

برنامج
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Programme
Alimentaire
Mondial

World
Food
Programme

Programa
Mundial
de Alimentos

**Executive Board
First Regular Session**

Rome, 11–14 February 2002

FINANCIAL AND BUDGETARY MATTERS

Agenda item 4



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REPORT OF THE FAO FINANCE COMMITTEE

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

- Item 4 a)—Cash and Investment Management: 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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January 2002



منظمة الأغذية
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Food
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de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

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COUNCIL

Hundred-and-twenty-third Session

Rome, 28 October–2 November 2002

Report of the Ninety-eighth Session of the Finance Committee,
Rome, 21 January 2002

Table of Contents

	Paragraphs
INTRODUCTION	1–6
CASH AND INVESTMENT MANAGEMENT: LEVEL OF FINANCIAL INVESTMENT AND INVESTMENT POLICY	7–11
BALANCES OF PROJECTS CLOSED PRIOR TO 2001 AND MIGRATED TO WINGS	12–18
OTHER MATTERS	19
DATE AND PLACE OF THE NEXT SESSION	19



INTRODUCTION

1. The Committee met in Special Session at the request of the Executive Director of the World Food Programme (WFP) to consider two WFP documents—Cash and Investment Management: Level of Financial Investment and Investment Policy and Balances of Projects Closed Prior to 2001 and Migrated to WINGS that would be presented to the WFP Executive Board at its First Regular Session in February 2002.

The Committee submitted to the Council the following report of its Ninety-eighth Session.

2. The following representatives were present:

Chairperson: Mr. Humberto Oscar Molina Reyes (Chile)
 Vice-Chairperson: Mr. Anthony Beattie (United Kingdom)
 Mr. Masato Ito (Japan)
 Ms Fatimah Hasan J. Hayat (Kuwait)
 Mr. Adnan Bashir Khan (Pakistan)
 Mr. Abdoukarim Diouf (Senegal)
 Mr. Rolf Gerber (Switzerland)
 Ms Perpetua M.S. Hingi (Tanzania)
 Ms Carolee Heileman (United States of America)

3. Mr. Anthony Beattie (United Kingdom) was elected unanimously Vice-Chairperson for 2002.

4. In attendance were representatives of the WFP secretariat to provide explanation and clarification of the matters under consideration. The Director of External Audit was also present and participated in the discussions of the Finance Committee.

5. At the invitation of the Chairperson, the WFP representatives provided the background to the matters to be considered by the Finance Committee, the advice of which was to be provided to the WFP Executive Board for its consideration. The Committee noted that the United Nations Advisory Committee on Administrative and Budgetary Questions (ACABQ) would also review these documents and would provide advice to the WFP Executive Board.

6. The Committee was concerned about the delay in the issuance of the documents, and urged that the secretariat comply with the timeline for the submission of documents as set out in the Basic Texts.

CASH AND INVESTMENT MANAGEMENT: LEVEL OF FINANCIAL INVESTMENT AND INVESTMENT POLICY

7. The Assistant Executive Director for Administration presented the document highlighting the background against which this paper was requested by the Board; describing the investment policies and strategies adopted and improvements in cash management practices since WFP took over the treasury function from FAO in 1999; explaining the investment levels of the Programme and how these were determined; and clarifying the amount of interest income generated and how this was used.

8. The Committee requested and the secretariat provided clarifications on the following items:

- a) Procedures followed in 1999 to segregate the cash resources of FAO and WFP;
- b) How the cash surplus originated and why WFP had US\$600 million to invest in the year 2000;
- c) Why the cooperation of host governments was needed in the timely disbursement of these cash resources;
- d) How the initial investment of US\$600 million was distributed to the five investment managers;



- e) Guidelines provided to investment managers including clarifications on sovereigns, equities, credit ratings, and the benchmarks used;
- f) System of monitoring of performance of investment managers and actions being taken for under-performance;
- g) The costs of investing through investment managers;
- h) Investment strategy of prioritization of investment objectives, based first on security of principal, liquidity, and rate of return;
- i) Safety of investments considering the current global economic conditions;
- j) Liquidity of the investments, given the emergency nature of most of WFP's operations;
- k) Levels of operational cash with investment managers;
- l) How withdrawals from the investment managers made in December 2001 were reflected in the report;
- m) Impact of foreign exchange fluctuations on these cash resources;
- n) Investment strategies of the long-term loan and the After Service Medical Benefit Fund, including a planned competitive bid (RFP) for its management;
- o) The custodian's role in investment management particularly the physical security of assets;
- p) Comparisons made on interest income over the three biennia;
- q) The membership of the WFP internal Investment Committee and frequency of its meetings;
- r) Changing patterns over the years of donor behaviour regarding remittance of contributions;
- s) How monetization of contributions in kind were handled; and
- t) Strategies undertaken by the secretariat to reduce cash holdings.

9. The Chairperson requested the comments of the External Auditor, who informed the Committee that they were in the process of reviewing the treasury operations and would issue preliminary observations by end-January 2002. After considering the secretariat's views, the final considerations on treasury management would be included in their report to the Executive Board on the biennial financial accounts. The External Auditor described the past problems of the WFP in the management of cash resources, and in particular the shortcoming of the old information system in identifying available project funds. She noted improvements made by the secretariat in cash and investment management (e.g. reduction of cash balances in the country offices), and referred to the need to complete the Treasury Manual. The External Auditor expressed her satisfaction with the outsourcing of investment management, and with the security of the investments with these managers, and stressed the need for putting in place an effective system of monitoring their performance, since the option with IFAD was longer viable. At the same time the External Auditor commented on the reasons for the continuing increase in cash balance over the past biennia, and expected that this trend would be reversed.

10. The Assistant Executive Director for Administration and her colleagues provided clarifications on the vigilance exercised in the use of cash resources, taking into account safety of cash, the importance of cash liquidity for project implementation, and rate of return. WFP also provided additional information on the close monitoring of the performance of the investment managers, and aggressive monitoring of cash requirements and holdings in country offices, and how monetization of in-kind contributions were handled.

11. The Committee concluded as follows:

- a) Expressed general appreciation of WFP's efforts to manage its cash resources;
- b) Raised concern on growing cash resources and the need to improve disbursements, in terms of improved and timely project implementation;
- c) WFP was following a prudent investment policy and confirmed the investment strategy of the secretariat with emphasis on security in light of global economic conditions, liquidity in light of the mission of WFP, and rate of return on investments;
- d) Acknowledged the system of investment management put in place, and the rigorous selection of investments managers;
- e) Recognized the need for putting in place a system of performance monitoring, in view of IFAD's inability to provide these services;
- f) Noted the future actions to be taken by the secretariat explained in paras. 44-45 and looked forward to reviewing regularly the investment activities of the Programme at the time of the review of the audited biennial financial statement.



BALANCES OF PROJECTS CLOSED PRIOR TO 2001 AND MIGRATED TO WINGS

12. The Assistant Executive Director for Administration introduced the document, presented the background which had led to the request by the Executive Board for this paper, and explained the challenges faced in the migration of financial data for closed projects from the old information system to the current system. She noted that this was a preliminary report, and that the secretariat continued to analyze closed project balances as part of the biennial closure of financial accounts. She also explained that the introduction of WINGS (the new corporate information system) should reduce problems associated with the financial aspects of project implementation and closure.

13. The Committee requested clarification on how both deficits and surpluses could occur on closed projects, including those related to in-kind contributions. It was explained that this was due to the accounting policy of incurring expenditures on the basis of confirmed contributions, prior to the actual receipt of cash, which was then recorded as income at the time of collection.

14. The Committee was concerned about the extent to which donors would be in a position to pay outstanding deficits on closed projects, beyond their budgetary periods. It should be noted that these figures were preliminary and would likely decrease as the analysis was finalized. However, any remaining balances would be discussed with the concerned donors.

15. Clarification was provided on the causes of cash balances for closed projects. These included commodity price fluctuations and budget estimates, more cost-efficient implementation of projects than initially estimated, and possible over-estimation of some items of expenditures. The secretariat further clarified that the analysis currently undertaken included the alignment of contributions and expenditures to specific projects or project phases.

16. The External Auditor noted that, while agreeing with the process described in the document, she was not yet in a position to make comment on the figures provided, as the migration and closure of accounts were not yet finalized.

17. The Committee also recognised that this was a preliminary report, and that updated figures would be available upon the biennial closure of the financial accounts.

18. The Committee commended WFP's Executive Director for the innovations made to improve the financial management of the Programme. The Committee noted that WFP's new information system would bring improvement in monitoring of projects, resulting in greater efficiency in effectively managing its pledges and contributions. The Committee noted that in the case of confirmed but not yet collected contributions, as well as unused resources on closed projects, it was open to the secretariat to explore with donor concerned the scope for using such balances for other projects.

OTHER MATTERS DATE AND PLACE OF THE NEXT SESSION

19. The Committee was informed that the 99th session was tentatively scheduled to be held in Rome from 6 to 10 May 2002. The final dates of the session would be decided in consultation with the Chairperson.

