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Programme
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World
Food
Programme

Programa
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de Alimentos

**Executive Board
First Regular Session**

Rome, 10–11 February 2014

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 4



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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 the following agenda items:

- Financial Framework Review: Working Capital Financing (WFP/EB.1/2014/4-A/1)
- Method for Calculating the Indirect Support Cost Rate for WFP (WFP/EB.1/2014/4-B/1)



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COUNCIL

Hundred and Forty-ninth Session

Rome, 16-20 June 2014

Report of the 152nd Session of the Finance Committee (Rome, 21-22 January 2014)

Executive Summary

At its 152nd Session, the Committee considered a number of financial and budgetary matters relating to the World Food Programme (WFP) prior to their consideration by the First Regular Session of the WFP Executive Board in February 2014.

Suggested action by the Council

The Council is invited to note the views and recommendations of the Finance Committee in respect of matters considered by the First Regular Session of the WFP Executive Board in February 2014.

Queries on this document may be addressed to:

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REPORT OF THE HUNDRED AND FIFTY-SECOND SESSION OF THE FINANCE COMMITTEE (21–22 January 2014)

Introduction

1. The Committee submitted to the Council the following report of its Hundred and Fifty-second Session.
2. In addition to the Chairperson, Mr MOUNGUI MÉDI, the following representatives of Members were present:
 - Ms Kristina Gill (Australia)
 - Mr Olyntho Vieira (Brazil)
 - Mr Khaled M.S.H. Eltaweel (Egypt)
 - Ms Melanie Rosenbaum (Germany)
 - Mr Abdoulaye Traore (Guinea)
 - Mr Hideya Yamada (Japan)
 - Mr Alan Romero Zavala (Mexico)
 - Mr Mohamed Lemghari (Morocco)
 - Mr Khalid Mehboob (Pakistan)
 - Mr Vladimir V. Kuznetsov (Russian Federation)
 - Ms Elizabeth Petrovski (USA)
3. The Chairperson informed the Committee that:
 - Ms Kristina Gill had been designated to replace Mr Matthew Worrell as the representative of Australia for this session;
 - Mr Khaled M.S.H. Eltaweel had been designated to replace Mr Magdi Anwar as the representative of Egypt for the remainder of its term of office;
 - Ms Melanie Rosenbaum had been designated to replace Mr Georg Friedel Cramer as the representative of Germany for this session;
 - Mr Alan Romero Zavala had been designated to replace Ms Emma María José Rodríguez Sifuentes as the representative of Mexico for this session;
 - Mr Benito Santiago Jiménez Sauma had been designated to replace Mr Alan Romero Zavala as the representative of Mexico for part of this session;
 - Mr Mohamed Lemghari had been designated to replace Mr Fouzi Lekjaa as the representative of Morocco for this session;
 - Ms Abla Malik Osman Malik (Sudan) did not attend this session; and
 - Ms Elizabeth Petrovski had been designated to replace Ms Natalie Brown as the representative of the United States of America for this session.
4. A summary of the qualifications of the substitute representatives can be downloaded from the Governing and Statutory Body Web site at: <http://www.fao.org/unfao/govbodies/gsbhome/finance-committee/substitute-representatives/en/>
5. In addition, silent observers from the following Member Nations attended the 152nd Session of the Committee:
 - Belgium
 - Finland
 - Netherlands
 - Republic of Korea
 - United Kingdom

Election of Vice Chairperson

6. Mr Matthew Worrell (Australia) was elected unanimously Vice-Chairperson for 2014.

World Food Programme Matters

Method for calculating the Indirect Support Cost Rate for WFP

7. The Committee considered the document *Method for Calculating Indirect Support Cost Rate for WFP* which was presented as the first phase of a two-phase review. The document highlighted four questions on which the Secretariat was requesting guidance as well as feedback from Members to shape the scope of the second phase of work.

8. The Committee welcomed the report and the structure of the document setting out the drivers for the review. It noted that the method of treating Indirect Support Costs in WFP had evolved over time from 1995, and that the most recent review of the Indirect Support Cost (ISC) rate had been carried out in 2006. It acknowledged that WFP's transition from food aid to food assistance, and calls in the Quadrennial Comprehensive Policy Review (QCPR) for greater United Nations system-wide harmonization, made a review of the ISC model at WFP timely.

9. The Committee underlined the complexity of the undertaking. It wondered if the time between WFP's Executive Board meeting in February 2014 and the Annual Session of the Board in June 2014 was sufficient for informal consultations and necessary analysis to take place and to arrive at conclusions. Following clarifications by the Secretariat, it acknowledged that the complexity of the review would largely depend upon the Member's feedback on the four questions for guidance.

10. The Committee recognized that WFP was obliged to address issues raised within the QCPR, which stemmed from a United Nations General Assembly resolution in 2012. It further recognized the requirement for WFP to consult with its Executive Board on common definitions and the concept of core resources. The Committee underlined that, in establishing a position, due consideration had to be given to the differing business models of United Nations organizations and to the 100 percent voluntary funding model of WFP.

11. The Committee provided initial feedback on areas where guidance was sought. It:

- recommended that the principle of full cost recovery implemented in 1995 should remain, recognizing however that this required a more comprehensive review and analysis by the Secretariat of the sources of funding presently used to cover costs related to programme support and administration prior to any consideration of changes to WFP's cost recovery framework;
- noted that the paper had raised the question of whether a change to multiple rates could or should be considered for different programme categories or activity types. It felt that the continuation of a single ISC rate for all programmes and activities would be beneficial for all stakeholders for reasons of simplicity and transparency, and that a single rate would avoid the risk of promoting use of less appropriate programme categories;
- recognised, on the issue of the use of variable ISC rates, that lower ISC rates could incentivize certain donors including the private sector and through South-South cooperation. It also recognized that, in order to formulate a position, more information and analysis was required from the Secretariat, including the practices of other United Nations organizations; and
- noted WFP's distinct business model, which differed from other organisations within the United Nations system, and considered that some flexibility should be provided in order for WFP to meet its mandate. Accordingly, the Committee did not support a core budget model for WFP, as this might disincentivize the Secretariat's drive towards increased efficiency. It enquired whether it would be more helpful to consider the possibility of dealing with core costs through specific appropriation lines for PSA purposes.

12. The Committee:

- a) **thanked the Secretariat for the document and for its recognition of the need to carry out a review of ISC, taking due account of similar exercises undertaken in other United Nations Agencies as well as WFP's unique business model;**
- b) **provided initial feedback that continuation of a single ISC rate for all programmes and activities would be beneficial for WFP; and that a core budget model for WFP would not be supported, but requested more details on the concept as it applied to other Funds and Programmes;**
- c) **requested further analysis by the Secretariat of the various sources of funding presently used to cover costs related to programme support and administration; and more information and analysis, including the practices of other United Nations organizations on the use of variable ISC rates to incentivize certain donor contributions;**
- d) **cautioned about the ambitious timeline for the review, but recognized that the scope of the analysis was dependent upon feedback by the Executive Board;**
- e) **noted that the ISC method agreed by the Board in 2006 could potentially be a point of departure for the review; and**
- f) **encouraged the Executive Board to examine the document and its proposals in light of the initial guidance provided in this report.**

Financial Framework Review: Working Capital Financing

13. The Committee considered the document *Financial Framework Review: Working Capital Financing* presented by the Secretariat, which provided an introduction to the Financial Framework Review and introduced three proposals for expanding the Working Capital Facility. These proposals included increasing the size of the Operational Reserve and/or seeking guarantees for advances, changing the leverage factors for individual advance financing tools, and providing "pooled" advance funding for operations on the basis of country-level resourcing trends.

14. The Committee noted that the document was presented for consideration to the Executive Board with the main objective of seeking initial feedback on the three outlined proposals.

15. The Committee was informed by the Secretariat that the three proposals for expansion of the Working Capital Financing Facility (WCFF) were mutually exclusive, and that based on the feedback of the Board at its February 2014 meeting, further consultation was planned before the Annual Session in June 2014 with the provision of more detailed analysis of the three proposals, with support from an external review by a consultancy firm. The consultancy firm would analyse the costs and benefits of the working capital expansion and advise on appropriate financial risk management parameters.

16. The Committee thanked the Secretariat for the document and welcomed the three proposals on the expansion of the WCFF.

17. The Committee sought a number of clarifications on: (i) the projected overall size of the WCFF and its components; (ii) anticipated efficiency benefits; (iii) risk factors related to the proposed pooled advance financing and the conditions and modalities of application of such financing, including the varying capacities of the country offices; (iv) determination of the leverage ratios; (v) possible application of advances on a regional basis; and (vi) comparison to the banking industry.

18. The Committee was informed that the current utilisation rate of the WCFF was 90 percent with, in particular, the advances to projects being constrained by the current limit of USD 257 million, which was equivalent to only 6.1 percent of the expected funded Programme of Work in 2014 compared with 9.9 percent in 2010 and 11.3 percent in 2011. In this context it was also informed that the Forward Purchase Facility (FPF) had reached its optimal level.

19. **The Committee:**

- a) **examined** the *Financial Framework Review: Working Capital Financing* document;
- b) **noted** that the Working Capital Financing mechanisms were developed since inception in 2005 based on specific risk parameters and that WFP had gained the necessary experience in the implementation of these mechanisms;
- c) **noted** that advanced financing can stabilize funding for country offices and help to avoid pipeline breaks while reducing lead times, and recognized that further reduction of funding uncertainty at the country level was desirable;
- d) **noted** that the three proposals were mutually exclusive with the common goal to increase advance financing capacity at WFP pending confirmation of donor contributions and which might be implemented together or separately;
- e) **expressed** the need for additional information as outlined in paragraph 17 and including on (i) the projected overall size of the WCFF, (ii) the new pooled advance financing mechanism, and (iii) the determination of the leverage ratios;
- f) **noted** the three proposals for expansion of the Working Capital Financing Facility and looked forward to receiving detailed information and undertaking further consultation before the Annual Session of the Executive Board in June 2014; and
- g) **recommended** the Executive Board to take note of the Committee's comments in their review of the document.

20. The Finance Committee observed that it might be useful to examine both documents - *Method for Calculating the Indirect Support Cost Rate for WFP* and *Financial Framework Review: Working Capital Financing* – in the wider context of the financial framework review.

Other Matters

Working Methods of the Finance Committee

21. The Committee noted that the Rules of Procedure of the Finance Committee regarding the election of a Vice-Chairperson (Rule I, paragraph 1) had not been updated to reflect the revised calendar of FAO Governing Bodies and agreed to consider at a future session whether the Rules of Procedure should be updated accordingly.

Date and Place of the Hundred and Fifty-third session

22. The Committee was informed that the 153rd Session was scheduled to be held in Rome from 26 to 30 May 2014.