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

Report on Resource, Financial and Budgetary Matters submitted to the First Regular Session of the Executive Board, 2008

The Executive Director is pleased to submit herewith the report of the ACABQ pertaining to WFP. The report covers the relevant agenda items of the First Regular Session of the Board, 2008, as follows:

- WFP's Private-Sector Partnership and Fundraising Strategy
(WFP/EB.1/2008/5-B/1)
- Progress Report on the Implementation of the External Auditor's Recommendations
(WFP/EB.1/2008/6-B/1)
- Global Vehicle Leasing Programme and Self-Insurance Scheme
(WFP/EB.1/2008/6-C/1)
- Update on the WFP Management Plan (2008–2009)
(WFP/EB.1/2008/6-D/1)
- Update on the WINGS II Project
(WFP/EB.1/2008/6-E/1)

COPY OF LETTER RECEIVED FROM THE UNITED NATIONS — NEW YORK

Reference: AC/1656

Advisory Committee on
Administrative and Budgetary Questions
14 April 2008

Dear Ms. Sheeran,

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

- WFP's Private-Sector Partnership and Fundraising Strategy (WFP/EB.1/2008/5-B/1)
- Progress Report on the Implementation of the External Auditor Recommendations (WFP/EB.1/2008/6-B/1)
- Global Vehicle Leasing Programme and Self-Insurance Scheme (WFP/EB.1/2008/6-C/1)
- Update on the WFP Management Plan (2008–2009) (WFP/EB.1/2008/6-D/1)
- Update on the WINGS II Project (WFP/EB.1/2008/6-E/1)

I understand that the Committee's report will be reviewed by the Bureau of the Executive Board prior to being presented to the Executive Board. I would appreciate that a printed version of the document be provided to the Advisory Committee at the earliest possible opportunity.

Yours Sincerely,
Susan McLurg
Chairman

Ms. Josette Sheeran
Executive Director
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WORLD FOOD PROGRAMME

Resource, Financial and Budgetary Matters

Report of the Advisory Committee on Administrative and Budgetary Questions

1. The Advisory Committee has considered the World Food Programme's (WFP) private-sector partnership and fundraising strategy and other documents that are listed at the end of this report. During its consideration of the reports, the Advisory Committee had a video conference with the Chief Financial Officer and other representatives of WFP, who provided additional information.
2. The Advisory Committee was informed that these documents had been prepared for the first regular session of the Executive Board of WFP, held from 4 to 6 February 2008. The Committee was also informed that the document on the private-sector partnership and fundraising strategy was the only one submitted to the Board for approval and that the Board had approved the strategy in principle. Pending comments by the Advisory Committee, however, WFP had not started implementation. Any observations by the Committee would be discussed by the Bureau of the Executive Board immediately and be presented to the session of the Board in June 2008.

Private-sector Partnership and Fundraising Strategy

3. The Advisory Committee notes from the document on the private-sector partnership and fundraising strategy (WFP/EB.1/2008/5-B/1) that within the overall private-sector policy framework approved by the Executive Board, the proposed strategy includes a cash component with a specific quantitative goal of raising US\$200 million in cash by 2017 from the private sector, out of which at least US\$50 million would be multilateral. The Committee notes that the fundraising target is considered by WFP to be a conservative estimate and does not take into account any emergencies that may trigger spontaneous donations. The Committee also notes that, from 2003 to 2007, while in-kind contributions increased from US\$23 million to around US\$43 million, cash contributions increased from US\$5 million to US\$38 million. Upon enquiry, the Committee was informed that the term 'multilateral' referred to donations that were not earmarked and therefore available for the 'greatest needs' of the WFP programmes, as compared to earmarked funds for particular types of projects. It was also informed that food commodity and cash donation currently represented 50 per cent each in WFP resources and that the anticipated increase in cash donations would support WFP programmes following the present operating module, with no changes envisaged.
4. With respect to the financing of the strategy, the Committee notes that a self-financing model has been proposed to minimize cost to Member States and to reduce the burden on the Programme Support and Administrative (PSA) budget that has funded the private-sector partnership and fundraising since 2003. As indicated in the document, the model foresees that the initial funding for the strategy would come from advances from the General Fund, approved by the Executive Board, covering a five-year period. The advances would then be fully repaid with interest over the subsequent five years to ensure that the financial impact on the General Fund is cost-neutral. The Committee points out that the rate of interest to be applied to the advances remains to be set. In this connection, the Committee notes that a provision for advances of up to US\$9 million has been included in the Management Plan for the biennium 2008–2009.



5. The document on the strategy indicates that WFP intends to operate within the 1:4 “investment-to-income ratio” (i.e. one dollar invested for every four dollars raised) to cover its cost for fundraising activities. Upon enquiry, the Committee was informed that this ratio reflected an average for United Nations agencies and non-governmental organizations with whom WFP had consulted. The document also indicates that the principle of full cost-recovery will be applied to public and private donors, including 7 per cent for indirect support costs, and that an average fee of 13 per cent will also be applied to private donors to cover costs for the partnership and fundraising activities. The Committee notes the relevance of the observation by WFP that such an approach, 7 per cent for public donors vs an average of 20 per cent for private donors, raises a risk of mixed messages concerning the percentage of donations used for overhead expenses.
6. The Committee notes the risk mitigation measures outlined in the document, including due diligence and a research and screening process for its potential donors as indicated in annex III. The Committee also notes that the proposed strategy will be implemented in compliance with WFP “Private Donor Guidelines”, which provide that private-sector donors would have no role in the governance of WFP, and that commercial relationships with private donors remain independent of the fundraising activities. Upon enquiry, the Committee was also informed of policies and practices applied by WFP in connection with the use by private actors of the WFP name or logo. The Committee notes that operating budgets for partnership and fundraising are included in the biennial Management Plans and are therefore subject to approval by the Executive Board. It also notes that planned advances from the General Fund for the strategy would be adjusted according to levels of income to be generated from the implementation of the strategy.
7. The Advisory Committee welcomes the efforts by WFP to engage the private sector and the general public in its global operation against hunger, including the “fill the cup” (red cup) campaign to support its school feeding programme for school children in developing countries.
8. Subject to its comments in paragraphs 5 and 6 above, the Committee has no objection to WFP’s private-sector partnership and fundraising strategy. It recommends that their implementation and the results achieved be reported to the Executive Board on a regular basis, its frequency to be determined, and that progress and success be measured against specific benchmarks.

Implementation of the Recommendations by the External Auditor

9. As indicated in WFP/EB.1/2008/6-B/1, as at 31 December 2007, of the 15 recommendations outstanding in August 2007 and the five new recommendations by the external auditor, 14, or 70 per cent, were reported as completed.
10. With respect to recommendation 9 concerning efforts to clear outstanding items from the United Nations Development Programme (UNDP) account, the Committee notes the ongoing nature of reconciliation of the UNDP account and the creation of an individual ledger account for each WFP regional bureau and country office to facilitate recording and clearing of UNDP transactions. Upon enquiry, the Committee was informed of the action taken in reconciling the outstanding amount of US\$4.9 million of the UNDP account for the biennium 2006–2007.
11. Upon enquiry, the Committee was informed that, in addition to actions under way and reflected in the document with regard to recommendation 4 concerning improved process for staff appointments, WFP had initiated a review of its human resources strategy which would be shared with the Advisory Committee for information prior to



presentation to the Executive Board, most likely at the second session of the Board in October 2008. With reference to recommendation 5, WFP recognised that the pursuit of cost efficiency was an on-going exercise, and organizational structures would be reviewed continually to achieve efficiencies and to align them to needs. The Committee was informed that WFP had taken significant steps in the Management Plan (2008–2009) to address the issue and deemed this recommendation to be complete.

12. With regard to the frequency of WFP progress reports, submitted to the Executive Board, on implementation of recommendations by the auditors, the Committee recalls its observation in its last report (WFP/EB.2/2007/5 (A, B, C, D, E, F, G)/2, para. 14) that “the frequency of these reports often does not allow sufficient time for implementation and for validation by the Board; as a result, they tend to be repetitious and less helpful in monitoring progress. The Committee, therefore, is of the opinion that the Executive Board may wish, as a rule, to consider receiving a report on the subject annually”. The Committee notes that the Executive Board did not make a decision on this issue at its first session in February 2008. The Advisory Committee reiterates its recommendation that the Executive Board consider receiving progress reports on the implementation of recommendations by the external auditor on an annual basis.

Update on the WFP Management Plan (2008–2009)

13. As indicated in the update on the WFP Management Plan (WFP/EB.1/2008/6-D/1), WFP has revised its estimated operational requirements for the biennium 2008–2009 to US\$6,376.4 million from the level of US\$5,414.1 million approved by the Executive Board in 2007. The revised estimates reflect rapid increases in food and fuel prices, the continued decline of the value of the US dollar against other major currencies and the addition and extension of a number of projects. The revised operational budget by cost component is contained in Table 1 of the document.
14. The Committee notes that WFP has initiated a project-by-project budget review and that the findings of the review will be submitted to the Executive Board in 2008. As the impact on WFP funding levels is yet to be determined, no changes are currently proposed to the indirect support cost and programme support and administrative budget. WFP expects that more budget revisions will have to be made during the biennium due to continuing global price increases.
15. As also noted in the update, exchange rate fluctuations can have a major impact on the WFP programme support and administrative budget, as most of these costs are incurred in Euros while the budget appropriation is expressed in US dollars. The exchange rate was US\$/Euro 1.46 in mid-January 2008, when the WFP document was prepared. This compares to the US\$/Euro 1.33 rate, assumed in the original Management Plan. WFP has calculated that every one-cent change in the exchange rate has an impact of US\$1.06 million on the programme support and administrative budget. Therefore, in order to mitigate exchange rate uncertainty on the Euro-based portion of the programme support and administrative budget, WFP believes that a decision on potential hedging would need to be made in March/April of the year in which the Management Plan is prepared. Proposals in this regard would be submitted to the Executive Board for its consideration and decision. Upon enquiry, the Committee was informed that the financial regulations and rules would permit WFP to adopt such an approach.



Global Vehicle Leasing Programme and Self-insurance Scheme

16. The Committee notes that WFP decided to establish a global vehicle pool in 2006 to ensure availability of vehicles at the beginning of emergency operations and to make savings from overheads of 20 per cent when having to purchase vehicles from third party stocks at short notice due to emergencies (WFP/EB.1/2008/6-C/1). The vehicle pool and the self-insurance scheme, launched in the second quarter of 2007, are administered by the WFP office in Dubai on a non-profit basis.
17. The document indicates that a maximum of US\$20 million would be provided from the direct support costs and other direct operational costs as advance funding to finance the global vehicle pool over a period of five years. This would be reimbursed from the 10 per cent overhead for running the pool, which is charged to WFP projects for which vehicles are purchased or leased from the pool. Upon enquiry, the Committee was informed that it was WFP's intention that all project vehicles would be leased from the pool in order to make savings and distribute costs better. WFP expects that the self-insurance scheme will improve insurance services and reduce costs by up to 60 per cent. The Committee notes that a number of United Nations agencies have shown interest in following this model for their own fleet operations.
18. The Committee notes from the document that WFP is engaged with Fleet Forum, a public/private sector partnership initiative, to develop and share best business practices in light-vehicle fleet management, with a focus on driver safety, the "greening" of fleets and reducing operating costs. Upon enquiry, the Committee was informed that WFP had discussions with the United Nations Secretariat regarding management of light vehicles and training of drivers, but that the cooperation was not likely to include vehicles leasing from WFP due to the high volume demand by the peacekeeping operations.

Update on the WINGS II project

19. As indicated in the document WFP/EB.1/2008/6-E/1, following the decision in June 2007 to scale back the scope of the first release and subsequent significant changes to the design outputs, WFP Information Network and Global System II (WINGS II) is to become operational in January 2009. The project plan and the status of the scope are contained in annexes I and II of the WFP document.
20. Upon enquiry, the Committee was informed that the completion of the redesign process took longer due to challenges in (a) definition of detailed business requirements based on the International Public Sector Accounting Standards (IPSAS) and their impact on the business processes and on organizational roles and responsibilities; (b) alignment of IPSAS requirements with the business models and models supported by standard ERP functionality; and (c) the organization's ability to implement major system changes globally. The Committee was also informed that, in scaling-back the scope of the first release of WINGS II, WFP had retained essential changes and improvements to ensure business continuity and compliance with IPSAS, as this was deemed a priority. The deferred changes were still part of the overall design and had been moved to subsequent releases of functionality. The Committee encourages WFP to share its experience on key aspects of IPSAS compliance issues with the United Nations IPSAS Task Force in the framework of the Chief Executives Board.
21. The Committee notes that, of the total of US\$49 million allocated for the project, \$26 million has been spent, leaving a balance of US\$23 million to cover the completion of the project, and that US\$6 million is currently estimated to be needed to cover the impact of Euro/dollar exchange rate fluctuations. It also notes that WFP has taken



measures, including reducing project scope and number of staff, in an attempt to keep project costs within the allocated budget. Upon enquiry, the Committee was informed that the contract for the implementation (realization) phase of the project had been signed. The Committee recommends that the resource requirements for this project be kept under review.

22. With regard to the progress and timeline for IPSAS implementation, upon enquiry, the Committee was informed that with 2008 being the first IPSAS financial period, WFP had continued its IPSAS adoption activities with the goal of achieving full compliance by the end of the year, including coordination with the United Nations Task Force on Accounting Standards (see paragraph 20 above) and the Central Accounting Project Team. Further, the Committee was informed that an external independent service provider has conducted a risk assessment. In addition, an implementation policy guidance manual is soon to be published. The Committee was further informed that in light of the expected availability of WINGS II in early 2009, it had been determined that the current system could be used to transform data to allow for IPSAS adoption during 2008, and that therefore no contingency plan would be required for IPSAS compliance in 2008.

Documentation:*For approval by the Executive Board*

- WFP's Private-Sector Partnership and Fundraising Strategy (WFP/EB.1/2008/5-B/1)

For consideration by the Executive Board

- Progress Report on the Implementation of the External Auditor Recommendations (WFP/EB.1/2008/6-B/1)

For information by the Executive Board

- Global Vehicle Leasing Programme and Self-Insurance Scheme (WFP/EB.1/2008/6-C/1)
- Update on the WFP Management Plan (2008–2009) (WFP/EB.1/2008/6-D/1)
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