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RESOURCE, FINANCIAL AND BUDGETARY MATTERS

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

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

- WFP Biennial Management Plan (2010–2011)
(WFP/EB.2/2009/5-A/1)
- Appointment of Members to the Audit Committee
(WFP/EB.2/2009/5-C/1)
- WFP Investment Policy and Guidelines
(WFP/EB.2/2009/5-F/1)
- Update on the WINGS II Project
(WFP/EB.2/2009/5-G/1)

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Advisory Committee on
Administrative and Budgetary Questions

5 November 2009

Dear Ms. Sheeran,

Please find attached a copy of the report of the Advisory Committee on your submissions concerning:

- WFP Management Plan (2010–2011) (WFP/EB.2/2009/5-A/1)
- Appointment of Members to the Audit Committee (WFP/EB.2/2009/5-C/1 and Add.1)
- WFP Investment Policy and Guidelines (WFP/EB.2/2009/5-F/1)
- Update on the WINGS II Project (WFP/EB.2/2009/5-G/1)

I would be grateful if you could arrange for the Committee's report to be placed before the Executive Board at its forthcoming session, as a complete and separate document. I also would appreciate it if a printed version of the document could be provided to the Advisory Committee at the earliest possible opportunity.

Yours sincerely,

Susan McLurg
Chairman

Ms. Josette Sheeran
Executive Director
World Food Programme
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Encl.



WORLD FOOD PROGRAMME

Resource, Financial and Budgetary Matters

Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee has considered the World Food Programme's (WFP) Biennial Management Plan for 2010–2011 (WFP/EB.2/2009/5-A/1), comprising the proposed budget for the next biennium and other documents listed below:

- Appointment of Members to the Audit Committee (WFP/EB.2/2009/5-C/1 and Add.1)
- WFP Investment Policy and Guidelines (WFP/EB.2/2009/5-F/1)
- Update on the WINGS II Project (WFP/EB.2/2009/5-G/1)

During its consideration of the reports, the Advisory Committee met with the Deputy Executive Director for Resource Management and Accountability and other representatives of WFP, who provided additional information.

2. The Advisory Committee was informed that two documents, namely, a report on the International Public Sector Accounting Standards (IPSAS) dividend and the use of financial and management information, and another on the financial framework review, could not be presented to the Committee at the time of its consideration of the above-mentioned reports, due to the fact that the former was under review by the external auditors, while informal consultations on the latter were still underway. The Committee looks forward to receiving these documents at the appropriate time.

II. Presentation

3. **The Advisory Committee reiterates its previous recommendation that WFP should endeavour to minimize duplications in the structure and presentation of future management plans so as to have a streamlined, concise and reader-friendly document (WFP/EB.2/2007/5(A,B,C,D,E,F,G)/2*, para. 9).** Whilst the Committee appreciates the need to provide adequate information to facilitate decision-making, the Committee finds the presentation of the Management Plan for 2010–2011 neither reader-friendly nor clear. In this connection, the Committee points out that further effort is required to improve the presentation of future management plans, including, inter alia, in the following areas.

(a) Assertive statements in the document without substantiation should be avoided. For example, the “organizational changes...enhance WFP's ability to assist its beneficiaries efficiently and cost-effectively and provide a stable platform from which to address the changing operational environment with minimal increases in the number of staff positions” (ibid., para. 244).



(b) The Management Plan for 2010–2011 is repetitious and fragmented. The document repeats the same information in different sections, for example, tables 1, 2 and I.7 reappear as tables I.1, III.1, and III.8, and figures 1 and 2 reappear as figures II.3 and II.2. The Advisory Committee is of the view that information in tabular forms should not be repeated in different sections of the plan, but presented once and be referenced. Moreover, the document presents information concerning one subject in different sections in a fragmented way, such as information related to evaluation (see para. 14 below) and to Programme Support and Administrative (PSA), as the Advisory Committee pointed out in its report on the WFP Management Plan for 2008–2009 (WFP/EB.2/2007/5(A,B,C,D,E,F,G)/2*, para. 8). The Committee encourages WFP management, where applicable, to make cross-referencing to obviate the need for repetitions.

(c) The level of details should not be the same in the overview section and in the main budget sections. The overview section should be concise and mainly serve the purpose of providing a brief summary of the major budget proposals, while detailed information should be presented in the main budget sections.

III. WFP Biennial Management Plan 2010–2011

A. Information on the Biennium 2008–2009

4. The expenditures for 2008–2009 are estimated to be US\$8.345 billion, representing an increase of US\$2.18 billion or 35 percent, compared with the original budget of US\$6.168 billion (WFP/EB.2/2009/5-A/1, table I.2 and para. 62). WFP indicates that the largest increase is in the emergency operations, which accounts for an estimated US\$1.05 billion, or 77 percent higher than planned in the original budget. Recosting has been done to reflect changes in food and fuel costs, as well as the exchange rates vis-à-vis the US dollar, resulting in an increase of US\$570 million (*ibid.*, para. 57). The Advisory Committee notes that since increases in food and fuel prices had a major impact on the budget in 2008, WFP has developed a cereal index and a crude oil index to monitor prices, which are included in annex VII of the Biennial Management Plan.

B. Proposals for the Biennium 2010–2011

5. The proposed total budget for 2010–2011 amounts to US\$9,419.1 million, which includes the following (*ibid.*, table I.1 and para. 51):

- (a) Operational requirements (US\$8,367.8 million, or 89 percent);
- (b) Programme Support and Administrative (US\$476 million);
- (c) General Fund (US\$69.3 million); and
- (d) Special accounts, trust funds and bilateral contributions (US\$506 million).

Upon enquiry, the Advisory Committee was informed that if required, funds for unforeseen emergency operations would be raised through appeals.

6. The Advisory Committee notes that the operational requirements for the biennium 2010–2011 provide for implementation of 171 assistance projects, involving delivery of 8.68 million metric tons of food to 83 million beneficiaries in 73 countries (*ibid.*, paras. 54).



While 74 percent of the 171 projects are approved, the remaining 26 percent are logical extensions to existing projects that are likely to be approved during 2010–2011. Figures II.3 and II.9 and paragraphs 113 to 146 provide detailed information with respect to the operational requirements by programme category (emergency operations, protracted relief and recovery operations, development projects and special operations), and by cost component (food, external transport, landside transport, storage and handling, other direct operational costs and direct support costs).

7. For PSA, US\$476 million is proposed for approval by the Executive Board, which represents US\$238 million per annum and a 6 percent increase compared with the approved PSA of US\$225 million for 2009. WFP indicates that the proposed annual increase is due to (a) a rise in standard staff cost (US\$9 million); and (b) additional funding for priority areas (US\$4 million), including an increase in the field contingency fund (US\$1.5 million) (*ibid.*, paras. 239–240). A comparison of the actual, estimated and projected PSA by appropriation line from 2006 to 2011 is provided in table III.1. WFP further indicates (*ibid.*, paras. 66–70) that the proposed PSA for 2010–2011 is based on an expected income of US\$7.5 billion for the next biennium, which would represent 84 percent of the proposed programme of work, namely, the operational requirements inclusive of indirect support costs (ISC). WFP also proposes that the ISC rate of 7 percent be maintained for the biennium 2010–2011.

8. The proposed General Fund expenditure of US\$69.3 million, which is also submitted for approval by the Executive Board, consists of the following (*ibid.*, para.15):

(a) a one-time supplementary PSA appropriation (US\$25.9 million), the details of which are provided in table III.8;

(b) cost-sharing for the mandatory expenses of the United Nations Department of Safety and Security (UNDSS) (US\$24.4 million);

(c) a carry-forward (US\$14.5 million) of already approved upgrades for field security (US\$22.5 million), and

(d) an advance (US\$4.5 million) for the private-sector partnerships and fundraising strategy.

Upon enquiry, the Advisory Committee was informed that the review of the cost-sharing arrangement for UNDSS, as indicated in the footnote of table III.9, would be undertaken by a working group established by the Finance and Budget Network in November 2009.

9. The Advisory Committee was informed that for the first time and upon requests by donors, information with respect to special accounts, trust funds and bilateral contributions (in total US\$506 million) was included in the Management Plan for information. Details are contained in paragraphs 82 to 88 and 346 to 379 of the Management Plan.

10. With respect to cost containment measures taken into consideration in the preparation of the Management Plan for 2010–2011, upon enquiry, the Advisory Committee was provided with copies of WFP documents on methodology and cost savings, as well as the guidelines, based on which WFP country offices and regional bureaux prepared their requirements for the period. The Committee notes the efforts made by WFP to contain costs within a set of parameters, including the stipulation that the proposed PSA budget remain within the approved PSA level of 2009 for each office.



11. Information with respect to the currency hedging for the PSA appropriation is contained in paragraphs 341 to 343 of the Management Plan. The Advisory Committee notes that following the approval by the Executive Board at its annual session in 2008 for hedging the Euro component of PSA expenses to enhance funding stability, WFP entered into arrangements for €4.8 million per month for 2009 at a fixed average exchange rate of €1 to US\$1.44. For 2010–2011, the exchange rate was fixed at €1 to US\$1.41 for a €5 million per month. WFP indicates that it will continue to report on the impact of the hedging arrangements through the regular updates to the Management Plan. Upon enquiry, the Advisory Committee was informed that, based on sufficient experience, WFP intended to undertake a lessons-learned exercise early 2010.

C. Changes in Organizational Structure

12. Information with respect to WFP's organizational restructuring is provided in paragraphs 244 to 249. According to WFP, it completed the restructuring process in April 2009, following the establishment of its new leadership team through the appointment of three new Deputy Executive Directors. The four main sections now consist of the Operations Department, the Resource Management and Accountability Department, the External Relations Department and the Office of Hunger Solutions.

13. While figure III.1 provides the new organizational structure of WFP, the Advisory Committee notes that no indication of posts is provided. **In this connection, the Committee reiterates its recommendation that in future budget presentations, the organigramme needs to be reflected in the same manner as is done in the United Nations regular budget clearly showing the request for additional posts, reclassification of posts upward or downward, abolition of posts and redeployment, if any** (WFP/EB.2/2007/5(A,B,C,D,E,F,G)/2*, para. 10).

D. Evaluation

14. Annex III of the Management Plan provides information on the work programme and the proposed budget for WFP's Office of Evaluation. The total allocation proposed for the 2010–2011 biennium amounts to US\$9.6 million, representing an increase of US\$1.52 million over the allocation for the biennium 2008–2009 according to paragraph 2 of annex III. It is indicated in paragraph 302 of the Management Plan that the resource allocation will be increased from US\$6.7 million for 2008–2009 to US\$9.6 million for 2010–2011, which represents an increase of US\$2.9 million. Upon enquiry, the Advisory Committee was informed that, while the proposed increase of US\$1.52 million was based on the actual allocations in 2009, the increase of US\$2.9 million was compared with the original Management Plan for 2008–2009. However, the Advisory Committee notes that these differences are not explained in the relevant paragraphs of the Management Plan and therefore, the presentation is not clear to readers. The Committee was also informed that the Office of Evaluation would strengthen its capacity through internal staff development and additional consultants to deliver the more complex work programme for 2010–2011. The Advisory Committee does not find in the document clear justifications for the proposed increase. **The Committee, therefore, recommends that WFP provide additional information in this regard to the Executive Board.**



15. WFP plans to undertake 18 evaluations during 2010–2011, comprising 4 strategic evaluations, 8 country portfolio evaluations and 6 impact evaluations (annex III., paras. 2–5). The Advisory Committee notes that, while the 4 strategic evaluations will support the process of transforming WFP from a food aid to a food assistance agency, the 8 country portfolio evaluations will prepare the organization to participate in joint country-level evaluations, in line with the direction toward which the international development community and partner countries are moving. WFP intends to implement the evaluations jointly with other partners, whenever possible (*ibid.*, para. 6). Upon enquiry, the Advisory Committee was informed that the cost of the joint FAO and WFP evaluation conducted during 2008–2009 was shared equally. WFP states that since joint evaluations tend to have a larger scope and require more consultations, they do not automatically reduce the total cost involved.

16. WFP indicates that it will not undertake any operations evaluations for the next biennium. In this connection, the Committee further notes (*ibid.*, paras. 1 and 8) that the annual evaluation report was submitted for the first time to the Executive Board as a formal document during 2008–2009. However, in the absence of operations evaluations, WFP indicates that it will review, in 2010, whether a biennial evaluation report would be prepared at the end of the biennium 2010–2011.

17. The Advisory Committee notes that there is a total of 11 staff in the Office of Evaluation, including 7 professional staff (*ibid.*, para. 9). WFP intends to continue to aim for a 50:50 ratio of evaluators recruited externally compared to the number of internal staff working on evaluation and to also use short-term consultants to conduct evaluations. Upon enquiry, the Committee was informed that external evaluators could provide a certain degree of independence and required expertise in areas such as food security, nutrition, education, HIV and AIDS, which the staff of the Office of Evaluation did not have.

18. The draft decision for approval by the Executive Board is presented in the Management Plan. **The Advisory Committee has no objection to the proposals.**

IV. Appointment of Members to the Audit Committee

19. In document WFP/EB.2/2009/5-C/1, the Executive Director recommends that the Executive Board approve the appointment of one member to the Audit Committee for a term to take effect immediately and run until 9 November 2012. The curriculum vitae of the candidate is provided in document WFP/EB.2/2009/5-C/1/Add.1. The Advisory Committee recalls that, under the revised terms of reference and in accordance with approved criteria, the Executive Board approves the appointment of members of the Audit Committee upon recommendation of the Executive Director (WFP/EB.A/2009/6(A,B,C,D,E,F,G,H,I)/2, para. 10). **The Advisory Committee has no objection to the appointment of the proposed candidate.**

V. WFP Investment Policy and Guidelines

20. WFP investment policy and guidelines, presented in document WFP/EB.2/2009/5-F/1, is submitted for information pursuant to a request by the Executive Board at its Annual Session in 2009. The document contains information with respect to (a) the background to WFP's investment management; (b) the impact of the global financial crisis on the investments; (c) the investment policy and guidelines; and (d) the measures taken to reduce risk of the investments.



21. It is indicated in the document (paras. 3, 4 and 11) that WFP assumed responsibility for the management of its financial resources in 1999 and, hence, developed its investment policy and cash and investment management strategies. WFP's management of the financial resources is governed by Financial Regulation 11.2 and its investment policy, issued in a circular by the Executive Director in consultation with outside expertise, is in accordance with Financial Rule 111.3. The updated investment policy was last reviewed with the assistance of the World Bank in August 2009 and is attached as an annex to the document WFP/EB.2/2009/5-F/1.

22. WFP's investments, with a market value estimated as at 31 August 2009, include the following (ibid., paras. 5–7):

(a) the liquidity portfolio (US\$1.38 billion) which comprises cash balances related to all sources of funding. The management of this portfolio is described in detail in paragraphs 11 to 16 of the document;

(b) employee benefits funds in a long-term investment portfolio (US\$119 million);

(c) a held-to-maturity portfolio (US\$96 million) to meet the interest and principal repayments of a once-only long-term loan received in 2000 related to the establishment of the Emerging Donors Matching Fund.

23. According to WFP, the impact of the global financial crisis on its investment was limited and temporary, with the losses of 2008 recouped in 2009 (ibid., para.8–10). Compared with the negative investment performance resulting from unrealized losses of US\$9.6 million as at 31 December 2008, the year-to-date return on investment was US\$27 million as at 31 August 2009. WFP indicates that investment performance in the medium-term has been positive, with an annual return of 3.3 percent and interest earned in excess of US\$300 million since 2000.

24. WFP also reports that, in order to reduce risk of its investment in response to the global financial crisis, it has adopted measures recommended by its Investment Committee and the World Bank, including, inter alia, the elimination from the liquidity portfolio of portfolio (P3) which catered for funds and reserves with an investment horizon of three years or longer and which had a relatively higher risk profile (ibid., paras. 17–20).

VI. WINGS II

25. The eighth progress report on the WFP Information Network and Global System II (WINGS II) Project, presented for information in document WFP/EB.2/2009/5-G/1, provides an update on the status report submitted to the Board in June 2009. The Advisory Committee notes from the report that WFP successfully made the transition to WINGS II on 1 July 2009 as planned (ibid., para. 3). As at 30 September 2009, WINGS II was fully functioning in 159 offices in 91 countries. According to WFP, the successful transition was attributable to (a) good planning, execution and monitoring of numerous transition tasks; (b) a well-executed transfer of data into WINGS II; (c) full engagement by WFP managers, and (d) the willingness of WFP staff to embrace and accommodate the change. Paragraphs 6 to 11 provide information with respect to the training and support, data migration and transition measures, as well as challenges encountered during the transition.



26. WFP indicates that it will assess WINGS II implementation in 2010 after the system and processes have stabilized and the users fully adapt to it. WFP has not yet had time to define the framework and indicators for the assessment. A final report on the WINGS II 2009 Edition will be submitted to the Board at its first regular session in 2010. The report will include the total cost of the project, the capitalized value of the WINGS II asset, and the framework and indicators for assessing the benefits (*ibid.*, paras. 14 and 15). WFP further indicates that, at the annual session of the Board in 2010, WFP will submit a timetable and costs for delivering the functionality of WINGS II project that have been deferred from the 2009 Edition.