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de Alimentos

**Executive Board
First Regular Session**

Rome, 23–27 February 2004

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 5



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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 different agenda items as follows:

- Business process review (BPR): pilot financing paper (WFP/EB.1/2004/5-A/1); and
- Basis for calculation of indirect support costs (ISC) on ocean transport costs (WFP/EB.1/2004/5-B/1).

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February 2004



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y la
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COUNCIL

Hundred and Twenty-seventh Session

Rome, 22–27 November 2004

**Report of the Hundred and sixth Session of the Finance Committee
Rome, 16 February 2004**

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REPORT OF THE HUNDRED AND SIXTH SESSION OF THE FINANCE COMMITTEE

16 February 2004

Introduction

1. The Committee submitted to the Council the following report of its Hundred and sixth Session.
2. The following representatives were present:

Chairperson:	Mr Roberto Seminario (Peru)
Vice-Chairperson:	Mr Anthony Beattie (United Kingdom)
	Mr Aboubakar Bakayoko (Cote d'Ivoire)
	Mr Augusto Zodda (Italy)
	Mr Fumihiko Kabuta (Japan)
	Ms Lamya A. Al-Saqqaf (Kuwait)
	Mr Simon Draper (New Zealand)
	Mr Mohammad S. Khan (Pakistan)
	Ms Ana María Baiardi Quesnel (Paraguay)
	Mr J. Michael Cleverley (United States of America)
	Ms Verenica Mutiro Takaendesa (Zimbabwe)
3. Mr Anthony Beattie (United Kingdom) was elected unanimously Vice-Chairperson for 2004.
4. The Chairperson informed the Committee that Ms Ryuko Inoue (Japan) would regretfully be unable to attend the session. The Committee noted that Mr Fumihiko Kabuta had been designated to substitute for Ms Inoue.

World Food Programme Matters

REPORT ON BUSINESS PROCESS REVIEW: PILOT FINANCING PAPER (DOC. WFP/EB.1/2004/5-A/1)

5. The Committee reviewed and took note of the five pilot projects identified in the document. Following a presentation by the WFP Chief of Staff and Director, Office of the Executive Director and Administration, the Committee sought and the Secretariat provided clarification on the following issues:
6. **Need for further assessment of potential financial risk, and fine tuning of financing mechanism:** The Secretariat advised that important objectives of the pilot projects were to adapt the proposed financing mechanism to WFP's new needs, to gain more clarity on the financial risks involved with a working capital model based on forecasted, not committed, contributions and to fine-tune the proposed financing mechanisms. The Secretariat noted that the proposed financing model was very much based on the approach of the International Committee of the Red Cross. There were two key differences, however - WFP was funded by both cash and in-kind contributions, and WFP did not propose allowing possibility of over-running approved operational budgets as ICRC did. The Committee noted that the proposed financing would be considered carefully and would be a 'calculated risk' based on already existing internal cash. The Secretariat would report to the Executive Board both in May and in



October on the further developments of the working capital facility and provide more specific information on the potential financial risks to the Programme.

7. **Longer-term approach:** The Committee noted that the decision before the Board in February related to the short-term financing requirements of the pilot projects. Any longer-term implications and policy changes were expected to be brought to the Board for consideration and decision in October. Based on analysis to date, the Secretariat expected any eventual corporate-wide financing facility to be in the range of US\$300-370 million. Already today, WFP's working capital facilities amounted to approximately US\$150 million, including the Operational Reserve, the Immediate Response Account and the Direct Support Cost Advance Facility.

8. **Need to address constraints of emerging and in-kind donors:** The Secretariat noted this concern and informed the Committee that financing would not be appropriate for all projects.

9. **Need to ensure capacity in place in Country Offices, Regional Offices, and in HQ:** The Secretariat acknowledged that additional training, financial/project management capacity building and further decentralization of authority were fundamental to ensuring the success of the new business model. The Secretariat noted that several building blocks, or capacity building initiatives, had been identified and were being implemented. These included the need to: develop a contribution forecasting methodology; enhance forecasting of requirements and improve planning and monitoring; improve project accounting and make necessary changes to IT systems, among other priority initiatives. These building blocks were being developed in conjunction with and, where appropriate, taking account of the implementation of the pilots, and would need to be in place before a global roll-out of the new business model. The Secretariat would inform the Board of the progress of developing these building blocks later this year.

10. **Importance of coordination with donors:** The Secretariat took note that it must continue to work closely with all donors to ensure their concerns were met, including but not limited to, improved and more timely project reporting. In addition to the scheduled Board meetings, the Secretariat would continue to meet bilaterally and in informal consultations with Board members as required. Enhancing contribution forecasting was critically important to the new business model, and this would naturally require even stronger collaboration with the donor community.

11. **Ensure that multiple scenario budgeting approach is as simple as possible:** The Committee noted the apparent complexity of the proposed new approach to budgeting. The Secretariat responded that in fact even today, WFP routinely internally outlined best, worst, and expected scenarios when budgeting. The difference would be that the Secretariat appeal would now emphasize the expected scenario, and not the worst case scenario, but would have the flexibility to move within different scenarios by various budget line items as long as the total project costs did not exceed the expected or "appeal" budget—if they did, then the appeal and budget would be revised with donors as it was today. The approach was expected to enable Country Directors to respond more quickly to operational changes and to reduce over-budgeting. This flexibility would be based upon very specific trigger mechanisms, and the Country Director would be accountable for any changes in scenario.

12. **Request for more information on selection criteria for pilot projects:** The Secretariat noted that pilot countries were selected for the following reasons: program and infrastructural diversity; sufficient project duration to test process and financing improvements; and the presence of experienced Country Directors.



13. **Impact of proposed use of Operational Reserve on other projects:** The Secretariat informed that since the Operational Reserve had never been used before to finance any projects, the impact of utilizing it to finance the pilot projects on the rest of WFP's projects would be negligible.

14. **Request for more information on timeframe and eventual global implementation strategy:** The Secretariat noted that it would begin work on a global roll out plan later in 2004, taking into account lessons learned from the pilot projects and the parallel development of the required building blocks noted above. The Secretariat further informed that it would review the status of the overall project with the Board in October. Based on progress achieved at that time, the Secretariat might propose either to continue work on the pilots and building blocks before rolling out to Country Offices, to roll out partially in 2005, or to proceed with a global roll out.

15. **Ensure new business model is in line with WFP's Strategic and Management Plans:** The Secretariat assured the Committee that indeed all proposed improvements were very much in line with WFP's Strategic and Biennial Management Plans, approved by the Executive Board in October 2003.

16. The representative of the External Auditor did not have any specific concerns on the document, and endorsed the Secretariat's prudent and proper course of action through the pilot projects. He informed further that many United Nations organizations had similar working capital facilities. In conclusion, he also highlighted a number of areas that would require close attention going forward, notably the adaptation of procedures, changing relationships between headquarters and the field, financial skills, IT modifications and the need to ensure accountability.

17. The Committee, after considerable discussion of the issues summarized above, endorsed the recommendation to the Executive Board to use the Operational Reserve to finance these five pilot projects and took note of the WFP Executive Director's decision to allow an exception to Financial Rule 110.1 to allow use of the Operational Reserve for this purpose.

BASIS FOR CALCULATION OF INDIRECT SUPPORT COSTS (ISC) ON OCEAN TRANSPORT COSTS (DOC. WFP/EB.1/2004/5-B/1)

18. The representatives of the WFP Secretariat introduced the document and explained that the views of the Committee were being sought on the request of the Executive Director for Executive Board endorsement of the decision that the cargo preference premium portion of the US contributions not be subject to indirect support costs (ISC). This decision was taken in 2001 in response to a request from the donor to exclude ISC accordingly

19. The Secretariat had initially met the concerns of the donor by a process of accounting for the cargo preference premium as a pass through in WFP's books of account. The representative of the External Auditor recommended that the cargo preference premium be recorded as income and expenditures in WFP's books of account.

20. The Secretariat explained that, under the agreements between WFP and the donor there was a requirement that 75% of the commodity donated be transported on US Flag vessels as required by US legislation. These vessels had a higher average shipping rate than the non US flag ships. The WFP and donor had agreed that because the donor covered the premium, and the premium had no impact on the budget of WFP, the cargo preference premium included in the contribution should not be included in the calculation of Indirect Support Costs.

21. The representative of the External Auditor informed the Committee that he was satisfied with the document and that the draft decision met all his concerns.



22. The Committee noted the comments of the representative of the External Auditor and concluded that this was a housekeeping issue of a technical accounting nature. It further noted that a footnote would be included in the WFP Biennial Financial Statements to disclose this accounting treatment.

23. The Committee concluded that it had no objections to the proposal and recommended that the Executive Board endorse the action taken by the Executive Director.

Any Other Matters

DATE AND PLACE OF THE HUNDRED AND SEVENTH SESSION

24. The Committee was informed that the 107th Session was tentatively scheduled to be held in Rome from 10 to 14 May 2004. The final dates of the session would be decided in consultation with the Chairperson. The Committee requested that the Secretariat ensure that the sessions of FAO Council and the WFP Executive Board be taken into account in establishing the dates of the session.

ADJUSTMENTS TO THE PROGRAMME OF WORK AND BUDGET 2004-05

25. The Committee was advised of the steps being taken by the secretariat to prepare proposals to adjust the approved Programme of Work within the total approved budgetary appropriation based on the priorities expressed by the Governing Bodies and using the criteria for priority setting established by the Council¹. The Committee underlined the importance of respecting those priority areas that attracted broad support from Members and took note of the interim procedure adopted by the secretariat to freeze recruitment on most vacant posts as cost-saving measure.

¹ Conference Resolution 7/2003

