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**Executive Board
Third Regular Session**

Rome, 20 - 23 October 1997

INFORMATION NOTE

COMMENTS BY THE ACABQ AND FAO FINANCE COMMITTEE ON WFP'S BUDGET PROPOSALS FOR THE 1998-99 BIENNIUM

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Distribution: GENERAL
WFP/EB.3/97/INF/9
22 November 2001
ORIGINAL: ENGLISH

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Reference in WFP/EB.3/97/4-A/Add.2	ACABQ report	Additional information provided to the ACABQ	Other comments, including actions to be taken in the future
<ul style="list-style-type: none"> page 3, paragraph 2, (budget presentation) 	<ul style="list-style-type: none"> “The Advisory Committee welcomes the efforts made to take into account some of the recommendations of the ACABQ and improve the presentation of the biennial budget proposal for 1998-1999. The Committee notes that an attempt was also made to identify resources allocated for programme support and administration in the format followed by other funds and programmes of the United Nations (WFP/EB.3/97/4-A). However, in the Committee’s opinion, the budget document still does not provide sufficient information to substantiate the administrative and budgetary requirements of WFP’s programme activities. The Committee reiterates its view that more specific information on programme and budget performance in the previous biennium, as compared to the proposals, should be included. Narratives should be more specific, less repetitive and discuss the implementation of the previous budget elements, including explanations on deviations from the original estimates and reasons for shortcomings during the implementation phase of the operations. Furthermore, in the Committee’s view, it is essential that the linkage between the programme of work and the resources available be shown in the document. These issues are further discussed in some detail below. The Committee recalls its request that information also be given on implementation of previous recommendations of the Committee.” 	<ul style="list-style-type: none"> A status report on the ACABQ’s comments and recommendations relating to WFP’s 1996-97 budget and the subsequent actions taken by WFP was sent to the ACABQ on 23 September 1997. An explanation on the specific actions taken by WFP to adopt the budget harmonization initiative was also conveyed to the ACABQ. In adapting the WFP budget to the new harmonization format for the first time, the emphasis was more on similarity and not on sameness per se, given WFP’s unique cost recovery modalities. 	<ul style="list-style-type: none"> The WFP budget has evolved significantly in recent years to become a consolidated budget covering operations and administrative support. Changes and improvements made include: i) full disclosure of resource availability and the programme of work to be carried out under the PSA; and ii) key operational initiatives to be undertaken during a given biennial period. WFP’s Governing Body as well as the ACABQ and the FAO Finance Committee have played a significant role in the evolution of WFP’s budget presentation through their respective critiques, comments and recommendations. The WFP budget document itself has been kept as a future-oriented planning and control tool, and thus has not gone into details of how specific suggestions of the Advisory Bodies or the

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			<p>Governing Body have been implemented. Nonetheless, the Secretariat maintains records on recommendations and a report can be provided to Board members if required.</p>
<ul style="list-style-type: none"> page 3, paragraph 3, (performance report) 	<ul style="list-style-type: none"> “The Advisory Committee regrets that, as requested by the Committee in paragraph 17 of its report WFP/EB.A/97/4-A/Add.2, a performance report for all the operations of WFP, including detailed explanations on the Programme Support and Administrative (PSA) budget expenditure was not submitted with the proposal for the WFP budget for 1998-1999.” 	<ul style="list-style-type: none"> The ACABQ reviewed WFP’s Budgetary Performance Report for 1996 (WFP/EB.A.97/4-B) in May 1997. 	<ul style="list-style-type: none"> WFP prepares a budgetary performance report on an annual basis. During the review of the 1996 budgetary performance report in May 1997, the ACABQ recommended that “...information on budget performance should be provided together with the proposal of the Executive Director for the forthcoming budget.” As the review of the 1996-97 financial period was already presented in a budgetary performance report (May 1997), this was not repeated in the 1998-99 budget document. However, future budget proposals will contain a review of the current budget.

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<ul style="list-style-type: none"> page 4, paragraph 5, (commodity prices) 	<ul style="list-style-type: none"> “The Committee recalls that for the 1996-1997 budget the value of commodities was based on an average price of \$250 a ton, which was approximately the average f.o.b. weighted price of commodities in 1995 (CFA 40/4/Rev. 1). The Committee sought further clarification on the change in the price level of commodities and the composition of the commodity food baskets but no further information was made available.” 	<ul style="list-style-type: none"> The Committee was provided with additional data on food basket composition for the calculation of prices by programme category on 23 September 1997. On 26 September 1997, the Committee was provided with further data pertaining to the value of commodities based on an average price of \$250 per ton in 1996-97 along with comparable figures for 1998-99 and an explanation for the increase. These data were bolstered with the provision of data on average price per ton for development, PRO and EMOP programme categories for the period 1996 to 1999, inclusive. 	<ul style="list-style-type: none"> For the 1996-97 budget, commodity values were based on an average price of \$250 per ton, which was the f.o.b. weighted price of commodities in the summer of 1995 when the estimates were made. Commodity prices, cereal prices in particular, started rising after that point in time, which was also discussed during the Fortieth Session of the CFA in November 1995. The prices were already higher in January 1996 when implementation of the budget began. The <u>actual</u> weighted average commodity cost per ton for 1996 was \$346 for development, \$279 for PRO and \$336 for EMOP. More recently, commodity prices have shown a declining trend. For 1998-99, the weighted average commodity price is projected at \$304 per ton for development, \$247 for PRO and \$272 for

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			EMOP.
<ul style="list-style-type: none"> page 4, paragraph 6, (private sector funding) 	<ul style="list-style-type: none"> “... the Committee was informed that WFP expects to broaden its funding base by actively seeking donations from individuals, foundations and corporate sources. The Advisory Committee was informed that a contribution of \$1 million has already been pledged. The Committee welcomes these efforts but cautions that the conditions attached to voluntary contributions, including those from the private sector, must be subject to the Financial Regulations of the Organization.” 		<ul style="list-style-type: none"> All contributions to WFP will be subject to WFP’s Proposed Financial Regulations (document WFP/EB.3/97/4-B, Report of the Open-Ended Working Group on the Revision of WFP’s General and Financial Regulations: Proposed Financial Regulations).
<ul style="list-style-type: none"> page 4, paragraph 7, (DSC at HQs.) 	<ul style="list-style-type: none"> “The Advisory Committee notes that a large proportion of the DSC resources are utilized at headquarters for activities that, in the view of the Committee, should be budgeted under WFP’s programme support and administrative (PSA) budget...” 	<ul style="list-style-type: none"> In response to an ACABQ query after WFP’s proposed 1998-99 budget document was presented to the ACABQ, WFP provided additional information on how direct support cost funded personnel will be deployed in the 1998-99 biennium. 	<ul style="list-style-type: none"> WFP’s intended use of direct support costs in 1998-99 is shown in table 14 of WFP’s proposed 1998-99 budget document. While the majority of these costs will be incurred in the field, a portion associated with large and complex emergency operations and the Financial Management Improvement Programme (FMIP) will be spent at headquarters. The PSA budget is funded from indirect support cost

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			<p>recoveries and thus, shared by all donors. If there is an interest on the part of some donors to make specific contributions for expenditure of a capital nature (e.g., FMIP) it would be more prudent to not include such expenditure in indirect support cost calculations. Therefore, FMIP was not included in the PSA budget although the funds foreseen for the Plan are clearly disclosed in WFP's 1998-99 budget document.</p>
<ul style="list-style-type: none"> page 5, paragraph 9, (interest income) 	<ul style="list-style-type: none"> "...interest income during a current financial period should be applied to meet any shortfalls due to imbalances between an approved PSA budget and the level of indirect support cost recovery; after meeting imbalances in support cost recoveries during the current financial period, any remaining interest income 		<ul style="list-style-type: none"> The Executive Director has submitted a proposal on the use of interest income to the Executive Board

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	<p>earned during a current financial period would be applied, in the next financial period, to reduce support cost recovery rates, or in a manner to be decided by the Executive Board, on the basis of a recommendation made by the Executive Director. The Advisory Committee agrees with the proposal.”</p>		<p>(WFP/EB.3/97/4-C).</p>
<ul style="list-style-type: none"> • page 5, paragraph 10, (operational reserve) 	<ul style="list-style-type: none"> • “The Committee notes that the effect that these drawdowns may have on the level of the operational reserve and on its use to meet other requirements such as those mentioned in paragraph 91 is not explained. The Committee recalls that the funding level of the operational reserve was established at \$57 million and that the Committee had recommended that appropriate action be taken to ensure that the level of the reserve is guaranteed for the purposes for which it was established....” 		<ul style="list-style-type: none"> • The purpose of the Operational Reserve is to allow WFP to incur expenditure in advance of receiving cash contributions from donors. The Operational Reserve is a financing mechanism, and not a funding mechanism except in cases where the Board elects to transfer resources to another Fund. Because of large cash balances on hand, WFP had not yet had to transfer cash from the Operational Reserve. As stated in paragraph 92 of WFP’s 1998-99 budget document, operational expenditure requires advances from the Operational Reserve for obligations of a short-term duration because such expenditure is only

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			<p>incurred upon confirmation of contributions. Furthermore, actual cash expenditure lag obligations.</p>
<ul style="list-style-type: none"> page 6, paragraph 13, (indirect support costs and PSA) 	<ul style="list-style-type: none"> “...the Committee believes that the increasing use of interest income to finance shortfalls in recovery of indirect support costs will be difficult to sustain and that the PSA budget will have to be reduced to a level more compatible with the recovery rates approved by the Executive Board. In this connection, the Committee was provided upon request with the results of the 1997 WFP cost study on indirect support cost rates.” 	<ul style="list-style-type: none"> An analysis of foreseen cost 	<ul style="list-style-type: none"> The WFP PSA budget has already been reduced substantially to reflect a reduced level of operations. Interest income earned from multilateral and directed multilateral contributions is credited and treated as miscellaneous income in the WFP General Fund. Interest earnings are used as an equalization mechanism for any imbalances between indirect support cost recoveries and approved PSA budgets. Proposals are currently before the Executive Board (document WFP/EB.3/97/4-C) to adopt new rates for 1998-99. WFP’s proposed PSA

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<p>paragraph 15, (savings initiatives)</p>	<p>initiatives mentioned above appear to amount to only \$2.5 million for the PSA budget in 1998-99 (Table 1 of WFP/EB.3/97/4-A). The Committee was informed that compared to the revised PSA estimates for 1996-97 of \$226.4 million, the proposed PSA budget for 1998-1999 was reduced by \$21.4 million to a level of \$205 million at 1996-1997 prices.”</p>	<p>savings in relation to WFP’s 1996-97 and 1998-99 budgets was sent to the ACABQ on 23 September 1997.</p> <ul style="list-style-type: none"> • The recosted approved 1996-97 PSA budget amounted to \$240.4 million. As indicated in the original budget proposal, additional savings amounting to \$6.4 million were expected to be achieved during the biennium. When the Executive Director reduced the 1996-97 PSA budget to \$226.4 million (in line with estimated volume of operations), it reflected a reduction of \$14 million from the approved gross budget. Following the same principle of budget flexibility (i.e., matching the PSA with the volume of operations), the proposed 1998-99 PSA budget was further reduced in view of a lower projected level of operations. Assuming the same ratio of fixed and variable elements of the PSA budget (as was the case in 1996-97), the base budget for 1998-99 for an estimated delivery level of 4.4 million tons during the 	<p>budget for 1998-99 represents a reduction of \$35.4 million (in constant value) in relation to the recosted gross budget for 1996-97.</p>

Reference in WFP/EB.3/97/4-A/Add.2	ACABQ report	Additional information provided to the ACABQ	Other comments, including actions to be taken in the future
		<p>biennium would be \$205 million. This base reflected a further reduction to \$21.4 million from the revised 1996-97 budget amount of \$226.4 million. The total reduction of \$35.4 million in the 1998-99 PSA budget represents a decrease of 15 percent in relation to the PSA budget for the 1996-97 biennium. The proposed 1998-99 PSA budget includes a staff cost increase of \$9.4 million. The total budget will be subject to recosting based on the decisions of the FAO Conference in November 1997 regarding the Lira/US\$ exchange rate.</p>	
<ul style="list-style-type: none"> page 6, paragraph 16, (net reduction at HQs.) 	<ul style="list-style-type: none"> “The Committee notes that the intended net reduction at headquarters will amount to 44.5 posts (paragraph 101). This, however, is not reflected in the field offices staffing tables (see Table B2 of WFP/EB.3/97/4-A).” 	<ul style="list-style-type: none"> An analysis of PSA budget reductions identifying savings initiatives and amounts to be saved for financial periods 1996-97 and 1998-99 was forwarded to the ACABQ on 23 September 1997. That analysis indicated foreseen savings in PSA of \$14 million 	<ul style="list-style-type: none"> The PSA budget had to be reduced because of a foreseen lower level of operations. At the same time, it was necessary for WFP to strengthen its field presence – in the regional clusters and in some country offices,

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		<p>in 1996-97 and projected savings of \$21.4 million in 1998-99 for a combined savings (over the four year period) of \$35.4 million.</p>	<p>particularly in least developed countries (LDCs). The reduction at headquarters provided opportunities to facilitate this strengthening.</p>
<ul style="list-style-type: none"> page 6, paragraph 16, (post gradings at HQs.) 	<ul style="list-style-type: none"> “The Committee further notes that some organizational units at headquarters (e.g., the office of the Executive Director and the Resources and External Relations Division) continue to be top-heavy and no explanation is provided in the document for the large number of posts at the D-2 and D-1 level in these units, while the total of P-2 and P-3 posts has been substantially reduced (see table B2). The Advisory Committee recommends that in her next submission, the Executive Director provide this explanation.” 	<ul style="list-style-type: none"> A breakdown of staffing by grade for each organizational unit at headquarters was given to the ACABQ on 26 September 1997. 	<ul style="list-style-type: none"> Besides the Executive Director and the Deputy Executive Director, there are five D-1 posts heading the Office of the Executive Director (OED), and the Offices of Internal Audit (OEDA), Evaluation (OEDE), Inspection and Investigation (OEDI) and Budget (OEDB). The Resources and External Relations Division (RE) is headed by a D-2, and has four D-1 Heads (i.e., the Public Affairs Service, the Executive Board Secretariat and Inter-agency Affairs, and the Resource Mobilization Services for the Americas, Asia and Australia and for Europe, Middle East and Africa). Other than the relocation of the

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			Office of Budget from the Financial and Information Systems Division (FS) to the Office of the Executive Director, there are no changes in the organizational structure of OED and RE.
<ul style="list-style-type: none"> page 6, paragraph 17, (programme of work in the field) 	<ul style="list-style-type: none"> “The Advisory Committee notes that although the PSA budget for WFP is largely determined by the programme of work to be carried out in the regional and country offices where WFP’s basic work lies, the document does not contain any explanation on the work performed by the WFP field network; this should be corrected. The Advisory Committee requested information on the breakdown of \$25,652,000 budgeted for local operating costs, but this was not provided.” 	<ul style="list-style-type: none"> Further information on the local operating cost component of the 1998-99 PSA budget was conveyed to the ACABQ on 26 September 1997. The ACABQ was provided with a breakdown of the estimates (staff costs and non-staff costs) on a country-by-country basis. 	<ul style="list-style-type: none"> WFP’s proposed budget for the 1998-99 biennium shows the aggregate number of staffing and local operating costs for field operations by region. The figures presented in the budget document represent a summary of the detailed estimates for each country office. While the staffing component is already prepared in detail for each regional/country office, local operating expenses are estimated. The aggregate is broken down by objects of expenditure and allotments to regional/country offices are issued only after the biennial budget is approved by the

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			<p>Executive Board.</p> <ul style="list-style-type: none"> The programme of work to be carried out by the regional/country offices is reflected in summary form in Table 17 of WFP's 1998-99 budget document. Descriptions of WFP's work in development, PRO, EMOP and SO are given in the section of the 1998-99 budget document that pertains to resource availability and utilization. The programme of work is an estimate in global terms and is driven by the availability of resources. Actual implementation is based on projects, programmes and operations, the bulk of which are related to relief operations which have not yet been approved. In this connection, it is obvious that the level of operations, particularly for PRO and EMOP, cannot be broken down

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			<p>by country at this time.</p> <ul style="list-style-type: none"> • A more expanded description of WFP's programme of work and related operational activities with clear linkages to PSA estimates will be contained in future biennial budgets.
<ul style="list-style-type: none"> • page 7, paragraph 19, (post upgradings) 	<ul style="list-style-type: none"> • "The Committee notes from paragraph 138 that the Executive Director proposes to allocate a maximum of 10 upgradings in the 1998-99 biennium. The Committee requests that in the future information be provided as to the basis for the reclassifications." 		<ul style="list-style-type: none"> • In approving the proposal by the Executive Director to effect 35 specified upgradings in the 1994-95 biennium, the CFA recognized the need to allow the Executive Director to have such flexibility. The Executive Director later reported on how these upgradings approved in the 1994-95 budget were applied. The Executive Director was given authority to effect 20 upgradings in the 1996-97 budget. Paragraph 137 of WFP's 1998-99 budget document gives a summary of how those upgradings were applied. While the

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			upgradings implemented can be reported post-facto, information on the basis of the post reclassifications would not be available at the time WFP's budget proposal is presented.
<ul style="list-style-type: none"> • page 7, paragraph 20, (reduction in operations) • page 7, paragraph 21, (DSC and FMIP funded personnel at 	<ul style="list-style-type: none"> • “In paragraph 102 it is indicated that the foreseen reduction in operations in some countries led to the decision to reduce the number of country office Professional posts. The Committee regrets that no information is provided as to how these staff resources at regional and country offices are being utilized.” • The Advisory Committee reiterates its view that, taking into account the responsibilities of the headquarters units concerned..., it is not convinced that these personnel charges at headquarters should be classified as direct support costs. The Committee has indicated that excluding such costs from the PSA budget 	<ul style="list-style-type: none"> • The volume of operations by programme category that WFP expects to handle in each region in 1998-99 appears in table 17 of the WFP budget document. Activities in support of programmes to be carried out in the field by regional and country offices are shown on pages 41 and 42 of the document. A breakdown of the proposed 1998-99 regional and country office budget costs (covering staff and local operating costs) for each regional and country office was forwarded to the ACABQ on 26 September 1997. • Additional details on how direct support costs will be applied at WFP headquarters were provided to the ACABQ on 26 September 1997. 	<ul style="list-style-type: none"> • As a result of a planned reduction in the field in 1998-99, posts in some country offices were slated for abolishment. However, the bulk of the staff that will be affected by post abolishment actions are to be redeployed or reassigned to regional and other country offices where a need to bolster WFP's staff presence in the coming biennium has been identified. • Personnel charges at headquarters funded through direct support costs (DSC) are directly linked to WFP's

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HQs.)	understates the actual administrative and support cost required to deliver WFP activities....”.		programmes, projects and operations. This is one of the matters to be taken up during the forthcoming review of WFP’s new resource and long-term financing policies.
<ul style="list-style-type: none"> • page 7, paragraph 22, (FMIP) • pages 7-8, paragraph 23, (FMIP) 	<ul style="list-style-type: none"> • “The Committee recalls that it had been informed that the total initial estimate for FMIP was \$18 million and that the project was expected to be completed over a three year period, namely by the end of 1997 (CFA 40/4/Add.2, paragraph 28). The Committee was unable to ascertain the reasons for such a large increase in the cost of the project and the extension of its life to 1999.” • “The Committee recalls that it had requested the Executive Director to provide, in the context of the performance report for 1996-97 (mentioned in paragraph 3 above), detailed information on the progress of the implementation of FMIP, indicating, <i>inter alia</i>, its scope, the various components of the project, period of implementation and sources of funding and expenditure (CFA 40/4/Add. 2, paragraphs 29 and 36). The Committee regrets that this information was not submitted to the Committee. The Committee was provided with the copy of FMIP progress report No. 4 covering the second quarter of 1997 and containing a summary of accomplishments to date. The information contained in this newsletter on FMIP does not address fully the concerns of the Committee.” 	<ul style="list-style-type: none"> • Additional information on the Financial Management Improvement Programme (FMIP), including an explanation as to why its estimated costs have increased, was forwarded to the ACABQ on 23 September 1997. 	<ul style="list-style-type: none"> • The quarterly progress report contains detailed information on the projects, implementation and funding requirements for FMIP. This information is reviewed by the FMIP Steering Committee, which advises the Executive Director. The Steering Committee is chaired by the Deputy Executive Director and includes, <i>inter alia</i>, the Assistant Executive Director, and the

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			<p>Directors of Finance and Information Systems, Strategy and Policy, Human Resources and Internal Audit. Donors and Members of the Executive Board are briefed regularly on the status of FMIP.</p>
<ul style="list-style-type: none"> • page 8 (paragraph 24, (FMIP)) • page 8, paragraph 25, (FMIP) 	<ul style="list-style-type: none"> • "...the Executive Director will continue to seek contributions from donors to cover the remaining FMIP implementation costs and that, as an interim measure, she proposes to transfer up to \$10 million from interest income to help complete the projects and activities under FMIP. In the light of the observations of the Committee...the Committee is unable to take a position with respect to this proposal. The Committee requests that the Executive Director prepare a full performance report on the implementation of FMIP from the start of the project and submit it to the ACABQ in the context of the next budget presentation ." • "The Committee, reiterates, however, that the full level of the PSA costs, including FMIP costs, should be disclosed irrespective of whether financing comes from resources pledged for various operations of WFP or from additional contributions by donors. This, in the view of the Committee, will permit the ACABQ and the Executive Board to scrutinize and monitor the cost of such activities." 		<ul style="list-style-type: none"> • The Executive Director intends to submit a performance report on FMIP to the Executive Board during 1998. • The cost of FMIP is considered a direct support cost of a one-time nature related to a special operation. It is a significant capital expenditure which the PSA cannot sustain. The total cost of FMIP was disclosed in the WFP 1998-99 budget document (See also the comment on

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			<p>paragraph 6 on page 3 of this document). For future WFP budgets and budgetary performance reports, information from FMIP progress reports will be incorporated if the Executive Board indicates the need to do so.</p>
<ul style="list-style-type: none"> • page 8, paragraph 27, (training) 	<ul style="list-style-type: none"> • "...the Advisory Committee is of the view that WFP should continue to make efforts to respond to the training needs of government counterparts and implementing partners, as means to increase the capacity for execution, implementation and supervision of the assistance provided (WF/EB.A/97/4-A/Add.2, paragraph 7). With regard to training of WFP staff, the Committee requests that, in the future, information be provided on the total number of staff trained and the corresponding categories of training, i.e., management training, finance and administration. Furthermore...the Committee agrees with the view that training should be targeted so as to create greater capacity for discharge of delegated authority. The Committee requests that, in the future, information on resources spent for training that may be budgeted under projects or under direct support costs be clearly disclosed in the section on training in the budget document." 	<ul style="list-style-type: none"> • Additional information on the number of WFP training sessions held during the 1996-97 biennium by: i) category of training; ii) category of staff; and iii) counterparts, was sent to the ACABQ on 26 September 1997. 	<ul style="list-style-type: none"> • Information on WFP's training activities can be included in future WFP budgets and budgetary performance reports.
<ul style="list-style-type: none"> • page 9, paragraph 28, (PSA) 	<ul style="list-style-type: none"> • "Paragraphs 220-235 of the budget document discuss the main object of expenditure of the PSA budget and table C1 shows the proposed PSA budget for 1998-99 as compared to the revised budget for 1996-97 by major object of expenditure. The Committee notes that the reasons for volume changes from 1996-1997 in the various object of expenditure of the PSA budget are not explained." 		<ul style="list-style-type: none"> • The level of the PSA budget is linked to the volume of operations. The 1998-99 PSA budget was reduced to a lower than foreseen level of resources and

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			<p>economies of scale in various line items had to be identified. The total availability of resources is predetermined and managers are expected to prioritize expenditure items within their respective budgets. In this process, some budget lines are reduced while others may increase accordingly.</p>
<ul style="list-style-type: none"> page 9, paragraph 29, (after-service medical liabilities) 	<ul style="list-style-type: none"> “...staff costs of \$155,943,000 do not include provision for funding after-service medical liabilities and should the Executive Board take a decision to make provision for such liabilities, the staff cost component of the budget will need to be revised accordingly. The Advisory Committee recalls the Executive Director had proposed the establishment of a fund to finance after-service medical liabilities to be funded from future surpluses....In this connection, the Committee had been informed that the surpluses in question would be those at the full disposal of WFP and not earmarked for special purposes. The Committee noted that the Executive Director’s recommendations had not been accompanied by precise financial implications and that other options for funding had not been presented (WFP/EB.A/97/4-A/Add.2, paragraph 18). The Committee reiterates its view that, taking into account the need for precise financial implications and bearing in mind the projected 		<ul style="list-style-type: none"> The Executive Director has reported to the Executive Board on the provisions for financing WFP’s after-service medical liabilities (e.g., assessment and disclosure, how after-service medical benefits are currently funded, present value of liabilities and service costs, etc.) in document WFP/EB.A/97/4-E. Additional actuarial work

Reference in WFP/EB.3/97/4-A/Add.2	ACABQ report	Additional information provided to the ACABQ	Other comments, including actions to be taken in the future
	<p>decline in reserves available for food aid, the Executive Director's proposal needs to be carefully assessed and all options considered, including the possible adjustment of premiums..."</p>		<p>and discussions with FAO and other participating organizations in the common medical plan are underway to determine WFP's precise share of liability. Additional proposals in this regard will be made to the Executive Board in the 1998-99 biennium.</p>
<ul style="list-style-type: none"> page 9, paragraph 31, (\$10 million advance for move to new HQs. premises) 	<ul style="list-style-type: none"> "The Advisory Committee notes that no information is provided in the document as to how the \$10 million advance from the operational reserve would be utilized in connection with the move to the new premises. The Committee recalls that, in regard to a similar request to undergo major refurbishings of the WFP headquarters building during 1996-97 at the cost of also \$10 million, it had indicated that the source of financing the cost of refurbishing the headquarters building does not obviate the need to justify the estimate, nor does it mean that the expenditure should be removed from the PSA budget. The Committee also requested detailed information on this matter to be submitted in connection with the performance report....The Committee regrets the lack of compliance with previous recommendations." 	<ul style="list-style-type: none"> WFP provided the ACABQ with a breakdown of the foreseen costs for the move to new headquarters premises on 16 September 1997. 	<ul style="list-style-type: none"> The Executive Director had made a proposal in the 1996-97 budget to advance \$10 million for the refurbishing of the current WFP headquarters building. The refurbishing project was subsequently abandoned. Therefore, the report sought by the ACABQ was never prepared. The new advance in the 1998-99 budget is sought to cover fit-up costs for the move to new WFP

Reference in WFP/EB.3/97/4-A/Add.2	ACABQ report	Additional information provided to the ACABQ	Other comments, including actions to be taken in the future
<ul style="list-style-type: none"> page 9, paragraph 32, (move to a new HQs. premises) 	<ul style="list-style-type: none"> “The Advisory Committee was provided upon inquiry with a preliminary budget for refurbishing the new premises at Parco dei Medici building in Rome, amounting to \$11,284,200; however, the Committee was not provided with any evidence of the intention of the Host Government to reimburse WFP for this expenditure during the 1998-99 biennium.” 	<ul style="list-style-type: none"> A detailed preliminary budget amounting to Lit. 11.3 billion (equivalent to \$6.5 million) has been submitted to the Host Government. This information was conveyed to the ACABQ, prior to the release of its report. 	<p>headquarters premises. The advance will be for a limited duration, pending reimbursement from the Host Government. The advance takes into account essential expenditures only (i.e., civil engineering works directly related to adapting the building to WFP’s functioning exigencies and new furniture suitable for open-space workstations). Equipment and furniture from WFP’s existing headquarters will be used to the extent possible.</p> <ul style="list-style-type: none"> The preliminary estimate for WFP’s move to new headquarters premises foresaw the need for up to \$10 million to cover fit-up costs. However, this estimate was eventually reduced to \$6.5 million. WFP believes that the Host Government will respect the provisions of the Headquarters Agreement. Article II,

Reference in WFP/EB.3/97/4-A/Add.2	ACABQ report	Additional information provided to the ACABQ	Other comments, including actions to be taken in the future
			<p>section 3 (a) and (b) of said agreement states: “(a) <i>pending the provision of suitable premises by the Government, the latter shall assist WFP in renting premises and, in particular, shall reimburse to WFP all rent paid for such premises;</i>” and “(b) <i>when suitable premises have been placed at the disposal of WFP by the Government, the latter shall pay the expenses of supplying furniture and equipment, including that required for internal communications and, if necessary, for simultaneous interpretation, as well as for the installation of telecommunications facilities and public utilities, and for modification and remodeling of premises...</i>” Considering that the move to new headquarters premises</p>

Reference in WFP/EB.3/97/4-A/Add.2	ACABQ report	Additional information provided to the ACABQ	Other comments, including actions to be taken in the future
<ul style="list-style-type: none"> pages 9-10, paragraph 33, (operational reserve) 	<ul style="list-style-type: none"> “...the operational reserve would be used to make reimbursable advances to other funds as may be established by the Executive Board for which firm pledges or other firm sources of income had been identified, up to a limit of five million dollars or not exceeding 10 per cent of the Operational Reserve, whichever is less. In paragraph 22 of its report...the Committee noted and endorsed the proposal of the Executive Director with respect to funding and replenishment of the operational reserve. Under the circumstances, the Committee sees no justification to use the operational reserve for the refurbishing of the new premises.” 		<p>will take place in early 1998, the submission for the reimbursement of related costs could be finalized within the first quarter of 1998, or at the latest, during the second quarter. Under this time frame there would be sufficient time for the Host Government to secure reimbursement before the end of the 1998-99 biennium.</p> <ul style="list-style-type: none"> WFP’s Governing Body is the authority that established the Operational Reserve. In considering the advance to cover fit-up costs for the move to WFP’s new headquarters premises, the Board can decide to use cash from the Operational Reserve as the means for advancing the funding sought by the Executive Director. WFP views as an exception a recourse to the Operational Reserve for pre-financing the move,

Reference in WFP/EB.3/97/4-A/Add.2	ACABQ report	Additional information provided to the ACABQ	Other comments, including actions to be taken in the future
			as there is no other financing mechanism WFP could use for such a purpose.
<ul style="list-style-type: none"> • page 10, paragraph 34, (common premises) • page 10, paragraph 35, (contingency provision) 	<ul style="list-style-type: none"> • “the Executive Director requests authority from the Executive Board to utilize up to \$3 million from the General Fund for the purpose of covering costs that WFP may have to incur for common premises in the field. Upon inquiry, the Advisory Committee was informed that the \$3 million estimate is a notional figure since actual common premises cost estimates have not yet been worked out. The Committee sees no need to earmark funds at this juncture for common premises that have not yet been studied and costed. Should resources be required during the 1998-99 biennium, they should be reflected in the performance report. Otherwise, for subsequent periods, they should be justified under the PSA budget to which they will pertain.” • “The Advisory Committee notes...that there is a contingency provision of \$400,000. The Committee understands that up to now this has not be used; it, therefore, recommends that its continued existence be reviewed.” 		<ul style="list-style-type: none"> • The Executive Director had proposed that \$3 million be set aside from the General Fund to cover WFP’s share of the cost of common premises. In the light of the discussion in the FAO Finance Committee and the ACABQ, the Executive Director agrees to seek the approval of the Executive Board at a later date when the plan for common premises takes definite shape. • A provision for contingencies of \$400,000 was made in WFP’s proposed 1998-99 budget. This was in keeping with WFP past practices. With the implementation of WFP’s new Resource and Long-term Financing Policies, under which the PSA

Reference in WFP/EB.3/97/4-A/Add.2	ACABQ report	Additional information provided to the ACABQ	Other comments, including actions to be taken in the future
			<p>budget is linked to the volume of operations, provision for contingency has less relevance. Thus, for future WFP biennial PSA budgets, a provision for contingency will no longer be made.</p>
<ul style="list-style-type: none"> page 10, paragraph 36, (understating level of requirement) 	<ul style="list-style-type: none"> “The Advisory Committee has, on several occasions, identified expenditure which should be included under PSA. The Committee notes that the practice of not including this type of expenditure under PSA understates the level of the requirements. The Committee also is concerned by the fact that this procedure allows neither the Advisory Committee nor the Executive Board to fully consider these proposed expenditures.” 		<ul style="list-style-type: none"> (See also comment on paragraph 6 on page 3 of this document).

Reference in WFP/EB.3/97/4- A/Add.2	ACABQ report	Additional information provided to the ACABQ	Other comments, including actions to be taken in the future

Reference in WFP/EB.3/97/4-A/Add.1	FAO Finance Committee report	Other comments, including actions to be taken in the future
<ul style="list-style-type: none"> page i, paragraph 3, (increasing trend of PSA) 	<ul style="list-style-type: none"> “The Committee expressed appreciation for the informative and easy to read format of the document. It expressed concern on the increasing trend of the PSA as a percentage of WFP activities....” 	<ul style="list-style-type: none"> Summary Table 3 of WFP’s 1998-99 budget document indicates that the PSA as a proportion of total turnover has increased from about 6.4% in 1988-89 to about 8.7% in 1998-99. In addition to the fixed-cost portion of the PSA budget, three elements are responsible for this growth: i) the PSA component reflects actual expenditures for the period until 1994-95, and budget estimates are used for the future. WFP’s efforts towards cost control have enabled it to achieve actual expenditures significantly lower than budget provisions, while improving the qualitative aspect of the service provided; ii) PSA includes annual cost increases, mostly mandated under the United Nations common system. While other operational costs move both ways - up or down - standard or mandated costs tend to go up; and iii) before 1996-97, the operational budget included all extra-budgetary support expenditures, thus understating the total PSA. The consolidation of such support costs in the PSA since 1996-97 has had the effect of raising the total PSA amount while reducing the value of operations against which the PSA is measured.
<ul style="list-style-type: none"> page i, paragraph 4, (increases in estimates of landside transport, storage and handling costs) 	<ul style="list-style-type: none"> “The Committee expressed concern regarding (i) the increase of delivery cost estimates in relation to declining commodity volume and the evolution of commodity cost in view of declining world prices, as well as (ii) the increases in estimates of landside transport, storage and handling costs, while volumes were declining.” 	<ul style="list-style-type: none"> The 1998-99 budget estimates for ocean transport and LTSH rates were established on the basis of actual 1996 expenditures and estimated costs for 1997. While for the Development and PRO programme categories the relative locations of WFP activities in the coming biennium are fairly known and relatively more predictable, this is not the case for emergencies. This is, however, largely moot since when donor contributions are requested for emergency operations, WFP’s proposals are made on the basis of the known location of these activities as well as other operational parameters for which more specific rates are available; these will vary from budget figures. <p>The policy aimed at channelling more food resources to least developed countries (LDCs) has a direct upward effect on transport costs. This is due not only to the fact that a number of these countries are land-locked, but also to the existing operational conditions such as poor infrastructure, security problems, the necessary multiple handlings at the various inter-modal transfer points, and is applicable sometimes to the use of airlift/airdrop operations as part of the normal mode of delivery, induce higher external transport and LTSH costs. On the other hand, transport costs to middle-income countries receiving WFP food assistance are considerably lower. These countries generally have better transport infrastructure and</p>

Reference in WFP/EB.3/97/4-A/Add.1	FAO Finance Committee report	Other comments, including actions to be taken in the future
		<p>operating conditions, and thus give way to lower transport and little or no LTSH costs. In addition, the Development programme entails fewer transport costs and some projects have no ITSH costs at all. Thus, as the tonnage of this category of programmes and projects diminishes, there is a corresponding increase in transport costs as the emergency tonnage—which entails full cost coverage by WFP—increases. As the volume of commodities to middle-income countries declines compared to food deliveries to LDCs, higher proportionate transport and LTSH costs will result relative to WFP's total resources.</p>