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RESOURCE, FINANCIAL AND BUDGETARY MATTERS

Agenda item 5



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8 November 2010

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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 the following agenda items:

- Policy for Disclosure of Internal Audit Reports to Member States (WFP/EB.2/2010/4-B/1)
- WFP Anti-Fraud and Anti-Corruption Policy (WFP/EB.2/2010/4-C/1)
- Financial Framework Review (WFP/EB.2/2010/5-A/1)
- Review of the Working Capital Financing Facility (WFP/EB.2/2010/5-B/1)
- Third Update on the WFP Management Plan (2010–2011) (WFP/EB.2/2010/5-C/1)
- Second Update on WFP Management Actions in Somalia (WFP/EB.2/2010/5-D/1)
- Review of WFP Operations in Somalia (WFP/EB.2/2010/5-E/1)

COPY OF LETTER RECEIVED FROM THE UNITED NATIONS — NEW YORK

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Advisory Committee on
Administrative and Budgetary Questions

29 October 2010

Dear Ms. Sheeran,

Please find attached a copy of the report of the Advisory Committee on your submissions concerning:

- Policy for Disclosure of Internal Audit Reports to Member States (WFP/EB.2/2010/4-B/1)
- WFP Anti-Fraud and Anti-Corruption Policy (WFP/EB.2/2010/4-C/1)
- Financial Framework Review (WFP/EB.2/2010/5-A/1)
- Review of the Working Capital Financing Facility (WFP/EB.2/2010/5-B/1)
- Third Update on the WFP Management Plan (2010–2011) (WFP/EB.2/2010/5-C/1)
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- Review of WFP Operations in Somalia (WFP/EB.2/2010/5-E/1)

I should be grateful if you could arrange for the Committee's report to be placed before the Executive Board at its forthcoming session, as a complete and separate document. I would appreciate it if a printed version of the document could be provided to the Advisory Committee at the earliest possible opportunity.

Yours sincerely,

Susan McLurg
Chairman

Ms. Josette Sheeran
Executive Director
World Food Programme
Via Cesare Giulio Viola, 68-70
00148 Rome, Italy

WORLD FOOD PROGRAMME
Resource, Financial and Budgetary Matters
Report of the Advisory Committee on Administrative and Budgetary Questions

I. Introduction

1. The Advisory Committee has considered the following reports of the World Food Programme (WFP), presented for approval by the Executive Board:

- Policy for Disclosure of Internal Audit Reports to Member States (WFP/EB.2/2010/4-B/1)
- WFP Anti-Fraud and Anti-Corruption Policy (WFP/EB.2/2010/4-C/1)
- Financial Framework Review (WFP/EB.2/2010/5-A/1)
- Review of the Working Capital Financing Facility (WFP/EB.2/2010/5-B/1)

The Committee also had before it, for information, the reports as listed below:

- Third Update on the WFP Management Plan (2010-2011) (WFP/EB.2/2010/5-C/1)
- Second Update on WFP Management Actions in Somalia (WFP/EB.2/2010/5-D/1)
- Review of WFP Operations in Somalia (WFP/EB.2/2010/5-E/1)

2. During its consideration of the reports, the Advisory Committee met with the Deputy Executive Director for Resource Management and Accountability/Chief Financial Officer, as well as other representatives of WFP, who provided additional information.

II. Policy for Disclosure of Internal Audit Reports to Member States

3. The document on the Policy for Disclosure of Internal Audit Reports to Member States (WFP/EB.2/2010/4-B/1) is submitted for approval by the Executive Board. In the document, WFP affirms its commitment to transparency and accountability in all its activities and decision-making, and accordingly, it may make its internal audit reports available to Member States upon request and following the procedures outlined therein.

4. The Advisory Committee supports the move towards greater disclosure and transparency, but notes that the proposed procedures are quite restrictive, particularly when viewed in the context of the practice of the United Nations as established by General Assembly resolution 59/272. The Committee also finds that the procedures lack clarity on the criteria that would be used for approval or denial of requests from Member States for access to internal audit reports. The Committee was informed, upon enquiry, that the proposed procedures were consistent with the approach adopted by the New York based funds and programmes. The Advisory Committee is of the view that WFP may wish to explore ways to achieve greater transparency in respect of access by Member States to its internal audit reports, including, if required, the possibility of developing a policy to deal with confidential information.

III. Anti-Fraud and Anti-Corruption Policy

5. WFP anti-fraud and anti-corruption policy is set out in six sections of the document (WFP/EB.2/2010/4-C/1), namely, (a) measures to prevent any fraudulent, corrupt and/or collusive practices, (b) roles and responsibilities of WFP staff members and non-staff employees, (c) training and disclosure programme, (d) reporting procedures, (e) investigation procedures, and (f) actions following breaches of this policy. WFP indicates that this policy applies to all of its activities and operations, as well as to all staff members and non-staff employees (*ibid.*, paras. 7 and 8). Definitions for fraud, corruption and collusion are provided in paragraph 10 of the document.

6. WFP also indicates that this policy document reflects the principles underlying the United Nations Convention against Corruption, as well as those set out in the Staff Regulations and Rules, the Financial Regulations and Rules, the Standards of Conduct for the International Civil Service and other relevant rules and policies (*ibid.*, para. 1). Upon enquiry, the Advisory Committee was informed that the document, presented for approval by the Executive Board, did not contain any substantive additions to the existing rules and policies. Rather it was a consolidation and clarification of principles set out in numerous internal regulations, rules, standards and policies. In addition, it was a response by WFP to the initiative by the Chief Executive Board to follow the principles of the United Nations Convention against Corruption among the United Nations entities after the adoption of the Convention.

7. In this connection, the Advisory Committee was further informed that WFP had recently developed an internal control framework and a comprehensive risk management implementation plan. Additional activities had focused on reducing the number of outstanding internal audit recommendations, reviewing delegations of authority, updating key guidance materials, and developing a procedure for issuing a statement of internal control to accompany the annual audited financial statements. The Advisory Committee notes and welcomes these initiatives undertaken by WFP in this regard.

8. The Advisory Committee notes the proposed mandatory participation in a training and disclosure programme to be developed and conducted for all WFP staff members and non-staff employees (*ibid.*, para. 20). While understanding that many of the WFP staff will already have the necessary knowledge and skills, the Committee recognizes the benefit of such awareness training.

IV. Financial Framework Review

9. Background information regarding the financial framework review process is provided in the document WFP/EB.2/2010/5-A/1 (paras. 1 to 12). It is indicated that the review was undertaken to ensure that WFP's financial framework fully supports the implementation of its strategic plan 2008–2013. While the full-cost recovery principle adopted by WFP in 1996 reflected the commodity-based assistance on which WFP focused, the WFP strategic plan marked a shift from WFP as a food aid agency to WFP as a food assistance agency, with more non-commodity activities such as cash and voucher transfers, local production of nutritionally enhanced food and local capacity development (*ibid.*, paras. 16 and 27).

10. At its annual session in June 2010, the Executive Board did not approve the six recommendations presented in the document on financial framework review options (WFP/EB.A/2010/6-E/1). Rather, the Board took note of them and requested further consultations (2010/EB.A/7). As a result of these consultations, recommendations 3, 5 and 6 have been removed from the scope of the review, while recommendation 4 is being considered in the context of another review requested by the Board (*ibid.*, para. 11).

Consequently, the proposed changes to the General Rule XIII.4 and Financial Regulation 1.1 concern the implementation of recommendations 1 and 2 only, which are:

- Recommendation 1: segregate non-commodity activities within projects and – exceptionally – allow separate funding streams;
- Recommendation 2: modify the current direct support cost funding model to a percentage of direct operational costs rather than a rate per metric ton.

11. According to WFP, the proposed changes aim to (*ibid.*, para. 13):

- (a) Update WFP's costing model to incorporate non-commodity activities, and
- (b) Modify WFP's funding model to fund direct support costs on a percentage basis rather than a tonnage basis.

The proposals are explained in detail in paragraphs 18 to 26 of the document. The current and the proposed revisions to the text of General Rule XIII.4 and Financial Regulation 1.1 are included in document WFP/EB.2/2010/5-A/1.

12. In this connection, the Advisory Committee recalls its views expressed at the time of its consideration of the above-mentioned recommendations by WFP (WFP/EB.A/2010/6(A,B,C,D,E,F,G,H,I,J,K)/2, paras. 27 to 31). Should the Executive Board approve the implementation of recommendations 1 and 2, the Committee has no objection to the proposed changes to the General Rule XIII.4 and Financial Regulation 1.1.

V. Review of the Working Capital Financing Facility

13. WFP indicates that on-time delivery of food is a critical success factor for its operations and that advance financing can improve operational effectiveness and efficiency, in particular the timeliness of food delivery (WFP/EB.2/2010/5-B/1, executive summary). The document on the review of the working capital financing facility provides background information on WFP's internal advance financing mechanisms, which are summarized below (*ibid.*, paras. 6 to 19):

(a) The immediate response account (IRA), a multilateral fund established to provide immediate food, non-food and logistics assistance in life-threatening situations. It is not included in the proposal because, unlike other advance facilities, IRA is also used as a non-recourse lending facility that can result in non-repayable loans.

(b) The direct support cost advance facility (DSCAF), established as a loan mechanism for staff and non-staff costs, with a ceiling of \$35.9 million, backed by a reserve of \$35.9 million (ratio 1:1), and

(c) The working capital financing (WCF) Facility, established with a ceiling of a total of \$180 million, backed by an operational reserve of \$57 million (ratio 3:1), comprising:

(i) The traditional advance financing (\$120 million) for projects pending confirmation of forecast contributions;

(ii) The forward purchase facility (\$60 million) for purchases based on aggregated project needs for a region or sub-region.

14. As illustrated in table 1 of the document, the demand for the WCF Facility funding has increased significantly since its pilot stage in 2004, both in terms of the number of loans granted and the value of funds advanced. Of the 167 loans with a total funding of \$1.2 billion from 2004 to July 2010, only one loan of \$5.9 million, or 0.5 percent of the total, was written off during the pilot stage of the WCF Facility (*ibid.*, paras. 12 and 45). Further, the total funding of \$1.2 billion has been advanced to 390 operations, with an average savings in lead-time of 57 days (*ibid.*, para. 20).

15. In a draft decision contained in the document, the Executive Board is requested to approve:

- (a) the transfer of the DSCAF reserve of \$35.9 million to the operational reserve to increase the total of the reserve from \$57 million to \$92.9 million;
- (b) the increase of the WCF Facility ceiling from \$180 million to \$557 million.

The Advisory Committee notes from the document that the proposed ceiling of \$557 million for WCF Facility includes (ibid., paras. 4, 35 and 47):

- (a) \$407 million for the traditional advance financing, which would also absorb the activities currently funded by DSCAF (see also para. 13 (b) above), and
- (b) \$150 million for the forward purchase facility to expand to more regions and more food items.

16. The reason provided by WFP for the proposed increase of the traditional advance financing to \$407 million from \$120 million is to bring the level of the ceiling, as a percentage of the biennial programme of work to 5.4 percent from the current 2.1 percent. This would restore the ceiling closer to its original 5 percent envisaged when the traditional advance financing was created in the 2004/2005 biennium (paras. 36 to 37 and Table 3). Information with respect to measuring the leverage of WFP's advance financing mechanisms is provided in paragraphs 49 to 54 and tables 4 and 5. The Advisory Committee notes that WFP considers its new proposals conservative, when compared with the leverage limit of some commercial banks. The Committee does not consider that the circumstances of WFP and of commercial banks are analogous.

17. According to WFP, an increased advance financing facility of \$557 million with a consolidated advance financing reserve of \$92.9 million would bring the leverage ratio to 6:1 from the current ratio of 3:1 (WCF Facility of \$180 million against the reserve of \$57 million). In this connection, the Advisory Committee wishes to point out that given that DSCAF currently has a ratio of 1:1 (see para. 13 (b) above), a combined ceiling of \$215.9 million from the current WCF Facility (\$180 million) and DSCAF (\$35.9 million) against a consolidated reserve of \$92.9 million represents a ratio of 2.3:1, instead of 3:1 as reflected in the document. The current and proposed facility ceilings and reserves, as well as their ratios, are contained in Figures 7 and 8 of the document.

18. While the Advisory Committee does not object to increasing the leverage limit for the WCF Facility, it considers that in the current economic circumstances, a prudent approach should be taken to the pace at which the leverage limit is increased. The Committee notes that since the current effective leverage is 2.3:1, it suggests that as a next step, leverage at the rate of 4:1 or 4.5:1 could be considered. Further adjustments could be made in the future in the light of experience.

VI. Third Update on the WFP Management Plan for 2010–2011

19. The third update of the management plan for 2010–2011 (WFP/EB.2/2010/5-C/1) is submitted to the Executive Board for information. Information contained in the update covers the period up to September 2010 (ibid., para. 1). Since the last update, the programme of work for 2010–2011 has increased by \$1.24 billion, of which \$516 million is allocated for 2010 and \$720 million for 2011, respectively (ibid., paras. 10-39 and tables 1 and 2):

- (a) For 2010, an increase of \$926.6 million mainly in Pakistan, Haiti, Sahel region and the Horn of Africa, offset by a reduction of \$410 million in 25 other countries, resulting in a net increase of \$516 million;

(b) For 2011, an increase of \$720 million primarily due to additional requirements in Sahel region, Pakistan, the Horn of Africa and Haiti. More detailed information for 2011 will be provided in the fourth update of the management plan for the biennium.

20. Concerning projected resource levels (*ibid.*, paras. 40 to 42), WFP indicates that compared with the original programme of work of \$8.95 billion based on an income forecast of \$7.5 billion for 2010–2011, the current funding level is forecasted at \$7.45 billion against the revised programme of work of \$11.98 billion. For 2010, it is expected that WFP will receive \$3.7 billion against assessed needs of \$6.9 billion. Some highlights on the contributions for 2010 are provided in paragraphs 43 to 50 of the document. The Advisory Committee notes from the document that the higher programme of work has not resulted in proportionate additional funding.

21. The Advisory Committee notes that as highlighted in paragraphs 8 and 9 of the document, the programme of work is comprised of the total operational requirements. These are stated as being needs based and as such represent an appeal for resources. The Committee notes, however, that the updated programme of work has been adjusted partly due to ‘alignment of requirements to more realistic funding expectations’ (*ibid.* para. 29). The Committee recognizes the need to adjust operational plans to reflect the realities faced, and feels that to still present the updated programme of work as being needs based may be misleading.

22. With respect to the programme support and administrative equalization account, WFP indicates that the forecasted balance for the end of the biennium 2010–2011 is projected at \$80.8 million, in line with the target of maintaining an amount equivalent to four months of expected programme support and administrative expenditure (*ibid.*, para.59).

23. An update on extra-budgetary resources is provided in paragraphs 61 to 69 of the document. Compared with \$506 million in the original management plan for 2010–2011, the estimated level of extra-budgetary resources has been revised to \$578.3 million, of which WFP has received \$228.5 million, or 39 percent of the revised total for the biennium.

VII. Second Update on WFP Management Actions and Review of Operations in Somalia

24. The Advisory Committee has taken note of the Second Update on WFP Management Actions in Somalia (WFP/EB.2/2010/5-D/1) and the Review of WFP Operations in Somalia (WFP/EB.2/2010/5-E/1), which are presented to the Executive Board for information.