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**Executive Board
First Regular Session**

Rome, 11–14 February 2002

FINANCIAL AND BUDGETARY MATTERS

Agenda item 4



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REPORT OF THE ADVISORY COMMITTEE ON ADMINISTRATIVE AND BUDGETARY QUESTIONS (ACABQ)

The Executive Director is pleased to submit herewith the report of the ACABQ pertaining to WFP. The report covers different agenda items as follows:

- Item 4 a)—Cash and Investment: Level of Financial Investment and Investment Policy
- Item 4 b)—Balances of Projects Closed Prior to 2001 and Migrated to WINGS

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Reference: AC/1484

Advisory Committee on
Administrative and Budgetary Questions

8 February 2002

Dear Ms Bertini,

Please find attached a copy of the report of the Advisory Committee on Administrative and Budgetary Questions on the WFP reports entitled “Cash and investment: level of financial investment and investment policy” (WFP/EB.1/2002/4-A/1) and “Balances of projects closed prior to 2001 and migrated to WINGS” (WFP/EB.1/2002/4-B/1).

I should be grateful if you could arrange for the report to be reproduced *in verbatim* and placed before the Executive Board at its forthcoming session as a complete and separate document. A printed version (in all languages) of the document should be provided to the Advisory Committee at the earliest possible opportunity.

Yours sincerely,

(Signed) C.S.M. Mselle
Chairman

Ms Catherine Bertini
Executive Director
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WORLD FOOD PROGRAMME

Financial and Budgetary Matters

1. The Advisory Committee on Administrative and Budgetary Questions has considered the World Food Programme reports entitled “Cash and investment: level of financial investment and investment policy” (WFP/EB.1/2002/4-A/1) and “Balances of projects closed prior to 2001 and migrated to WINGS” (WFP/EB.1/2002/4-B/1). During its consideration of the reports, the Advisory Committee met with the Assistant Executive Director and other representatives of WFP, who provided additional information and clarifications.

✦ **Cash and Investment: Level of Financial Investment and Investment Policy**

2. As indicated in paragraphs 3 to 6 of the report on cash and investment management (WFP/EB.1/2002/4-A/1), as of January 1999, WFP assumed responsibility for its own treasury operations, which had been previously handled by the Food and Agriculture Organization (FAO) through a service agreement. The Programme then developed its own cash and investment management strategies and put in place machinery to handle the management of its financial resources. The Advisory Committee was informed that the machinery set up by WFP comprises three parts: (a) the WFP Investment Committee; (b) five external investment managers; and (c) the FAO Advisory Investment Committee.
3. As shown in table 1 of the report, total available cash for the years 1999, 2000 and 2001 amounted to \$818.4 million, \$944.9 million and \$835.7 million respectively. The Advisory Committee notes from paragraph 12 of the report that the accumulation of cash is attributed to three main reasons: contributions received at the initial phase of large relief operations, the time lag between obligations and disbursement, and fund balances of closed projects. Upon analysis, WFP determined that the cash balances required for operations should be the equivalent of three month’s operational requirements, or \$210 million for 1999, \$225 million in 2000 and \$240 million in 2001. The level of cash available for investment was then determined by aggregating cash not immediately required for operations, other funds requiring special treatment and a portion of operational cash that could be placed in a short-term investment accounts without jeopardizing operations. As shown in table 2, the amounts invested and managed externally for 1999 through 2001 were \$600 million, \$639.5 million and \$731 million respectively. Information on investment performance is contained in paragraphs 37 and 40 of the report.
4. The Advisory Committee commends WFP for the improvements it has made which enable it to monitor its cash resources more closely. In the opinion of the Committee, however, the cash balances reflected in the report are high. The Committee points out that the primary goal of WFP is programme implementation and delivery, and, to the extent that this is carried out efficiently, cash balances of such a magnitude should not obtain. The Committee therefore requests WFP to provide an analysis of the causes of this phenomenon, with a view to reducing cash balances.



5. The Advisory Committee cautions that the costs involved in investment, namely the cost of the machinery to handle the investments and the cost of evaluating performance of external investment managers, should be monitored carefully to optimize the rate of return. In so doing, it should be borne in mind that the need for operational efficiency in the management and disbursement of programme resources (see para. 4 above) further underlines the need to achieve economies in the cost of investment in order to maximize return. In this connection, the Committee notes the recommendation in paragraph 47 of the report that the Executive Board regularly review the investment activities of the Programme at the time of the review of the audited biennial financial statement. This review should include the fee structure. The Committee also requests that the External Auditor for WFP review the implementation of the investment procedures described in the report, as well as the efficiency of the investment process. This should include an examination of the transparency of the provisions governing the use of investment income, as outlined in paragraph 41 of the report.

✧ ***Balances of Projects Closed Prior to 2001 and Migrated to WINGS***

6. The Advisory Committee notes from paragraph 3 of the report on balances of projects closed prior to 2001 and migrated to WINGS (WFP/EB.1/2002/4-B/1) that the aggregate net financial balance of closed projects as of January 2002 amounted to \$202.75 million. The Committee welcomes the intention of the Executive Director, as indicated in paragraph 11 of the report, to enter into a dialogue with donors concerning treatment of balances arising from completion of projects, and awaits the outcome with interest.

