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**Executive Board
Annual Session**

Rome, 28–30 May 2003

RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 6

For consideration

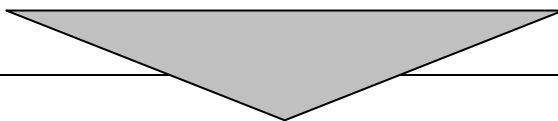
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COMPREHENSIVE FINANCIAL REPORT

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Note to the Executive Board



This document is submitted for consideration 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.

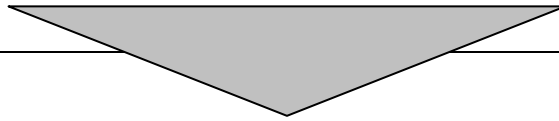
Director, Finance Division (FS): Mr S. Sharma tel.: 066513-2700

Deputy Director, FS: Mr E. Whiting tel.: 066513-2701

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



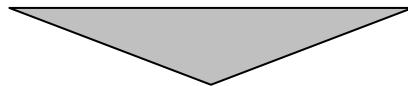
This document provides a comprehensive consolidated report on financial matters that do not require presentation as separate agenda items but that contain important financial management information.

The document presents the interim financial results for 2002, information and analysis relative to cash and investment management issues and information on projects closed to date, with explanation of the process followed in the disposition of closed project balances. It also presents details of surplus funds that have been refunded or reprogrammed in accordance with the Executive Director's expenditure plan subsequent to the October 2002 session of the Board.

The report includes 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 contains information on the procedures to be followed in financial administration of the capital assets fund (CAF) and the programme support and administration (PSA) equalization account, as requested by the Board at its Third Regular Session in October 2002.

Draft Decision*



The Board:

- takes note of the information contained in the Comprehensive Financial Report;
- looks forward to receiving information on the funding and utilization of the CAF as part of the biennial management plan and budget for 2004–2005; and
- looks forward to receiving information on the balance of the PSA equalization account as part of the audited biennial accounts for 2002–2003.

* 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. At its Third Regular Session in October 2002, the Board took a number of decisions on financial and budgetary matters under separate agenda items, including the Audited Biennial Accounts 2000–2001, WFP’s Cash Balances, the Final Report on Balances of Projects Closed prior to 2001 and the Final Report on the Adjustment of the ISC Rates. These decisions are addressed in this comprehensive financial report. Reporting on related financial issues in a single document responds to the conclusion of the Food and Agriculture Organization of the United Nations (FAO) Finance Committee (WFP/EB.3/2002/5-A/3) that there was a need to rationalize the presentation of financial information to the Executive Board. This document includes all financial matters other than those included in the documents submitted on Amendments to the Financial Regulations (WFP/EB.A/2003/06-C1) and the Issues on Financial Policies (WFP/EB.A/2003/06-A/1).
2. The following financial matters are presented for consideration by the Board:
 - a) Interim Financial Report for 2002;
 - b) Cash and Investment Management;
 - c) Final Outcome on the Balances of Closed Projects;
 - d) Report on the Utilization of Funds for Reprogramming;
 - e) Report on the Utilization of Resources and Waivers;
 - f) Procedures for the Capital Assets Fund; and
 - g) Procedures for the PSA Equalization Account.



SECTION A: INTERIM FINANCIAL REPORT FOR 2002

3. The interim financial report is based on unaudited financial statements and reports pertaining to the financial operations of WFP for the year 2002.
4. Beginning with the 2002–2003 biennium, the accounting policy for the recognition of income has been changed from a cash basis to an accrual basis. Exceptions to this policy are commodity in-kind contributions, which are recognized upon receipt of the commodities, and cash contributions for bilaterals and trust funds, which continue to be recognized on a cash basis. For comparability and consistency, the accounts of the 2000–2001 biennium have been restated to conform with the accrual method.

Income and Expenditure

5. A summary Statement of Income and Expenditures and Reserves and Fund Balances for the year ended 31 December 2002 is presented in Table A2. WFP recorded a total income on an accrual basis of US\$2,076.4 million; total expenditures were US\$1,689.7 million.
6. Income consisted of US\$492.5 million in commodities in kind, US\$1,557.2 million in cash pledges, and US\$26.7 million from interest and other income. ISC income of US\$110.2 million was included in the cash pledges.
7. The total cost of commodities purchased and donated in kind was US\$798.9 million; ocean transport costs were US\$141.5 million. Other expenditures consisted of US\$373.8 million landside transport storage and handling (LTSH), US\$70.5 million other direct operational costs (ODOC), US\$207.5 million direct support costs (DSC) and US\$97.5 million of PSA costs.
8. Ocean transport costs in 2002 were 36 percent lower than the annual average of the last biennium due to a lower volume (16.5 percent) of shipments and exclusion from income and expenditure of premiums amounting to US\$48.0 million paid under cargo-preference rules for United States shipments.
9. LTSH expenditure was higher in 2002 primarily because of complex emergency operations such as Afghanistan with high overland and internal transport, storage and handling (ITSH) costs.
10. PSA expenditures in 2002 amounted to US\$97.5 million, which is 46.5 percent of the approved 2002–2003 PSA budget of US\$209.8 million. PSA income was US\$111.1 million, comprising ISC of US\$110.2 million and Government cash counterpart contributions (GCCC) of US\$0.9 million, so the surplus in PSA for 2002 was US\$ 15.8 million after including savings of US\$2.2 million on cancellations of 2001 obligations.
11. During 2002, US\$64.4 million of fund balances was reprogrammed and US\$37.3 million was refunded to donors. The reprogramming of funds subsequent to the Third Regular Session of the Executive Board in October 2002 is presented in Section D of the report.

Statement of Assets and Liabilities

12. The Statement of Assets and Liabilities and Reserves and Fund Balances as at 31 December 2002 is presented in Table A3.



Cash and Short-Term Investments

13. Cash and short-term investments of US\$968.0 million showed an increase of US\$205.6 million over the 2001 level, largely from a significant cash contribution in December 2002 from a major donor and the US\$17.9 million proceeds of WFP's share in investments covering the Separation Payment Scheme (SPS) and the Compensation Plan Reserve Fund (CPRF) previously managed by FAO. Further information on cash and short-term investments are given in section B of the report.
14. Other assets included funds held in trust in country offices, long-term investments, accounts receivable and contributions receivable.

Contributions Receivable

15. At the end of 2002, contributions receivable were US\$1,456.7 million, of which 63.3 percent represents outstanding contributions confirmed in 2002 and 33.6 percent are outstanding from the 2000–2001 biennium. Only 3.1 percent remain to be received from 1999 and prior years' contributions, as shown in Table A1.

TABLE A1: AGEING OF CONTRIBUTIONS RECEIVABLE (in US\$ million)		
Year	2002	2001
2002	923.2	-
2001	349.4	1 052.8
2000	139.5	293.4
1999 and prior years	44.6	298.7
Total	1 456.7	1 644.9

16. The pledge contributions of US\$1,456.7 million outstanding as at 31 December 2002 represent 86 percent of total expenditures for the year, covering about ten months' expenditures.
17. During 2002, a review of outstanding contributions for the period 1996–2000 was undertaken, which revealed that US\$238.8 million represented contributions that had expired or would not be required because the projects were closed or completed. A provision for this amount was made for the write-down of contributions; the US\$1,456.7 million shown in Table A1 was net of this provision.

Current liabilities

18. The total of accounts payable and outstanding obligations was US\$339.0 million, about 20 percent of annual expenditure. This indicates a time lag of 73 days between commitment of funds and actual disbursement.
19. Other current liabilities included the Central Emergency Revolving Fund (CERF) loan and the trust funds held in country offices.

Reserves and Fund Balances

20. Fund balances represent unspent cash pledges that are carried forward from year to year. Of the total fund balance of US\$1,722.4 million at the end of 2002, US\$494.5 million was represented by cash and US\$1,227.9 million by receivables. The fund balances of



programme activities consisted of US\$218.0 million development, US\$826.1 million emergency, US\$289.2 million protracted relief and US\$33.5 million special operations. The other fund balances are the General Fund and Special Accounts—US\$196.2 million—and Bilaterals and Trust Funds—US\$59.3 million.

21. Reserves are funds set aside by the Board for specific purposes. As at 31 December 2002, the reserves consisted of US\$57.0 million Operational Reserve, US\$29.0 million Immediate Response Account (IRA), US\$25.0 million DSC advance facility (DSCAF), US\$9.3 million Staff Cost Variance Equalization Account and US\$3.1 million Staff Safety and Security Account.
22. During 2002, US\$23.4 million of IRA was used to fund projects; US\$14.7 million was received as contributions.
23. US\$3.4 million was paid from the Staff Safety and Security Account to the Office of the United Nations Security Coordinator (UNSECOORD) in 2002.



**TABLE A2: STATEMENT OF INCOME AND EXPENDITURES AND FUND BALANCES
ON AN ACCRUAL BASIS FOR THE
YEAR ENDED 31 DECEMBER 2002 (in US\$ million)**

	2002	2000–2001 biennium
INCOME		
Commodity contributions in kind	492.5	907.8
Other contributions (cash basis)	1 557.2	2 962.1
Government cash contributions for local costs	0.9	3.0
Interest	21.6	88.5
Currency exchange adjustments	(0.6)	(4.4)
Miscellaneous income	4.8	17.4
Total Income	2 076.4	3 974.4
EXPENDITURE		
Commodities in-kind	492.5	907.8
Commodities purchased	306.4	605.3
Ocean transport and related costs	141.5	442.2
Landslide transport storage and handling	373.8	515.3
Other direct operational costs	70.5	118.8
Direct support costs	207.5	370.6
Programme support and administration	97.5	229.6
Total Expenditure	1 689.7	3 189.6
Excess of income over expenditure	386.7	784.8
Fund balances, beginning of period	1 647.4	1 019.5
Reprogramming of unused fund balances	(64.4)	(102.2)
Refund of unused fund balances	(37.3)	(4.2)
Provision for contributions write-down	(198.3)	-
Prior period adjustments	(1.7)	-
Savings on cancellation of prior period obligations	2.2	4.3
Transfers to (from) reserves	(12.2)	(54.8)
Fund balances, end of period	1 722.4	1 647.4
Fund balances represented by cash	494.5	303.2
Fund balance represented by receivables	1 227.9	31 344.2



**TABLE A3: STATEMENT OF ASSETS, LIABILITIES AND RESERVES AND FUND
BALANCES ON AN ACCRUAL BASIS AS AT 31 DECEMBER 2002
(in US\$ million)**

	31 December 2002	31 December 2001
ASSETS		
Cash and short-term investments	968.0	762.3
Funds held locally in trust	47.4	57.3
Long-term investments	64.2	85.4
Contributions receivable	1 456.7	1 644.9
Accounts receivable	117.8	91.4
Total Assets	2 654.1	2 641.3
LIABILITIES		
Current liabilities		
Accounts payable	142.6	119.3
Outstanding obligations	196.5	230.7
Loans payable	23.5	-
Funds held locally in trust	45.4	57.3
Total current liabilities	408.0	407.3
Long-term liabilities		
Staff-benefit funds	65.4	66.0
Long-term loan	106.0	106.0
Total long-term liabilities	171.4	172.0
Total liabilities	579.4	579.3
DEFERRED INCOME	228.9	300.6
RESERVES AND FUND BALANCES		
Operational reserve	57.0	57.0
Immediate response account	29.0	37.0
DSC advance facility	25.0	13.5
Staff cost variance equalization account	9.3	-
Staff safety and security account	3.1	6.5
Fund balances	1 722.4	1 647.4
Total reserves and fund balances	1 845.8	1 761.4
Total liabilities, reserves and fund balances	2 654.1	2 641.3



SECTION B: CASH AND INVESTMENT MANAGEMENT

Cash Balance

24. As at 31 December 2002, WFP had US\$968.0 million in cash and short-term investments, excluding US\$47.4 million in funds held in trust in country offices and US\$64.2 million in US Treasury STRIPS for repayment of a long-term loan.
25. The total cash and short-term investment consisted of US\$508.5 million related to operational activities, US\$328.4 million related to reserves and other accounts and US\$131.3 million related to investing and financing activities as shown in Table B1.

**TABLE B1: CASH AND SHORT-TERM INVESTMENTS AS AT 31 DECEMBER 2002
(in US\$ million)**

CASH RELATED TO OPERATING ACTIVITIES

Balance of completed and closed projects	60.8
Committed for outstanding obligations	179.8
Commitments in progress	267.9
Total cash related to operating activities	508.5

CASH RELATED TO RESERVES AND OTHER ACCOUNTS

Reserves	123.4
Bilaterals and trust funds	69.3
General fund and special accounts	93.7
Surplus of income from long-term loan	41.8
Total cash related to reserves and other accounts	328.2

CASH RELATED TO INVESTING AND FINANCING ACTIVITIES

Staff-benefit funds	65.4
Accounts payable	42.4
CERF loan	23.5
Total cash related to investing and financing	131.3
Total cash and short-term investments	968.0

⇒ *Cash related to operating activities*

26. This represents cash and cash contributions in the process of being committed, cash set aside for payment of project expenditures committed or already incurred and surpluses from closed and completed projects available for reprogramming or refunding to donors. The US\$508.5 million balance of cash related to operating activities is 53 percent of total cash and short-term investments, equivalent to five months' cash expenditures at 2002 levels.

⇒ *Cash related to reserves and other accounts*

27. This portion of cash pertains to reserves authorized by the Board for specific purposes to ensure continuity of operations. It includes the Operational Reserve and IRA, the unearmarked surplus of the general fund and cash designated for special accounts such as



the self-insurance fund and the capital asset fund. The US\$328.2 million cash related to reserves and other accounts represents 40 percent of total cash and short-term investments.

⇒ *Cash related to investing and financing activities*

28. This cash pertains to the staff-benefit funds temporarily invested in short-term investments pending selection of long-term investment fund managers, the US\$23.5 million financing from CERF and accounts payable of US\$42.4 million. The US\$131.3 million cash related to investing and financing activities represents 7 percent of total cash and short-term investments

Composition of Cash and Short-Term Investments

29. Of the US\$968.0 million cash and short-term investment, US\$17.8 million or approximately 2 percent was held in country office accounts; the remaining US\$950.2 million or 98 percent was at Headquarters.

**TABLE B2: BREAKDOWN OF CASH AND INVESTMENTS
(in US\$ million)**

	Year ended 31 December 2002	Year ended 31 December 2001
Headquarters		
Headquarters bank accounts	66.2	63.1
Money market account	96.5	25.7
Short-term investments	787.5	658.4
Total	950.2	747.2
Country office		
	17.8	15.1
Total cash and short-term investments	968.0	762.3

30. An aggregate of US\$17.8 million was held in 198 bank accounts in country offices. Bank balances in the operating accounts were kept to a minimum, equivalent to about one week's operating requirements. This was achieved by close monitoring of bank balances and introduction of system of cash transfers in several tranches instead of once a month. Increased operations in Afghanistan and Ethiopia and countries in southern Africa resulted in aggregate balances in country office bank accounts being higher than 2001 levels.
31. At Headquarters, US\$38.5 million was held in five operating bank accounts; US\$27.7 million was held in ten other bank accounts. The Treasury monitored the cash balance to ensure that minimal balances of cash are retained in lower-interest-yielding operating accounts.
32. About three weeks' operating cash requirements, averaging approximately US\$58.0 million this year, was held in a money market account that had a balance of US\$96.5 million at 31 December 2002. The money market account is a diversified assets portfolio (DAP) 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.
33. In 2002, the money market account had an average annual return of 1.67 percent compared with average interest rates of 0.94 percent in the US dollar operating bank accounts.



⇒ Short-Term Investments

34. At 31 December 2002, WFP had short term investments of US\$787.5 million, market value of US\$797.4 million, in fixed-income portfolios managed by five external investment managers. Investment managers are contractually bound to invest only in high-quality, fixed-income investments that can be withdrawn at any time. The table below shows the movements in short-term investments in 2002.

**TABLE B3: MOVEMENTS IN SHORT-TERM INVESTMENTS IN 2002
(in US\$ million)**

Opening balance, 1 January 2002	658.4
Withdrawals	(177.0)
Deposits	290.0
Income received net of realized gains and losses	17.3
Fees and expenses	(1.2)
Closing balance, 31 December 2002	787.5

35. The annual performance of the total short-term investment portfolio net of investment fees was 2.81 percent, compared with the established benchmark of 2.57 percent (J.P. Morgan three-month cash index plus 50 basis points).
36. Throughout 2002, the short-term fixed income portfolio was managed by the five external investment managers, who started the year with approximately equal amounts. The exception was the manager with the best performance for 2000 and 2001, who was assigned an additional US\$39.7 million surplus in September 2001 from the income from long-term loans. In November 2002, the service agreement of one of the investment managers was terminated; performance had been consistently below the benchmark during the previous three years. At the close of 2002, the assets held by this investment manager were sold and transferred to the two investment managers with the best performance over the same period. Table B4 shows the market value of investments held by the investment managers shortly before the transfer of assets, along with their annual investment performance after fees and expenses. Three of the investment managers exceeded the performance benchmark.

**TABLE B4: MARKET VALUE OF INVESTMENTS AND ANNUAL PERFORMANCE
AS OF 23 DECEMBER 2002¹**

Manager	Market value (in US\$ million)	Annual return net of fees and expenses (%)	Benchmark (%)	Excess/ (shortfall) (%)
A	96.9	1.97	2.57	-0.60
B	164.0	2.08	2.57	-0.49
C	166.2	3.40	2.57	0.83
D	206.2	2.80	2.57	0.23
E	166.0	3.33	2.57	0.76
Total	799.3	2.81	2.57	0.24

¹ Prior to termination of the contract of the fifth manager.



⇒ *Long-Term Investments*

37. 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 first interest payment of US\$2.1 million was made in May 2002, leaving a balance in the STRIPS of US\$64.2 million as at the end of 2002.

Key Management Initiatives in 2002

⇒ *Cash pooling and concentration*

38. WFP initiated discussion with bank service providers on expanding the zero-balance accounts (ZBAs) to 22 country offices and regional bureaux. WFP can minimize cash balances held in these offices and allow ready access to cash when needed by pooling country office and regional bureau bank accounts into a ZBA structure. Disbursements from ZBA sub-accounts are funded by the main account on a daily basis, resulting in zero balances in country office sub-accounts at the end of each day. This is a more efficient way of managing cash than maintaining balances in individual bank accounts.
39. Implementation of the zero balance accounts at country offices is to be complemented by an electronic banking system to allow for ready access to cash whenever required and to provide real-time transaction information.

⇒ *Staff-Benefits Funds*

40. An actuarial study of staff-benefit liabilities as of the end of 2001 showed that assets exceed total liabilities. During its Third Regular Session in October 2002, the Board approved retention of the excess of assets over liabilities as part of the staff-benefit funds. As of the end of 2002, the total assets of the staff benefit fund, currently held in short-term investments, amounted to US\$65.4 million. This includes funds previously held by FAO long-term investments for the Separation Payment Scheme and Compensation Plan Reserve Fund, withdrawn on the recommendation of the external auditor.
41. Funds will be invested long-term with 40 percent invested in global equities and 60 percent in global fixed-income on the basis of an asset/liability study initiated and completed in 2002. The investment manager selection for the investment of the staff-related benefit fund was initiated at the end of 2002.

⇒ *Investment management*

42. The Secretariat strengthened its investment monitoring capabilities with the addition of a professional staff member in September 2002 and introduction of an alert-notification system that monitors the external investment managers' activities on a daily basis, flagging departures from the approved investment guidelines and notifying the Secretariat.
43. A survey of the cash management of funds held in trust was initiated towards the end of 2002 with a view to helping country offices to manage their funds. The results will help to identify investment opportunities and service providers, and to formulate an investment policy emphasizing capital preservation, liquidity and excess return. This initiative is expected to be completed in 2003.



SECTION C: FINAL OUTCOME OF THE BALANCES OF CLOSED PROJECTS

Balances of Projects Closed Prior to 2001

44. A final report on the balances of projects closed prior to 2001 and migrated to WINGS was presented to the Board at its Third Regular Session in October 2002. It showed that there was a net aggregate financial balance of US\$117.27 million, comprising contribution receivable balances of US\$70.58 million and cash balances of US\$46.69 million.
45. Subsequent to the Board meeting, in line with the programme of concluding steps described in the report, the Secretariat continued to discuss the cash balances on closed projects with donors with a view to reprogramming or refunding available cash balances according to donor preference. Analysis has continued of the financial balances for donors using a partial advance and reimbursement mechanism in the payment of contributions.
46. Table C1 shows the status of the closed projects migrated to WINGS as at 31 March 2003.

TABLE C1: NET AGGREGATE FINANCIAL BALANCE OF CLOSED PROJECTS PRIOR TO 2001 (in US\$ million)

	Contributions receivable	Cash balances	Net aggregate financial balance
As at 30 June 2002	70.58	46.69¹	117.27
Contributions adjustments and receipt of cash	(5.08)	1.59	(3.49)
Reprogrammed		(34.24)	(34.24)
Refunded		(5.38)	(5.38)
As at 31 March 2003	65.50	8.66	74.16

¹ Balance at 31 December 2002 was US\$24.3 million.

47. The contribution-receivable balances do not fully represent realizable funds and will be written down as accounting adjustments are made. Clearance of the remaining balances will be completed as discussions are concluded with individual donors and all ongoing analysis is completed.

Balances of Projects Closed in 2002

48. A further 220 projects were operationally closed in two stages during 2002. Financial closure was completed for 174 of these projects and final standardized project reports (SPRs) have been submitted to donors. The remaining 46 projects will be financially closed and final SPRs issued as at 30 June 2003, following settlement of all financial obligations.
49. In the statement of surpluses and fund balances reported to the Board in October 2002, the cash surplus (as at 31 December, the amounts were at US\$36.5 million) for projects operationally closed in 2002 was estimated at US\$30.9 million. Although the SPR project balances related to these closed projects are final, adjustments to individual contribution-receivable balances and cash-surplus balances may result from further collections of contributions and adjustments to receivable balances.



50. In line with past practice, donors will be requested to allow reprogramming of cash balances arising from closed projects. They donors may alternatively request refunds of cash balances related to their contributions.

Current Process

51. WINGS has supported a more rigorous review of the financial implementation of projects, which has enabled more timely operational and financial closure of projects in line with the prescribed completion dates through close monitoring of project end dates.
52. There is also an increased emphasis on monitoring financial implementation during the life of the project. This will identify potential under-utilization of resources at an early stage and enable the Secretariat to undertake reprogramming prior to project closure, thereby increasing overall utilization of resources. Determination of financial balances of closed projects will in future become a routine financial management exercise, with financial balances communicated directly to donors.



SECTION D: REPORT ON THE UTILIZATION OF FUNDS FOR REPROGRAMMING

53. At its Third Regular Session in October 2002, the Board approved the use of surpluses to fund part of the Executive Director's expenditure plan, which was presented in Table 13 of the Report of the Executive Director on the Financial Administration of the WFP for the Biennium 2000–2001 (WFP/EB.3/2002/5-A/1/1). Funding the remainder of the expenditure plan depends on the agreement of donors to utilize other surpluses from closed projects, insurance recoveries and donors' General Account balances.
54. Table D1 provides information on the reprogramming to 31 March 2003 of the surpluses and fund balances to the programme categories and other activities as set out in the expenditure plan. The details are shown in the following Table D1 below.
55. Discussions with donors will continue, to seek approval to utilize surplus balances including those related to projects closed in 2002 for which final SPRs have been submitted to donors.

**TABLE D1: UPDATE AS AT 31 MARCH 2003:
SURPLUSES AND FUND BALANCES IDENTIFIED FOR ACTION¹ (in US\$ million)**

	Surpluses/ fund balances	Reprogrammed	Refunded
SURPLUSES AND FUND BALANCES			
Use of surpluses subject to Executive Board approval			
Prior 1996—unidentified donors	13.5	13.2	0.3
Self-Insurance Account dividend	10.0	10.0	
Un-earmarked surplus of the General Fund—interest	22.7	20.6	
Surplus interest from the loan proceeds	39.9		
Subtotal, surpluses subject to Executive Board approval	86.1	43.8	0.3
Use of other surpluses subject to donor approval			
Insurance recoveries	10.2	2.5	
General Account of trust funds	29.2	4.8	0.8
Prior-1996 of identifiable donors	2.5	1.7	
Subtotal, use of other surpluses subject to donor approval	41.9	9.0	0.8
Use of unspent balances subject to donor approval			
Closed project migrated to WINGS	46.6	34.2	5.4
Project completed in 2002	30.9		
Subtotal, use of unspent balances subject to donor approval	77.5	34.2	5.4
Total	205.5	87.0	6.5
Reprogramming of surpluses and fund balances			
IRA replenishment		1.9	
Programme category:			
development		17.8	
emergency		33.0	
protracted relief and recovery		18.5	
Systems development and enhancement		11.0	
Recurring systems support costs		2.8	
Subtotal, reprogramming of surpluses and fund balances		85.5	
Other donor-specified activities		1.5	
Total		87.0	

¹ Table 12, WFP/EB.3/2002/5-A/1/1.



SECTION E: REPORT ON THE UTILIZATION OF RESOURCES AND WAIVERS

56. 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)

57. For the purposes of this report, multilateral contributions of cash for the development programme category have been considered unrestricted cash resources. The resources have been utilized to meet annual requested/allocated commitments under development projects.

58. In 2002, US\$52.5 million unrestricted cash was available, of which US\$28.2 million or 53.6 percent was utilized to purchase commodities from developing countries and US\$24.3 million or 46.4 percent for purchases from developed countries. Details are shown in Table E3.

59. Further information on purchases of commodities from developing countries from all cash resources and under all programme categories is included in the Report of the Executive Director on the Financial Administration of the WFP for the Biennium 2000–2001 (WFP/EB.3/2002/5.A/1/1).

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

60. For 2002, 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\$14,701,954. Cash contributions of US\$3,461,667 from other donors and US\$1,032,840 from WFP's resources were utilized in support of the commodity-only contributions. US\$1,161,791 of ISC was waived on commodity contributions from developing countries, as shown in Table E1.

**TABLE E1: CONTRIBUTIONS MADE IN 2002 UNDER GENERAL RULE XIII.4(e)
(in US\$)**

Donor	Contribution	Value	Other costs		ISC waived
			Covered by other donors	Covered by WFP	
Cuba	Commodity	619 693	868 861	-	48 336
Eritrea	Commodity	35 000	192 806	-	17 769
India	Commodity	1 907 400	-	1 032 840	148 777
Kenya	Commodity	12 139 861	2 400 000	-	946 909
Total		14 701 954	3 461 667	1 032 840	1 161 791



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

61. The total value of waivers of ISC granted on contributions made in kind for DSC amounted to US\$31,947 for 2002. Table E2 provides the details by donor, programme category, recipient country contribution, value and ISC waiver.

**TABLE E2: WAIVERS OF INDIRECT SUPPORT COSTS IN 2002 IN RESPECT OF CONTRIBUTIONS IN KIND TO COVER DIRECT SUPPORT COSTS UNDER GENERAL RULE XIII.4(f)
(in US\$)**

Donor	Programme category	Recipient country	Contribution	Value	ISC waived
Canada	Special operation	Afghanistan	In-kind staff and equipment	380 000	29 640
Norway	Special operation	Rwanda	In-kind staff	29 581	2 307
Total				409 581	31 947



**TABLE E3: REPORT ON THE USE OF UNRESTRICTED CASH RESOURCES IN 2002
FOR THE PURCHASE OF COMMODITIES UNDER GENERAL RULE XII.4
(in US\$)**

Purchased from	Developing countries	Developed countries
Argentina	33 360	
Belgium		243 730
Benin	40 094	
Bhutan	406 405	
Cambodia	119 460	
Cameroon	675 527	
Canada		12 953 024
Chad	171 170	
China	794 581	
Cuba	7 514	
Denmark		942 380
Dominican Republic	442 761	
Egypt	-26 397	
Eritrea	7 055	
Ethiopia	2 723 284	
France		946 392
Germany		83 250
India	5 822 950	
Italy		870 634
Côte d'Ivoire	8 727	
Japan		7 172 628
Kenya	699 323	
Laos	21 494	
Lesotho	801 812	
Madagascar	357 102	
Malawi	212 220	
Malaysia	69 551	
Mali	828 230	
Mauritania	1 833	
Mozambique	726 430	
Namibia	6 880	
Nepal	3 881 808	
Netherlands		501 220
Niger	1 304 101	
Pakistan	543 448	
Rwanda	138 047	
Senegal	380 281	
Singapore	76 468	
South Africa	2 758 665	
Sudan	1 587 629	
Tanzania	162 883	
Thailand	112 276	
Turkey	202 784	
Uganda	691 414	
USA		634 104
Zambia	1 363 436	
Total	28 154 604	24 347 363
Percentage	53.6%	46.4%



SECTION F: PROCEDURES FOR THE CAPITAL ASSET FUND

Background

62. In October 2002, the Executive Board approved in principle establishment of a CAF and transfer of the balances of the Financial Management Improvement Programme (FMIP) Special Account. The Board requested detailed information on procedures for the CAF.

Purpose

63. The CAF was established to provide a funding mechanism for expenditures of a capital nature, including systems development and enhancement, and to ensure that information services resulting from the FMIP investment continue to be effective in the long term.
64. For purposes of CAF funding, capital expenditures should meet the following criteria:
- a) the cost will have longer-term benefits beyond the current biennium; and
 - b) the cost could not be met by the PSA budget of the current biennium.

Funding Sources

65. The CAF will be funded from three sources.
- a) Specific Executive Board approvals for transfers or reprogramming from other funds. In October 2002, for example, the Executive Board approved the transfer of US\$5.5 million balance of the FMIP Special Account and reprogramming of US\$11.0 million from unspent fund balances identified at the end of 2001 to provide initial funding for CAF. Future proposals may similarly be presented to the Board for approval.
 - b) Specific donor contributions to CAF that may occur from time to time. Donors may contribute to specific projects that will be undertaken through CAF.
 - c) Recoveries from programme activities and other users of capital assets through a process of internal charging. The specifics of internal charging, such as use of lease rates and transfer pricing of installed equipment, will be developed based on best practices of governments and United Nations organizations.

Expenditures and Mechanism for Approval

66. Expenditures expected to be funded under CAF are non-recurring capital costs that would benefit future periods. These could include costs to enhance or replace WINGS and capital expenditures on operational support services not funded directly through programme activities that involve incurring costs before users benefit from them; common warehousing facilities such as the United Nations Humanitarian Response Depot (UNHRD) is an example.
67. The biennial management plan and budget presented to the Board for approval will include details of the sources and utilization of the CAF.



68. The Committee on Administrative and Management Matters (CAMM) or another committee to be appointed by the Executive Director will manage implementation of projects undertaken from the CAF.

Reporting to the Executive Board

69. Utilization of the CAF will be formally reported to the Executive Board as an integral part of the audited biennial financial statements.



SECTION G: PROCEDURES FOR THE PSA EQUALIZATION ACCOUNT

Background

70. At its Third Regular Session in October 2002, the Board noted the establishment by the Executive Director of a PSA equalization account, the purpose of which is to provide a mechanism to record differences between PSA income and PSA expenditures over time.
71. The difference between PSA income and PSA expenditure for a biennium could be either a surplus or a shortfall; it is referred to as the PSA gap. In recent biennia, these gaps have been funded largely from interest accumulated in the General Fund.
72. The 2002 comprehensive study of ISC showed that price fluctuations and changes in operational levels can cause gaps between PSA income and PSA expenditures, irrespective of whether income is recognized on accrual or cash basis. Therefore it can be reasonably assumed that PSA gaps (either positive or negative) will continue to occur in future biennia.

Procedures Governing the PSA Equalization Account

73. The PSA equalization account was created in the General Fund to record any net surplus or shortfall between PSA income and PSA expenditure for a biennium; it will be reported to the Board at the end of each biennium as an integral part of the audited biennial financial statements.
74. The positive or negative balance of the PSA equalization account at the end of the completed financial period will be considered as a component of the PSA budget requirement for the forthcoming financial period. The Biennial Management Plan and WFP budget proposals for the 2006–2007 biennium will therefore include proposals to offset any negative balances or utilize positive balances in the PSA equalization account at the end of the 2002–2003 biennium.
75. In considering proposals on the PSA equalization account, the Board may decide to:
 - a) maintain the level of the PSA equalization account to offset possible future shortfalls in the PSA income and PSA expenditures (positive balance);
 - b) reduce the ISC rate and utilize the balance to cover part of the PSA costs for the following biennium (positive balance);
 - c) authorize the use of interest income or other General Fund income to replenish the account (negative balance);
 - d) increase the ISC rate for the following biennium (negative balance); or
 - e) reprogramme the balance in the account for other purposes (positive balance).



ACRONYMS USED IN THE DOCUMENT

CAF	Capital Assets Fund
CAMM	Committee on Administration and Management Matters
CERF	Central Emergency Revolving Fund
CPRF	Compensation Plan Reserve Fund
DAP	Diversified Assets Portfolio
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
ITSH	Internal transport, storage and handling
LTSH	Landside transport, storage and handling
ODOC	Other direct operating costs
PSA	Programme Support and Administration
SPR	Standardized Project Report
SPS	Separation Payment Scheme
UNHRD	United Nations Humanitarian Response Depot
UNSECOORD	Office of the United Nations Security Coordinator
ZBA	Zero-balance account

