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

- Item 4-B—Direct Support Cost Advance Facility
- Item 4-C—Proposed revision of WFP’s General Regulations, General Rules and Financial Regulations

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Advisory Committee on Administrative and Budgetary Questions

17 December 1998

Dear Ms Bertini,

Enclosed please find a copy of the Advisory Committee’s report on the World Food Programme’s reports on Direct Support Cost Advance Facility and the Proposed Revisions of WFP’s General Regulations, General Rules and Financial Regulations. I should be grateful if you could arrange for this report to be reproduced in-verbatim and placed before the Executive Board at its First Regular Session in 1999, as a complete and separate document. A printed version (in all languages) of the document should be provided to the Advisory Committee at its earliest opportunity.

Yours sincerely,

(Signed) C.S.M. Mselle
Chairman

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WORLD FOOD PROGRAMME

Financial and Budgetary Matters

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee on Administrative and Budgetary Questions has considered the World Food Programme’s Report on Direct Support Cost Advance Facility (WFP/EB.1/99/4-B) and the Proposed Revisions of WPF’s General Regulations, General Rules and Financial Regulations (WFP/EB.1/99/4-C/1). The Advisory Committee also had before it the Report of the Formal Working Group on the Review of WFP’s Resources and Long-term Financing Policies (WFP/EB.1/99/4-A) and the Decisions and Recommendations of the Third Regular Session of the Executive Board, 1998 (WFP/EB.3/98/13). During its consideration of these reports, the Committee met with representatives of the Deputy Executive Director who provided additional information and clarification.

Direct Support Cost Advance Facility

2. The Advisory Committee notes that the need for a facility to pre-fund direct support costs (DSC) was recognized by the Formal Working Group of the Executive Board, established in 1998 to review WFP’s resources and long term-financing policies (R&LTF). Moreover, the Working Group, in its report (WFP/EB.3/98/4-D) made the following recommendation:

“Recommendation 3.0

That the Executive Board recognize the need for a DSC pre-funding facility to enable WFP to commit and spend direct support monies in advance of confirmed contributions. The Board requests the Secretariat to provide, at the First Regular Session of the Executive Board in 1999, details of three options, i.e., creating a new fund; modifying an existing fund or account; and establishing a guarantee mechanism for a facility. The advice of the Advisory Committee on Administrative and Budgetary Questions (ACABQ) and FAO Finance Committee would be presented at the same time.”.

3. Paragraphs 4–9 of document WFP/EB.1/99/4-B explain the rationale for the DSC advance facility. The Executive Director points out that in the context of the review of the R&LTF policies, a change in the structure of the PSA is provided for. This change involves the recategorization of staff and non-staff costs in country offices, beyond the basic infrastructure indicated in paragraph 6 of the report, from PSA to project budgets as DSC as of 1 January 2000.

4. As indicated in paragraph 7 of the report, had this structure been utilized in the context of the 1998–99 biennial budget, a total of $33 million in costs would have been transferred from the PSA to project budgets. The Committee was further informed that of this total amount, approximately $28 million is estimated by the Secretariat to be available from multilateral resources, and can therefore be reprogrammed from indirect to direct costs. The amount of $5 million mentioned in paragraph 9 constitutes the amount that depends on directed, voluntary contributions, at risk of not being recovered.
5. The Executive Director therefore reviews the three options for the establishment of a DSC advance facility in paragraphs 10–15 of the report WFP/EB.1/99/4-B, and proposes a guarantee mechanism for DSC advance, arguing that such facility can most easily be established, implemented and overseen, while offering the most advantages. Among the advantages cited are the possibility of using the General Fund, as the need arises, which does not require setting apart additional resources for such purpose; the recording of DSC expenditure at the time it is actually incurred with related entries in the financial statements until collection of a contribution or such time when the Board determines resources will not be forthcoming; and the fact that the use of the General Fund as a DSC mechanism is within the competence of the Board, not requiring amendments to the General or Financial Regulations.

6. The Advisory Committee further notes that the amount of $5 million mentioned in paragraph 4 above, would be the estimated amount of a provision against the General Fund, using the 1998–99 biennium budget parameters. The primary rationale for the guarantee mechanism is to substitute an amount approximately equivalent to that traditionally approved in the PSA budget that will no longer be included—the $33 million in the 1998–99 budget—but which will give greater assurance to staff, whose funding is transferred from PSA (indirect cost) to direct support cost funding. In addition, since the budget parameters would change from biennium to biennium, the Executive Director would include proposals in each subsequent budget document as to what the amount of the direct support cost guarantee should be, as well as the amount of the provision against the General Fund.

7. The Advisory Committee agrees with the recommendations made by the Executive Director in paragraph 17 a, b, and c of the report. However, the Advisory Committee recommends redrafting paragraph 17 (d), as follows:

Unless otherwise decided, upon recommendation of the Executive Director, the Board agrees to review biennially the level and operation of the guarantee mechanism in all its aspects.

Decisions and Recommendations of the Third Regular Session of the Executive Board, 1998

8. The Committee notes, as indicated in document WFP/EB.3/98/13, that the Executive Board, at its Third Regular Session, while deciding to defer formal action on the Working Group’s report and the revisions to policies contained therein to its First Regular Session of 1999, instructed WFP to undertake such preliminary steps, as may be appropriate, so that changes would be implemented with minimum delay following the approval.

9. The Advisory Committee recommends approval of the amendments to the Financial Regulations as indicated in pages 7 and 8 of document WFP/EB.1/99/4-C/1, based on the assumption that the Board will implement the related policy changes recommended by the Formal Working Group to WFP’s Resource and Long-term Financing (R&LTF) policies.