

برنامج
الأغذية
العالمي



Programme
Alimentaire
Mondial

World
Food
Programme

Programa
Mundial
de Alimentos

**Executive Board
Annual Session**

Rome, 20–23 May 2002

FINANCIAL AND BUDGETARY MATTERS

Agenda item 6



Distribution: GENERAL
WFP/EB.A/2002/6(A,C)/3
15 May 2002
ORIGINAL: ENGLISH

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:

- Item 6 a)—Preliminary Review of the Indirect Support Cost Rate
- Item 6 c)—Report of the Executive Director on the Utilization of Contributions and Waivers of Costs (General Rules XII.4 and XIII.4 (g))

This document is printed in a limited number of copies. Executive Board documents are available on WFP's WEB site (<http://www.wfp.org/eb>).

FC 99/WFP Report

May 2002



منظمة الأغذية
والزراعة
للأمم المتحدة

联合国
粮食及
农业组织

Food
and
Agriculture
Organization
of
the
United
Nations

Organisation
des
Nations
Unies
pour
l'alimentation
et
l'agriculture

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

E

FINANCE COMMITTEE

Ninety-ninth Session

Rome, 6–10 May 2002

Final Report – World Food Programme

I. Report of the Executive Director on the Utilization of Contributions and Waivers of Costs (General Rules XII.4 and XIII.4(G))

1. The Assistant Executive Director for Administration introduced this document and explained that this report was provided in compliance with the General Rules of WFP.
2. The Committee requested information on the specific commodities purchased from developed countries as presented in Annex I of the document¹. The secretariat agreed to provide the detailed information requested by the Committee. The Committee welcomed WFP's efforts to procure commodities in developing countries.
3. While welcoming the contributions from non-traditional donors, clarification was requested on the waiver of Indirect Support Costs (ISC) presented in Annex II of the document¹. The secretariat explained that when contributions were made by non-traditional donors, other donors were requested to fund the other associated costs. In some cases, all costs, including ISC, were covered. However, in these three cases the Indirect Support Costs were not covered by other donors and were waived by the Executive Director.

¹ doc. FC 99/16 (WFP/EB.A/2002/6-C/1)



II. Preliminary Review of ISC Rates

4. The Assistant Executive Director for Administration introduced the document and presented the background of the preparation of this paper². She presented the historical trends related to ISC income used to fund the programme and administrative support (PSA) budget, a comparison of PSA income and expenditure, and the outcome of the application of a single ISC rate to fund PSA for the biennium 2000-2001. She also highlighted several issues relating to this review, such as the analysis of the fixed and variable nature of these costs, the accounting policies of income and expenditures, and the appropriate level of PSA. She indicated to the Committee that this was a preliminary report, and that the work remaining to be done was outlined in the section on 'next steps' in the document.

5. The Committee noted that a working group should look at the longer-term issues related to support costs. The Committee considered the proposal of retaining the current ISC rate and recommended that the rate of 7.8% be retained for 2002, until a final decision is made by the Executive Board in October of this year.

6. The Committee invited the External Auditor to comment on the paper. The External Auditor noted that this was a useful document and that it provided extensive historical background, described problems related to resources and analyzed other sources of PSA income, such as host governments' contributions to local costs. She further explained that their report on the 2000-2001 biennium would include a comprehensive review of support costs and how they are managed. The External Auditor expressed concern that the current accounting principles lead to a distortion between recording of income and expenditure and that accounting principles should be consistent for both income and expenditure. She also noted that this review required more work, especially on the detailed analysis of the fixed and variable components of expenditure, and remarked that this analysis should be facilitated by the new information system. Furthermore, in the longer-term, the External Auditor expressed the view that the Secretariat should conduct a broader review of all the support costs, and ascertain what should be financed from ISC or other sources. Finally, it was the External Auditor's opinion that the ISC rate should be fixed for the entire biennium, in line with WFP's financial period.

7. The Committee noted with satisfaction the work completed to date on this issue, but recognized that this was an interim paper and that further work needed to be done. The Committee noted the need to focus on the next steps, which it considered comprehensive³. The secretariat confirmed to the Committee that it would make every effort to submit the next paper within the time required by the Committee.

8. The Committee concluded by endorsing the recommendations of the Executive Director that the Executive Board:

- a) take note of this preliminary review of the ISC rate while awaiting the outcome of a more complete and final review to be presented to the Third Regular Session of the Executive Board in October 2002;
- b) keep the current ISC rate for 2002; and
- c) agree with the "Next Steps" as set out below, to be reported on and presented to the Executive Board in October 2002:
 - i) Complete the analysis of the structural imbalances and the review of the existing accounting conventions for recording income and expenditures;
 - ii) Analyse the PSA cost structure, including fixed and variable costs, the structure of country offices and the effect of changes in volume and value of operations (this will also be the basis for determining the "step-like" increase in fixed costs and the possibility of setting a second rate for ISC, and procedures to implement this);
 - iii) In analysing the rates and the fixed and variable costs in the PSA, revisit the other funding options initially presented by the working group of 1998;

² doc. FC 99/17 (WFP/EB.A/2002/6-A/1)

³ ref. doc. FC 99/17, para 78, see also para 8c) below



- iv) Conduct a comparative study of the funding and costs for the administrative and support budgets of comparable United Nations organizations, and determine appropriate levels;
- v) Present the outcome of these analyses and studies to the External Auditor for review, with recommendations to be provided in October 2002;
- vi) Develop recommendations on methods of calculations for charging and collecting or levying this ISC income in order to fund the PSA at the appropriate level and at the appropriate time; and
- vii) Recommend or formulate other policies that may emerge from this study.

