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de Alimentos

**Executive Board  
Annual Session**

**Rome, 21 - 24 May 2001**

# **FINANCIAL AND BUDGETARY MATTERS**

**Agenda item 5**

***For information\****



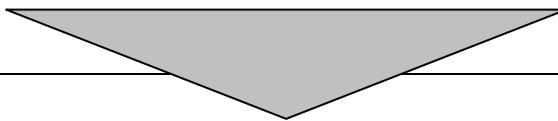
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## **CASH MANAGEMENT REPORT**

\* In accordance with the Executive Board's decisions on governance, approved at the Annual and Third Regular Sessions, 2000, items for information should not be discussed unless a Board member specifically requests it in advance of the meeting and the chair accepts the request on the grounds that this is a proper use of Board time.

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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.

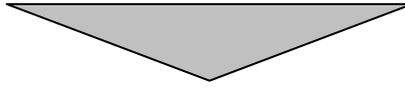
Director, Finance and Information Systems (FS):	Ms J. Mabutas	tel.: 066513-2700
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Treasury Officer, FSFT:	Ms R. Dungca	tel.: 066513-2519
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Should you have any questions regarding matters of dispatch of documentation for the Executive Board, please contact the Supervisor, Meeting Servicing and Distribution Unit (tel.: 066513-2328).



## Draft Conclusion



The Board took note of the steps initiated to administer the treasury operations and manage the cash resources of WFP in the most cost-effective and prudent manner, outlined in the Cash Management Report as a follow-up to a request made at the Board's Third regular Session, 2000. The Board also took note that the Secretariat will continue to establish appropriate procedures and best practices in cash and investment management both at Headquarters and country offices.



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## INTRODUCTION

1. In October 2000, the Executive Board requested from the Secretariat a report on cash management. This report addresses the request and summarizes the policies and procedures put in place as well as best practices initiated by the Secretariat since it took over the treasury functions from FAO in January 1999 up to 31 December 2000. Subsequent reports will be prepared as part of the submission of the audited biennial accounts.
2. Balances of cash and investment accounts of WFP amounted to US\$971 million as at 31 December 2000. A sum of US\$164 million, or 17 percent of this amount, was received late in December 2000 from a major donor. Annual cash inflows in 2000 reached a level of US\$1.07 billion, while outflows stood at US\$808 million. Outflows are expected to increase and cash balances to fall in 2001 as obligations and payables are settled and the levels of programme disbursements increase. Given the magnitude of cash flows, the Secretariat recognizes the need to streamline and manage its treasury operations in a more cost-effective and efficient manner by adopting best practices.
3. The investment of cash by WFP is governed by relevant provisions of the Financial Regulations and Financial Rules, which provide that monies not required immediately may be invested by the Executive Director, bearing in mind the need for safety, liquidity and profitability. Moreover, income from investments is credited, where applicable, to the related special account, and in all other cases to the General Fund as miscellaneous income; unless otherwise specified by the contributor, interest accrued on donor funds administered by WFP for bilateral services is credited to the Immediate Response Account (IRA).
4. Professional investment managers are managing 66 percent of total cash resources, 31 percent is in Headquarters money market and bank accounts and the remaining three percent is in country offices imprest accounts. A Cash Position Report as at 31 December 2000 is attached.

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## HIGHLIGHTS

### Investment Management

5. The Executive Director formally established the WFP Investment Committee on 30 September 1999 with a mandate to formulate policies, guidelines and strategies, and review performance related to investment management, foreign exchange, banking relationships and electronic banking systems for the purposes of providing advice to the Executive Director.
6. Management of WFP's investments of US\$600 million was outsourced to five professional investment managers (each responsible for US\$120 million) in February 2000. The original investment of US\$600 million increased by US\$39.5 million after fees over the 11-month period ending 31 December 2000, or a net annual return of 6.79 percent. The net incremental benefit is calculated at 14 percent versus investing in term deposits. This means that if the US\$600 million had been invested in term deposits at an annual interest rate of 6.31 percent over 11 months, interest income generated would have been US\$34.7 million as against US\$39.5 million, or a net incremental benefit of US\$4.8 million, 14 percent of US\$34.7. However, the net annual return of 6.79 percent



generated by the investment managers was slightly lower than the established benchmark of 6.97 percent. A joint common service agreement is being negotiated with IFAD for the outsourcing of monitoring the performance of the investment managers and their compliance with WFP's investment guidelines.

7. The money market account with Northern Trust had a balance of US\$200.46 million at 31 December 2000, reflecting the substantial contribution of US\$164.0 million received in late December 2000.
8. US\$106 million of the contributions received from a donor was set aside as a special account for the repayment of commodities, which were purchased on a long-term loan (30 years) from the same donor.
9. A Request for Proposal was initiated in December 2000 for investment management services of the US\$44.8 million assets of the After Service Medical Fund and the contributions set aside for loan repayments as described in the above paragraph.

### Foreign Exchange and Risk Management

10. Discussions with the Secretariat's bank service provider were initiated to eliminate exposure to exchange rate fluctuations and to value donor contributions accurately.
11. Receivables from the European Commission for 1999 (Euro 15.7 million) and for 2000 (Euro 16.8 million) were hedged to eliminate foreign exchange risks associated with changes in the value of the Euro against the US dollar.

### Banking and Cash Management

#### **At Headquarters**

12. Balances and transactions of 20 of the 24 Headquarters bank accounts are now accessed electronically, permitting Treasury to monitor consolidated cash balances on a daily basis. Daily reporting of cash balances has resulted in improved cash management, as demonstrated by the reduction of at least 50 percent in the average cash balance. Cash levels maintained in operating accounts are equivalent to about ten days' cash requirements, and any excess is transferred to the money market account, thereby optimizing interest income.
13. A bank was awarded a service contract in December 2000, replacing another bank that is the current service provider for the United States Freight Fund, because of unsatisfactory service and the bank's limited electronic banking capability to meet WFP's requirements. An interface between WFP's new information system and the bank and activation of the Internet-based solution are under way.
14. A Treasury Manual setting out policies and best practices in cash and investment management was drafted and is nearing completion.
15. Payments of all Euro zone currency invoices were initiated in July 2000 as a first step in the use of this currency.

#### **In Country Offices**

16. Three country offices were connected to the system of reporting daily electronic balances and transactions, enabling them to improve cash management.
17. Monthly reporting of country office cash balances was streamlined and regularized, thus providing management with up-to-date information on the aggregate cash balances held in



country offices and serving as a basis for assessing the reasonableness of imprest account replenishment requests. At 31 December 2000, the total cash balance of imprest accounts in 60 country offices was US\$11.29 million.

18. An up-to-date database of country office bank accounts and signatories has been maintained, following a Finance and Information Systems Division directive calling on country offices to report operating bank accounts that have been opened without the required authorization. Cash balances in country offices were closely monitored and maintained at the minimum levels to reduce the risks involved in having large cash balances in country office bank accounts.
19. The policy that WFP manage monetized funds only when it is in the best interest of the Programme was fully implemented and all monetized bank accounts were regularized during the year 2000. As a result, the Secretariat was able to closely monitor and supervise the management and annual audit of these funds by local external auditors. As at 31 December 2000, the total monetized funds in country offices stood at US\$22 million, 19 percent of which was held in local currencies.



<b>WFP CASH POSITION</b> (at 31 December 2000)
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	Total	Percentage of total
<b>Section 1 Cash Position Report in US\$ million</b>		
Total cash assets	971.12	100
In US dollars	898.29	93
In non-US dollars	72.83	7
Breakdown:		
Headquarters	298.20	31
Country offices	33.40	3
Investments and money market	639.52	66
<b>Section 1.1 Headquarters</b>		
	<b>Total in US dollars</b>	
US dollar operating accounts	29.65	10
Non-US dollar accounts	60.98	20
Zero balance master accounts (US dollars)	7.11	2
Money market (US dollars) with Northern Trust	200.46	67
Total cash	298.20	100
<b>Section 1.2 Country offices</b>		
<b>(based on 31 December Cash Balance Report from country offices)</b>		
US dollar operating accounts	9.30	28
Non-US dollar operating accounts	1.99	6
Total WFP cash at country offices	11.29	34
Monetization accounts—US dollars	12.25	37
Monetization accounts—non-US dollars	9.87	29
Total monetization	22.11	66
Total cash in country offices	33.40	100
<b>Section 2 Funds held by investment managers</b>		
Book value	600.00	
Net market value	639.52	
	Market value of funds	Income earned for 11 months ending 31/12/00
	Total fees	Market value net of fees
		Annualized return
<b>Total</b>	<b>640.46</b>	<b>40.46</b>
	<b>0.94</b>	<b>639.52</b>
		<b>6.79%</b>
Benchmark return		(3 months + 0.75%) 6.97%

