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**Executive Board  
Third Regular Session**

**Rome, 19 - 22 October 1999**

# **FINANCIAL AND BUDGETARY MATTERS**

## **Agenda item 3**

### ***For information***



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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:

- Item 3-A—WFP's Biennial Budget (2000–2001)
- Item 3-B—Progress Report on Implementation of the External Auditor's Recommendations (1996–1997)
- Item 3-C—Funding of WFP's After-Service Medical Liabilities

At the request of ACABQ, a table on WFP Cost Re-Categorization 1998–99 vs. 2000–01 has been added as an annex to the present report.

## COPY OF LETTER RECEIVED FROM THE UNITED NATIONS—NEW YORK

Reference: AC/1401

Advisory Committee on  
Administrative and Budgetary Questions

21 September 1999

Dear Ms. Bertini,

Please find attached a copy of the report of the Advisory Committee on the World Food Programme's budget proposal for the 2000-2001 biennium (WFP/EB.3/99/3-A), as well as on the Second Progress Report on the Implementation of the Recommendations in the 1996-1997 Audit Report of the External Auditor (WFP/EB.3/99/3-B), and the Funding of WFP's After-Service Medical Liabilities (WFP/EB.3/99/3.C).

I should be grateful if you could arrange for the report to be reproduced *in-verbatim* and placed before the Executive Board at its forthcoming session 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 possible opportunity.

Yours sincerely,

(signed) C.S.M. Mselle  
Chairman

Ms. Catherine Bertini  
Executive Director  
World Food Programme  
Via Cesare Giulio Viola, 68/70  
00148 Rome  
Italy



## 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 World Food Programme's budget proposal for the 2000-2001 biennium (WFP/EB.3/99/3-A). In addition, the Advisory Committee had before it the reports entitled Second Progress Report on the Implementation of Recommendations in the 1996-1997 Audit Report of the External Auditor (WFP/EB.3/99/3-B), Funding of WFP's After-Service Medical Liabilities (WFP/EB.3/99/3-C), and WFP Financial Rules (WFP/EB.3/99/3-D). During its consideration of these reports, the Committee met with the Executive Director and her colleagues who provided additional information and clarification.
2. The Advisory Committee welcomes the presentation of the budget estimates following the standard harmonized format adopted by the other voluntarily-funded programmes of the United Nations, and the considerable improvement and quality of the budget document. Although the document incorporates a number of recommendations and suggestions made in previous reports of the Committee, the Committee recommends that future budget documents include concise information, indicating treatment of all recommendations of the Committee, as done by the United Nations and other funds and programmes. The Committee also recommends that the presentation of tables containing information by region be corrected to accurately describe the regions.
3. As shown in table 1, and explained in paragraphs 40-46, the Executive Director has revised the estimates of availability of resources in 1998-1999, from the original projection of \$2,491 million to \$3,280 million. WFP's total delivery estimates for 1998-1999 have been revised from the original planned operational level of 4,381 thousand tons of commodities to 6,684 thousand tons. As a result of the increase in operations (except for those related to development), the Executive Director, invoking the authority granted to her by the Executive Board, which allows her to adjust the PSA budget (Programme support and administrative budget) in accordance with the variation of the volume of operations, when such variations are more than 10 per cent from the planned level, adjusted the PSA component from the initial amount of \$203.6 million to \$225.6 million --an increase of \$22 million.
4. The Committee notes that these upward revisions were mostly due to the donation of a large amount of additional commodities from one Member State, in addition to increases in the donations of several other Member States. These increases are certainly welcome and commendable. The Committee encourages WFP to continue to ensure that the operational and administrative infrastructure of the programme is sufficiently flexible at all times to adjust to changes in the level of operation.



5. For the biennium 2000-2001, as indicated in paragraph 50 and table 2 of document WFP/EB.3/99/3-A, WFP's estimated resources amount to \$2,742 million. The proposed amount reflects a decrease of \$538 million, or 16.4 per cent, from the revised 1998-1999 budget of \$3,280 million. WFP's total delivery estimates for 2000-2001 are 5,165 thousand tons, reflecting a decrease of 22.7 per cent as compared to the revised total delivery estimates of 6,684 thousand tons in 1998-1999. The Committee recalls that WFP's estimated available resources consist of commodities, cash and acceptable services. For 2000-2001, the resource projection of \$2,742 million includes the value of commodities in kind estimated at \$792 million, cash contributions including cash in lieu of commodities (CLC) estimated at \$1,865 million, government cash contributions towards local cost (GCCC) of 2 million and interest and other income of \$84 million. The Advisory Committee recommends that future budget submissions include information on the carryovers from past biennia, as well as interest income, both in the narratives and the attached tables.

6. The projected volume of operations of 5,165 thousand tons includes an estimated level of contributions of 1,505 thousand tons for development, 1,852 thousand tons for emergency operations (EMOP) and 1,808 thousand tons for protracted relief and recovery operations (PRRO), as shown in table 3. The respective estimated value is \$618 million for development, \$1,040 million for EMOP, \$945 million for PRRO, as further shown in table 4.

7. Table 5 of the proposed biennial budget document provides the breakdown of the total budget for 2000-2001 by cost category and appropriation line. One of the key aspects of the revised resource and long-term financing policies (R&LTF), as indicated in paragraph 19 (WFP/EB.3/99/3-A), is the re-categorization of costs, by which "some costs previously considered as indirect support costs under PSA will shift to project DSC while certain DSC project deliverable costs will now be classified as DOC". In addition to the explanations provided below, the Committee is attaching a table, which illustrates WFP's cost re-categorization for the biennium 2000-2001, as compared to 1998-1999. The Committee notes, from the information shown in table 5 of the document, that an amount of \$2,268.7 million is estimated for direct operational costs (DOC), an amount of \$389.5 million for support costs, and \$83.9 for the General Fund. Support costs, as indicated in paragraph 59, under the revised resource and long term financing policies (R&LTF), consist of direct (DSC) and indirect support costs (ISC), the latter constituting practically the totality of the PSA budget.

8. Of the total estimated amount of \$389.5 million for support costs, direct support costs amount to \$195.6 million, while the estimated amount for indirect support cost (ISC or PSA) budget is \$193.9 million. The Committee notes from table 15 that total support costs constitute 14.2 per cent of turnover, slightly less than that for the last two biennia, resulting in large part from the shift of costs from DSC to DOC. As indicated in paragraph 22 of the document, "In aggregate terms, approximately \$69 million of DSC in the revised 1998-1999 estimates will shift to DOC in 2000-2001".

9. The Committee further notes that the Executive Board is requested to allot up to \$33 million for purposes of advancing direct support costs (DSC) under the DSC Advance Facility (see paragraph 16 (e) containing the recommendation of the Executive Director for adoption by the Executive Board). The purpose of the DSC Advance Facility is briefly stated in paragraph 61 as a "guarantee mechanism" allowing WFP to authorize expenditure of DSC up to a limit established by the Board, thus ensuring availability of funds for the purpose of financing country office costs that have shifted from PSA to DSC prior to the receipt of confirmed contributions.



10. The DSC Advance Facility was subject to review by the Advisory Committee and its comments were submitted on to the Executive Board in its report dated 17 December 1998 (WFP/EB.1/99/4-B/1). The Committee reiterates its recommendation regarding the need to "review biennially the level and operation of the guarantee mechanism in all its aspects". Information should be provided, in the context of the next budget presentation, on the performance of the facility, including justification for the level requested for the next biennium.

11. The PSA budget includes a net decrease of \$32.4 million resulting from the shift from PSA to DSC to fund country office support costs in 2000-2001, under the revised R&LTF policies. The Committee also notes that the PSA projected budget proposes a single rate for recovery of ISC of 7.8 per cent, instead of the 8 per cent envisaged in the strategic and financial plan 2000-2003.

12. The staffing table for the PSA budget and organizational breakdown of posts is provided in tables A and B respectively; while the PSA budget by unit and appropriation line is provided in tables C and D, for 1998-1999 and 2000-2001 respectively. With regard to the latter, the Committee recommends that the information for both biennia be consolidated into one comparative table. The Committee notes that PSA funded staff provides for 1,143 posts, of which 379 are at the professional level. Information on posts funded from direct support costs is contained in table 16. The Committee notes that 2,960 posts are proposed under DSC funding, of which 390 are at the professional level. As a result of the new format of the document, the cost recategorization and, in particular, the shift in funding for many of the country office employees from PSA to DSC, it is difficult to compare the 2000-2001 presentation with the previous biennia. The Committee is of the opinion that the presentation of posts for support activities and the related estimate of expenditure for staff costs need more transparency. The Committee recommends that the next biennial budget proposal include a single consolidated table showing direct and indirect support cost posts and the related estimate of resources to replace tables 16, A and B.

13. Paragraphs 144-145 of the proposed biennial budget document indicate that the Executive Director is seeking authority from the Board on a global number of authorized post upgradings through a percentage formula, which establishes a ceiling of not more than 2 per cent of total staff, or 40 upgradings. The Committee notes, as indicated therein, that the 1998-1999 budget included provision for 10 post upgradings, to be applied against PSA-funded posts. However, in view of the revised R&LTF policies for 2000-2001, the Executive Director considers that the scope must be widened beyond the PSA component to include the totality of applicable posts, regardless of the funding mechanism. The Committee was informed, upon enquiry, that taking into account a total of 4,143 posts, but deducting 1,398 of the DSC funded posts under special service agreement (SSAs), short-term and project-specific in nature, as well as 316 posts also not eligible for promotion (JPOs, UNVs, D-2 and above, etc.), the total number of remaining posts would amount to 2,389. The 40 posts proposed for possible upgradings constitute approximately 2 per cent of this total.

14. The Advisory Committee recommends acceptance of the Executive Director's request, subject to provision by the Executive Director, in the context of the presentation for the next biennium budget, of pertinent information on the number and grades of posts that have been reclassified. Moreover, the Committee trusts that this authority will in no way distort the staffing pyramid of the programme and that any upgrading to levels higher than P-5 will be subject to the usual procedure of prior review by the Advisory Committee and approval by the Executive Board.



15. With regard to the government cash contribution towards local cost (GCCC), indicated in paragraph 5 above, the Committee notes the modalities for recovery indicated in paragraph 39. According to information received, current arrangements do not facilitate the collection of GCCC. The Committee welcomes, therefore, the revision of certain elements of the mechanism, in line with the implementation of the revised R&LTF policies, as well as WFP's intention to aggressively pursue GCCC and the incorporation of such obligations in the agreements with the recipient countries.

16. Paragraph 62 of document WFP/EB.3/99/3-A states that, once fully implemented, "the new DSC budgeting process will help WFP strategically review and adjust the country office structure and staffing level for each country as circumstances change. It will help strengthen the decentralization process, and promote a transparent control of costs". The Advisory Committee is of the view that transparency and cost control should apply equally to PSA and to operational costs. In paragraph 97, it is further indicated that DSC may, under special circumstances, be used to cover certain outside country costs, "including short-duration posts in regional clusters, at headquarters and other related costs" although a direct linkage must exist between the activity funded and the applicable DSC contribution. In this regard, the Committee was informed, upon inquiry, that guidelines are being prepared to manage this procedure. The Committee welcomes this action.

17. Paragraphs 122-146 of the WFP proposed budget document provide an overview of the other support budget initiatives to be addressed in the 2000-2001 budgetary period. The Advisory Committee believes there is a need to indicate an estimated expenditure amount for a number of these initiatives, as done by the other funds and programmes of the United Nations. Furthermore, the Committee has repeatedly called for the need to increase collaboration and cooperation among all entities of the UN regarding such matters as uniform training standards and security and safety of personnel and property. (See the Advisory Committee's First report on the proposed programme budget of the UN for the biennium 2000-2001, A/54/7, paragraphs VIII.28-29 and X.27, for example)

18. The subject of results-based management (RBM) is briefly addressed in paragraphs 23-27 (WFP/EB.3/99/3.A). The Committee notes the emphasis made as to the fact that "a complete transition to RBM will take several biennia". The Advisory Committee is of the view that careful planning and design by WFP, drawing upon the experience of other organizations, funds and programmes, and Member States, as well as review by the Advisory Committee and the Executive Board, are essential in order to avoid confusion and disruption in programme delivery, and management of WFP operation.

19. The Advisory Committee recommends adoption of the budget for the period 2000-2001 submitted by the Executive Director in document WFP/EB.3/99/3-A, and of the draft decision contained in paragraph 16 of that document.

20. As indicated in paragraph 1, the Committee also had before it the document containing the Second Progress Report on the Implementation of Recommendations in the 1996-1997 Audit Report of the External Auditor (WFP/EB.3/99/3-B). The Advisory Committee welcomes the progress made by WFP in implementing the external auditor's recommendations, and has no additional comments in this regard. The Committee recommends that the Executive Board take note of the progress report. The Committee notes that the document entitled WFP Financial Rules (WFP/EB.3/99/3-D) is circulated for information purposes only, bringing the financial rules in line with the revision of the General Regulations, General Rules



and Financial Regulations following the establishment and implementation of the resource and long-term financing policies (R&LTF).

21. The Advisory Committee also welcomes the analysis and related proposal presented in the document entitled Funding of WFP's After-Service Medical Liabilities (WFP/EB.3/99/3-C). The Committee notes that the Executive Director is recommending that the accrued liability of \$44.8 million, as at 31 December 1997, for after-service medical costs be provided for in the 1998-1999 biennium against the unearmarked balance of the General Fund. The representatives of the Executive Director assured the Committee that this proposal would in no way jeopardize the integrity of the General Fund since it would be financed by the interest accrued. Current service costs for after service medical coverage for 1998 and subsequent years would be provided for in the biennial budgets of the organization. The actuarial valuation of the cost for 1998 is \$1.3 million per annum, and the Executive Director's proposal consists in disbursing the after-service medical claims in excess of retiree contributions against the accrued liability. As indicated in paragraph 19 (WFP/EB.3/99/3-C), the budgetary impact in accounting would be minimal since service costs for 1998 amount to \$1.3 million and excess claims payment to \$1.2 million.

22. The Advisory Committee therefore agrees with the recommendation of the Executive Director, included in paragraph 21 of the report and recommends adoption by the Executive Board of the decision contained in paragraph 23 of the report. The Advisory Committee further recommends that the Executive Board establish a trust fund for this purpose, to be evaluated from time to time in actuarial terms; and that the Executive Director propose an appropriate financial regulation for this fund for review and approval by the Executive Board, after examination by the Advisory Committee. The Committee also recommends that the income from investment of the assets of the trust fund be credited to the fund itself.



## ANNEX





## WFP Cost Re-Categorization 1998-99 vs. 2000-01 (in million US\$)

	Volume	DIRECT OPERATIONAL COSTS (DOC)	DIRECT SUPPORT COSTS (DSC)		INDIRECT COSTS (ISC)		GENERA FUND	TOTAL
1998-99 1/	6.684 million tons	2 706.4	267.20		225.60		80.60	3 279.80
2000-01 (OLD) 2/	5.165 million tons	2 175.2	93.50 4/	163.30	32.40	193.90	83.80	2 742.10
2000-01 (NEW) 3/	5.165 million tons	2 268.7	195.70		193.90		83.80	2 742.10
		DOC	DSC		ISC			

### Explanatory Notes:

- 1/ This line shows estimated 1998-99 tonnage and dollar values by cost category as currently defined.
- 2/ This line shows projected 2000-01 tonnage and dollar values as they would appear under the old cost categories.
- 3/ This line shows projected 2000-01 tonnage and dollar values by revised cost categories under R&LTF. Note that a portion of DSC funded under the old category (US\$93.5 million) will now become DOC, and that a portion of ISC under the old category (US\$32.4 million) will now become DSC.
- 4/ US\$45.5 million of the US\$93.5 million of DSC shifting to DOC represents project inputs utilized directly in operations/projects by beneficiaries, the government of the recipient country or other implementing partners. The remaining US\$48 million represents the reclassification of Special Operations and bilateral programmes from DSC to DOC.

