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Alimentaire
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World
Food
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Programa
Mundial
de Alimentos

**Executive Board
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RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

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CONSOLIDATED FINANCIAL REPORT



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NOTE TO THE EXECUTIVE BOARD

This document is submitted for information to the Executive Board.

The Secretariat invites members of the Board who may have questions of a technical nature with regard to this document to contact the WFP staff focal points indicated below, preferably well in advance of the Board's meeting.

Director, Finance Division (FS): Mr S. Sharma tel.: 066513-2700

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Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact the Supervisor, Meeting Servicing and Distribution Unit (tel.: 066513-2328).



EXECUTIVE SUMMARY

This Consolidated Financial Report provides a consolidated report on financial matters that are to be reported to the Board for information.

The document presents information on the use of unrestricted cash resources to purchase commodities and details of in-kind contributions and waivers of indirect support costs (ISC), as required under General rules XII.4 and XIII.4 (e) and (f).

The document also presents information and analysis in the Cash and Investment Management Report on the budgetary performance of WFP for the 2002–2003 biennium.

DRAFT DECISION*

The Board takes note of the information contained in the Consolidated Financial Report (WFP/EB.A/2004/6-A/1).

* This is a draft decision. For the final decision adopted by the Board, please refer to the Decisions and Recommendations document issued at the end of the session.



INTRODUCTION

1. The present document presents financial issues under a single document. With the exception of the External Auditor's Report and the Audited Biennial Accounts, which are submitted under separate agenda items, financial information on the following matters are consolidated in this report:
 - a) Report on the Utilization of Resources and Waivers;
 - b) Cash and Investment Management; and
 - c) Report on Budgetary Performance, 2002–2003.

SECTION A: REPORT ON THE UTILIZATION OF RESOURCES AND WAIVERS

2. In this section, information is provided to the Board in accordance with General Rules XII.4 and XIII.4 on: (i) the use of unrestricted cash resources to purchase commodities (General Rule XII.4); (ii) contributions of commodities or services only, from governments of developing countries, countries with economies in transition and other non-traditional donors (General Rule XIII.4(e)); and (iii) waivers of ISC for contributions in-kind to cover DSC (General Rule XIII.4(f)).

Use of Unrestricted Cash Resources to Purchase Commodities (General Rule XII.4)

3. For the purposes of this report, multilateral contributions of cash for the development programme category have been considered unrestricted cash resources even though these resources may be used, in some instances, to purchase commodities in the donor country. The resources have been utilized to meet annual requested/allocated commitments under development projects.
4. In 2003, US\$91.3 million unrestricted cash was available, of which US\$37.1 million, or 40.6 percent, was utilized to purchase commodities from developing countries, and US\$54.2 million, or 59.4 percent, for purchases from developed countries. Details are shown in Table A1.
5. Further information on purchases of commodities from developing countries from all cash resources and under all programme categories is included in the Annual Performance Report of the Executive Director.



TABLE A1: REPORT ON THE USE OF UNRESTRICTED CASH RESOURCES IN 2003 FOR THE PURCHASE OF COMMODITIES UNDER GENERAL RULE XII.4 (in US\$)

Purchased from	Developing countries	Developed countries
Argentina	234 916	
Bangladesh	606 018	
Belgium		1 719 635
Benin	493 958	
Bhutan	467 831	
Brazil	89 240	
Burkina-Faso	2 607 503	
Cameroon	1 084 964	
Canada		18 736 126
Chad	165 790	
China	1 384 625	
Cuba	678 653	
Denmark		21 241 070
Ethiopia	3 000 916	
France		271 250
Ghana	46 406	
Honduras	139 740	
India	10 689 490	
Italy		922 491
Ivory Coast	133 867	
Japan		10 140 705
Kenya	777 056	
Laos	45 960	
Lesotho	511 048	
Madagascar	200 984	
Malawi	572 017	
Malaysia	329 405	
Mauritania	2 483	
Mozambique	1 157 386	
Namibia	882	
Nepal	1 929 903	
Netherlands		851 596
Niger	1 920 888	
Pakistan	278 023	
Rwanda	198 615	
Senegal	810 607	
Singapore	46 074	
South Africa	1 175 109	
Sudan	1 176 184	
Syria	103 058	
Tanzania	496 796	
Thailand	430 080	
Uganda	2 306 477	
USA		273 000
Zambia	782 200	
Total	37 075 150	54 155 873
Percentage	40.6%	59.4%



Contributions for Commodities or Services (General Rule XIII.4(e))

6. In 2003, the value of contributions of commodities or services only that were received from governments of developing countries, countries with economies in transition and other non-traditional donors under General Rule XIII.4(e) was US\$19,073,244. Cash contributions of US\$3,059,209 from other donors and US\$11,866,596 from WFP's resources were utilized in support of the contributions. US\$1,372,439 of ISC was waived on contributions from developing countries, as shown in Table A2.

TABLE A2: CONTRIBUTIONS MADE IN 2003 UNDER GENERAL RULE XIII.4 (e) (in US\$)				
Donor	Value	Other costs		ISC waived
		Covered by other donors	Covered by WFP	
Algeria	10 215 000		11 504 920	715 050
Cuba	470 391	446 625		33 000
Dominican Republic	46 626			3 637
Egypt	20 408	500		
Eritrea	47 250	54 552		3 308
ICRC	2 785 809	352 279		219 712
Kenya	2 700 000	1 068 255		189 000
Kenya	957 980	1 130 013		67 059
Malawi	1 454 716		361 676	101 830
Private donors–Thailand	5 700	6 985		1 029
UNDP–Bolivia	40 000			2 800
UNICEF–Afghanistan	329 364			36 014
Total	19 073 244	3 059 209	11 866 596	1 372 439

Waivers of ISC for In-kind DSC (General Rule XIII.4(f))

7. The total value of waivers of ISC granted on US\$6,740,982 of contributions made in kind for DSC amounted to US\$471,869 for 2003. Table A3 provides the details by donor, programme category, recipient country, contribution, value and ISC waiver.



TABLE A3: WAIVERS OF INDIRECT SUPPORTS COSTS IN 2003 IN RESPECT OF CONTRIBUTIONS IN-KIND TO COVER DSCs UNDER GENERAL RULE XIII.4(F) (in US\$)

Donor	Recipient country	Contribution	Value	ISC waived
Denmark	Nepal	In-kind staff	39 373	2 756
Denmark	Cameroon	In-kind staff	44 352	3 105
Denmark	Palestinian Terr.	In-kind staff	96 348	6 744
Denmark	Southern Africa Reg.	In-kind staff	317 925	22 255
Denmark	Ghana	In-kind staff	43 377	3 036
Denmark	Ivory Coast	In-kind staff	8 511	596
Denmark	Iraq Regional	In-kind staff	182 768	12 794
Denmark	Angola	In-kind staff	102 239	7 157
Denmark	Uganda	In-kind staff	92 354	6 465
Denmark	Iraq Regional	In-kind staff	289 974	20 298
Denmark	Liberia	In-kind staff	74 008	5 181
Denmark	Chad	In-kind staff	41 023	2 872
Japan	Iraq - Air Op.s	In-kind services	655 000	45 850
Norway	Southern Africa Reg.	In-kind staff	91 439	6 401
Norway	Ivory Coast	In-kind staff	210 548	14 738
Norway	West Africa Reg.	In-kind staff	234 665	16 427
Norway	Iraq Regional	In-kind staff	552 224	38 656
Norway	Eritrea	In-kind staff	142 272	9 959
Norway	Angola	In-kind staff	288 450	20 192
Norway	Nepal	In-kind staff	83 798	5 866
Norway	Cambodia	In-kind staff	58 648	4 105
Norway	Iraq Regional	In-kind staff	160 818	11 257
Norway	Iraq Regional	In-kind staff	182 817	12 797
Norway	Iraq - UNJLC	In-kind staff	251 314	17 592
Private Donors - RedR Australia	Iraq - Regional	In-kind staff	232 528	16 277
Private Donors - Ericsson	Liberia	In-kind staff	38 203	2 674
Sweden	Angola	In-kind staff	168 847	11 819
Sweden	Iraq Regional	In-kind staff	231 347	16 194
Switzerland	Southern Africa	In-kind staff	419 827	29 388
Switzerland	Ivory Coast	In-kind staff	47 967	3 358
Switzerland	Southern Africa	In-kind staff	124 206	8 694
Switzerland	Eritrea	In-kind staff	180 956	12 667
Switzerland	Angola	In-kind staff	270 386	18 927
Switzerland	West Africa Reg.	In-kind staff	111 037	7 773
Switzerland	Congo, DR	In-kind staff	97 698	6 839
Switzerland	Afghanistan Reg.	In-kind staff	28 760	2 013
United Kingdom	Southern Africa	In-kind staff	136 934	9 585
United Kingdom	West Africa Reg.	In-kind staff	56 129	3 929
United Kingdom	Iraq - Air Op.s	In-kind staff	170 654	11 946
United Kingdom	Iraq - UNJLC	In-kind staff	181 258	12 688
Total			6 740 982	471 869



SECTION B: CASH AND INVESTMENT MANAGEMENT

8. This section of the report discusses the flow of cash during 2003, the composition of WFP's cash and short-term investment, the analysis of the cash balances in terms of their purpose, and key management initiatives undertaken during 2003.

Cashflow in 2003

9. As at 1 January 2003 WFP had cash and short-term investment balances of US\$968 million. During 2003, cash inflows from contributions, interest and miscellaneous income amounted to US\$2,085.9 million. Cash outflows for operational expenditures, programme support and administration, refunds to donors, and long-term investment of staff benefits funds amounted to US\$2,146.3 million. This resulted in a reduction in cash balances of US\$60.6 million during 2003.
10. As at 31 December 2003, WFP had US\$907.4 million in cash and short-term investments. An additional US\$59.2 million was held in trust locally in country offices. A further US\$64.0 million was invested in long-term investments for the staff-related benefit fund, and US\$62.2 million in United States Treasury STRIPS for repayment of a long-term loan.

Composition of Cash and Short-Term Investments

11. Of the US\$907.4 million cash and short-term investment, US\$26.9 million, or approximately 3 percent, was held in country office accounts; the remaining US\$880.5 million, or 97 percent, was in Headquarters-managed accounts.

TABLE B1: BREAKDOWN OF CASH AND INVESTMENTS (in US\$ million)				
	Year ended 31 December 2003	Year ended 31 December 2002	Increase/(Decrease)	
			Amount	In %
Country Office	26.9	17.8	9.1	51.1
Headquarters				
– Headquarters bank accounts	55.3	66.2	(10.9)	-16.5
– Money market and short-term investment accounts	825.2	884.0	(58.8)	-6.7
Total Headquarters	880.5	950.2	(69.7)	-7.3
Total cash and short-term investments	907.4	968.0	(60.6)	-6.3

12. An aggregate of US\$26.9 million was held in 237 bank accounts in country offices. The increase in country office cash holdings reflects the increased level of operations in 2003. Notwithstanding the increased activity, cash balances were kept to a maximum of approximately one week's operating requirements. This was achieved by close monitoring of bank balances and the implementation of zero-balance accounts (ZBA) in countries with large volumes of disbursements such as Iraq, Jordan, Syria, Ethiopia, South Africa and Sudan.



13. At Headquarters, US\$19.5 million was held in five operating bank accounts, US\$28.2 million in six other bank accounts and US\$7.6 million in the zero-balance master accounts. The Secretariat continued to adjust cash balances to ensure that minimal balances of cash were retained in lower-interest-yielding operating accounts.

⇒ *Money market and short-term investment accounts*

14. WFP had a total of US\$825.2 million in money market (US\$45 million) and short-term investment accounts (US\$780.2 million) at the end of 2003. The balance in the money market account represented about 1.5 weeks' operating cash requirements. The money market account is a diversified assets portfolio that invests exclusively in high-quality, highly liquid money market instruments such as government, bank and commercial obligations. The portfolio permits withdrawals at very short notice and even same-day value. In 2003, the money market account had an average annual return of 1.13 percent compared with average interest rates of 0.90 percent in US bank deposits.
15. At 31 December 2003, the short-term investments managed by external investment managers had a market value of US\$783.4 million (book value of US\$780.3 million), after fees and realized gains. Throughout the year, the portfolio averaged approximately US\$750 million with 6 deposits and 21 withdrawals in 2003, compared to 6 deposits and 5 withdrawals in 2002. Table B2 shows the movements in short-term investments in 2003.

TABLE B2: MOVEMENTS IN SHORT-TERM INVESTMENTS IN 2003 (in US\$ million)		
Opening balance, 1 January 2003		787.4
Deposits	638.0	
Income received net of realized gains and losses	21.2	
Total inflow		659.2
Investment in long-term (staff benefit fund)	(65.0)	
Withdrawals	(600.3)	
Fees and expenses	(1.0)	
Total outflow		(666.3)
Closing balance, 31 December 2003		780.3

16. Throughout 2003, the short-term fixed income portfolio was managed by four external investment managers. The contract of one of the investment managers was allowed to expire in December 2003 due to a consistently below the benchmark performance (A in Table B3) during the previous two years. A replacement manager was then selected through competition. The investment service agreement with the new investment manager was concluded in January 2004, and investing activities started the following month. Table B3 shows the market value of investments held by the investment managers, along with their annual investment performance after fees and expenses. Two of the investment managers exceeded the performance benchmark.



**TABLE B3: MARKET VALUE AND ANNUAL PRERFORMANCE OF WFP'S
SHORT-TERM PORTFOLIO**

Investment Manager	Market value as at 31 Dec 2003 (US\$ million)	Annual performance %	Index (JP Morgan's 3 month cash) %	Target over index %	Excess (Shortfall) over index %
A*	–	0.74	1.32	0.50	-0.58
B	281.13	1.88	1.32	0.50	0.56
C	179.97	1.77	1.32	0.50	0.45
D	280.40	1.77	1.32	0.50	0.45
C (Emerging Donor Fund)	41.86	1.84	1.32	0.50	0.52
Total	783.36	1.76	1.32	0.50	0.44

*Fully liquidated as at 31 December 2003.

17. The annual performance of the total short-term investment portfolio net of investment fees was 1.76 percent, 44 basis points over the base index of 1.32 percent (J.P. Morgan three-month cash index). This is a very positive result in view of the current environment when interest rates are at low levels.
18. The target was 50 basis points outperformance (compared to 44 basis points actual) over the index, which would have been 38 percent over the index. The actual performance of 44 basis points was 33 percent over the index, which is a very good result.

Other Cash and Investment Balances

⇒ *Funds held in trust in country offices*

19. At 31 December 2003, funds held in trust of US\$59.2 million in 16 country offices grew by 25 percent over 2002 levels of US\$47.4 million. The increase is mainly due to US\$12.0 million received by the country office in Ecuador at the end of 2003. Approximately 61 percent of total funds held in trust are held in United States dollars, while the remaining 39 percent are in local currencies.
20. In 2003, the Secretariat arranged the investment of funds that are not immediately needed for project implementation on behalf of the country offices in Ecuador and Colombia. As at the end of 2003, these investments amounting to US\$6.0 million, or 10 percent of the total funds held in trust, were held in highly liquid and high credit quality segregated money market accounts outside the country. In early 2004, US\$12.0 million was invested by the Secretariat on behalf of a country office, thereby reducing the position of the in-country funds from 90 to 70 percent.

⇒ *Loan repayment fund*

21. In 2001, WFP invested US\$66.3 million in long-term United States Treasury STRIPS with maturity dates and values matching the interest and principal payments required for the long-term loan. The second interest payment of US\$2.1 million was made in May 2003, leaving a balance in the STRIPS of US\$62.2 million as at the end of 2003.



⇒ *Staff benefits funds*

22. In July 2003, two new investment managers were selected through competition to manage the staff benefit funds in accordance with the asset/liability study: 40 percent global equities and 60 percent global bonds. As at 31 December 2003, the staff benefit fund had a surplus of US\$2.5 million; the book value of the assets was US\$64.0 million (US\$68.6 million market value), while the actuarial valuation of the staff benefit liabilities was US\$61.5 million.

Attribution of Cash and Short-Term Investment Balances

23. The total cash and short-term investment on hand at 31 December 2003 consisted of US\$481.7 million related to operational activities, and US\$425.7 million related to reserves and other accounts.

TABLE B4: CASH AND SHORT-TERM INVESTMENTS AS AT 31 DECEMBER 2003 (in US\$ million)	
Cash related to operating activities	
Committed for outstanding obligations	224.0
Commitments in progress	257.7
Total cash related to operating activities	481.7
Cash related to reserves and other accounts	
Reserves	199.5
Bilaterals and trust funds	96.9
General fund and special accounts	129.3
Total cash related to reserves and other accounts	425.7
Total cash and short-term investments	907.4

⇒ *Cash related to operating activities*

24. This represents cash set aside for payment of project expenditures committed or already incurred but unpaid, and cash contributions received towards the end of the year that are in the process of being committed. The US\$481.7 million balance of cash related to operating activities is 53.0 percent of total cash and short-term investments, and is equivalent to three months' cash expenditures at 2003 levels. While the levels of cash balances related to operating activities has shown a modest decrease in 2003 the ratio to cash contributions shows a significant decrease.

	2003	2002
Contributions	2 319.8	1 557.2
Cash-balance related to operating activities	481.7	508.5
Percentage of cash balance to contributions	20.8%	32.7%



⇒ *Cash related to reserves and other accounts*

25. This portion of cash pertains to reserves authorized by the Board for specific purposes to ensure continuity of operations. It includes US\$57 million in Operational Reserve, US\$32.7 million in the Immediate Response Account (IRA), US\$15.9 million in DSC Advance Facility, US\$0.2 million in other reserves, US\$26.6 million in the Self Insurance Fund, US\$46.3 million in the Emerging Donor Matching Fund, and US\$150.1 million in the Programme Support and Administrative (PSA) equalization account and General Fund. US\$96.9 million of bilaterals and trust funds are also part of this portion of cash. The US\$425.7 million cash related to reserves and other accounts represents 47 percent of total cash and short-term investments.

Key Management Initiatives in 2003

⇒ *Zero-balance accounts (ZBAs) and electronic banking*

26. Leveraging on the existing banking relationships of country offices with two major banks in 2003, WFP expanded the ZBAs complemented by electronic banking (e-banking) in 12 country offices: Dubai, Ethiopia, Iraq, Jordan, Kenya, Pakistan, Somalia, South Africa, the Sudan, Syria, Tanzania and Zimbabwe. Disbursements from the country offices zero-balance sub-accounts are funded from the master account on a daily basis, resulting in zero balances in country office sub-accounts at the end of each day. ZBAs are a more efficient way of managing cash than maintaining balances in individual bank accounts.
27. The zero-balance United States dollar accounts are based offshore and are used to replenish the local bank accounts frequently as needed and to effect payments in currencies other than that of the host countries. As the ZBAs and e-banking afford country offices immediate access to cash, it is no longer necessary to hold large cash balances in the country offices or make transfers from Headquarters bank accounts. The total average monthly cash requirements for the 12 country offices mentioned above was about US\$42 million.
28. In addition to minimizing cash balances in country offices, the banking arrangement generated US\$680,000 in savings in bank charges and commissions for part of the year, enhanced the capacity of country offices in addressing the surge in volume of operations, protected the value of WFP funds from onerous foreign exchange controls in certain countries, and shortened the turn-around time in transferring cash to the local bank accounts.
29. For the 12 countries where ZBAs were implemented in 2003, it is estimated that for bank fees and commissions alone an annual savings of more than US\$1.0 million can be achieved. As the Secretariat plans to expand and implement the ZBA and e-banking in 25 countries in 2004, more saving is anticipated.

⇒ *Cash management in country offices*

30. The Treasury Branch at Headquarters continued to provide service to country offices to obtain the most favourable local currency rates, particularly in those countries with limited access to the foreign exchange markets. During the process of implementing the ZBAs and e-banking in 12 country offices, FST has also conducted training in bank relationships and cash management, raising the country offices' level of awareness in the time value of money, payment risks and cheque frauds, value for services and the search for competitive foreign exchange rates.



⇒ *Banking review*

31. A review of banking services in Headquarters and country offices was performed by an independent consultant. The consultant reported that the current banking arrangement for Headquarters is sufficient, and that policies and procedures were consistent with good cash management practices observed at other institutions.

⇒ *Investment management*

32. The Secretariat continued to strengthen its investment monitoring capabilities with the implementation of an alert-notification system that monitors the external investment managers' activities on a daily basis and identifies departures from the approved investment guidelines. The Investment Committee provided guidance and oversight on investment management through its four regular quarterly meetings and four special meetings that took place in 2003. In addition to these meetings, the Secretariat also met and sought the advice of the FAO Advisory Committee on Investments on a range of investment and global custody issues.
33. In 2003, all four investment managers presented to the Secretariat the portfolio performance and the economic outlook relevant to the portfolio—a mandatory annual visit and presentation before the WFP Investment Committee. It has also been the Secretariat's practice to visit the investment managers on an annual basis.

SECTION C: REPORT ON BUDGETARY PERFORMANCE 2002- 2003

34. During the biennium, WFP rose to the challenge of providing food aid in response to an increasing number of humanitarian emergencies around the world. The urgent need for assistance was evident around the world, from the drought in southern Africa to the humanitarian crises in Afghanistan and Liberia, and culminating in WFP's largest humanitarian operation ever in Iraq.
35. Donors provided generous support during the biennium, enabling WFP to meet the additional needs resulting from the emergencies cited above.
36. This overview section is intended to give the reader a global view of WFP's budgetary performance during 2002–2003. The 2002–2003 budget, as in previous biennia, was based on resource forecasts.

HOW WFP'S OPERATIONS ARE MEASURED

37. WFP operations, from a donor's pledge to the distribution of food to beneficiaries, tend to be a lengthy process and can be viewed using several different bases. At least four of these are used to measure the level of those operations: (i) the resource base; (ii) the shipment base; (iii) the delivery base; and (iv) the distribution base.
- The **resource base** measures the volume of resources that becomes available during the biennium. This includes balances of confirmed contributions from the preceding period that have not yet been received, and confirmed contributions for the current period. Contributions received in advance are subtracted from this total, resulting in resources available for calling forward.
 - The **shipment base** measures the volume of commodities that is shipped or purchased from the point of origin. Such volume consists of commodities called forward—shipping instructions (SI) issued—but not shipped in the previous biennium, and



commodities called forward in the current period, less any outstanding shipment or purchase in the current biennium.

- The **delivery base** is the measurement of volume of commodities that has reached recipient countries. This measurement includes the arrival of shipments and/or receipt of purchases effected in the preceding period, together with the arrival of shipments and/or receipt of commodities purchased locally during the current biennium.
- The **distribution base** reflects the total volume delivered, plus the balance of in-country stocks, to show the total level of availability for distribution to beneficiaries. This level is adjusted for any post-c.i.f. (cost, insurance, freight) losses.

38. In 2002–2003, WFP used the availability of resources as the primary determinant for the level of operations. Beginning with the 2004–2005 Management Plan, WFP is taking a needs-driven approach to budgeting that will facilitate a more transparent and valid measure of “budgetary performance”.

THE ORIGINAL 2002–2003 APPROVED WFP BUDGET

39. The approved biennial WFP budget was US\$2.931 billion, to fund the delivery of 5.471 million tons of food and related support costs. The breakdown of the US\$2.931 billion was: US\$2.416 billion for food and its delivery; US\$248 million for direct support costs (DSC); and US\$210 million for the PSA budget.

CONTRIBUTIONS — PROJECTED VERSUS ACTUAL

40. Table C1 shows contributions received during the biennium, as compared with the original budget estimates. There is an overall increase of 85.4 percent in actual contributions received compared with the original projections. The greatest increase was registered in the emergency operation (EMOP) category (148.7 percent). There was also an increase in the protracted relief and recovery operation (PRRO) category of 45.3 percent. In contrast, contributions to the development category were 20.9 percent lower than the original budget projections.

	2000–2001	2002–2003		
	Actual	Original budget	Revised budget	Actual
Development	481	599	461	464
PRRO	797	864	933	1 441
EMOP	1 737	1 297	2 650	3 391
Special Operations	71	51	81	130
General Fund/Special Account/Bilateral/Trust Funds	111	63	319	226
Total	3 197	2 874	4 444	5 652



VOLUME OF OPERATIONS — PROJECTED VERSUS ACTUAL

41. The projected level of operations for the 2002–2003 biennium was revised from 5.471 million tons to 8.716 million tons, a 59.3 percent increase over the original estimate. The primary reason for this was large-scale operations in southern Africa, Afghanistan and Iraq.
42. By the end of the biennium, WFP had actually shipped 9.929 million tons, an increase of 4.458 million tons, or 81.5 percent, compared with the original budget. This tonnage level also represented an increase of 28.3 percent from 2000–2001.
43. Table C2 shows the volume of operations by programme category in comparative terms. It shows:
- Development shipments were 24.2 percent lower than the original budget projection.
 - PRRO shipments were 43.3 percent higher than the original budget projection.
 - EMOP shipments were 171 percent higher than the original budget projection.

	2000–2001	2002–2003		
	Actual shipped	Original estimated availability	Revised estimated availability	Actual shipped
Development	1 310	1 462	1 148	1 108
PRRO	1 755	1 601	1 760	2 295
EMOP*	4 671	2 408	5 808	6 526
Total	7 736	5 471	8 716	9 929

*EMOP category for 2002–2003 includes 1.48 million MT in bilaterals (of which 1.44 million MT is attributable to Iraq).

VALUE OF OPERATIONS — PROJECTED VERSUS ACTUAL

44. Against the increase in volume outlined above, actual expenditure for the 2002–2003 biennium was 73.9 percent higher than the original budget estimates, and 59.9 percent above the 2000–2001 actual expenditure level.
45. Table C3 shows the projected value of WFP's operations by programme category for 2002–2003 in comparison with actual values for 2000–2001.



TABLE C3: VALUE OF OPERATIONS: PROJECTED VERSUS ACTUAL, 2002–2003 (in US\$ million)				
	2000–2001	2002–2003		
	Actual expenditure	Original budget	Revised budget	Actual expenditure
Development	446	600	461	423
PRRO	810	864	932	1 149
EMOP	1 696	1 297	2 650	2 940
Special Operations	69	51	81	119
General Fund/Special Account/Bilateral/Trust Funds*	169	120	280	469
Total	3 190	2 932	4 404	5 100

*Includes US\$232 million in PSA expenditure.

46. Table 3 illustrates that:

- Development expenditures were 29.5 percent lower than the original 2002–2003 estimate and 5.2 percent lower than actual expenditures in 2000–2001.
- PRRO expenditures were 33 percent higher than the original estimates and 41.9 percent above the 2000–2001 actual expenditures.
- EMOP expenditures were 126.7 percent higher than the original budget estimates and 73.3 percent higher than the 2000–2001 actual expenditures.
- Special Operations (SO) expenditures were 133.3 percent higher than the original budget estimates, owing to an increase in support to relief activities, and 72.5 percent above the 2000–2001 actual expenditures.

47. Table C4 shows expenditures by cost category for 2002–2003 in comparison with 2000–2001 actual expenditures.



**TABLE C4: 2002–2003 REVISED BUDGET VERSUS ACTUAL EXPENDITURE—
BY COST ITEM (in US\$ million)**

	2000–2001	2002–2003			
	Actual expenditure	Original budget	Revised budget	Actual expenditure	Actual versus original budget (% increase/decrease)
DOC					
Commodities in kind	908	753	1 142	1 708	127
Commodity purchases	605	528	735	1 012	92
Subtotal commodities	1 513	1 281	1 877	2 720	112
Ocean transport	442	370	477	438	18
LTSH	515	640	982	947	48
ODOC	119	125	294	235	88
Subtotal DOC	2 589	2 416	3 630	4 340	80
Direct support costs	371	248	443	507	104
Indirect support costs/PSA*	230	210	231	232	10
Special accounts/General Fund	0	57	99**	0	N/A
Total***	3 190	2 931	4 403	5 079	73

* PSA actual expenditure for 2000–2001 amounted to US\$235.9 million, including US\$6.3 million transferred to the FMIP special account.

** Includes US\$5.6 million security assessment for UNSECOORD and US\$20 million in Trust Funds.

*** Total expenditures of US\$5,079 million by cost item are US\$21 million lower than by programme category due to interprogramme charges which are offset.

48. The overall actual expenditure for the 2002–2003 biennium amounted to US\$5.1 billion, compared with the original budget estimate of US\$2.9 billion and the revised budget estimate of US\$4.4 billion.

PROGRAMME SUPPORT AND ADMINISTRATIVE (PSA) BUDGET

49. For the 2002–2003 biennium, PSA covered the following:

- a basic minimum country office structure, considered essential for a WFP presence;
- regional offices support costs; and
- all Headquarters support costs.

50. Income from ISC funds most of WFP's PSA budget.

Original PSA Budget

51. The Secretariat proposed and the Executive Board approved a PSA budget of US\$210 million for 2002–2003. This PSA level was based on a volume level of 5.471 million tons.



Revised PSA Budget

52. The estimated level of operations was revised to 8.716 million tons, an increase of 59.3 percent. To compensate for this increase, the Executive Director adjusted the biennial PSA budget to US\$231 million, an increase of US\$21 million, or 10 percent higher than the original budget of US\$210 million. The adjustments were made by the Executive Director, under his authority, "to adjust the budget in accordance with any variation in volume of operations when such variations are more than 10 percent from the planned level."
53. Table C5 shows total PSA expenditure by appropriation line for 2002–2003 in comparison with 2000–2001 actual expenditures.

TABLE C5: PSA—BY APPROPRIATION LINE (US\$ thousand)				
	2000–2001	2002–2003		
	Actual expenditure*	Original budget	Revised estimates	Actual
Programme support: regional and country offices	78 602	87 722	88 943	80 911
Programme support: Headquarters	35 621	18 692	19 331	70 763
Management and administration	121 641	103 386	122 726	80 528
Total	235 864	209 800	231 000	232 202

*Includes US\$6.3 million transferred to the FMIP special account.

54. Comparison of PSA income with PSA actual expenditures shows a surplus for the 2002- 2003 biennium, as shown in Table C6. This surplus flows to the PSA equalization account.

TABLE C6: SURPLUS BETWEEN PSA INCOME AND EXPENDITURES (US\$ million)	
Source	2002–2003
ISC	353.5
GCCC	2.6
Total PSA income	356.1
Less: PSA actual expenditures	(232.2)
PSA surplus	123.9

IMPACT OF EURO/USD EXCHANGE RATE FLUCTUATIONS

55. The original 2002–2003 budget was based on an exchange rate of 1 Euro = US\$0.88. By the end of 2003, the Euro had risen to US\$1.25. This variation had a significant impact on salaries in Headquarters and other European locations. The largest impact was in the General Service category in Headquarters where salaries are paid in Euros but budgeted in



United States dollars. The impact of the rate of exchange came to US\$5.1 million resulting in a negative impact on the staff cost variance account.

USE OF DIRECT SUPPORT COST ADVANCE FACILITY (DSCAF)

56. During the 2002–2003 biennium, WFP advanced US\$63.4 million of DSC under the advance facility to 130 different operations located in 65 countries. Of this amount, US\$43 million was required for development activities and US\$42 million for EMOPs and PRROs.
57. In 2002, WFP advanced US\$12 million, of which US\$5 million was for development activities and the remaining US\$7 million was allocated to assist country offices with the start-up costs of EMOPs and PRROs.
58. In 2003, WFP advanced US\$51.4 million, of which US\$21.4 million was for development activities and US\$30 million for EMOPs and PRROs.
59. Of the US\$63.4 million advanced in 2002–2003, about US\$20 million was allocated to cover the cost of 180 international staff. Funding from the facility was also used to cover more than 1,000 local positions.

SUMMARY

- The overall contributions for the biennium amounted to US\$5.327 billion.
- There was a marked increase in contributions for the EMOP programme and a decrease in those for development.
- During the biennium, 9.929 million tons were shipped; the EMOP category accounted for the highest level of shipments.
- The total expenditure for the biennium amounted to US\$5.1 billion.
- The Executive Director adjusted the PSA component of the budget in accordance with the variation in volume of operations of more than 10 percent from the planned level. In 2002–2003, the actual volume of operations was 81.5 percent greater than planned; the Executive Director increased the PSA budget from US\$210 million to US\$231 million, an increase of 10 percent.
- The use of the DSCAF facilitated the early start and implementation of projects, delivery of WFP's services and fewer disruptions in staffing contracts.



ACRONYMS USED IN THE DOCUMENT

DSC	direct support costs
DSCAF	direct support costs advance facility
FAO	Food and Agriculture Organization of the United Nations
FMIP	Financial Management Improvement Programme
GCCC	government cash counterpart contributions
IRA	Immediate Response Account
ISC	indirect support costs
LTSH	landside transport, storage and handling
ODOC	other direct operating costs
PSA	Programme Support and Administrative
STRIPS	separate trading of registered interest and principal of securities
UNJLC	United Nations Joint Logistics Center
UNSECOORD	Office of the United Nations Security Coordinator
ZBA	zero-balance account

