFP/EB.2/2010/5-D/1)
- Review of WFP Operations in Somalia
(WFP/EB.2/2010/5-E/1)

October 2010



COUNCIL

Hundred and Fortieth Session

Rome, 29 November - 3 December 2010

Report of the 134th Session of the Finance Committee
Rome, 21 – 22 October 2010

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**REPORT OF THE HUNDRED AND THIRTY-FOURTH SESSION OF THE
FINANCE COMMITTEE**

21 October – 22 October 2010

Introduction

1. The Committee submitted to the Council the following report of its Hundred and Thirty-Fourth Session.
2. In addition to the Chairperson, Mr Yasser A. R. Sorour, the following representatives of Members were present:
 - Ms Kristina Gill (Australia)
 - H.E. Li Zhengdong (China)
 - Mr Louis Charicauth (Gabon)
 - Mr Shobhana K. Pattanayak (India)
 - H.E. Javad Shakhs Tavakolian (Islamic Republic of Iran)
 - Mr Claudio Miscia (Italy)
 - H.E. Jorge E. Chen Charpentier (Mexico)
 - Mr Ronald Elkhuizen (Netherlands)
 - Mr Gerardo E. Vega Berrio (Panama)
 - Mr Mohamed Eltayeb Elfaki Elnor (Sudan)
 - Mr Robert Sabiiti (Uganda)
 - Ms Elizabeth Petrovski (USA)
3. The Chairperson informed the Committee that:
 - Ms Kristina Gill had been designated to replace Ms Sara Cowan as the representative of Australia at this session;
 - Mr Claudio Miscia had been designated to replace Mr Augusto Zodda as the representative of Italy at this session;
 - Ms Cecile de Mauleon Medina had been designated to replace H.E. Jorge E. Chen Charpentier for part of this session;
 - Mr Gerardo E. Vega Berrio had been designated to replace H.E. Guido J. Martinelli della Togna at this session; and
 - Ms Elizabeth Petrovski had been designated to replace Mr Michael Glover as the representative of the United States of America at this session.
4. Summaries of the qualifications of Mmes de Mauleon Medina, Gill and Petrovski, and Messrs Miscia and Vega Berrio are listed in the addendum to this report (CL 140/7-Add.1).
5. Mr Ronald Elkhuizen (Netherlands) was unanimously elected Vice-Chairperson for the remainder of the Committee's current term of office.

World Food Programme Matters

POLICY FOR DISCLOSURE OF INTERNAL AUDIT REPORTS TO MEMBER STATES

6. The Committee welcomed the positive spirit of the proposal to disclose internal audit reports to member states, noting that it would bring improved transparency. The Committee noted that the policy was modelled on the policies adopted by other Funds and Programmes, and that the Office of Internal Oversight Services of the United Nations (OIOS) had adopted a more concise and simpler policy.

7. The Committee discussed various aspects of practical implementation of the policy, including confidentiality, reasonable time for review of reports, redaction and protection of individuals, as well as the formulation used by OIOS in General Assembly resolution 59/272, as an alternative to the formulation of the policy proposed by the Secretariat.

8. **The Committee:**

- **Noted the policy for disclosure of internal audit reports to member states, welcoming the improved transparency such a policy would bring;**
- **Advised that, in paragraph (c) of the policy, two weeks would be an appropriate “reasonable time” as practised in other funds and programmes;**
- **Emphasized the importance of paragraph g of the proposed policy;**
- **Advised the Executive Board to consider, as an alternative to the policy, the formulation currently in place for OIOS, based on GA resolution 59/272; and**
- **Suggested to the Executive Board that in the formulation based on GA resolution 59/272 the word “modified” should be replaced with “redacted”.**

WFP ANTI-FRAUD AND ANTI-CORRUPTION POLICY

9. The Committee expressed general support for the document, welcoming WFP’s initiative and noting that it covered the required elements of fraud control, and provided the right direction.

10. After discussion of various aspects, including the need for a comprehensive staff training programme under the policy, a trial period, blacklisting of suppliers, recovery of losses, and referral to local law enforcement authorities, the Committee noted that the Inspector General would review implementation of the policy in his annual reports. The Committee heard how recovery of losses is sought by WFP from amounts otherwise owed to persons found to have engaged in acts prohibited by the policy and through litigation.

11. **The Committee:**

- **Recommended, in accordance with Article XIV of WFP General Regulations, the WFP Executive Board to approve the “WFP Anti-Fraud and Anti-Corruption policy”.**

FINANCIAL FRAMEWORK REVIEW

12. The Committee expressed satisfaction on the consultative process with regards to the *Financial Framework Review*. The current document focused on resolving issues associated with the WFP tonnage-based costing model and updating rules and regulations to better accommodate non-commodity activities. The changes were part of an effort to align WFP policies with its Strategic Plan, which encouraged the use of food assistance tools that do not include a tonnage component, and thus did not fit the existing funding and budgeting framework.

13. The changes proposed include:

1. separating non-commodity activities so that they are more easily and transparently identified in the costing model; and
2. changing the Direct Support Costs recovery model to a percentage basis, from the existing model which is based on tonnage.

14. **The Committee:**

- **Requested, for clarity, the deletion of the word ‘estimated’ from the phrase ‘estimated actual cost’ in both General Rule XIII.4 (a) (ii) and General Rule XIII.4 (b) (i); and**
- **Advised the WFP Executive Board to approve the changes to the General Rules and Financial Regulation as outlined in the document *Financial Framework Review*.**

REVIEW OF THE WORKING CAPITAL FINANCING FACILITY

15. The Secretariat presented the review of the *Working Capital Financing Facility*. The document outlined the rationale to support the Secretariat's proposal of increasing the ceiling of the Working Capital Financing facility from USD 180 million to USD 557 million, of which USD 407 million would be required for traditional advance financing which includes corporate initiatives and USD 150 million to expand the Forward Purchase Facility. The possibility of having different leverage ratios for the Forward Purchase Facility and traditional advance financing was raised. The Secretariat noted that the risk of forward purchase was lower because inventory was a more secure asset than debt.

16. To leverage the risk, the Committee supported the proposal to transfer the Direct Support cost advance facility reserve of USD 35.9 million to the Operational Reserve to increase the total Operational Reserve from USD 57 million to USD 92.9 million.

17. The Committee raised concerns on the level and number of advance financing requests, which had increased over the past years. The Committee sought clarification from the Secretariat on whether the cause was because donors delayed confirmation of their contributions. The Secretariat responded that advance financing has become an integral part of WFP's work.

18. The Committee enquired if direct contributions to the WCF facility would reduce the ceiling. The Secretariat clarified that direct contributions made to the Operational reserve would reduce the leverage of the facility.

19. The Committee sought clarification on how the Secretariat has determined that the ceiling of the WCF should be increased to USD 557 million. The Secretariat explained that the funding ceiling represented 5.4 per cent of the expected funded Programme of Work for the 2010 – 2011 biennium which was set at USD 7.5 billion. The Secretariat highlighted that the proposed funding ceiling of the WCF would bring the level up to a percentage comparable with that in place at the inception of the Facility.

20. The Committee received clarification from the Secretariat that the ceiling would not lead to any revision to WFP's procurement policies and that local purchase would be the first preferred option.

21. **The Committee recommended that:**

- **the Executive Board approve the increase in the ceiling of the Working Capital Financing Facility from USD 180 million to USD 557 million;**
- **the Executive Board approve the transfer of the Direct Support Cost Advance Facility reserve of USD 35.9 million to the Operational Reserve to increase the total Operational Reserve from USD 57.0 million to USD 92.9 million; and**
- **WFP report regularly to its board members on the status of the WCF facility as outlined in paragraph 60 of the document.**

UPDATE ON THE WFP MANAGEMENT PLAN (2010-11)

22. The Secretariat presented the *Update on the WFP Biennial Management Plan (2010-2011)*, which outlined USD 1.24 billion in net increases in WFP's Programme of Work for 2010-2011 since the previous update. Overall, the Programme of Work now totaled USD 11.98 billion for the biennium, of which USD 6.91 billion was related to 2010 and USD 5.07 billion to 2011. The Committee expressed its satisfaction with the Management Plan update for its clarity and the broad topics covered in the document.

23. The Secretariat informed the members that WFP's projected funding level for the year had been reduced from USD 3.75 billion for 2010 to USD 3.7 billion.

24. The Committee welcomed the reporting of reductions in the Programme of Work totalling USD 410 million. The Committee sought clarity on whether these reductions were pure savings. The Secretariat responded that the reductions presented in the document were due to several reasons, which included reductions in operational implementation due to the lack of resources, cost savings achieved and operational constraints.

25. The Committee recalled its concern of the growing gap between WFP's Programme of Work and projected resource levels, and whether a resource prioritization strategy was in place. In that connection the Secretariat mentioned forthcoming seminars on priority setting and Management Plan review. The Secretariat also responded that prioritization was implemented at three different stages: direct contributions to specific countries and projects which make up 93 per cent of WFP's resources; seven per cent in multilateral funding which is prioritized by the SRAC; and prioritization at the country level.

26. **The Committee:**

- **Noted the *Update on the WFP Biennial Management Plan and an increase in the Programme of Work for 2010-2011* of USD 1.24 billion;**
- **Welcomed the reductions in the Programme of Work due to cost savings and alignment to more reasonable funding levels, and encouraged WFP to continue this practice and report thereon; and**
- **Recommended that future Management Plan updates include a section on the status of the WFP Forward Purchasing Facility and advance financing.**

SECOND UPDATE ON MANAGEMENT ACTIONS IN SOMALIA

27. The Committee reviewed the paper on *Second Update on WFP Management Actions in Somalia* which outlined the management actions taken since the first information note provided to the Annual Session of the Executive Board in June 2010, addressing issues raised by the Monitoring Group on Somalia (MGS) and the Inspector General in December 2009.

28. The Committee was presented with highlights of the work taken under the auspices of the Somalia Steering Committee, a body comprised of senior Secretariat staff with a mandate to ensure that adequate corporate capacity was made available to meet the recommendations made by the Inspector General for Somalia. The Committee was also informed about the conversations management have had with the Somalia Sanctions Committee and the Coordinator for the MGS; the preparation and launch of the External Auditor's mission to Somalia; and that the MGS had indicated that the requested evidence will be forthcoming.

29. The Committee underlined the importance of resolving this matter promptly and requested clarification on the status of implementation of the IG recommendations. The Committee stressed the implications on WFP's credibility, and called for results by the External Auditor without further delay. The Secretariat informed the Committee that they were confident of the significant progress made so far in implementing the recommendations of the IG and also looked forward to the full resolution of the matter as soon as possible. The Secretariat also indicated that the initial briefing from the External Auditor's mission would be submitted to the Executive Board Bureau in December with the full report be presented to the EB in February.

30. **The Committee:**

- **Took note of the document *Second Update on WFP Management Actions in Somalia*;**
- **Highlighted the importance of lessons learned included in the document in supporting WFP operations in Somalia and beyond; and**
- **Requested the External Auditor to adhere to the timeline as indicated for the presentation of their findings from the Somalia mission.**

THE MULTI-YEAR PROGRAMME OF WORK OF THE FINANCE COMMITTEE 2010-13 (WFP MATTERS)

31. The Chairperson noted that the Committee was required to prepare a multi-year programme of work (MYPOW) of at least four years duration, once per biennium, to be reviewed by the FAO Council. He further noted that WFP matters needed to be included as part of the Committee's MYPOW for the period 2010-2013.

32. **The Committee:**

- **Noted its appreciation of the efforts of the WFP Secretariat to prepare a draft MYPOW; and**
- **Requested the Secretariat to ensure that the format of the MYPOW for WFP matters be aligned with the one prepared for FAO, highlighting the importance of including results, indicators and targets, as well as outputs and activities in the MYPOW for WFP matters.**

CONSIDERATION OF WFP EXECUTIVE BOARD DOCUMENTS BY THE FAO FINANCE COMMITTEE

33. The Committee noted that while the General Rules and Regulations establishing its governance role *vis-à-vis* the WFP were clear, it considered it desirable to refine the criteria guiding which WFP Executive Board documents are submitted to the Finance Committee for consideration.

34. The Committee noted that as a means of addressing the issue the Chairperson had met with the President of the Bureau of WFP's Executive Board to discuss how the criteria for documents to be submitted could be further clarified. He invited the Committee to share with him any concerns they would have prior to this meeting.

35. The Committee suggested that it may be useful to start the discussion by reviewing the category of WFP Executive Board documents entitled "Resource, Financial and Budgetary Matters", and identifying documents from that category that could potentially be removed.

36. **The Committee:**

- **Agreed that the Chairperson would meet with the President and Bureau of the WFP Executive Board to discuss how the criteria for documents to be submitted to the Committee could be clarified, bringing forward the views of Finance Committee members.**

DATE AND PLACE OF THE HUNDRED AND THIRTY-FIFTH SESSION

37. The Committee was informed that the 135th Session was scheduled to be held in Rome from 25 to 29 October 2010.

ANY OTHER MATTERS

38. The Committee, recalling its previous concerns mentioned in its report, urged the Executive Board to ensure the presence of the External Auditor and the Chair of the Audit Committee, or their representatives, in the Finance Committee meeting while discussing issues related to their work.

39. The Committee noted that the relationship between the Finance Committee and the WFP Executive Board may not have reached its full potential. Accordingly, the Committee resolved to enhance communication between itself and the Executive Board, including by means of ongoing contact between the Chairperson of the Committee and the President of the Bureau of the Executive Board.