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Programme
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World
Food
Programme

Programa
Mundial
de Alimentos

**Executive Board
First Regular Session**

Rome, 4–6 February 2008

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 5&6



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4 February 2008

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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:

WFP's Private-Sector Partnership and Fundraising Strategy
(WFP/EB.1/2008/5-B/1)

Progress Report on the Implementation of the External Auditor's
Recommendations
(WFP/EB.1/2008/6-B/1)

Global Vehicle Leasing Programme and Self-Insurance Scheme
(WFP/EB.1/2008/6-C/1)

Update on the WFP Management Plan
(WFP/EB.1/2008/6-D/1)

Update on the WINGS II Project
(WFP/EB.1/2008/6-E/1)

February 2008



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y la
Alimentación

COUNCIL

Hundred and Thirty-fifth Session

Rome, 14 November 2008

Report of the 121st Session of the Finance Committee
Rome, 31 January – 1 February 2008

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**REPORT OF THE HUNDRED AND TWENTY-FIRST SESSION OF
THE FINANCE COMMITTEE**

31 January – 1 February 2008

1. The Committee submitted to the Council the following report of its Hundred and Twenty-first Session, which had been convened at the request of the World Food Programme (WFP) to review financial issues that would be presented to the upcoming session of the WFP Executive Board.

2. The following representatives were present:

Chairperson: Mr Yasser A.R. Sorour (Egypt)

Vice-Chairperson: Mr Lee Brudvig (United States of America)

Members: Mr MOUNGUI MÉDI (Cameroon)

Mr Li Zhengdong (China)

Mr Søren Skafte (Denmark)

Mr Jean-Jacques Soula (France)

Mr Eckhard W. Hein (Germany)

H.E. Don Jorge E. Chen Charpentier (Mexico)

Mr Aamir A. Khawaja (Pakistan)

H.E. Don Eudoro Jaén Esquivel (Panama)

Mr Robert Sabiiti (Uganda)

3. The Committee expressed concern about the late arrival of some of the documentation and organizing the meeting of the Finance Committee back-to-back with the meeting of the Executive Board. In some instances, the late receipt of documents from WFP had made it difficult for members to adequately prepare and consult for the session. The Committee expressed a wish that in future WFP take all measures necessary to ensure that documentation is circulated in due time, according to the WFP Rule of Procedure III.6, and to Rule III.1 of the Finance Committee.

4. Mr Lee Brudvig (United States of America) was unanimously elected Vice-Chairperson for 2008.

DATE AND PLACE OF THE HUNDRED AND TWENTY-SECOND SESSION

5. The Committee was informed that the 122nd Session was tentatively scheduled to be held in Rome from 26 to 30 May 2008. The Committee requested that wherever possible, any matters concerning WFP should be dealt with in conjunction with FAO matters. The final dates of the session would be decided in consultation with the Chairperson.

WORLD FOOD PROGRAMME MATTERS

WFP PRIVATE SECTOR FUNDRAISING STRATEGY (WFP/EB.1/2008/5-B/1)

6. The Secretariat presented the report outlining WFP's private sector fundraising strategy, which included plans for partnerships with corporations, foundations and private individuals, using a self-financing support model.

7. The Committee welcomed, also with reference to the critical comments from the External Auditor on past practices, the strategy of fundraising from the private sector, noting with appreciation the consultative process that followed the development of the strategy and called for continued involvement of member states.



8. The Committee raised questions on the potential conflict of interest arising from partnerships with companies that also had a commercial relationship with WFP. The Secretariat explained that there was a firewall between the private sector partnership initiative and processes of procurement in WFP. Private sector partners would not be given any advantages in procurement processes; however, they should also not be put in an unduly disadvantaged position in commercial dealings with WFP. On the question of benefits to private sector donors, the Secretariat stated that the positive publicity a company gained by partnering with WFP had proven to be a substantial benefit in itself.

9. The Committee recommended that the Secretariat report to the Board in more detail on the policies and procedures employed to avoid any conflict of interest between private sector partnership initiatives and commercial links with companies.

10. The Committee supported the self-financing model of implementation, noting it would help alleviate the burden on the regular support budget of WFP. It was also noted that income projections were variable and would be monitored regularly. The additional fee charged on donations (over and above the WFP indirect support cost rate set by the Executive Board) would vary according to individual donors and circumstances, and in respect of the principle of full cost recovery, noting that the current industry average is around 25 percent. On this specific question regarding the rate to be charged, the Committee asked the Secretariat to discuss the matter with member states.

11. The Committee noted that the advances for initial financing of the private sector fundraising strategy would come from the General Fund, which currently had a balance of approximately US\$18 million, subject to confirmation during the closure of financial accounts for 2006-2007. The Secretariat agreed to review risks to ensure the advances for private sector fundraising did not unduly encumber the General Fund.

PROGRESS REPORT ON THE IMPLEMENTATION OF THE RECOMMENDATIONS OF THE EXTERNAL AUDITOR (WFP/EB.1/2008/6-B/1)

12. The Secretariat introduced the document, stressing that reports on the implementation of the recommendations of the External Auditor were provided to all sessions of the Executive Board. The report included the External Auditor's review of those items the Secretariat had deemed completed.

13. The Committee raised questions and the Secretariat provided clarifications on: WFP activities in Dubai; the relationship between the Audit Committee and the External Auditor; decentralization and the location of WFP offices; action taken in respect of staffing and consultancy contracts; and the frequency of the implementation reports.

14. The External Auditor noted that the process of reporting on WFP implementation was rigorous and that the External Auditor reviewed the responses and implementation; he provided as an example the recommendation on the outstanding item related to the United Nations Development Programme (UNDP).

15. The Committee took note of the report and the status of implementation of the recommendations and, noting the views expressed by ACABQ, recommended that they continue to be kept under review with respect to the frequency of presentation of the report to the Board, the Committee requested that this question be put to members for examination.



WFP VEHICLE LEASING PROGRAMME AND SELF-INSURANCE SCHEME (WFP/EB.1/2008/6-C/1)

16. After receiving clarification by the Secretariat on the financing of the programme and self-insurance scheme, on the working of the Special Account and the possibilities of expanding the service to United Nations (and other) organizations, the Committee welcomed the programme as a positive activity and encouraged WFP to make this service available to others. The Committee would have appreciated more details on the self-insurance scheme.

UPDATE ON THE WFP MANAGEMENT PLAN (2008–2009) (WFP/EB.1/2008/6-D/1)

17. The Secretariat presented the Update on the WFP Management Plan (2008–2009), which outlined significant cost increases for commodities, landside transport, storage and handling (LTSH), other direct operational cost (ODOC) and direct support cost (DSC) budgets due to unprecedented increases in world prices for food commodities and fuel, as well as the continuing exchange rate fluctuations. It also showed the potential impact of such fluctuations on the Programme Support and Administrative (PSA) budget.

18. The Committee expressed concern that there was limited information provided on mitigating measures to deal with those cost increases and their impact on existing and future programmes, especially regarding education and health

19. During the review of potential impacts, the Secretariat informed the Committee that discussions were ongoing with donors on alternatives to fund the projected shortfall of approximately US\$1 billion; however, no concrete projections were put forward.

20. The Committee also noted that the current US\$/Euro exchange rate, if maintained for the full biennium, could potentially reduce the balance of the PSA Equalization Account at the end of 2009 to negative US\$12.7 million. The Secretariat indicated that the projected balance of the unearmarked portion of the General Fund would be sufficient to cover such a deficit in the PSA Equalization Account. It reiterated its commitment to continually review the issues, revising the PSA budget for 2009 if necessary. The Committee was further informed about a certain, direct contribution of US\$2 million to the PSA.

21. The Committee looked forward to future updates on price movements, the funding situation, and the impact of changes on the PSA Equalization Account and General Fund.

UPDATE ON THE WINGS II PROJECT (WFP/EB.1/2008/6-E/1)

22. The Secretariat introduced the document, noting that the key aims of WINGS II were to upgrade the current version of SAP and re-engineer the business process to reduce customization.

23. The Committee asked about the adherence to the agreed budget of US\$49 million and discussed the impact of exchange rate variations on the project budget and contingencies. The Committee would have appreciated more details on the US\$6 million impact of rate of exchange.

24. In response to questions on the deferred activities, the Secretariat informed the Committee that these would not impact on the core business processes, including compliance with International Public Sector Accounting Standards (IPSAS). However, the scope of the project would be reduced in order to remain within the allocated budget.

25. The Committee also expressed interest in the external report received recently by the Secretariat. It was informed of the nature of the recommendations and told that the Secretariat was in the process of evaluating them.

26. The Committee looked forward to receiving future updates.